

Perspectives

Market and allocation



Our experts
monthly overview

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Ofi invest
Asset Management



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OFI INVEST AM

EDITORIAL

Market confidence being put to the test!

The markets are now entering more unpredictable territory after having spent the last few years enjoying a resilient US economy and the Artificial Intelligence (AI) boom. There are various narratives at play today, what with tech stocks experiencing a correction, debt volatility on the increase in France, and interest rates set to remain high for the foreseeable future. But there is one question that applies to all of them: to what extent can the markets have faith in the outlook for growth, profitability and financial stability? **This is now a particularly burning question given the steep drop in technology and semiconductor stocks following the US mid-term elections.**

From promise to proof: AI remains a major industrial revolution, bringing in considerable investments in technology and energy infrastructure. But investors now wonder whether future returns will justify the amount of capital being committed. Their perception is changing, as reflected in the correction in tech stocks and the first signs of strains in the credit market. The technological revolution itself is not in question, but the markets are now making a distinction between promises of growth, returns on investment and the solidity of financing sources. **Yet the magnitude of the latest slump suggests that sector rotation is not the only underlying cause: if AI investments are delayed for financial, energy or political reasons, the repercussions could extend beyond the growth outlook. This transmission risk will need to be watched closely, although it is by no means a surefire scenario at this stage.**

The cost of capital is again becoming a decisive factor. Bond yields may have eased recently but remain high nonetheless, and central banks have limited room for manoeuvre as they face stubborn inflation. A paradigm shift is underway, with financing needs on the increase whereas capital is becoming more expensive and being allocated more selectively. The funding spigots are still open, but investors are growing more demanding about borrower quality. **Where businesses are concerned, their spending timetables and capacity to generate cash flows are factors that are becoming just as decisive as their growth prospects.**

When the markets enter a phase of volatility while already on a fragile footing, they can find themselves in a vulnerable position even before a correction gathers pace. When different asset classes all begin to decline at the same time, diversification becomes a less effective strategy. **Highly concentrated positions and reduced leverage can amplify a sell-off when liquidity becomes scarce, without any corresponding deterioration in fundamentals. But it will take more than a technical rebound to alleviate concerns about valuations and returns.** The recent dip in US interest rates nevertheless comes as a reminder that sovereign bonds can reclaim their status as shock absorbers during a stock market correction.

France is being put to the credibility test: rising volatility on French debt does not so much reflect fears of an imminent default as concerns about the country's fiscal and political trajectory. The decision by Moody's to reiterate its rating with a negative outlook offers the country some respite but does not tackle the real issue: how to restore investor confidence for the long term. Strains in the bond market may have eased temporarily, but this should not be mistaken for a fundamental improvement. Market confidence will gradually become a key factor determining the cost of financing the French state, its companies and its economy.

Is this reason enough to expect the worst? This is not how I see it. There are real opportunities out there on the grounds of innovation, infrastructure and bond yields becoming attractive again. But selectivity, balance sheet quality, liquidity and investment discipline are factors that are going to make all the difference. **It takes more than a dip in share price to create an opportunity, just as it takes more than a high yield to guarantee a return on risk.**

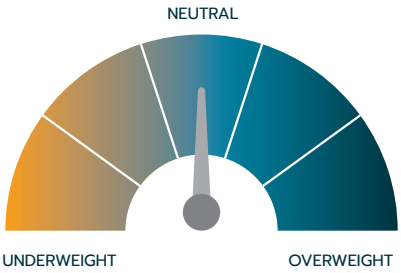
Washington will once again face checks and balances following the sweeping Democratic victory in the US mid-term elections. It might be dealt a new set of cards including budgetary controls, parliamentary inquiries and greater oversight of deals with businesses, especially in the fields of energy, AI and cryptocurrencies. **Where data centres are concerned, local approval, access to electricity and project acceptance are growing increasingly important.** Regulatory uncertainty is going to increase, albeit without any immediate U-turn on Donald Trump's political agenda as the new members of Congress will not be sworn in until January and the President retains his veto. **Having initially reacted favourably, the market downturn comes as a reminder that checks and balances may be back but that they do not offer the same degree of support across the whole range of sectors.**

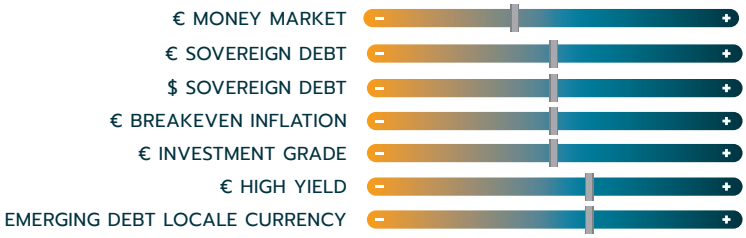
At the end of the day, whether the issue is technology, public finances or politics, the markets always take into consideration the credibility of any scenarios being put forward and the degree of confidence that they will actually materialise. **The promise is propping up valuations; now the time has come for proof to take up the baton.**

The analyses presented in this document are based on the assumptions and expectations of Ofi Invest Asset Management.
These analyses were made as of the time of this writing. It is possible that some or all of them may not be validated by actual market performances. No guarantee is offered that they will prove to be profitable.
They are subject to change.
A glossary listing the definitions of all the main financial terms can be found on the last page of this document.

Our views as of *06/11/2026*

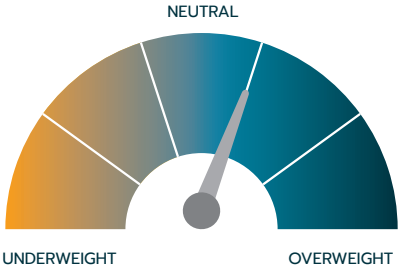
BONDS





German and US interest rates fell sharply in October while credit spreads came under greater pressure, particularly on high yield credit. This interest rate correction is helping the "safest" sovereign debts reclaim their defensive status. But the movement already seems to be well underway, and it now seems less likely that interest rates are going to fall more steeply any time soon. Accordingly, we continue to take a tactical approach to interest rates and will be inclined to reduce duration amid a sharper downtrend in yields. We reiterate our cautious stance on spreads in the short term while maintaining a constructive view on credit for the medium term as this asset class is likely to be propped up by its fundamentals and carry.

EQUITIES





The S&P 500 and Eurostoxx indices proved generally resilient during the month, notwithstanding high volatility within indices and sectors. Tech stocks and European banking stocks experienced a steep correction in October, with investors switching to other more defensive sectors. Despite the increased uncertainty, we maintain a constructive view of the stock markets. Growth prospects remain favourable in the USA and Europe alike and continue to drive corporate earnings. Lower US bond yields and oil prices also offer support for risky assets. In such circumstances, stock selection will be particularly decisive.

CURRENCIES

We reiterate our neutral position on the euro/dollar exchange rate, which spent the whole of October hovering around the 1.12 mark. First of all, we feel comfortable with the market's key interest rate expectations in both the USA and Europe. Secondly, the market's short positioning on the euro is not extreme enough to send out a contrarian signal, especially as the euro is likely to be penalised by various forms of risk aversion: the perception of budget risk in Europe, geopolitical uncertainty and therefore uncertainty about energy prices, and weaker macroeconomic conditions in Europe than in the USA.



Our views on the different asset classes provide a broad and forward-looking framework that is used to guide discussions between Ofi Invest Asset Management's investment teams. These views are based on a short-term investment horizon and may change at any time. The framework therefore does not provide guidance for those looking to build a long-term asset allocation strategy. Past performances are not a reliable indicator of future performances.

Three core themes for macroeconomics and the markets



Ombretta Signori
Head of Macroeconomic Research and Strategy
OFI INVEST AM

There are three broad themes that can explain both the current macroeconomic climate and financial asset returns: Artificial Intelligence (AI), geopolitics and budget risk.

ARTIFICIAL INTELLIGENCE

Not only is this the dominant theme in today's stock markets, it can be examined from various different economic angles. Firstly as an investment-driven engine of growth thanks to the massive development of digital infrastructures, and secondly as a potential source of long-term productivity gains, even though there is still a great deal of unpredictability surrounding the magnitude and timing of these gains. There is also a wealth effect at play here: the stock market rally of recent years has increased the wealth of US households and therefore boosted consumer spending. Recent data show that the US economy is resilient (3.4% annualised growth in the 3rd quarter), spurred by both consumer spending and high investment spending. The latest statistics suggest that the Artificial Intelligence-driven investment cycle remains particularly robust, with capital goods orders still trending favourably, productive investment increasingly rapidly, and spending on digital infrastructure continuing to gather pace. AI is here to stay, but the downside risk is that too much capital might be invested in anticipation of future demand and that returns might end up disappointing. This is precisely the risk that has recently raised concerns in the market.

AI can also be examined as a driver of inflationary pressure, not via the job market but via AI investment demand which is creating bottlenecks and pushing up the prices of certain technological items. However, this AI-driven inflation could ease off during the course of 2027 judging by the slowdown already observed in certain memory prices.

GEOPOLITICS

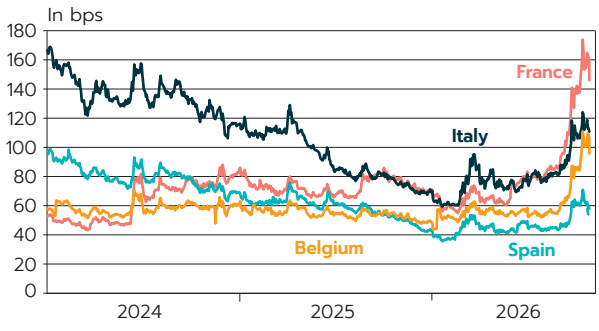
The risk premium made a comeback when the Iran conflict broke out. The longer energy prices remain elevated, the greater the risk of stubborn inflation. Supply chains are still clearly under strain as flows of refined oil products have not yet completely returned to normal and shipping costs have risen sharply in recent months, pushing prices up. Indeed, inflation was among the main issues that drove the blue wave in the US mid-term elections. We fail to see how inflation figures might improve over the coming months, and risks remain on the upside on both sides of the Atlantic. The European Central Bank (ECB) and US Federal Reserve (Fed) are therefore aware that they still have work to do. Both central banks recently put their monetary policies on hold, but their statements continue to lean towards further tightening. The next rate hike (25 basis points) can be expected in December.

But higher-for-longer interest rates also mean that the economies and sectors that are most exposed will come under the greatest pressure. This is the case of the euro zone. The ECB's quarterly bank lending survey concluded that high interest rates are now keeping a lid on loan demand across all sectors of the economy. This underpins our scenario of modest economic growth in Europe, with vast differences between countries and weaknesses that will need to be watched closely.

BUDGET RISK

Budget risk is back, and this is probably the most noteworthy and striking development of recent months, especially in Europe and in France in particular. With interest rates set to remain higher for longer, the markets are being more discerning when separating the wheat from the chaff as far as government budgets are concerned, and in some cases the transition from one equilibrium to another is a non-linear one. Sovereign yield spreads in Europe are therefore increasingly a reflection of varying budget trajectories. The hierarchy within Europe seems to be relatively clear-cut. Spain boasts solid economic fundamentals and among the region's most favourable fiscal positions, but it faces short-term political risk. Italy has its fiscal position broadly under control, but its large stock of debt makes it more exposed to a possible France contagion effect. France's risk premium remains tied to its political and budgetary uncertainty, while Belgium stands out for its severely impaired public finances which will need to be addressed with a whole range of remedial measures over the coming years.

SOVEREIGN 10-YEAR SPREAD VS GERMANY



Sources: Macrobond, Ofi Invest Asset Management as of 04/11/2026.

INTEREST RATES

Interest rates ***reclaim their virtue***



Geoffroy Lenoir
Head of Collective Investment Management
OFI INVEST AM

In October, the interest rate markets corrected much of the sudden movement observed in September. In Europe, the Bund even ended the month at 3.32%, which is exactly where it stood at the close on 31 August! The safest debts thus reclaimed their safe haven status and delivered positive performances over the month, whereas the episode had more of a disruptive effect on spreads.
Looking at the US market more specifically, interest rate expectations for the Federal Reserve (Fed) are now more consistent with those observed at the peak in September. The market now sees the terminal rate reaching around 4.50%-4.75%, which is more in line with our expectation of another two rate hikes. This correction provides considerable support for the asset class's performance, especially as absolute levels remain attractive.
At the long end of the US yield curve, the 20-year yield has fallen by almost 40 basis points from its peak. This movement was driven by both the stock market correction and the unwinding of overdone speculative short positions.

A MARKET IN SEARCH OF FRESH IMPETUS

Interest rates remain high from a long-term perspective, but there now appears to be less downside potential in the short term following such a rally. It would probably take either a steeper deterioration in risky assets or a rapid geopolitical de-escalation in the Middle East for yields to fall sharply again. The markets are going to examine the results of the mid-term elections and the blue wave, which was largely expected. Geopolitical risks too will need to be reconsidered in these circumstances. The direction of interest rates may also be partly contingent on technical factors.
More generally, financing needs remain considerable while central banks are no longer playing their role of marginal buyer.

The balance between debt supply, term premium and investor appetite is likely to become one of the bond market's main driving forces by the end of the year.

HAVE THE MARKETS PRICED IN FRENCH RISK MORE FULLY?

Market sentiment in Europe today is still largely governed by the situation in France. Following some episodes of extreme tension in September and early October, fears of a worst-case scenario now appear to be abating. There are now far fewer investors expecting the France-Germany spread to widen to 200 basis points.
We still believe that the pre-election build-up will create volatility and that it will be worth maintaining a cautious approach to French risk over the coming months. That said, current yields offer a more favourable risk-reward profile than they did during the summer. In other words, the carry offered by French debt would protect investors more effectively should yields come under upward pressure again. The same applies to a number of peripheral euro zone markets that have been hit by a contagion effect. Budget concerns therefore remain a big issue, but these risks now seem to have been priced into valuations more fully.

RED OCTOBER FOR HIGH YIELD CREDIT

Spreads in the credit market have remained under pressure, particularly in the High Yield segment. Investors have grown wary about the weakest issuers in this universe because interest rates are so high and also because they are concerned about a number of highly leveraged firms. Such misgivings have been aggravated by liquidity problems at certain hedge funds that are under-diversified and over-exposed to such issuers. This has widened spreads further.
Wider spreads lead to higher yields and, therefore, higher embedded carry. This makes the asset class more attractive from a long-term perspective in both the Investment Grade segment and High Yield segment. So, investors indeed have to arbitrate between historically very attractive yields and concerns that could still worsen in the shorter term, for instance because of AI financing issues or French risk.

FIGURE OF THE MONTH

4%

The rate of inflation in the euro zone in October. It is still perceived as being only temporary judging by market expectations (the euro 1Y1Y inflation swap rate stands at 2.42%).

PERFORMANCES
Bond indices with coupons reinvested

	Oct. 2026	YTD
JPM Emu	0.91%	-2.19%
Bloomberg Barclays Euro Aggregate Corp	0.76%	-0.45%
Bloomberg Barclays Pan European High Yield in euro	-1.05%	-0.74%

Sources: Ofi Invest Asset Management, Refinitiv, Bloomberg as of 30/10/2026.
Past performances are not a reliable indicator of future performances.

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EQUITIES

Buckle up!



Geoffroy Lenoir
Head of Collective Investment Management
OFI INVEST AM

2026 has by no means been an easy year for the stock markets. The reporting season has only just begun, and we are already witnessing a historical surge in stock market volatility. The fault lies with investors, who at times seem to behave like spoiled children. The analyst consensus has steadily revised its earnings forecasts upwards throughout the year more or less worldwide, yet investors have proved even more demanding and expect companies to exceed expectations by wide margins. It is therefore no longer enough to know what the consensus expects for any given company; one also needs to gauge where investor expectations lie in relation to the consensus... One might say that there's no stopping progress!

GOOD RESULTS ARE NO LONGER ENOUGH

We knew that this reporting season would kick off under a cloud of caution. Share prices reacted very timidly to last quarter's reporting season despite excellent financial results. We therefore suspected that this quarter would also put nerves to the test. We were not wrong, to put it mildly! Despite exceeding expectations, earnings reports have in some cases triggered double-digit declines in share prices; all it takes is for one element to not come out bang in line with investor expectations. And although such behaviour has occurred across the whole range of sectors, it has to be said that the technology sector has been hit particularly hard. Prime examples include Alphabet*, Intel* and ServiceNow*.

MARKETS ARE LOSING PATIENCE...

Admittedly, we are seeing growing evidence of Artificial Intelligence (or Super Intelligence) monetisation. But given the scale of future investments in AI, there is still no guarantee that returns on capital invested will create shareholder value. As the profit bonanza leans more and more towards AI infrastructure providers, the market also seems to be having doubts about how long such profits can last. Profits continue to soar, but prices remain under pressure. To conclude: the stock markets continue to rebuild their risk premium, which after all makes some sense when bond yields are stretched.

... AND INITIATING A BOUT OF SECTOR ROTATION

Flows are moving towards more defensive sectors (healthcare, agri-food, etc.), which thus look rather attractive again after having spent several years stuck in purgatory. Investors are also taking a fresh interest in high-quality companies whose valuations have fallen below their long-term averages precisely because of a lack of investor interest. Performances are balancing out again as the reporting season advances. The oil and technology sectors remain the biggest contributors to 2026 earnings, but the rest of the market is not far behind and offers investors a number of good reasons to diversify their portfolios.

We continue to take a constructive approach to the stock markets despite the geopolitical turmoil, the uncertainty surrounding the yield curve, and volatile commodity prices. This is because businesses are embarking upon this period with their balance sheets generally solid, their earnings capacity intact and their earnings growth prospects still favourable. Such sound fundamentals should continue to spur the markets, albeit without offering them any protection against bouts of volatility. So, we do not expect indices to move in step with each other, rather we foresee a selective market in which earnings growth, cash generation and financial quality will make all the difference.

FIGURE OF THE MONTH

-12%

The euro zone banking sector's performance in October.

PERFORMANCES

Equity indices with net dividends reinvested, in local currencies

	Oct. 2026	YTD
CAC 40	0,13%	0.00%
EuroStoxx	-1.54%	8.41%
S&P 500 in dollars	-0.89%	11.45%
MSCI AC World in dollars	-1.64%	11.18%

Sources: Ofi Invest Asset Management, Refinitiv, Bloomberg as of 30/10/2026.
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Emerging market local currency bonds: Strengths and outlook



Jean-Marie Mercadal
CEO
SYNCICAP AM

International investors have taken a fresh interest in emerging market local currency sovereign bonds in recent months.
Whereas bond yields have risen sharply in the USA, Japan and Europe, emerging market local currency bonds have proved remarkably resilient and have gained around 4% in euro terms (J.P. Morgan ESG GBI-EM Global Diversified index). This has been thanks not only to improving fundamentals in several major emerging economies but also to a number of support factors specific to this asset class.

Support factor #1: high carry. Many emerging market central banks were quicker to address the inflationary surge of 2021-2023 and in many cases did so more hawkishly than their developed economy counterparts. Such monetary discipline led to high nominal and, more importantly, real interest rates. Investors in various major emerging markets - especially in Latin America - are thus enjoying particularly attractive carry levels compared with holders of developed economy sovereign bonds. The asset class currently offers yields in the region of 7% for an average duration of 5.2 years and an average rating of BBB, which corresponds to the Investment Grade category.

Support factor #2: forex. Most major emerging market currencies have held up rather well against the dollar in recent years. These currencies could appreciate if the dollar were to stabilise or even weaken, constituting yet another driver of performance.

Support factor #3: downside potential on domestic interest rates. Easing inflation in a number of emerging economies is gradually giving central banks enough leeway to relax their monetary policies. Local debt therefore offers not only carry but also the potential for bond capital gains should interest rates fall.

NOW A STRUCTURALLY MORE ROBUST ASSET CLASS

A recent study by the International Monetary Fund argues that many emerging countries now have central banks that are more independent and domestic bond markets that are much deeper than they used to be, which means that they are less dependent on foreign capital and less vulnerable to sudden capital outflows. Furthermore, a comparison between their government budgets and those of developed economies is not as categorical as it might have been in the past. Various major developed countries are having to deal with high levels of public debt and an increasing need for financing, whereas some major emerging economies boast more favourable budget trajectories and more financial headroom by comparison.
Their improving fundamentals are gradually changing the market's perception of emerging country risk. Emerging market debt is no longer sought after solely because it offers higher yields; it can also provide investors with a reliable means of diversifying their international bond portfolios. We reiterate our constructive view of this asset class. The growth differential between emerging and developed economies should remain favourable; a number of Asian and Latin American economies still offer stronger growth prospects than their main developed counterparts, thus creating a generally more favourable environment for local currencies.
Most of the unease these days concerns the sustainability of public finances in some of the world's major developed economies, so emerging market debt comes across as offering not only a source of yield but now also a real means of diversifying a global bond allocation strategy.

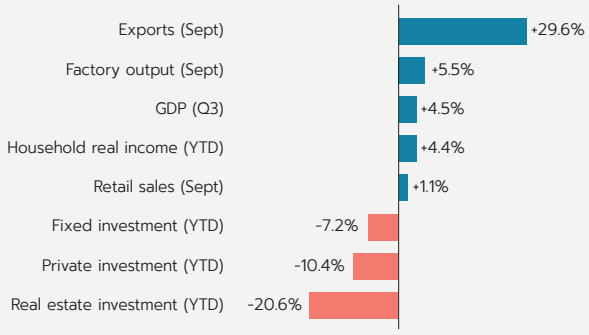
FIGURE OF THE MONTH

12

The number of consecutive weeks in which Chinese stock market index CSI 300 has trended downwards, a record slide since it was created in 2005 despite losing just 15% on a cumulative basis. Given China's disappointing economic growth and the government's failure to take adequate action, investors are folding and valuations are approaching all-time lows...

CHINA'S ECONOMIC GROWTH: BREAKDOWN IN THE 3rd QUARTER

China's economy depends heavily on exports whereas its domestic consumption remains sluggish (retail sales) and property investment continues to plummet.



Source: Value Media News - October 2026.

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GLOSSARY

Carry: a strategy that consists in holding bonds in a portfolio, possibly even till maturity, in order to tap into their yields.

Convexity: one of the main objectives of convexity strategies is to maximise a portfolio's resilience to shifts in interest rates and market conditions.

Credit spread: difference between the yield differential of a private corporate bond with that of a sovereign bond of the same duration, considered to be the least risky (the benchmark government bond).

Duration: weighted average life of a bond or bond portfolio expressed in years.

Hedge funds: investment funds that make use of sophisticated strategies (short selling, leverage, derivatives, arbitrage, etc.) in search of absolute performance, regardless of market trends.

Inflation: loss of purchasing power of money which results in a general and lasting increase in prices.

Inflation breakeven rate: the difference between the yield on a traditional bond (nominal yield) and the yield on its inflation-indexed equivalent (real yield).

Investment Grade/High Yield credit: Investment Grade bonds refer to bonds issued by borrowers that have been rated highest by the rating agencies. Their ratings vary from AAA to BBB- under the rating systems applied by Standard & Poor's and Fitch. Speculative High Yield bonds have lower credit ratings (from BB+ to D, according to Standard & Poor's and Fitch) than Investment Grade bonds as their issuers are in poorer financial health based on research from the rating agencies. They are therefore regarded as riskier by the rating agencies and, accordingly, offer higher yields.

Sensitivity: a bond's sensitivity is an indicator of interest-rate risk measuring the relative change in its price for a given change in the market's interest rates.

Spread: difference between rates.

Term premium: the portion of a long bond's yield that remunerates duration-related risks, particularly the uncertainty on future inflation and on interest rate shifts.

Volatility: corresponds to the calculation of the amplitudes of variations in the price of a financial asset. The higher the volatility, the riskier the investment will be considered.

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