



Perspectives

Market and allocation



Our experts
monthly overview

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OCT
26



The price of capital is back under the microscope!



② **Christophe Herpet**
CIO
OFI INVEST AM

September triggered a paradigm shift, not just another bout of volatility.

The bond markets are now sending out a very clear message that the cost of capital can no longer be considered merely a secondary variable. It is once again becoming the main factor governing valuations, budget policies and, slowly but surely, allocation choices.

This is above all a global trend. In the United States, bond yields have risen to levels not seen for close to twenty years as economic growth remains resilient, inflation is struggling to converge towards its target, and financing needs are enormous. The demand for capital is considerable owing to investments in artificial intelligence, infrastructure, defence and reindustrialisation. All this momentum is spurring economic activity but also keeping real interest rates and term premiums higher.

Here in Europe, the global shock has come at a time of weaknesses on the domestic front. **France is currently the most obvious example.** The wider OAT-Bund spread does not point to a default risk but rather a change in how much investors are prepared to pay for budget, political and liquidity risk. Even more importantly, the unwinding of leveraged positions has sped up the movement. **Fundamentals are guiding the way; investor positions and liquidity are quickening the pace considerably in some cases.**

October has therefore begun under a paradox. Global economic growth indicators are not yet signalling a recession, and corporate earnings growth rates remain generally solid. But the markets are now having to absorb a higher and more volatile cost of capital. This means that diversification by default is no longer as effective, duration has become a risk that needs to be managed actively, and the quality of an issuer's balance sheet, cash flows and refinancing arrangements is becoming a decisive factor.

From an investor's perspective, the solution is not to flee the market but **to demand more from it.** Where equities are concerned, we have a preference for companies that are able to finance their growth and protect their margins while interest rates are high. On the credit markets, meanwhile, the carry might remain attractive but investors still need to select issuers carefully and avoid structures that are too heavily dependent on refinancing. As regards sovereign bonds, budget discipline is once again becoming a major differentiating factor.

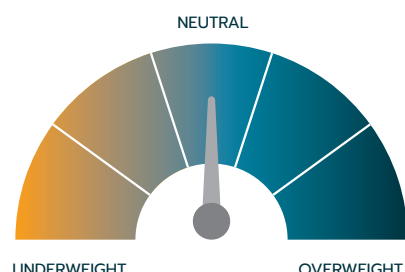
Our baseline scenario is that of a **slowdown but not a downturn, and with more dispersion and more volatility.** In such a regime, performance will hinge less on sensitivity to market movements (beta) and more on the ability to spot opportunities where capital is scarce and poorly rewarded and where balance sheets are actually able to absorb higher-for-longer interest rates.

Liquidity has been the dominant factor for years, but October could confirm that a new hierarchy is taking shape: capital once again has a price. And this price is going to be a consideration in each and every investment decision!

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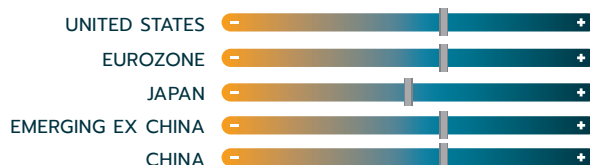
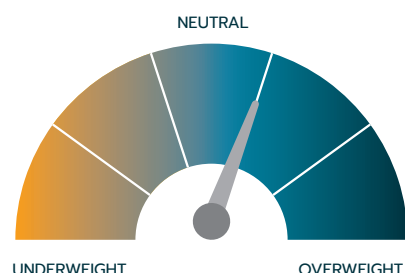
Our views as of 06/10/2026

BONDS



We remained neutral on bond assets back in early September. The upside risks to interest rates were already visible, but our view was that expectations of monetary tightening by central banks were being overdone. Today we reiterate this message and are opting for an active approach to managing duration without any excessive risk-taking. The credit markets are also being penalised by the interest rate component, but spreads are proving resilient and fundamentals are still solid. The main risk faced by this asset class is therefore that of volatile sovereign yields in Europe. The carry on offer is still attractive, but investors need to remain agile and selective by seeking out issuers that are not overly dependent on their refinancing structures.

EQUITIES



Our approach to the equity markets remains a resolutely constructive one, despite greater uncertainty in the short term. Healthy economic aggregates in both Europe and the USA are likely to keep driving earnings growth prospects higher, even with rising borrowing costs and commodity prices. And the artificial intelligence investment boom is still intact for the time being, providing a robust foundation for year-end earnings.

CURRENCIES

The dollar appreciated by more than 3% against the euro in September, approaching the 1.12 mark. It was fuelled by both a shift in the outlook for monetary tightening by the US Federal Reserve (after Kevin Warsh changed his tone following the Jackson Hole conference) and by an uptick in political and budget risk in France. The latter took a toll not only on the euro but also on European risky assets more broadly. As a result, investors piled back into dollar and the greenback is now one of the most bought currencies. We are nevertheless sticking with our neutral position on the EUR/USD exchange rate. Movements in the exchange rate now hinge largely on the market's perception of French (and European) sovereign risk, a factor that is likely to keep volatility high for the near future.



Still a constructive scenario, but one surrounded by significant asymmetrical risks



📍 **Ombretta Signori**
Head of Macroeconomic
Research and Strategy
OFI INVEST AM

We still forecast resilient economic growth and lower inflation in 2027. Economic activity next year in the USA and euro zone alike is set to grow at a pace close to the potential growth rate, which we estimate at respectively 2.0% and 1.3%. Inflation is likely to begin easing off next year from an average of 3.5% in the United States and 3.0% in the euro zone in 2026 to respectively 2.5% and 2.4% in 2027. However, underlying inflation is expected to normalise more gradually and more slowly. That said, the risks to this scenario are asymmetrical. The risks to economic growth remain on the downside, especially in the euro zone which is more exposed to the consequences of an extended energy shock and the uncertainty surrounding economic and budget policy. On the other hand, the risks to inflation are on the upside as the biggest unknown is not so much the direction of disinflation as the pace at which the underlying component of inflation will slow. The big issue now is to determine how much of the upward pressure on energy prices will end up spreading to the less volatile components of inflation. Stubbornly high energy costs could generate greater indirect and/or spillover effects.

BEYOND OIL: DIESEL IS UNDER THE SPOTLIGHT

Given the current geopolitical climate, the price of oil remains a key indicator but by no means the only one to watch. Diesel warrants particularly close attention as it plays such a key role in the real economy. The impact on crude oil can be seen mainly at the pump, whereas diesel is involved across the entire production chain, from transportation to agri-food, from industry to construction, both in Europe and the United States. So diesel prices are a key indicator of the risk that the energy shock will spread to all goods and services prices. This point needs to be watched particularly closely as the price of diesel has jumped by around 75% in the United States since the end of February, compared with about 50% for petrol.

THE PACE OF DISINFLATION: STILL A MILLION-DOLLAR QUESTION FOR CENTRAL BANKS

The next interest rate hike in the USA will probably be pushed back until after the mid-term elections, but the Federal Reserve continues to sound firm about inflation and we can still credibly adhere to a scenario in which the Fed Funds rate rises to 4.50%. The US economy's resilience also suggests that interest rates will be kept higher for longer. Here in the euro zone, we cannot rule out the possibility that the terminal rate might rise to 3%, especially

if spillover effects materialise towards the end of the year in the form of faster wage growth.

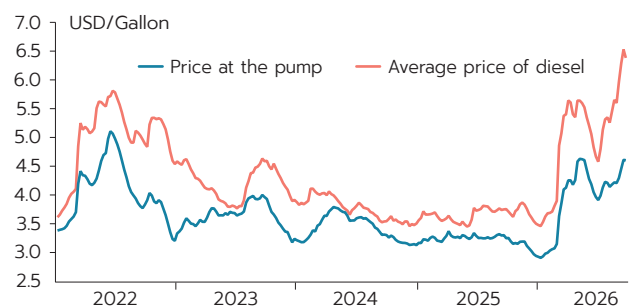
FRANCE: NO SURPRISES FROM THE BUDGET, BUT STILL SOME QUESTIONS

Last of all, political uncertainty also remains a big issue in some countries, no more so than in France. Of the euro zone's four major economies, France has shown the weakest growth year-to-date. There is still some uncertainty surrounding the country's budget trajectory, and reforms could continue to erode consumer and business confidence alike over the coming months. The presidential campaign has not even begun yet, but investor sentiment has already deteriorated considerably despite the fact that the 2027 Finance Bill included few major surprises as the government opted for an approach that would maximise the bill's chances of being adopted in parliament. The government aims to reduce the public deficit to around 5% of GDP in 2027 from an expected 5.4% in 2026, which implies cuts to the tune of around 54 billion euros, including 43 billion euros from new measures. If budget policy were to remain unchanged, the deficit would spiral to over 6% of GDP according to government estimates because of a higher interest expense and an automatic increase in welfare spending.

The biggest problem with the 2027 Finance Bill is that the budget adjustment assumes a best-case growth scenario and the full implementation of all the savings and revenue measures announced, whereas public debt continues to rise and the deficit target of less than 3% of GDP in 2029 looks implausible at this stage.

The coming months will therefore be decisive. **The credibility of France's budget adjustment will remain one of the main factors governing the OAT-Bund spread going forward, but by no means the only one.** Uncertainty about the presidential election, and especially about the next president's ability to command a clear mandate and stable parliamentary majority, could keep the markets in a sceptical mood.

**DIESEL PRICES AND PUMP PRICES
IN THE UNITED STATES**



Sources: Macrobond, Ofi Invest Asset Management as of 06/10/2026.

Bond markets *in turmoil*



🕒 **Geoffroy Lenoir**
Head of Collective
Investment Management
OFI INVEST AM

We already witnessed a surge in interest rates back in August as part of a broader trend, and France's bond market had shown signs of weakness by pushing its bond yields more sharply upwards than its European neighbours. The driving forces at the time included geopolitical risks, higher inflation on account of energy prices, competition for capital, monetary policy expectations and budget risks. The same causes have the same effects, so interest rates rose further in September and the yield on French debt experienced a particularly brutal surge. By the end of the month, yields stood at 5.28% for the US Treasury Note, 3.64% for the German Bund and more than 4.90% for the French OAT. It is worth noting that the France-Germany spread experienced a particularly volatile session on 2 October, with some investors showing signs of capitulating or making a U-turn. The spread edged close to 160 basis points during trading before ending the session at 140 basis points. **The speed and magnitude of the interest rate surge took us somewhat by surprise. We believe it constituted a full-blown paradigm shift for the bond market.**

THE CASE OF FRANCE

The presentation of the 2027 budget before the French parliament made investors wary again as the public deficit is expected to reach about 5.4% of GDP in 2026. Granted, France is feeling the effects of the world's geopolitical risks and widespread surge in yields, but it is also being penalised by political uncertainty, a deteriorating budget and a massive need for financing on the domestic front. It is estimated that it needs financing to the tune of 340 billion euros of issuance net of redemptions for financial

year 2027⁽¹⁾. The OAT is also seeing investors turn their backs on French risk and question the country's ability to chart a credible budget path forward, before and especially after the 2027 presidential election. French risk has thus become the euro zone's biggest risk and is spreading to the country's neighbours to some extent or another. France is still managing to finance itself, but indicators are steadily worsening: alongside a widening France-Germany spread, CDS levels⁽²⁾ and short positions on France have increased. It was disconcerting to see how easily the OAT-Bund spread thresholds of 120 or 130 basis points were breached. It is therefore difficult to pinpoint where the turning points are, although stop orders were triggered in the vicinity of 150 basis points. Anything above this threshold could bring back memories of the European sovereign debt crisis of 2011/2012. **Current levels are unjustified given the fundamentals, but France will have to face particularly violent headwinds.** Is this a brutal return to reality for France's public finances, or a case of no pain-no gain if it wants to turn them around? Either way, investors seeking protection against volatility ought to take a cautious approach over the short term.

INTEREST RATES ARE PUTTING THE CREDIT MARKET'S RESILIENCE TO THE TEST

The credit market's performance has been penalised mostly by higher government bond yields, while credit spreads have proved remarkably resilient. The Investment Grade segment is still reaping the benefits of solid corporate fundamentals, high liquidity and a low default rate, thus limiting any widening of risk premiums. Spreads in the High Yield credit segment have stretched a little but are still compatible with a slow growth scenario rather than a recession. We felt there was little scope for spread compression back in August, and spreads have indeed widened recently. Carry is high and will protect long-term investors, but spreads in the short term might find themselves dependent on geopolitical and budget risks. We are therefore keen to keep our portfolio risk levels low.

FIGURE OF THE MONTH

€340bn

Issuance net of redemptions forecast for France in 2027. This is 30 billion euros more than in 2026.

PERFORMANCES

Bond indices with coupons reinvested

	Sept. 2026	YTD
JPM Emu	-2.03%	-3.07%
Bloomberg Barclays Euro Aggregate Corp	-1.33%	-1.20%
Bloomberg Barclays Pan European High Yield in euro	-1.80%	0.31%

Sources: Ofi Invest Asset Management, Refinitiv, Bloomberg as of 30/09/2026.
Past performances are not a reliable indicator of future performances.

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⁽¹⁾ Source: AFT 29 September 2026 - *French State funding for 2027 and update for 2026* | Agence France Trésor

⁽²⁾ A CDS (Credit Default Swap) is an insurance policy against the risk of a borrower defaulting.

Capital *at the mercy of interest rates!*



🔗 **Geoffroy Lenoir**
Head of Collective
Investment Management
OFI INVEST AM

Financial terms and conditions became tighter worldwide in September as energy prices and long-term interest rates rose. Stock market performances varied from one region to another, with US tech stocks involved in Artificial Intelligence outperforming by a wide margin.

Investors focused much of their attention on oil prices. Brent surged during the month, temporarily pushing past 100 dollars per barrel due to persistent strains on global supply and a more uncertain geopolitical climate. Higher oil prices raised fresh concerns about inflation, and expectations that interest rates will remain "higher for longer" increased.

THE IMPACT OF HIGHER INTEREST RATES VARIES

Such concerns triggered another uptick in bond yields. The US 10Y Treasury yield exceeded 5%, reaching its highest level for almost twenty years. The reasons for this included healthy US economic activity, rising energy prices, and the prospect of a less accommodative monetary policy going forward. Higher interest rates took a toll on the sectors that are most exposed to the cost of capital and those that are most overvalued.

Stock performances varied widely. In the USA, the S&P 500 lost a little ground while the Dow Jones recorded a steeper decline. Conversely, the Nasdaq made gains thanks to contributions from a limited number of technology large caps. Such divergence reflects the growing concentration of performances within the US market.

TECH STILL CENTRE STAGE

The major idiosyncratic event of the month was the launch of Muse, the latest Artificial Intelligence agent to be released by Meta Platforms*. Investors reacted very positively to this announcement as they feel it is a major step towards monetising generative AI. Meta's* share

price soared and was one of the main drivers of the US tech sector's performance and indeed that of the major global indices.

More generally, earnings reports and comments made by a number of tech bosses confirmed that vast amounts of cash are still being invested in Artificial Intelligence infrastructure. The growth outlook associated with semiconductors, data centres and AI applications continued to buoy up tech stocks despite higher discount rates.

Europe's markets had to contend with tougher conditions. Investor sentiment was undermined by higher energy costs, rising bond yields and relatively weak economic growth. And the recent bout of investor wariness about French debt does not serve the euro zone's interests.

Japan proved more resilient. Although the Bank of Japan continues to normalise its monetary policy, the market has been buoyed up by its exporting and tech companies. In addition, investors still appreciate the progress being made as regards corporate governance and financial discipline.

PERFORMANCE CONCENTRATION TO BE WATCHED CLOSELY

However, such healthy indexes mask the fact that performance is becoming increasingly concentrated in a limited number of stocks, primarily those exposed to Artificial Intelligence. In the meantime, investor concerns are on the increase and include the inflation trajectory, interest rate levels, geopolitical strains, and rising political stakes in the USA in the run-up to the mid-term elections. The markets have generally trended favourably since the start of the year, but the risk of market corrections now seems to be greater. That said, one of the market's main fundamental support factors remains intact: businesses still have faith in the potential of Artificial Intelligence and there have so far been no signs of a significant slowdown in AI investment spending. The sharp contrast between solid fundamentals underpinning the AI theme on the one hand and a more uncertain macroeconomic environment on the other is set to continue fuelling performance volatility and dispersion over the coming months.

FIGURE OF THE MONTH

1 billion

The latest number of weekly
Chat GPT users, now corresponding
to 1 in 8 humans.

PERFORMANCES

Equity indices with net dividends reinvested, in local currencies

	Sept. 2026	YTD
CAC 40	-4.23%	-0.13%
EuroStoxx	-2.11%	10.11%
S&P 500 in dollars	-0.38%	12.45%
MSCI AC World in dollars	-1.11%	13.03%

Sources: Ofi Invest Asset Management, Refinitiv, Bloomberg as of 30/09/2026.
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* These companies are cited for information purposes only and not as an offer to sell or a solicitation to buy securities.

Thoughts about *China's economic patriotism*



🕒 **Jean-Marie Mercadal**
CEO
SYNCICAP AM

The battle for economic and technological supremacy between China and the great Western powers is intensifying, and Beijing is finding itself being criticised from all angles about its subsidies, industrial overcapacity and technological ambitions. **It is through this prism that China's economic patriotism ought to be examined.**

China's economic patriotism is aimed at making the country more resilient, with a number of top priorities: to achieve technological sovereignty, develop domestic consumption, remain the "world's workshop", and build on the country's energy transition and economic security. The implicit goal here is for Chinese firms to be dominant in strategic sectors.

Meanwhile, Western brands are losing market share in China and there are two main reasons for this: a loss of image and diminishing value for money.

The latest generation of consumers increasingly prefers national brands as it places more importance on cultural identity and feels more confident about its country's capabilities. This is illustrated in the "Guochao" or "Chinese Chic" movement⁽¹⁾, where buying Chinese is becoming a way to affirm one's cultural identity. Local businesses are thus gaining market share in sectors that have traditionally been dominated by Western firms, such as sports, cosmetics and certain segments of the luxury sector. Consumers have of course noticed that Chinese products are more technologically innovative, of at least the same quality and often cheaper than their Western competitors. **China's "patriotic" strategy is also embodied in its Six Networks infrastructure programme** aimed at developing the country's water, power, digital communications, logistics, underground pipeline and computing networks. China now considers compute infrastructure for the Artificial Intelligence industry as essential as water or power infrastructure, evidence that it is taking a long-term view to the country's development. **Ultimately, what some in the West may describe as excessive economic patriotism is now beginning to look more like a coherent long-term development strategy.**

Granted, China benefited from the transfer of Western

technology to kick-start its industrial development from the moment it joined the WTO in 2001. But it has since pursued a coherent development strategy, for instance by maintaining a high-performing educational system. Its strategy has come under the spotlight lately because of the recent trade tensions and geopolitical turmoil. Certain sectors of the Chinese economy have undoubtedly benefited from considerable state support. But the USA has likewise provided massive support for its own strategic industries, with programmes such as the Inflation Reduction Act⁽²⁾ and CHIPS and Science Act⁽³⁾, and Europe too has introduced initiatives geared towards shoring up its industries. The difference, perhaps, is not so much one of subsidies as of the consistency with which China's development strategy has formed part of a long-term vision. **To some extent, China's approach holds up a mirror to the problems being faced in the Western world:** political fragmentation, a lack of an enduring industrial vision, and a predominantly short-term view.

However, if there is one area in which China's patriotism has failed to pay off, it is in its stock markets. Despite the country's success on the industrial and technological fronts, China's stock exchange has underperformed Wall Street by a wide margin. There are questions about corporate governance in the country as the creation of shareholder value does not seem to be much of a priority, and households have for a long time preferred to invest in property. But the government may now be tempted to promote the stock market more heavily in order to recreate a wealth effect that would spur domestic demand. Such efforts could involve greater development of the pension fund industry to finance an ageing population and draw in more long-term institutional investors. One example of this drive is the recent purchases of Chinese equity ETFs by the "National Team"⁽⁴⁾.

At current levels, there seems to be relatively little risk of a steep drop in Chinese stocks. Stocks remain reasonably valued, earnings prospects are improving (especially in the technology sector), and international investors still hold only moderate positions.

⁽¹⁾ Guochao, or "national tide", refers to a popular consumption and cultural phenomenon in China emphasising Chinese brands, symbols and aesthetics • ⁽²⁾ An Act passed in August 2022 consisting of roughly \$370bn in tax incentives and subsidies in favour of the energy transition and decarbonisation • ⁽³⁾ An Act adopted in July 2022 aimed at reinforcing America's sovereignty in semiconductors • ⁽⁴⁾ A group of Chinese state or state-backed investors operating in the financial markets to shore up share prices and stabilise the markets.

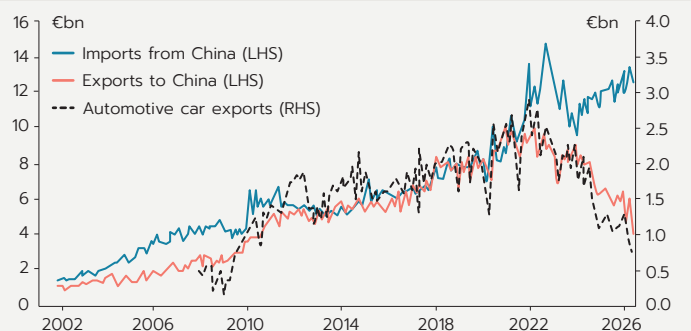
FIGURE OF THE MONTH

84%

Earnings growth expected this year for companies in the MSCI Asia ex-Japan index. Most of this growth comes from South Korea with +335% and Taiwan with +65%. China's earnings growth lies at around 14%. The consensus is looking for +26.5% in 2027 (sources: IBES, Refinitiv, SG Cross Asset).

GERMAN EXPORTS TO CHINA

They have fallen by 44% in 5 years. About half of this is attributable to the automotive sector.



Sources: UBS, Haber as of end-September 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.

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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