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Creating Sustainable Value

MONTHLY MARKET REVIEW & OUTLOOK October 2026

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in a nutshell

Key events - September 2026

Central banks: The Fed and the ECB have raised their interest rates by 25 basis points, in response to economic activity proving more resilient than anticipated and a resurgence in inflation. The Bank of Japan is continuing its monetary tightening.

Fixed income: Yields on government bonds have risen sharply and in a synchronised manner. This has spread to credit spreads from mid-September onwards. France is the focus of concerns, with its spread against Germany reaching 140bps during the month.

Equities: US tech stocks are acting as a safe haven. The Nasdaq rose by around 2% over the month. Interest rates and energy prices weighed on the rest of the market.

Number of the month¹

5.28 %

US 10-year Treasury yield, following a rise of 53 basis points over the month.

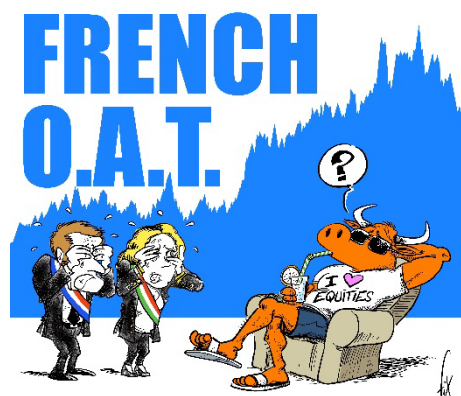
Macro outlook

United States: As the main driver of global growth, the US economy is benefiting from solid household consumption and massive investment in AI-related technology. However, whilst the market is still pricing in three further rate rises by the end of the first half of 2027, our base-case scenario anticipates only one or two.

Eurozone: The European economy is showing resilience but remains deeply weakened by rising energy costs and tightening credit conditions. The ECB finds itself in an uncomfortable position and is likely to limit its tightening to avoid exacerbating financial fragmentation in the region.

France: The country has now emerged as the eurozone's main weak point, given its public debt trajectory and political uncertainties.

China: the central bank has embarked on an easing cycle; the next source of support could come from fiscal policy.



The Long View

Markets turn to Space

- An economy transformed by falling costs
- Telecommunications: towards a hybrid model
- Orbital data centres: a long-term option
- Mixed ESG record and insufficient regulation

¹ Source: Bloomberg, September 2026.



Resilience put to the test by real interest rates

The September paradox: the cycle accelerates despite tightening financial conditions

September ended on a paradoxical note: financial conditions had not been so restrictive since the global financial crisis, and yet the global economy continued to gather pace. The global composite PMI reached its highest level since 2021, consistent with 3.5% growth, against a backdrop where neither the rise in long-term interest rates nor persistently high energy prices have been sufficient to dampen investment momentum. Household consumption, long the weak link in the cycle, has shown signs of recovery, driven by the gradual improvement in the labour market. The cycle appears to be holding up where it was expected to be most fragile

Central banks: a shift in expectations amid the passive tightening of long-term rates

Most central banks raised their key interest rates in September, but their communication was less aggressive than usual – as if the sharp rise in long-term rates observed since late August had begun to do some of the work of tightening financial conditions on their behalf. The market has taken note of this change in tone by slightly revising its expectations against a backdrop of a steepening yield curve: it is now pricing in only two further rate rises by the Fed and the ECB by the end of the first quarter of 2027, compared with three in the previous report. A modest but significant adjustment, signalling the start of a shift in the standoff between central bankers and the markets.

Rise in long-term rates: a structural adjustment in real rates rather than inflationary fever

For it was indeed long-term rates that dominated the month. The rise was sharp and sustained, and its nature differed from previous episodes: inflation expectations remained stable, with break-even rates showing little change, meaning that the rise in nominal rates reflected exclusively that of real rates – 50 basis points in the United States, 12 basis points in Germany after reaching as much as 25 basis points during the period. This situation is more concerning than it appears: it signals a structural adjustment in the equilibrium level of real interest rates, fuelled by the deterioration in public finances, monetary normalisation in Japan and crowding-out effects linked to heavy private-sector issuance. The release of particularly robust US PMIs in late September set the powder keg alight, with technical factors likely amplifying the movement

OAT/Bund spread: France's credit risk reassessed by the markets

In this environment, the weakest links were ruthlessly targeted. France paid the most visible price: French government bonds came under selling pressure that pushed the OAT/Bund spread up to 140 basis points, before a partial retreat to 125 basis points at the very end of the period. This level reflects what is now a structural reassessment of French fiscal and political risk within international bond portfolios.

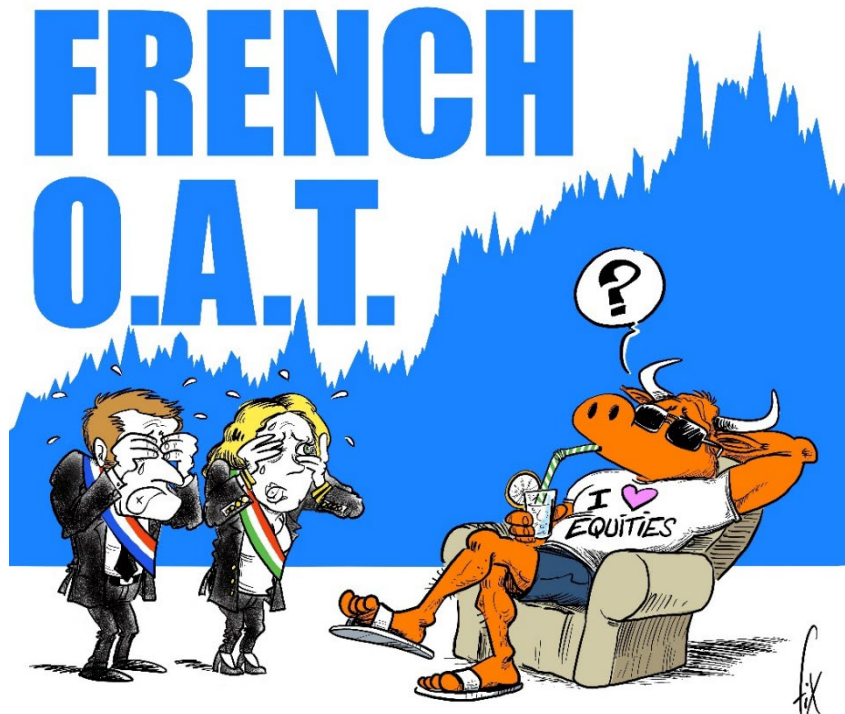


Equity markets: US tech dominance amid a pullback in European cyclical sectors

In the equity markets, resistance was real but geographically very uneven. Global indices ended the period virtually unchanged in dollar terms, having followed a broadly stable trend since mid-August in total return terms. Behind this apparent stability, the divide between the US and Europe widened further: the US market outperformed the European market by more than 4% over the month in local currencies, and by more than 7% in the euro. Technology drove US indices higher. In Europe, the energy, utilities and leisure sectors held up well, whilst the automotive, basic materials, construction, property and banking sectors bore the brunt of the combination of high interest rates and a slowdown in demand prospects.

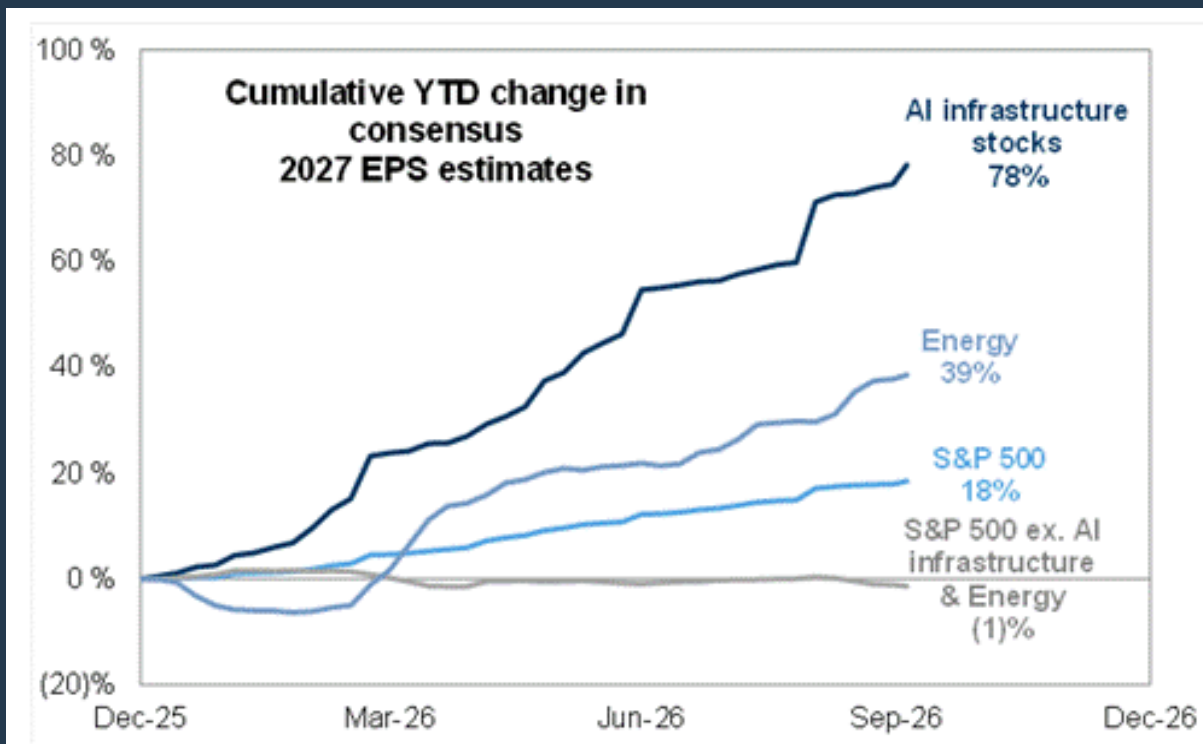
Currencies and Commodities: a strong comeback for the dollar and consolidation in real assets

In the currency markets, the dollar ended its losing streak to rebound sharply, particularly against the euro and the yen, in a move consistent with the repricing of US real interest rates and the relative strength of the US economy. In commodities, oil experienced one of its most volatile months of the year: after rising by nearly 10%, Brent crude ended the period virtually unchanged, just under \$100. Gold fell by just under 5% in dollar terms, a predictable development in an environment of rising US real interest rates.



Graph of the month

Cumulative YTD change in consensus 2027 EPS estimates



Source: Goldman Sachs

Macro review and outlook

Our scenario remains one of resilient global growth and gradual disinflation. The global economy is not entering a phase of disruption, but rather a more uncomfortable phase of coexistence between still-robust economic activity, inflation that is slowing less quickly than hoped, and real interest rates that are now high enough to act as an autonomous brake. The global composite PMI stands at 54.3, consistent with growth of close to 3.5%, across a broader range of sectors than before. So far, this combination has not been enough to really curb risk assets. But the margin for error is narrowing, and the coming months will reveal whether the cycle can continue to navigate between resilient economic activity and monetary constraints, or whether one of the two will eventually give way.

Washington caught between two fires

The United States remains the main driver of the global economy. Economic activity continues to surprise on the upside, with a composite PMI of 58.4, and domestic demand remains buoyant, driven by a still-robust labour market and vigorous investment in technology. The September jobs report, however, came in below expectations, with job creation significantly lower than forecast, fuelling the beginnings of a debate about the robustness of the US economic cycle. We are not drawing any conclusions at this stage: leading indicators, including employment, remain broadly positive. The real issue is inflation. The core consumer price deflator is still rising, at a pace too slow for the Fed to declare the job done, but too high to justify monetary easing. We believe that there remains some scope for further increases in key interest rates, but that this is more limited than the market currently anticipates; the market is still pricing in three further hikes by the first half of 2027, whereas our scenario envisages only one or two.

Silicon Valley holds firm

At the heart of US resilience lies the theme of artificial intelligence. Earnings expectations remain underpinned by massive investment from major tech players, the associated productivity gains and the view that AI represents a structural shift capable of justifying high EPS growth forecasts. US growth is expected to be around 2.3% in 2026 and above 2% in 2027 – levels that would be difficult to achieve without this technological support. Nevertheless, we remain cautious about the concentration of this leadership. The earnings momentum in the tech sector is real, but it remains driven by a limited number of companies, and the question of its sustainability will become all the more pressing as real interest rates remain high. This is why we consider US tech to remain a pillar of the market outlook for the coming months, but not a source of unlimited protection.

The eurozone: between superficial resilience and real vulnerabilities

In the eurozone, economic conditions have held up better than expected in the short term. The composite PMI stands at 53.1, headline inflation at 3.8% and core inflation at 2.5%, confirming that disinflation is underway but remains incomplete. However, the short-term improvement must not obscure the underlying vulnerabilities. Europe remains more exposed than the United States to the triple threat of energy, interest rates and financial fragmentation. The rebound in oil prices has weighed on production costs and fuelled inflationary pressures, just as the ECB's monetary tightening was beginning to take its toll on activity in the sectors most sensitive to the cost of capital. The ECB finds itself in a delicate position: tightening too much risks exacerbating fragmentation, whilst tightening too little risks undermining its credibility in combating inflation. We expect a further increase of 25 basis points – and no more – likely in December.



FOCUS - France: Europe's new adjustment variable

France is now emerging as the eurozone's main weak point. The issue is not one of an imminent solvency crisis, but rather a fiscal trajectory that is becoming increasingly difficult to defend in an environment of persistently higher interest rates. With public debt standing at 117.5% of GDP in the first quarter, and in the absence of significant fiscal leeway, the question of stabilising the debt-to-GDP ratio has taken on a new urgency. The market took note of this in September: the OAT-Bund spread reflected not only the general pressure on long-term rates, but also a political and fiscal risk premium specific to France. We are therefore staying away from French sovereign debt at this stage, favouring Germany and the Netherlands instead. Restoring confidence will require credible fiscal signals, which are still slow in coming.

China: exports cannot do it all

In China, growth continues to be driven mainly by exports, particularly in the electronics sector. This partly offsets the persistent weakness in consumption, even as activity in the services sector slowed over the summer. The People's Bank of China has already cut its interest rates significantly to support consumption and the property market; it may be nearing the end of its easing cycle. The baton will no doubt be passed to the fiscal side, with possible announcements during the fourth quarter. The two-month extension of the trade truce with the United States also provides some respite for an economy that relies heavily on exports.

However, oil supplies remain a major concern for China, the world's largest importer of crude oil, at around 12 million barrels per day. Normally, 55% of its supplies pass through the Strait of Hormuz and 12% come from Iran. If the disruptions persist, China could put pressure on Tehran to secure its supplies.

FOCUS – Lower oil prices: a pipe dream?

One of the major uncertainties weighing on the global economy remains the price of oil. Nearly 20% of the world's oil supply passes through the Strait of Hormuz. Nevertheless, despite the scale of the initial shock, the market has partly managed to adapt. Part of the Saudi and Iraqi oil flows has been rerouted, and a number of tankers are managing to pass through the strait. Several countries have also increased their production, including the United States, Venezuela and Russia. At the same time, Chinese oil consumption has fallen sharply. Since the start of the conflict, strategic reserves have been heavily drawn upon – indeed, the G7 countries have just announced the release of a further 100 million barrels. All these adjustments have helped to limit the supply shortfall to around 6 million barrels per day.

Against this backdrop, a price of around \$100 per barrel appears to reflect the new equilibrium between available supply and demand. A stabilisation around \$90 would be good news for the markets, as it would ease inflationary pressures and, by extension, pressure on interest rates.

A more significant fall, however, seems unlikely without a genuine de-escalation of the conflict in the Middle East, which does not appear to be on the cards. Furthermore, strategic reserves are now low and will need to be replenished, which will in itself create demand. Over the coming months, oil is therefore likely to remain a key determinant of inflation and monetary policy.



The Long View

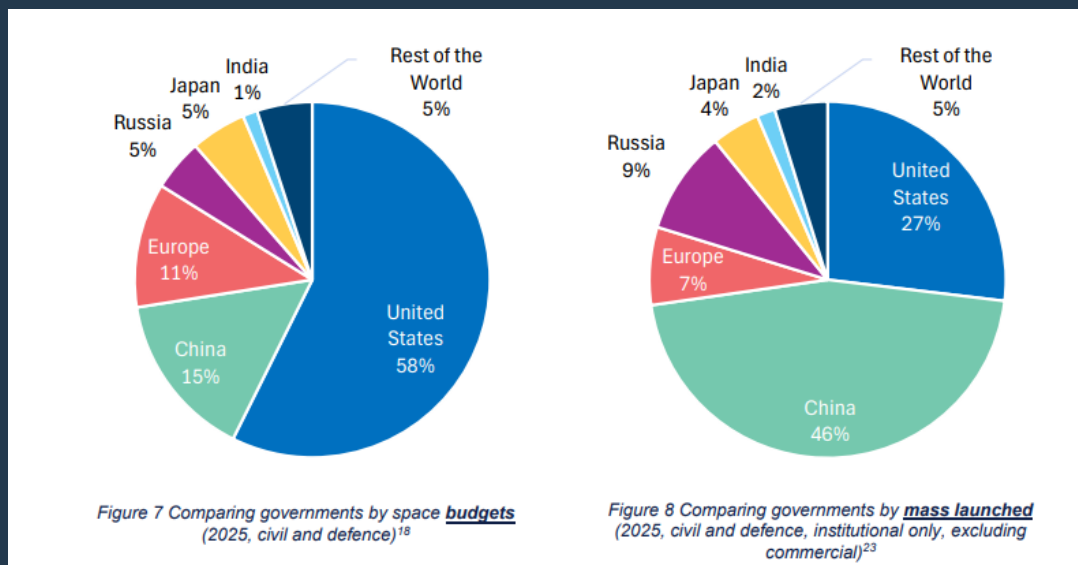
Markets turn to Space

SpaceX's initial public offering on 12 June 2026, followed by its inaugural \$25 billion bond issue, has changed the markets' perception of the space sector. Long regarded as a peripheral field, the preserve of governments, the defence sector and a handful of specialist manufacturers, space is becoming a strategic infrastructure with the potential to transform numerous economic sectors.

The global space market was worth \$626 billion in 2025 and could exceed £1,000 billion by the middle of the next decade. Its growth is driven by two main factors:

- the commercial development of satellite telecommunications;
- the rise of sovereign and military issues against a backdrop of heightened geopolitical tensions.

The United States largely dominates this sector. US players operate around 75% of the satellites in orbit, while SpaceX carried out more than half of the world's orbital launches in 2025 and, with Starlink, deployed the largest satellite constellation ever assembled. China, however, is playing an increasingly significant role. Although it accounts for only 15% of global government space budgets – compared with 58% for the United States – it is estimated to have accounted for around 46% of the total mass sent into orbit in 2025 as part of institutional programmes. Its actual industrial influence could therefore significantly exceed what is suggested by budgetary statistics alone.



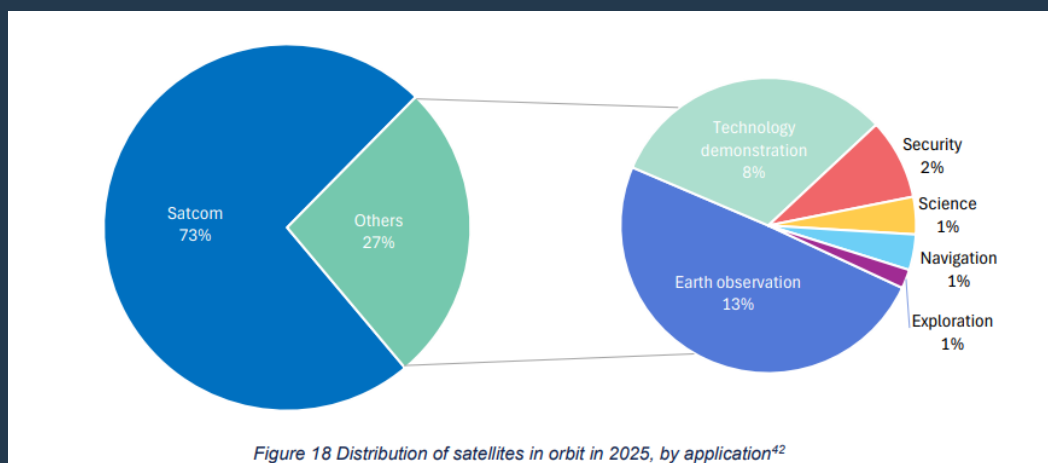
An economy transformed by falling costs

The space value chain comprises four main segments: i) satellite manufacturing, ii) launches, iii) ground infrastructure, and iv) services utilising space capabilities, notably telecommunications, navigation and Earth observation. Value is gradually shifting towards this final link: services and applications.

Two economic breakthroughs have made this shift possible. The first concerns manufacturing: large, bespoke satellites are being replaced by smaller, standardised and mass-produced equipment. The second relates to the reusability of launch vehicles. The cost of accessing low Earth orbit has thus fallen to around \$2,700 per kilogramme with the reusable Falcon 9, compared with tens of thousands previously. SpaceX is aiming for around \$200 per kilogramme once Starship becomes fully operational.

This reduction in cost is not only driving progress in existing applications; it is also enabling the emergence of entirely new markets. The space economy, historically organised around a handful of large geostationary satellites, now relies on constellations of small satellites in low Earth orbit, which are constantly being renewed. More than 15,000 satellites are currently believed to be active, nearly two-thirds of which are thought to belong to Starlink.

Space is thus becoming a cross-sectoral infrastructure, comparable in some respects to digital networks. This transformation is already evident in telecommunications. In the longer term, it could extend to computing infrastructure and data centres.



Telecommunications: towards a hybrid model

Satellites have been used in telecommunications since the 1960s. However, the first low-Earth orbit constellations, such as Iridium and Globalstar in the 1990s, failed to compete with the rapid growth of terrestrial mobile networks. Starlink has revived this model under very different economic conditions. Thanks to reusable launch vehicles and the mass production of satellites, SpaceX has been able to deploy a constellation on an unprecedented scale, offering lower latency and reduced costs. By the end of June 2026, Starlink had 12 million subscribers, roughly twice as many as a year earlier.

The next step will involve connecting smartphones directly to satellites, without the need for an antenna or a dedicated terminal. While still mainly limited to messaging and emergency calls, this technology is expected to gradually enable a wider range of uses as constellations and compatible terminals develop.

Until now, satellite networks have primarily served to complement terrestrial infrastructure. In the United States, the regulatory framework allows space operators to use spectrum from mobile partners to extend coverage in areas with no mobile signal. Alliances have thus been formed between AST SpaceMobile and several traditional operators, whilst T-Mobile is cooperating with Starlink.

SpaceX, however, appears to want to go further by transforming Starlink into a fully-fledged national mobile service. Having agreed to acquire approximately 65 MHz of spectrum from EchoStar for \$19.6 billion, the group recently announced its intention to acquire a national portfolio of up to 14 MHz of additional spectrum in the 800 MHz band. This move is aimed, in particular, at addressing one of the main limitations of a service relying solely on a direct connection between satellites and smartphones: thanks to their superior propagation characteristics, lower frequencies offer wider coverage and penetrate obstacles and buildings more effectively. Another key advantage is that this band is already supported by most existing mobile devices, thereby facilitating its large-scale deployment without the need for new handsets.

The convergence of terrestrial and satellite networks could thus foster the emergence of a hybrid model, in which the two infrastructures complement one another. For incumbent operators, value will depend not only on the quality and density of their fibre networks, base stations and core networks, but also on their ability to integrate satellite connectivity through appropriate partnerships, to safeguard their access to spectrum and to maintain relationships with their customers. For their part, satellite operators will need to gradually supplement their constellations with terrestrial infrastructure and secure sufficient access to spectrum in order to offer comprehensive, high-performance mobile coverage, particularly inside buildings and in dense urban environments.

Orbital data centres: a long-term option

The rise of artificial intelligence is leading to a rapid increase in computing requirements. However, the development of data centres is facing growing constraints: electricity supply, connection times, water consumption, access to land, administrative procedures and local opposition. In the United States, at least 75 projects representing an investment of around \$130 billion are reported to have been delayed or even halted in the first quarter of 2026.

Against this backdrop, some players are considering deploying computing capacity in orbit. Space would offer an almost continuous supply of solar energy, eliminate land-use constraints and reduce the need for water for cooling. Several projects are currently underway. Starcloud, in partnership with Nvidia, placed its first graphics processing unit in orbit at the end of 2025. Google is planning a prototype with Planet Labs for 2027. SpaceX has mentioned a dedicated constellation that could eventually comprise up to one million satellites. China is already operating a small networked computing constellation, primarily for sovereign purposes.

However, the obstacles remain considerable. In the vacuum of space, heat cannot be dissipated by either air or water: it must be dissipated by radiation, which requires immense heat sinks. A computing capacity of 5 gigawatts could require around 8 km² of heat sinks and 16 sq.km of solar panels. The equipment must also be protected from radiation, even as it becomes technologically obsolete very quickly and maintenance in orbit appears virtually impossible.

The key constraint remains the cost of access to space. Projects could potentially become profitable at between \$200 and \$500 per kilogramme placed into orbit, well below current costs. Their viability therefore depends largely on the future performance of Starship and a significant increase in the launch rate. At this stage, orbital data centres appear to be best suited to niche applications, such as the processing of data generated directly in space or certain sovereign uses.



Mixed ESG record and insufficient regulation

The space sector presents a paradox from the perspective of responsible investment. It provides solutions to several environmental and social challenges: climate monitoring, drought mapping, forecasting extreme events, precision agriculture and reducing the digital divide in remote areas.

However, its expansion also gives rise to new risks. The proliferation of satellites is increasing orbital congestion, the volume of debris and the likelihood of collisions. Launches and re-entries into the atmosphere raise pollution concerns, whilst satellite constellations disrupt astronomical observation. Certain terrestrial problems could thus shift to an orbital environment whose capacity is, too, limited.

Governance also remains patchy. International space law is based primarily on treaties concluded during the Cold War. There is no global regulator, no binding system for managing orbital traffic, nor any quotas limiting the number of satellites. By 2025, Starlink is expected to have carried out around 300,000 avoidance manoeuvres, whilst several hundred thousand additional satellites are planned.

The United States is currently prioritising the acceleration of authorisations and the relaxation of environmental constraints. Europe, by contrast, is considering imposing greater traceability and obligations regarding space debris, but its proposal would not be fully applicable until 2032. In the short term, therefore, industrial competition takes precedence over precaution. In the medium term, however, the increase in risks could lead to a tightening of the rules, favouring the most established and best-capitalised players.

Conclusion

Space has become a strategic sector that investors can no longer ignore. Falling manufacturing and launch costs are gradually transforming a specialised industry into essential infrastructure for telecommunications, Earth observation and, potentially, computing.

From a responsible investment perspective, the sector cannot be assessed in black-and-white terms. The space sector provides useful tools for environmental transition and digital inclusion, whilst simultaneously creating new environmental and regulatory risks. The central question is therefore no longer whether the space economy will continue to grow, but which players will be able to capitalise on this growth, manage its externalities and convert it into sustainable value.

Summary of Market views

Summary				
ASSET CLASSES	MEDIUM TERM	PREVIOUS MONTH VIEW	MONTHLY CHANGE	COMMENTS
EQUITY			↑	- Global growth and earnings prospects remain solid. - The earnings season should act as a positive catalyst for the asset class, as valuations and investor positioning offer an attractive upside asymmetry. - However search for diversification.
CREDIT			↓	- Fairly resilient macro-financial fundamentals (low default rates and high corporate profitability) and attractive carry. - Nevertheless, financial stress in the euro area and AI financing needs are rather a vector of risk.
DURATION			↑	- Slight long duration overall. - Following the recent move, the remaining upside potential in real yields now appears limited. A gradual re-exposure to duration risk seems reasonable, although volatility related to the situation in Iran may persist. - Nevertheless downside potential for yields also appears constrained, as the "higher for longer" narrative remains in place, supported by structural factors.
CASH			=	Money market is regaining its status as a safe haven even if its defensive interest seems less relevant after the recent rise in short-term rates.



EQUITY				
ASSET CLASSES	MEDIUM TERM	PREVIOUS MONTH VIEW	MONTHLY CHANGE	COMMENTS
US			=	- Solid growth and still-positive EPS momentum. - However, extreme concentration around the AI theme is a vector of volatility. The search for diversification is still favoured.
EURO			=	- Improving macroeconomic momentum. - Relative valuations and positioning remain attractive. However, the potential for outperformance remains highly dependent on developments in Iran (energy price).
UNITED KINGDOM			=	A degree of political stability has returned. Valuations remain attractive.
JAPAN			=	- Expansionary fiscal policy and supportive governance reforms. - Maintaining long exposure to financials amid monetary policy normalization. - Nevertheless, upside potential is limited following YTD outperformance.
EMERGING MARKETS			=	- Valuations and EPS momentum remain attractive. Search for geographic diversification. - However, index performance remains concentrated in a small number of stocks.
GROWTH VS. VALUE			=	- Overall preference maintained for value companies with positive earnings revision momentum, particularly financials and companies backed by tangible assets. - Remaining selective on US technology stocks.
QUALITY VS. HIGH VOLATILITY			=	Quality/low-volatility strategies offer strong diversification benefits in the current market environment (volatility in the momentum factor, AI-related stocks, tensions in the Middle East...).
SMALL VS. LARGE CAPITALIZATIONS			=	Small-cap valuations remain relatively attractive, but financial conditions have tightened and uncertainty around monetary policy persists.
CYCLICAL VS. DEFENSIVE			=	Overall stance remains neutral. A barbell approach is favoured, combining quality cyclical and structurally growing companies (profitable technology, AI infrastructure, materials) with banks, utilities and healthcare stocks.

CREDIT				
ASSET CLASSES	MEDIUM TERM	PREVIOUS MONTH VIEW	MONTHLY CHANGE	COMMENTS
INVESTMENT GRADE US			=	Preference for a neutral stance and short maturities given tight spreads and AI-related issuance.
HIGH YIELD US			=	- Resilient growth and attractive carry, particularly following the rise in interest rates. - However low compression potential and risk of contagion linked to the over-indebtedness of certain AI players.
INVESTMENT GRADE EURO			=	- Quality assets at reasonable prices. - Preference short maturities.
HIGH YIELD EURO			=	Improving macroeconomic momentum and attractive carry. However low compression potential and risk of contagion linked to the over-indebtedness of certain AI players.
DURATION				
2 YEARS US			=	- Fed rate hike expectations have eased amid the passive tightening driven by higher long-term yields. - There is no sign of inflation expectations becoming unanchored at this stage. - The normalization process is therefore expected to remain limited.
10 YEARS US			=	- Real yields have risen sharply over the past month (+50bps), now approaching 3%. Treasury yields offer a positive asymmetry. - However, nominal growth is running above 5% and financing needs remain elevated (AI investment and a public deficit above 6% of GDP).
2 YEARS GERMAN			=	Markets are pricing in three ECB rate hikes by mid-2027. Employment and domestic demand remain weak in the euro area, while the inflation shock is primarily energy-driven. Short-term yields have room to decline.
10 YEARS GERMAN			↑	Upward pressure stems from Germany's fiscal spending plan, political risk, the ECB's hawkish stance, continued quantitative tightening and resilient macroeconomic conditions. Now positive asymmetry, all the more so as Bund is still viewed as a safe-haven asset relative to OATs.
PERIPHERAL DEBT EUROPE			=	- Unfavourable environment due to the recent increase in energy prices and the risk of contagion from French risk. - Cautious on Italy, while maintaining an overweight position in Spain.
UNITED KINGDOM			=	- Attractive carry and the return of a degree of political stability. - Nominal growth revised upwards.
JAPAN			=	Macroeconomic and inflation trends remain strong. The BoJ is supporting the yen, reducing the monetary base and contributing to tighter monetary conditions. Interest rates are likely to remain under upward pressure.
EMERGING MARKETS			=	Emerging sovereign spreads are very tight. In local currencies, the immediate potential on FX remains uncertain.
CASH				
EUR/USD EXCHANGE RATES			=	The euro has been penalised by uncertainty surrounding France and contagion effects. The euro is oversold. Neutral in the short term.



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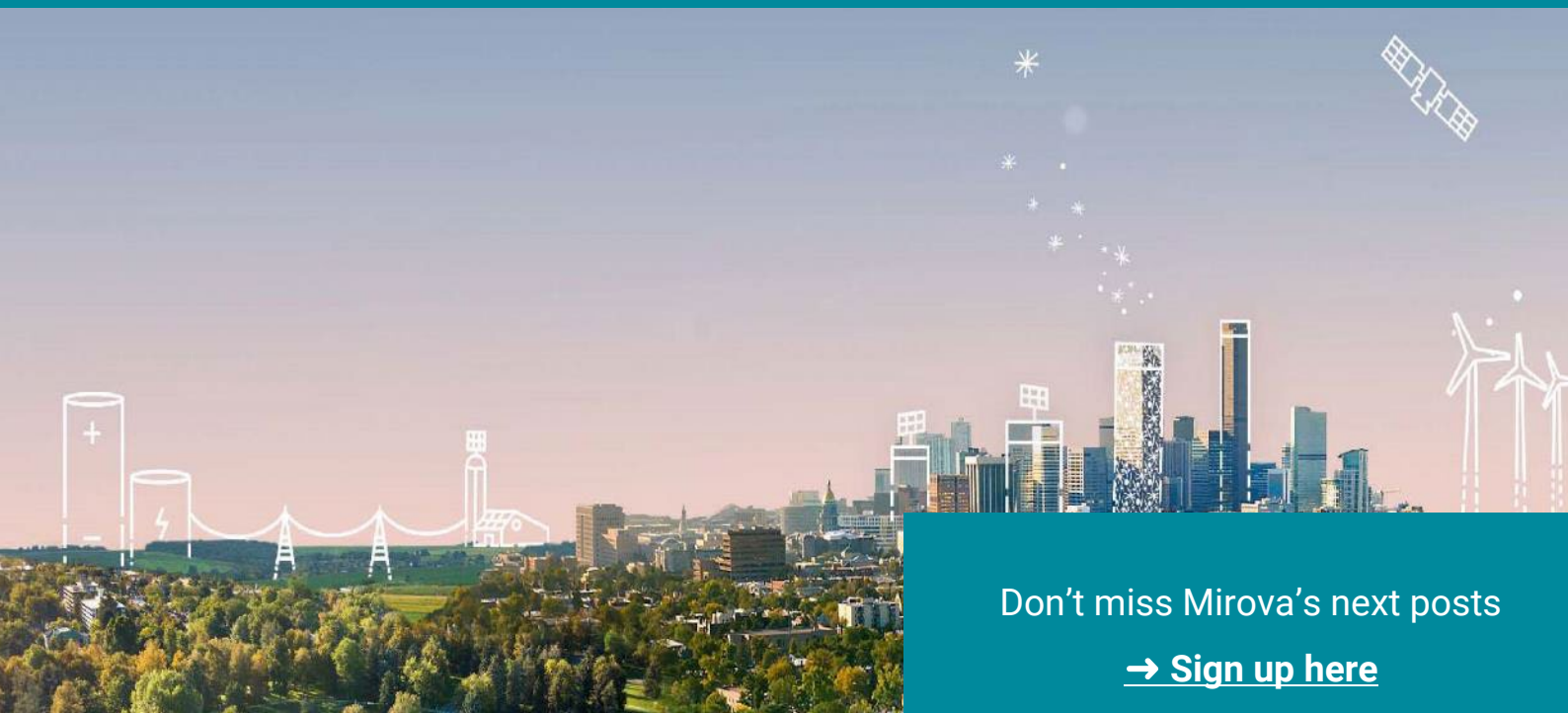
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