

PROBUS  PLEION

Monthly Newsletter

October 2026

At your service since 1980





Contents

- 2** Editorial
- 3** Assessment of the economic situation
- 4** Financial markets during the month
- 5** Comments on investment decisions
- 6** Performance summary
- 7** Contacts & disclaimer

Editorial

The market is losing patience with French debt

The French debt plummets in an already turbulent market

While the deterioration of France’s debt situation is anything but new, the trajectory of OATs (Obligations assimilables au Trésor) has entered a new phase since the beginning of September. The OAT/Bund credit spread—that is, the additional yield demanded on French government debt relative to German government debt—has crossed several thresholds in recent weeks, reaching its highest level since the euro crisis in 2012.

Whilst the spread had previously been trading between 20 and 40 basis points – that is, between 0.2 per cent and 0.4 per cent – it rose sharply (and quite logically) in the wake of the surprise dissolution of the National Assembly on 9 June 2024, trading within a range of 60 to 80 basis points.

But over the month, this spread has soared by 42 basis points and is now trading at over 130! The politicians’ inability to take measures capable of reducing the budget deficit and the prospect of a second round in the 2027 presidential election between the RN and the LFI are among the reasons behind this latest movement.

The yield spread between the 10-year OAT and the Bund



The sharp rise in yields is making the bill even higher

As if that weren’t enough, the widening of the OAT credit spread is taking place against a backdrop of a general rise in yields. In absolute terms, the 10-year Bund yield has risen by 0.26 per cent, which, combined with the widening of the Bund/OAT spread, has pushed the 10-year OAT yield up by a further 0.68 per cent in barely a month! At this rate, the 5 per cent mark is no longer so far off for the 10-year OAT...

What can we expect next?

In the wake of the euro crisis in 2012, several financial support mechanisms were put in place, notably the European Stability Mechanism, to prevent a Member State from defaulting. However, to benefit from these measures, two conditions must be met: a commitment to remaining in the eurozone and a willingness to comply with the European Union’s fiscal framework and to put public finances on a sustainable path in the medium term. Given the French political class’s stubbornness on the subject of public finances, it is highly likely that the market will continue to demand ever-higher yields on OATs until a change of course is achieved. But how far will this go?

What consequences can we expect for the markets?

France is known for only taking action when a (very) serious crisis breaks out. The financial markets, so despised by the Left, will soon ‘blow the whistle’ to signal that ‘playtime is over’. The question is whether this will be in 2026, or in the run-up to the 2027 elections. Until then, we will still need to stay out of the OAT market.



Kim Muller
CIO (Switzerland)



Assessment of the economic situation

Inflation expectations are rising across the board and are pushing bond yields sharply higher. Energy and fuel prices in particular are reaching record highs, both in Europe and the United States, fueling fears of social unrest. Consumer purchasing power is under pressure, particularly in Europe.

Despite inflation, energy & interest rates, US growth is fine

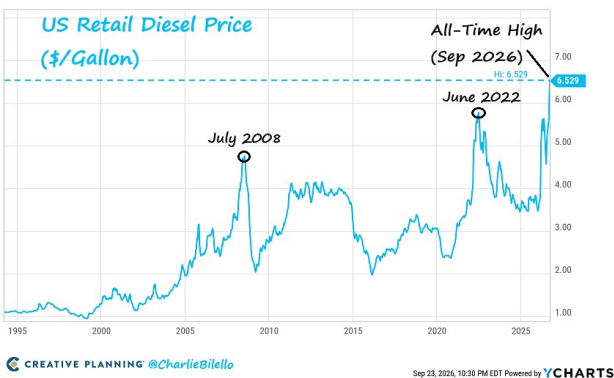
Whilst some sections of the US population are feeling the pinch of inflation, particularly rising fuel prices, private consumption as a whole continues to show solid growth. On the one hand, consumer confidence is at its lowest level in over 12 years; on the other, retail sales are up 6 per cent year-on-year. How can this be explained? We need to look at the wealthiest section of the population, which is benefiting from a significant wealth effect driven by the stock market. Average debt remains well below levels seen over the previous decade, whilst average exposure to the equity market (for those who hold shares) is at an all-time high. Furthermore, massive investment in AI infrastructure is contributing significantly to economic growth, as is government spending. The growth that began in April 2020 may therefore continue for a few more quarters.

U.S. Economic Expansions (1949 - 2026)			
US Expansion Period	# Months	Cumulative Real GDP (%)	Annualized Real GDP (%)
Apr 2020 to Jun 2026	74	28%	4.1%
Jun 2009 to Feb 2020	128	29%	2.4%
Nov 2001 to Dec 2007	73	17%	2.6%
Mar 1991 to Mar 2001	120	42%	3.5%
Nov 1982 to Jul 1990	92	38%	4.3%
Jul 1980 to Jul 1981	12	2%	2.5%
Mar 1975 to Jan 1980	58	20%	3.8%
Nov 1970 to Nov 1973	36	12%	3.9%
Feb 1961 to Dec 1969	106	52%	4.9%
Apr 1958 to Apr 1960	24	11%	5.6%
May 1954 to Aug 1957	39	12%	3.7%
Oct 1949 to Jul 1953	45	24%	5.8%
Averages	67	24%	3.9%

CREATIVE PLANNING Data Source: NBER, YCharts @CharlieBilello

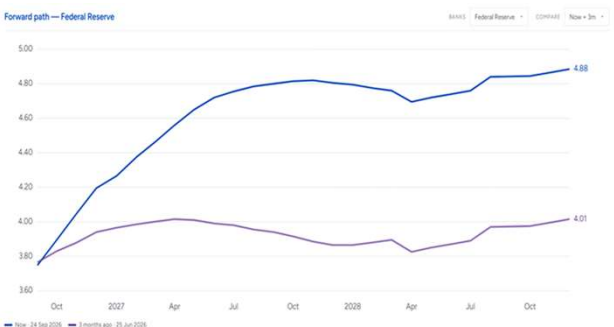
Diesel prices are soaring not only in Europe, but also in the US

Those who are good at maths will quickly work out the conversion, but for everyone else, a gallon of diesel at \$6.53 works out at 1.53 euros per liter. Of course, this price level might seem like a dream to many Europeans, but in a country where taxes are much lower than on the Old Continent, price volatility at the pump is inevitably much higher. It is therefore the sheer scale of the rise that is hitting many US consumers hard, whilst bearing in mind that the distances travelled and the average fuel consumption of vehicles there are far higher than on this side of the Atlantic. And the possibility raised of blocking the export of American diesel will not change the situation.



The market now expects 3–4 interest rate rises from the Fed

Just three months ago, the market was pricing in a single rate rise by the end of the year and no changes in 2027 and 2028. Kevin Warsh's once again hawkish comments at the September meeting, together with the Fed's (slightly) upwardly revised economic projections, have changed the picture. Currently, market positioning reflects expectations of a further 3–4 rate rises by the end of the first half of 2027, which, in our view, may well ultimately prove to be excessive.



What about the SNB's monetary policy?

At its latest meeting on 24 September, the SNB, as expected, kept its key policy rate at 0 per cent. Medium-term inflationary pressure has increased only slightly since June. The SNB's monetary policy is appropriate for keeping inflation within the price stability range and supports economic activity. Furthermore, should the need arise, the SNB is prepared to intervene in the foreign exchange market to ensure appropriate monetary conditions, as defined by the SNB. The very recent bout of weakness in the single currency merely confirms that a rate rise is not on the cards.



Financial markets during the month

Equity markets, with the notable exception of the Nasdaq, ended the month in negative territory. The sharp rise in bond yields weighed heavily on valuations, whilst the dollar strengthened.

September, true to its bad reputation

Unsurprisingly, September was again a gloomy month for the equity markets, although the falls were not particularly pronounced in the broad indices. Beneath the surface, certain sectors were hit much harder than others and, quite logically, those most exposed to interest rates and energy were the hardest hit.

Utilities, property, consumer discretionary and transport all suffered, whilst, in contrast, the technology sector stood out. Enthusiasm for AI has been reignited, notably thanks to the phenomenal success of the new Muse app launched by Meta.

Apart from this theme, there were no winners! Even the energy sector has retreated slightly, whilst oil and fuel prices in particular remain very close to their recent highs. If history is anything to go by, October should be a more promising month and usher us into the most favorable quarter.

Long-term interest rates at 20+ years highs (except in Switzerland)

Record levels of government bond issuance, significant – or even very significant – budget deficits, rising energy prices and, consequently, a resurgence in inflation were all factors behind the sharp rise in bond yields during the month.

For 10-year maturities, one has to go back to 2008 for the German Bund, to 2002 for US Treasuries and OATs, and to the last century for Japanese JGBs to find such yield levels.

In our view, it may well be that the financial markets have overreacted somewhat and that an interim peak will materialize very soon. So why not seize these ‘opportunities’ quickly? For the simple reason that, in recent years, the correlation between long-dated bonds and equities has been quite strongly positive, and therefore buying duration adds risk to the portfolio rather than reducing it.

Europeans have been net buyers of gold ETFs since the end of June

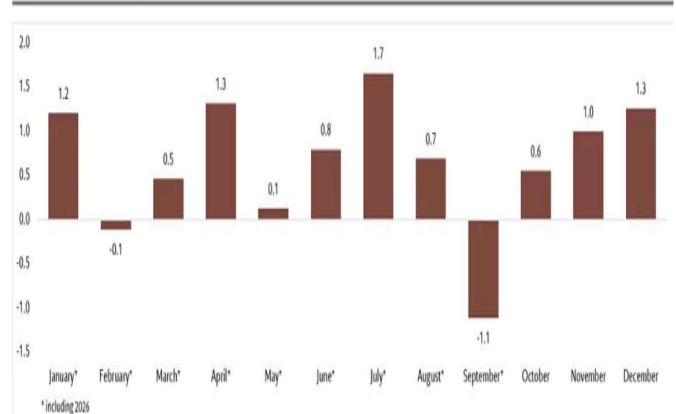
Although the trend was broadly downwards during September – particularly in the wake of the Fed Chair’s speech at Jackson Hole in late August – the latest data confirm that demand for gold via ETFs remained strong throughout the third quarter.

European investors in particular have been steadily building up their positions on a weekly basis, demonstrating, if proof were needed, that interest in gold is not the exclusive preserve of central banks or Asian investors.

In 2026, the strongest growth in investment demand came from Singapore, but in eighth place overall – and first in Europe – was France, closely followed by the UK. Well, well...

Historical performances by month

S&P500: Index average monthly returns since 1928 (%)



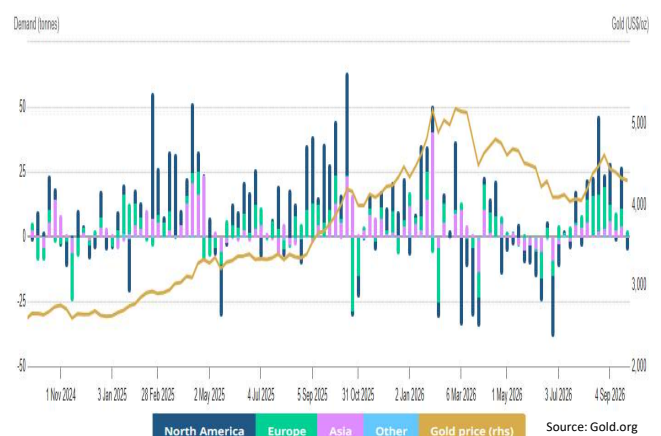
Source: FactSet/Pictet

UST (blue), OAT (green), Bund (yellow) and JGB (purple)



Source: Bloomberg

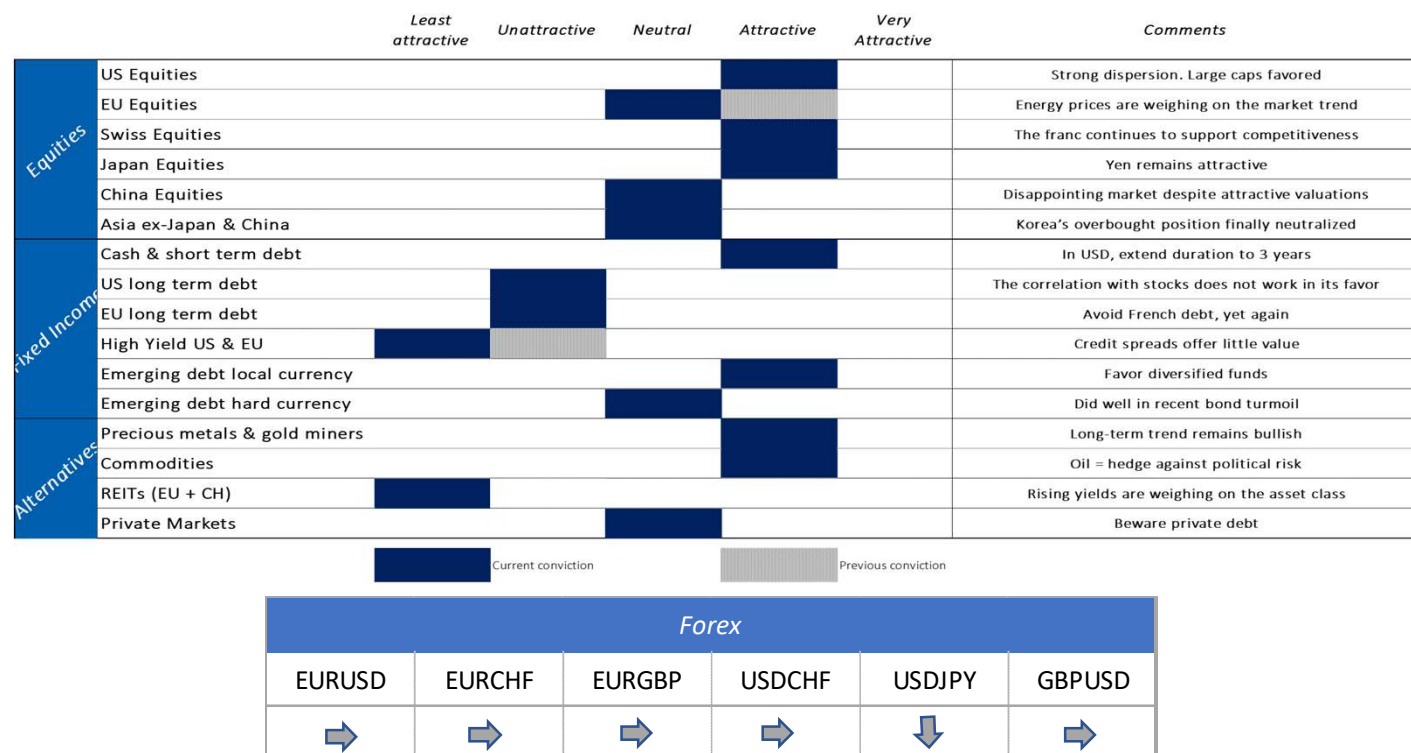
Demand for gold from ETFs remains steady



Source: Gold.org



Our convictions



Comments on investment decisions

Whilst the indices' downward movements have been moderate, sector rotations have been more pronounced. Long-term yields are reaching 20-year highs or higher, but the positive correlation with equities is dampening our enthusiasm. The dollar is strengthening, but not excessively, whilst gold is struggling a bit. Oil prices remain high.

Equities

Without altering our allocation – and therefore remaining slightly overweight – we have sought to capitalize on market movements to rebalance both our geographical and sectoral allocations.

We have reduced our exposure to China, due to persistent weaknesses, and increased our exposure to the US market. We have done the same with European equities, but to a lesser extent. At sector level, we increased our allocation to the technology sector and reduced our allocation to the utilities sector.

Bonds

As mentioned earlier, the sharp rise in yields has pushed them to levels not seen for over twenty years. In some respects, this rise appears potentially excessive, and it might be tempting to increase exposure to longer durations.

However, adding duration merely increases risk in portfolios, and we will be content with a slight increase in USD durations, from just over two years to three years.

Precious metals, listed real estate (REITs)

The Fed's reiteration of its hawkish stance, both at the end of August and at its most recent meeting in September, weighed on the short-term trend for gold. The strengthening of the dollar did not help the yellow metal either, but ultimately prices held up relatively well in this unfavorable environment.

By contrast, European REITs continued to struggle against a backdrop of a marked rise in yields, reaching valuations that can be considered very depressed. We are still awaiting a reversal of this trend before re-entering the REIT market.

Currencies

The foreign exchange market was relatively calm compared with the bond market, although the dollar continued to recover.

The yen was buffeted by volatility but nevertheless managed to gain 1.5 per cent against the greenback, whilst the franc was the weakest currency over the month. However, at the very start of October, the single currency lost half of its annual gain against our currency in just one day...



Performance summary

Equity performance

Equity Indices	Last	1m Return (%)	YTD Return (%)	1y Return (%)
SWISS MARKET INDEX	13830.3	-3.1	7.5	17.7
STXE 600 (EUR) Pr	634.9	-2.4	10.2	17.4
CAC 40 INDEX	7964.5	-4.2	0.6	4.2
DAX INDEX	25199.2	-4.0	2.9	5.5
FTSE 100 INDEX	10606.0	-2.0	9.5	17.0
Euro Stoxx 50 Pr	6269.0	-2.2	11.0	16.7
DOW JONES INDUS. AVG	50906.1	-4.1	7.2	11.5
S&P 500 INDEX	7651.5	-0.3	12.7	15.7
NASDAQ COMPOSITE	26861.1	1.9	16.1	19.3
RUSSELL 2000 INDEX	2796.9	-5.3	13.9	16.4
TOPIX INDEX (TOKYO)	4108.7	-0.3	23.1	33.9
FTSE CHINA A50	14047.1	-5.2	-6.4	-4.8
Global Index	1134.8	-1.1	13.4	17.2

Performance of bonds, currencies and commodities

Fixed Income Indices	Last	1m Return (%)	YTD Return (%)	1y Return (%)
SBI AAA-BBB	137.1	-0.8	-1.0	-1.6
Euro-Aggregate	240.6	-1.9	-2.5	-2.3
U.S. Aggregate	2280.5	-2.6	-2.9	-1.8
Global Aggregate	487.9	-2.4	-2.7	-2.4

Currency	Last	1m Change (%)	YTD Return (%)	1y Return (%)
CHF	0.836	3.4	5.5	4.9
EUR	1.133	-2.5	-3.5	-3.4
DX	101.451	2.0	3.2	3.8
GBP	1.327	-2.1	-1.6	-1.6
JPY	157.410	-1.5	0.4	7.0
CNY	6.706	-0.2	-4.0	-5.8
CAD	1.423	2.7	3.7	2.1
AUD	0.695	-3.1	4.1	5.1
BRL	5.175	-0.2	-5.8	-2.9
INR	95.828	0.7	6.6	8.0
MXN	18.069	6.3	0.3	-1.7
EURCHF	0.947	0.8	1.7	1.3

Commodity	Last	1m Change (%)	YTD Return (%)	1y Return (%)
Gold	4157.4	-6.3	-3.7	7.5
Silver	60.4	-9.2	-15.7	27.7
WTI	90.4	5.4	57.5	46.4
Copper	662.2	0.4	16.5	35.6
Industrial Metals	176.7	-1.9	8.2	20.0
Agriculture	61.3	-6.1	14.7	14.2

Switzerland

Rue François-Bonivard 12 ♦ 1201 Geneva
t +41 22 906 81 81

Schauplatzgasse 9 ♦ 3011 Berne
t +41 58 404 29 41

Boulevard de Grancy 1 ♦ 1006 Lausanne
t +41 22 308 18 50

Chemin du Midi 8 ♦ 1260 Nyon
t +41 22 906 81 50

Rue Pré-Fleuri 5 ♦ 1950 Sion
t +41 27 329 00 30

Rue du Centre Sportif 22 ♦ 1936 Verbier
t +41 27 329 06 83

Seidengasse 13 ♦ 8001 Zürich
t +41 43 322 15 80

info@probuspleion.ch ♦ www.probuspleion.ch

Luxembourg

2A rue Jean Origer ♦ L-2269 Luxembourg
t +352 262 532 0

info@probuspleion.lu ♦ www.probuspleion.lu

Mauritius

Suite 301 ♦ Grand Baie Business Quarter
Chemin Vingt Pieds ♦ Grand Baie 30529

Republic of Mauritius
t +230 263 46 46

info@probuspleion.mu ♦ www.probuspleion.mu

Dubai

DIFC ♦ Emirates Financial Towers

South Tower ♦ Office 1101
P.O Box 9519 ♦ Dubai ♦ Émirats arabes unis

t +971 4 305 8000

info@probuspleion.ae ♦ www.probuspleion.com

Thailand

283/78 15th Floor ♦ Home Place BLDG

Sukhumvit 55 (Soi Thong Lor 13) ♦ Klongton Nua

Wattana ♦ Bangkok 10110 ♦ Thailand

t +66 27 129 660

info@probuspleion.com ♦ www.probuspleion.com



www.probuspleion.com

Disclaimer: This document has been prepared using sources believed to be reliable but should not be assumed to be accurate or complete. The statements and opinions it incorporates were formed after careful consideration and may be subject to change without notice. The author and distributors of this document expressly disclaim any and all liability for inaccuracies it may contain and shall not be held liable for any damage that may result from any use of the information presented herein. Past performance is not indicative of future results. Values of an investment may fall as well as rise. This document is intended for information purposes only and should not be construed as a recommendation, an offer or the solicitation of an offer to buy or sell any investment products or services. The use of any information contained in this document shall be at the sole discretion and risk of the user. Prior to making any investment or financial decisions, an investor should seek individualized advice from his/her financial, legal and tax advisors that consider all of the particular facts and circumstances of an investor's own situation.

DIFC: This document is directed at Professional Clients as defined under the rules and regulations of the Dubai Financial Services Authority (DFSA). Probus Pleion Middle East Limited is regulated by the DFSA.

Switzerland: This document is directed at Professional Clients and/or Qualified Investors as defined under the rules and regulations of the Swiss Financial Market Supervisory Authority (FINMA). Pleion SA is regulated by the FINMA.

Mauritius: This document is directed at Professional Clients and/or Qualified Investors as defined under the rules and regulations of the Financial Services Commission (FSC).

Luxembourg: This document is directed at Professional Clients and/or Qualified Investors as defined under the rules and regulations of the Grand-Duchy of Luxembourg. Clients' data is protected under the REGULATION (EU) 2016/679 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).

Data Privacy Policy Important Notice: Companies within the Probus Pleion Group recognize the importance of keeping the personal data of its customers and other counter-parties confidential and protecting their privacy rights. While each company within the Probus Pleion Group has its own privacy policy in accordance with the applicable standards, you may access Probus Pleion Group global privacy policy at the following url: <https://www.probuspleion.com/data-protection-policy>