GROUP
Banque Richelieu

Investment Strategy

November 5, 2025

Executive Summary

MACROECONOMIC OUTLOOK

Our positive global scenario driven by a strong USA economy (investment multiplier, fiscal loosening) meanwhile Euro Area growth lags (slowing international trade, detrimental bilateral trade deal with the USA, war in Ukraine) **is still on as we enter the last two months of 2025. In the USA,** despite the macroeconomic fog stemming from the ongoing shutdown, **the outlook is still holding up well** with no further weakening in the labor market and the continuation of the robust consumption trend. **In Europe, the latest data has surprised to the upside** especially in France**. The news flow has also been positive in Asia** thanks to the anticipation of the return of Abenomics in Japan and the tentative trade deal between China and the USA.

Still, November could prove choppy as looming risks persist, not least in the USA:

- **The ongoing repricing in favor of the absence of an additional FED Funds rate cut in December.** As stated by J. Powell following the latest FOMC, the rate cut, which was and still is the main market anticipation, is "not a foregone conclusion, far from it" given the ongoing strength of the US economy.
- **The Supreme Court ruling on whether Donald Trump has overstepped his constitutional authority with the use of the International Emergency Economic Powers Act to introduce reciprocal tariffs.** The budgetary impacts of their potential cancellation would be high, sparking concerns about public debt sustainability. This does not change our long run call of a sustained trade war as the Trump Administration would find other means to reinstall the tariffs.
- **Turmoil linked to the US government shutdown.** Although their effects on the markets have historically been short-lived, the ongoing stoppage, now the longest in history, could prove problematic in an overall risk-off environment.
- **Stretched valuations upending the otherwise robust 3Q25 corporate earnings season.**

ASSET ALLOCATION

Our asset allocation is delivering positive returns YTD. Some marginal changes have been introduced to account for the technical correction risk (details on the left):

- **We are a bit less negative on the USD** given its temporary appreciation on the back of the ongoing repricing on the December FED Funds rate cut. Accordingly, **we are temporarily back to neutral on gold** with the strong performance as of late also weighing. Our long term views on both assets remain unchanged (structural USD weakness and gold strength).
- **We have downgraded our view on high yield USA credit** given turmoil in private and subprime segments although related jitters remain idiosyncratic.

However, as our positive scenario stays on and given the approaching year end, we are staying invested in both equities and credit: the rest of our allocation stays the same.

- **On equities** our skew goes to the USA and emerging markets (neutral stance on Europe and Japan where the upside from the upcoming stimulus is now fully priced in). **On sectors, the AI narrative remains a must but stretched technicals call for selectivity and a stronger focus on associated segments** (electricity utilities for example). **Banks** (excluding US regional banks with their exposure to subprime credit) are benefitting from steep yield curves, volatility (trading revenues) and a robust economy (low default rates). Geopolitical turmoil remains an **aerospace and defense anchor**. **Trade tensions and polarization** (in favor of the wealthiest households while the poorest face dire conditions) **are weighing on staples**.
- **We are neutral on sovereigns** as rates are now at an equilibrium. A residual risk stems from a technical sell-off in the USA on budgetary slippage concerns if the Supreme Court cancels Trump's reciprocal tariffs. In this scenario, the equity correction could intensify especially in the most richly valued segments (tech).

Source: Richelieu Invest analysis

Our investment choices (1/4)

	POSITION	RATIONALE	RISKS
EQUITIES		MAINTAIN	
	Exposure to equities to overweight	Robust ongoing 3Q25 corporate earnings season, especially in the USA. In the Euro Area, excluding the YTD Euro appreciation, yearly earnings growth is also overall positive though muted	• Stronger hit to growth & looming reflationary risks from the trade war • Higher term premia causing a repricing of long-term rates
	Exposure to US equities to overweight	• US economy continuing to surprise to the upside • Ongoing rate-cutting cycle • Trade deal with China • Lower long-term rates lifting valuations • New inflows from institutional investors as the trade war unwinds	• Prolonged sell-off from stretched valuations, the ongoing repricing of the December FED Funds rate cut and the potential cancellation of reciprocal tariffs by the Supreme Court • Turmoil from the ongoing government shutdown • Renewed trade tensions
	Exposure to EU equities to neutral	• Unfavorable bilateral trade deal signed with the USA • Russia/Ukraine war still in full throttle	• French risk • Spillovers from the war in Ukraine • Disappointing German recovery plan
	Exposure to Japan equities to neutral	• Sanae Takaichi's expansionary fiscal policy now fully priced in • BoJ to resume rate hikes but more gradually	• Disappointing fiscal plan • Firmer BoJ in the face of inflation
	Exposure to Emerging Market equities	• Several trade deals between the USA and Asian countries • In China: bets of a domestic demand revival, low tech companies valuations & the five-year plan to be announced in March 2026 • Diversification from core geographies	• Structurally decelerating growth in China • Confiscatory US retaliatory tariffs on India

Source: Richelieu Invest analysis

Our investment choices (2/4)

	POSITION	RATIONALE	RISKS
FIXED INCOME – SOVEREIGNS	MAINTAIN		
	Exposure to US sovereign bonds to neutral	Sovereign rates at an equilibrium • 2 year UST yield around 3,5% in anticipation of upcoming rate cuts • 10 year UST yield between 4 and 4,25% at times touching 4%, driven by lower key rates, or going back up towards 4,25%, driven by higher inflation, stronger growth, a more benign labor market outlook or a higher term premium linked to sovereign credibility considerations	• Stronger hit to growth driving rates lower • Sell-off in Treasuries due to a higher term premium • Fly-to-quality movement driving long-term sovereign rates lower (triggered by renewed geopolitical tensions or turmoil on some market segments)
	Exposure to EU sovereign bonds to neutral (avoid France)	Sovereign rates at an equilibrium • 2 year Bund yield around 2% as ECB rate-cutting cycle is now over • 10 year Bund yield between 2,5% and 2,75% at times touching 2,5% when growth disappoints, or going back up towards 2,75% driven by the sovereign debt supply glut anticipated to fund Germany's defense and recovery plan	• Stronger hit to growth driving rates lower • Sell-off in Treasuries due to a higher term premium • French political risk driving rates marginally higher in all of Europe • Fly-to-quality movement driving long-term sovereign rates lower (triggered by renewed geopolitical tensions or turmoil on some market segments)

Source: Richelieu Invest analysis

Our investment choices (3/4)

FIXED INCOME – CREDIT

POSITION	RATIONALE	RISKS
LOWER		
US HY credit exposure to underweight	• Weakness in some market segments stemming from the ongoing polarization in the economy • Concerns on subprime and private credit though events remain largely idiosyncratic for now • Low spreads not sufficiently rewarding the underlying risks • Contamination risks in a global risk-off environment	• Stronger hit to growth due to ongoing trade war • Prolonged shutdown • Prolonged technical correction on the equity markets
MAINTAIN		
• Exposure to EU IG credit to overweight • Exposure to US IG credit to overweight • Exposure to EU HY credit to underweight	• Strong balance sheets on IG • Strong investor demand • Strong US economic outlook • Bleak European economic outlook • Low spreads not sufficiently rewarding the underlying risks	• A more favorable macroeconomic environment and spreads kept in check would benefit credit for longer • On the contrary, a rapid deterioration of the macroeconomic outlook could trigger a repricing of corporate credit • French risk
Exposure to EM credit to neutral	• Diversification • Structurally weaker USD	• Prolonged period of stronger USD • Prolonged period of higher US rates from ongoing repricing on the FED Funds December rate cut or renewed concerns on budgetary slippages

Source: Richelieu Invest analysis

Our investment choices (4/4)

	POSITION	RATIONALE	RISKS
OTHER	**LOWER**		
	Gold exposure to neutral	• Ongoing appreciation of the USD • Ongoing repricing on the FED Funds December rate cut • Recent fast and strong positive performance • Structural strength remains intact	Faster return to the structural strength trend (lower opportunity cost of detention from lower US rates, FED's lost independence, reflationnary risks, geopolitical turmoil)
	MAINTAIN		
	Exposure to crude oil to neutral	Oil equilibrium prices at 65 USD/BBL (Brent) • OPEC+ set to continue lifting production quotas but practical production levels have failed to meet these quotas until now • Growth has surprised to the upside globally and should continue to do so in the USA	• Lower demand or a more aggressive stance by the OPEC+ to lift production may further weigh on prices • Conversely, the return of the Iran/Israel conflagration may lift the risk premium
	LIFT		
	USD exposure to underweight	• Ongoing appreciation of the USD • Ongoing repricing on the FED Funds December rate cut • Structural weakness remains a drag	• Any pivot of the US administration from its ongoing policy imperatives may help alleviate the USD depreciation • Faster return to the structural weakness trend (Trump policies - weak State of Law, questioning of the FED's independence, trade, sharing the burden of the USD as the global reserve currency – and the resumption of the FED rate-cutting cycle)

Source: Richelieu Invest analysis

What if?

Scenario	IF THIS HAPPENS	WHAT WE SHALL DO
UPSIDE SCENARIO	EU growth durably surprises to the upside (faster and stronger impact from the implementation of the German fiscal package, more benign hit to global trade)	Increase EU equity exposure
	Ceasefire in Ukraine	Increase EU equity exposure
	Inflation subsides and the BoJ abandons rate hike plan	Increase Japan equity exposure
DOWNSIDE SCENARIO	Prolonged correction on the equity markets	Decrease equity exposure
	Spiraling of the trade war	Decrease equity exposure
	Lower growth or reflationary risks materialize in the USA	Decrease US equity exposure
	More restrictive stance from the FED	Decrease US equity exposure
	A liquidity crunch on segments of the US credit market	Decrease US HY credit exposure
	EU growth surprises to the downside (sluggish internal demand, delay in implementation of German fiscal plan)	Decrease EU equity exposure
	Chinese domestic demand fails to recover	Decrease EM equity exposure
	Higher term premia in Japan due to expansionary fiscal policy or to the BoJ abandoning its rate hike plan despite ongoing inflation	Decrease Japan equity exposure
	The Trump administration interferes with the FED on the conduct of monetary policy or further weakens the State of Law	Decrease USD exposure, Decrease exposure to US sovereign rates, Increase gold
	The French sovereign risk spirals out of control	Increase exposure to German sovereign rates (the ECB intervenes to calm markets)

Source: Richelieu Invest analysis

Underlying rates and currencies forecasts

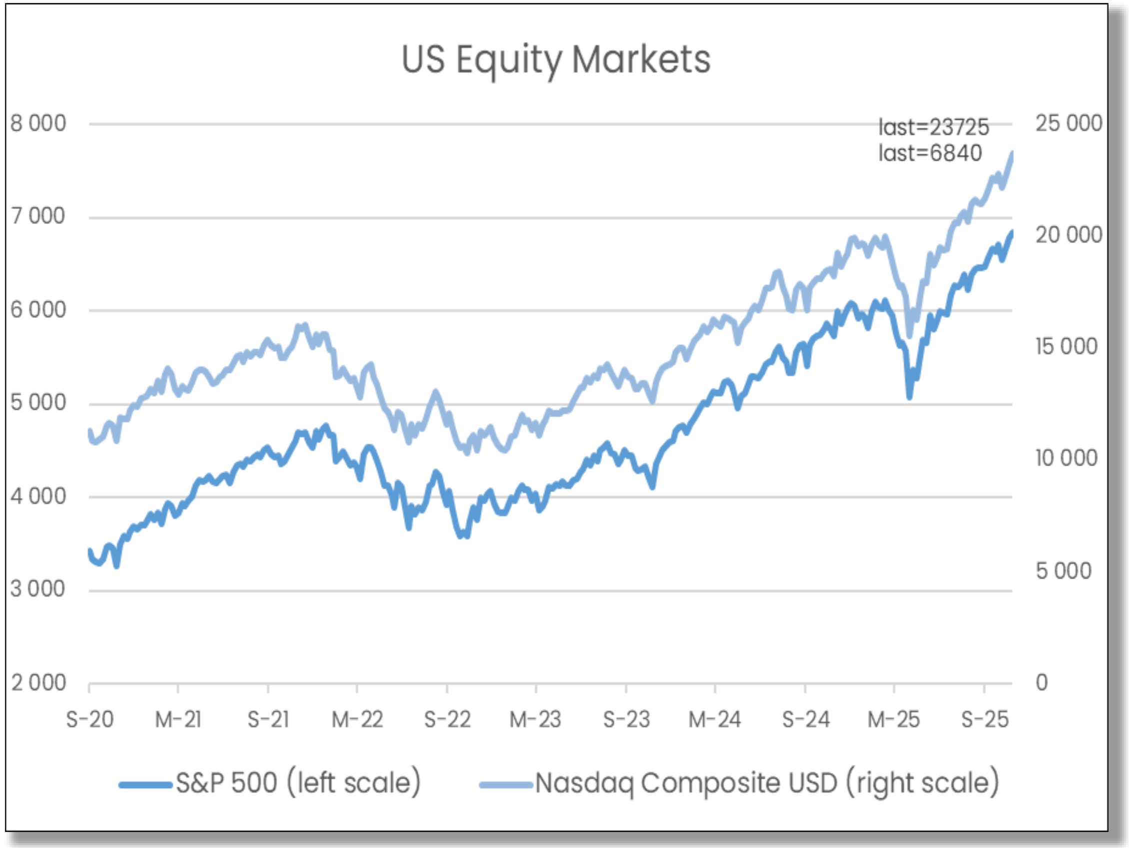
Rates & Currencies	2025	2026	Additional details
ECB Deposit Facility Rate	2%	2%	
2Y Bund yield	2%	2% / 2,25%	
10Y Bund yield	2,5% / 2,75%	2,75% / 3%	
BoE Bank Rate	4%	3,5% / 3,75%	
SNB Rate	0%	0%	
BoJ Rate	0,5%	0,75 % / 1%	
FED Funds Rate	3,75% / 4%	3,25% / 3,5%	The 3,25% / 3,5% range would be reached in 1H26 with potential further rate cuts possible afterwards, to be determined
2Y UST yield	3,5%	3,5%	
10Y UST yield	4% / 4,25%	3,75% / 4%	The 10Y UST yield could temporarily undershoot the 4% mark in 1H26 in anticipation of upcoming rate cuts but the move would not be sustained as the term premium related to the long-term debt supply glut would soon prevail
EUR/USD	1,13 / 1,2	1,13 / 1,2	Short-term temporary USD appreciation before the structural depreciation returns and amplifies in 2026
EUR/GBP	0,85 / 0,88	0,86 / 0,89	
EUR/CHF	0,93 / 0,94	0,93 / 0,94	• The ECB and SNB both have reached their terminal rates levels • The CHF would be torn between contradicting forces: American pressure to appreciate on the one hand, versus inflation management calling for depreciation on the other
EUR/JPY	173 / 178	173 / 178	Yen depreciation at its maximum today following Sanae Takaichi's appointment as PM in Japan
USD/JPY	147 / 154	147 / 154	Yen depreciation at its maximum today following Sanae Takaichi's appointment as PM in Japan

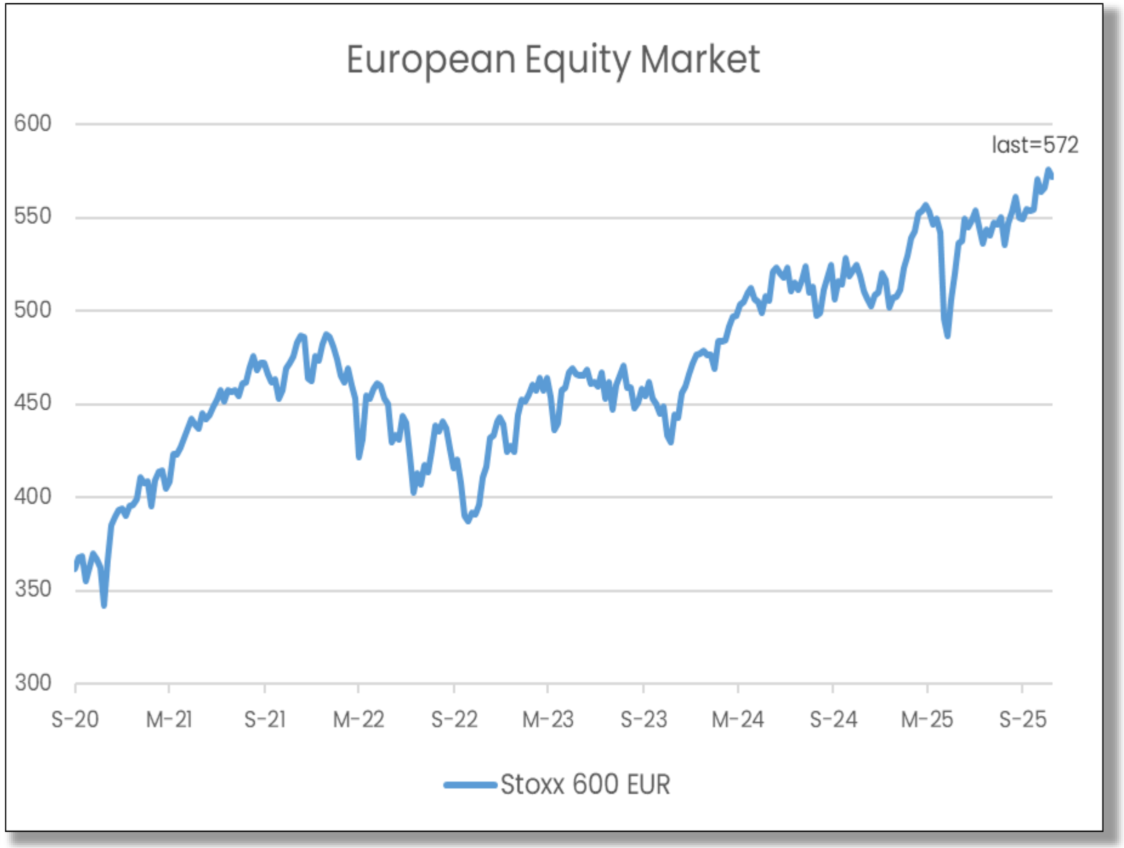
Source: Richelieu Invest analysis

Equities

Equity markets have rebounded sharply since mid April lows

- After a prolonged period of caution around and after "Liberation Day", we have gradually taken on more risks on the equity markets with a skew towards the US and emerging markets and have as such benefitted from the strong recovery to date
- We have maintained our neutral exposure to European equities because the EU/US trade deal is detrimental to European companies and the economic outlook is bleak on the Old Continent
- As we enter technical correction territory (stretched valuations, repricing of FED policy, Supreme Court ruling on reciprocal tariffs, shutdown), selectivity between sectors and within each of them combined with a dynamic approach to portfolio management remain key



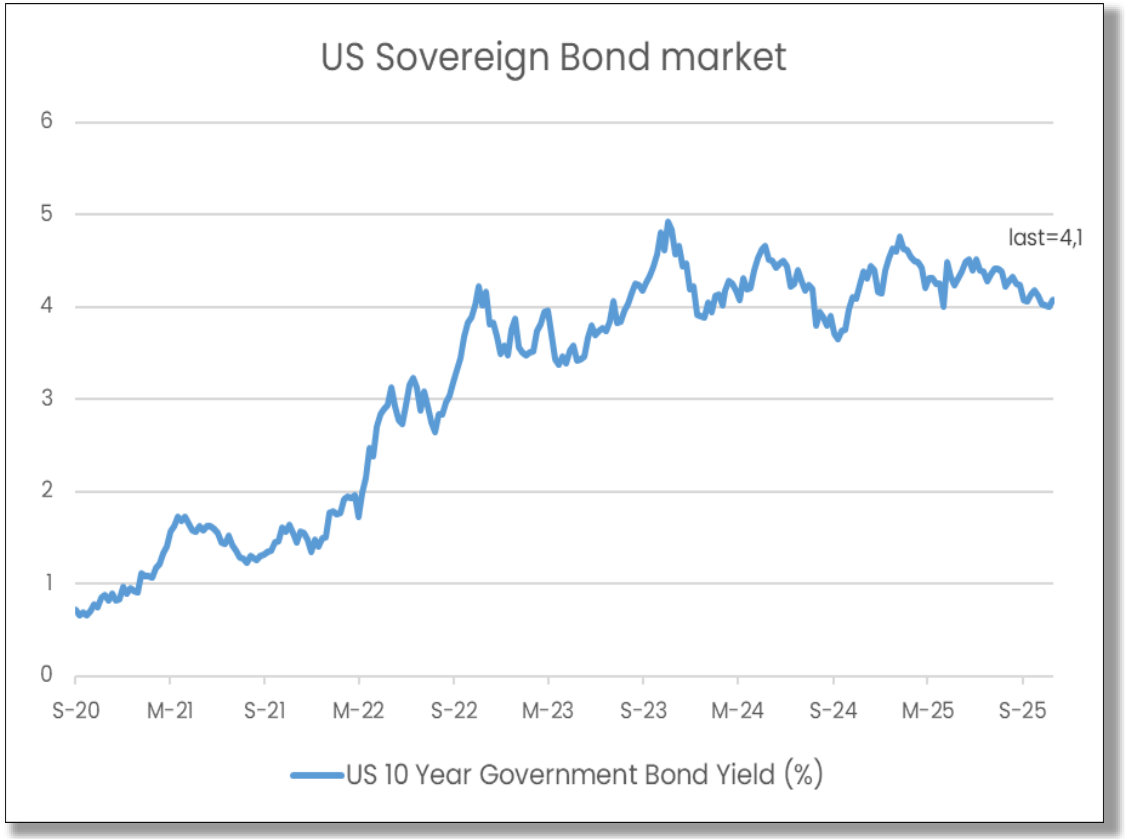


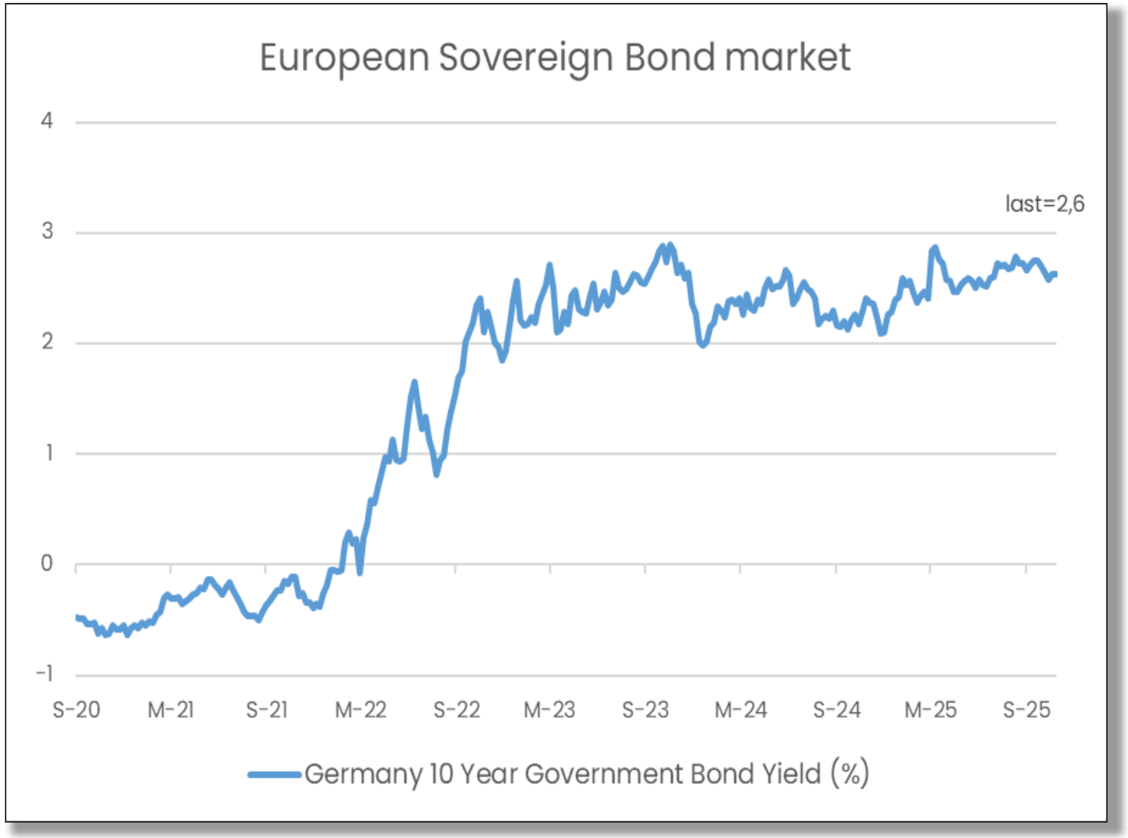
Source: Bloomberg, as of 31/10/2025. Richelieu Invest analysis.

Sovereign Bonds: US and Germany

As US and EU sovereign yields have hovered near equilibrium levels recently, a residual risk of mini sell-off looms on the longer portion of the US curve

- We remain neutral on sovereign bonds, as our central scenario is for long-term interest rates to stay muted until the end of 2025, especially in the EU
- In the US, the risk of a mini sell-off on the longer portion of the sovereign curve cannot be ruled out. It would mainly be fueled by fading anticipations of a renewed FED Funds rate cut in December. The trend could also intensify on the back of concerns of US budgetary slippages, especially since the US Supreme Court is expected to rule on the constitutionality of the use of the International Emergency Economic Powers Act to introduce reciprocal tariffs



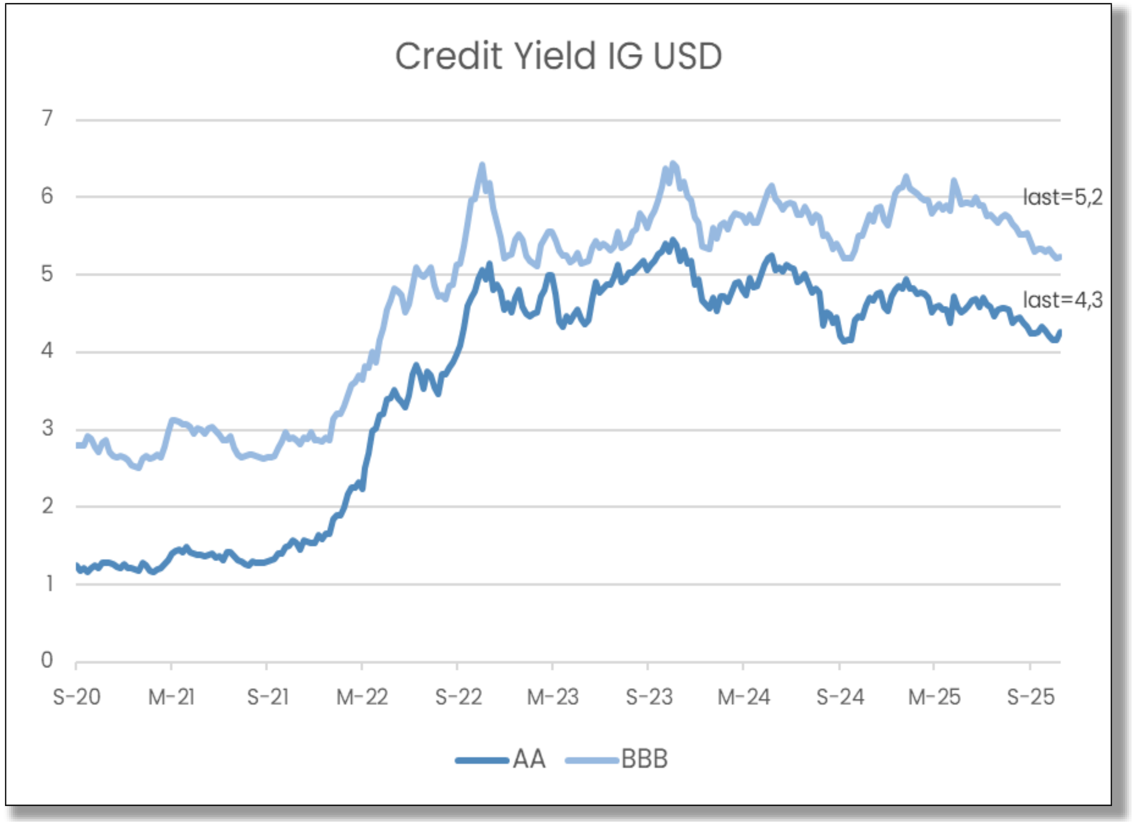


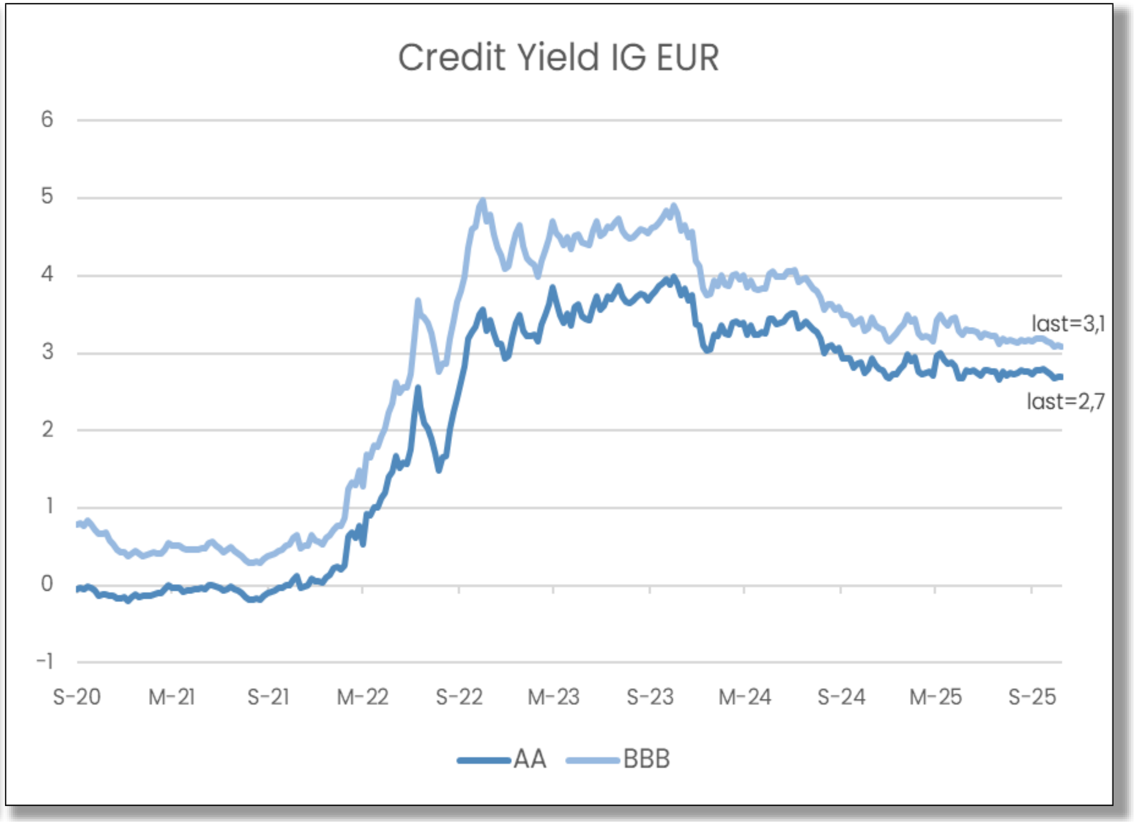
Source: Bloomberg, as of 31/10/2025. Richelieu Invest analysis.

Credit Investment Grade

Credit spreads have kept on narrowing, approaching the lower end of their historical range

- The primary market has been very active for several months now, with cover ratios exceeding 4x across sectors, maturities, and ratings
- Investor optimism is supported by expectations of lower short-term rates, easing trade tensions, and fairly solid corporate earnings
- A low equity risk premium in the USA is also helping favor credit markets
- Recently, investors seem to have become more strict on the returns they expect to obtain especially on the high yield segment
- We have therefore maintained our preference for investment-grade corporate bonds over sovereigns and high yield
- Moody's projects the global default rate to reach 3.5% by the end of 2025, declining to 2.6% one year forward





Source: Bloomberg, as of 31/10/2025. Richelieu Invest analysis.

Credit High Yield

Credit spreads have kept on narrowing, approaching the lower end of their historical range

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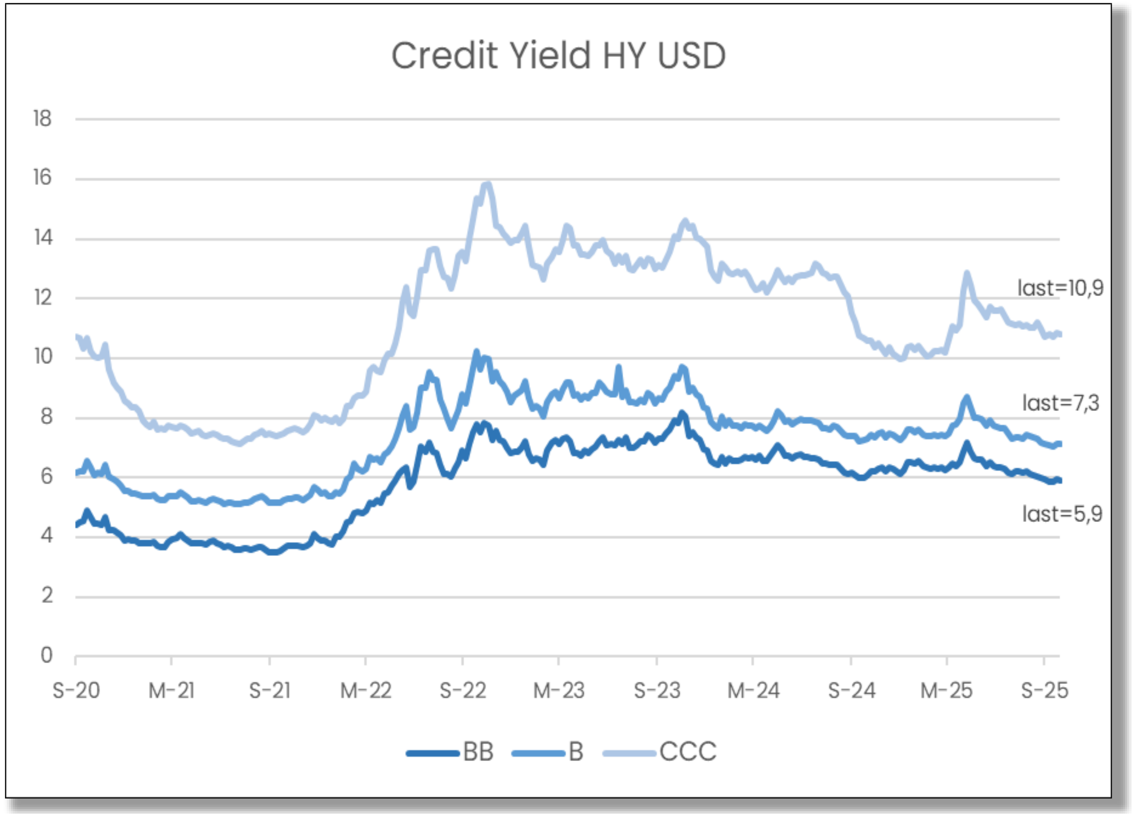
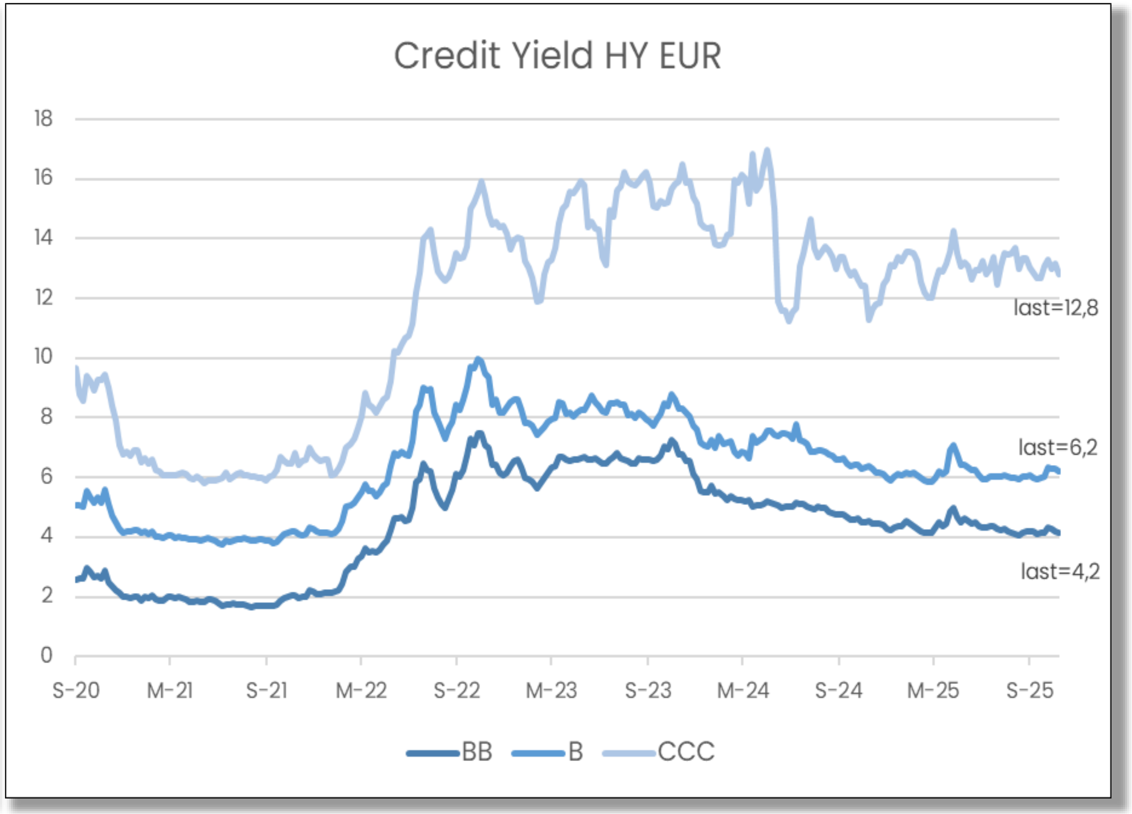


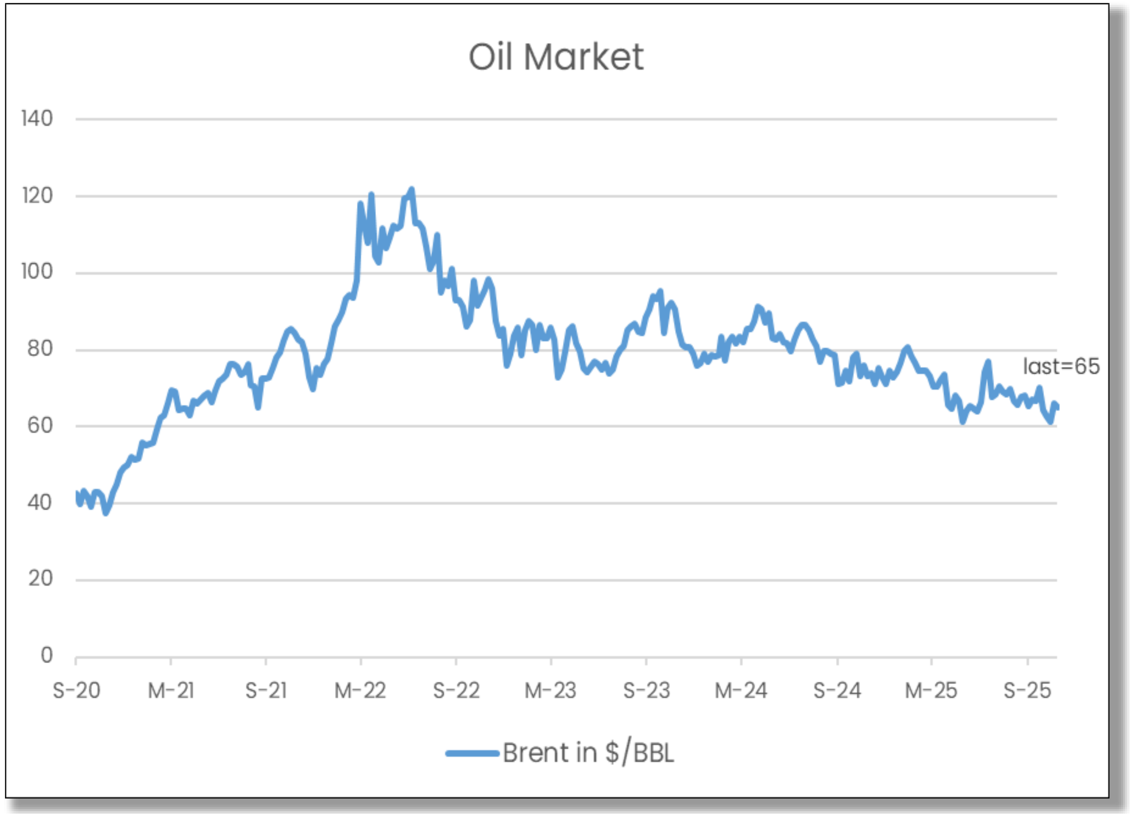


Source: Bloomberg, as of 31/10/2025. Richelieu Invest analysis.

Commodities

Oil prices have stabilized, while gold has kept on reaching new record highs

- According to the IEA, long-term oil demand is still expected to grow, while the breakeven price for US shale remains around $60. Overall, oil prices continue to act as a tailwind for the global economy
- The structural upward momentum in gold prices is supported by the structural USD weakness given the disruptive nature of the Trump Administration policies, easing interest rate expectations lowering the opportunity cost of detention, and heightened geopolitical tensions
- Still, a technical correction looms on gold given the strong and fast over performance reached recently

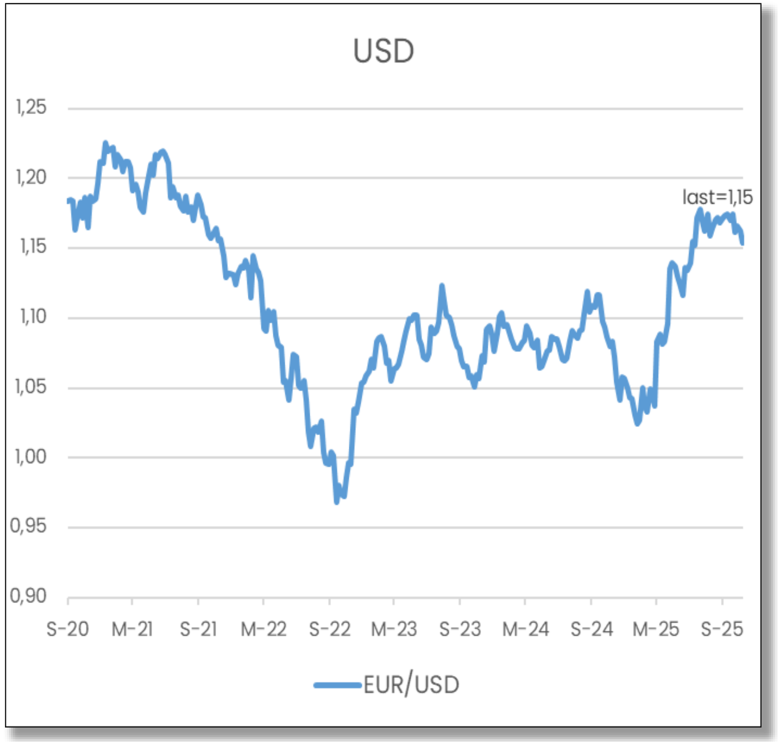


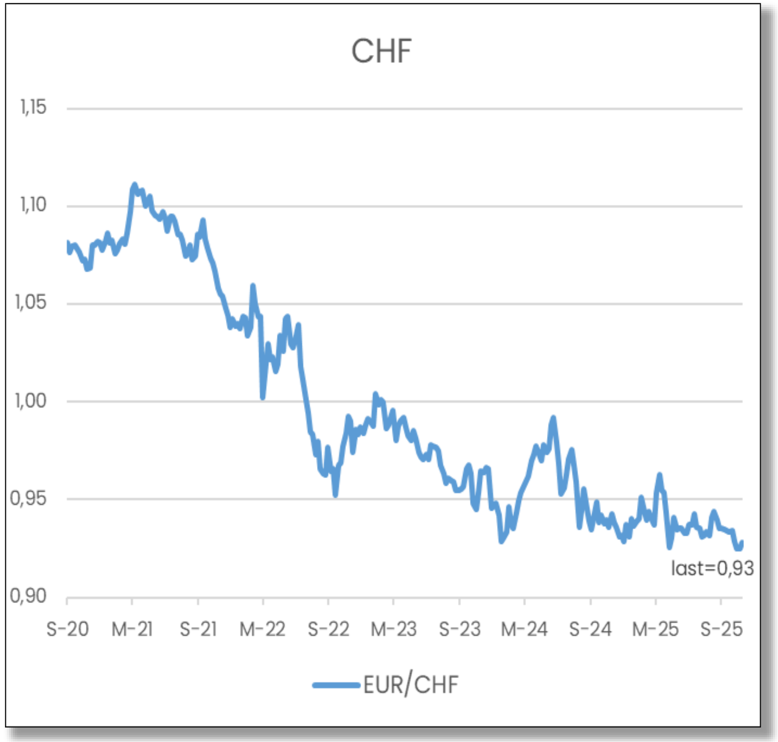
Source: Bloomberg, as of 31/10/2025. Richelieu Invest analysis.

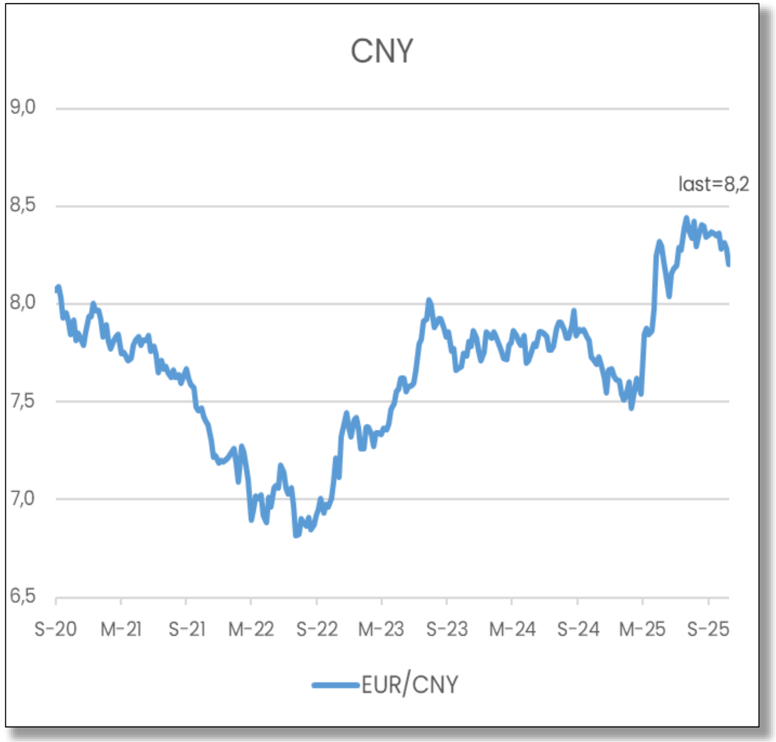
Currencies

After having rapidly fallen in the first three quarters this year, the USD has recently started to reverse trend

- We have marginally upgraded our view consequently to underweight (from strong underweight)
- The temporary reversal does not question our longer-term view of a durably weaker USD
- In October, the appointment of Sanae Takaichi as PM in Japan and expectations of the return of Abenomics have strongly weighed on the JPY
- As a result, foreign exchange rate risk management remains key for Euro investors looking to diversify in the USA or Japanese markets
- EUR/CHF should stabilize around its current level as the ECB and SNB rate-cutting cycles are over and as Switzerland faces contradicting forces (pressures to appreciate the FX rate from the Trump administration, and at the same time, the will to use FX as a mean to stabilize prices)







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