

# Sumus' Version

September 2025

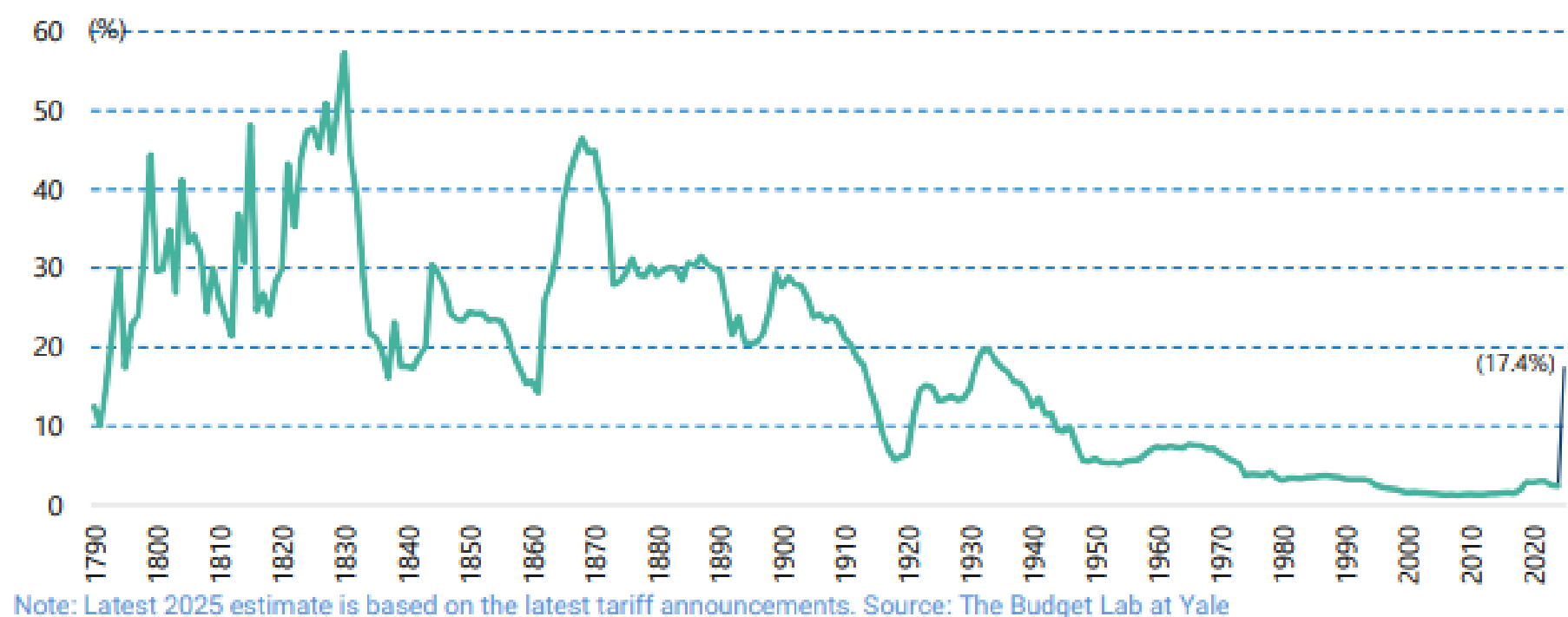


Equity markets are continuing to rise strongly. The scenario is positive with ample liquidity; the Fed is cutting rates and earnings are expected to grow by 13.5% next year for the S&P500. The only concern is that valuations are now historically very high, and the risk should be reduced quickly if the scenario changes.

Equity markets had another strong quarter in Q3, with the S&P500 up 7.8%, the STOXX Europe 600 up 3.1% and the MSCI AC Asia also up 8.4%.

The US economy is growing better than expected (+3.8% in Q2, Q3 is estimated +3.9% by the Atlanta Fed Model) and the Fed cut rates for the first time this year.

The incertitude around the tariffs increase in the US is now reduced, with the average tariff rate expected to settle at 17.4% by Yale Budget Lab.

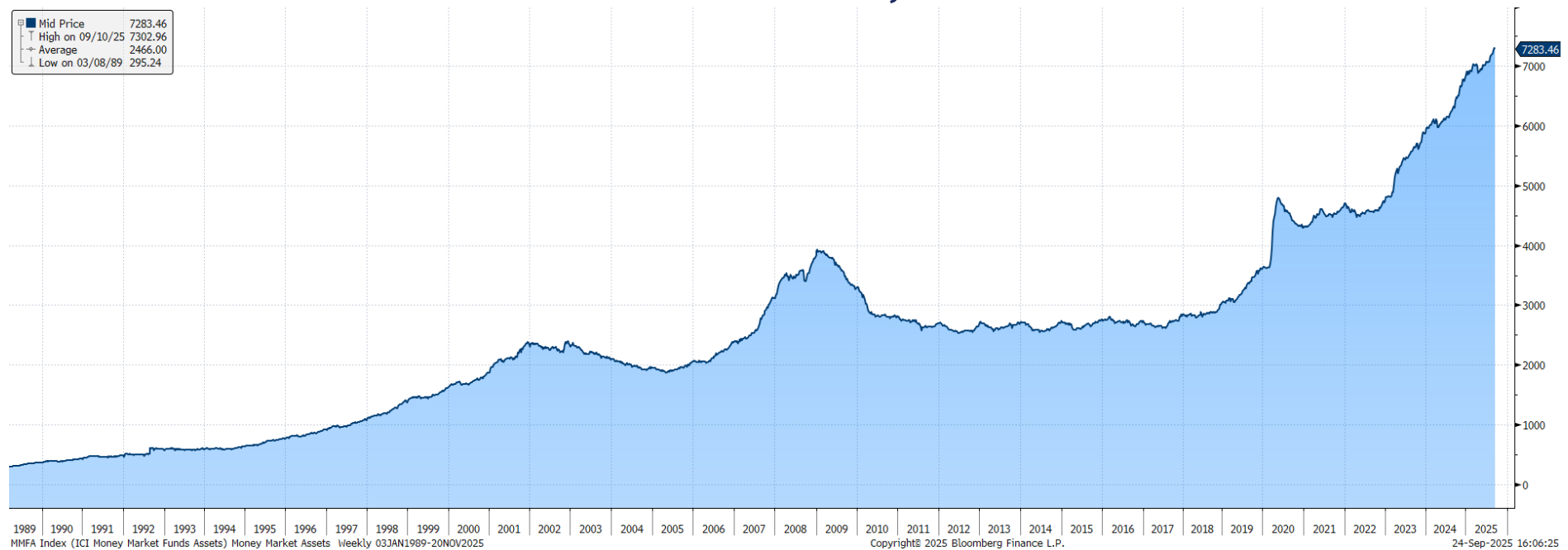


If we look at the future, the scenario remains positive for the equity markets:

- The Fed is expected to cut rates to 3.0% by the end 2026 (from 4.1% now).
- Earnings growth is expected to accelerate to +13.5% next year for the companies in the S&P500 index.
- Liquidity is plentiful, with more than 7 trillion USD in money market funds that can be relocated if short term rates fall significantly.

The problem for equity markets, and especially the US one, is the extremely high level of valuations. Looking at the P/E ratio (22.1 for 2026), the Schiller CAPE (at 38) or the Market Cap/GDP (above 200%), valuations are very expensive as never before in the last 25 years.

## Total assets US money market funds



With high valuations the downside risk is higher than normal but what can change the sentiment?  
Here is a list of possible negative developments that could happen:

1. The Fed will not cut rates because inflation surprises on the upside. September data (to be published the 15th of October) will be important because that is when the tariffs increases decided at the beginning of August will begin to take effect.
2. Earnings growth will disappoint because the economy becomes weaker than expected.
3. A loss of confidence if the Fed will be controlled by the White House.
4. A decline in AI investments.

The last point is particularly relevant because valuations are very high especially in the Tech sector. Many analysts are starting to have doubts about the returns generated by the massive investments announced in data centers for AI.

A potential slowdown of these investments can be a catalyst for a market correction.

Finally, on stock markets the scenario is constructive for the end of the year because the macro picture is favourable but keeping in mind the high valuations and the risk we outlined.

On bond markets, the trend down in US rates can continue in the coming months, with the 10 years rate expected to drop below 4%.

The real 10 years rate at 1.75% is too high, especially compared with a 0.5% neutral real rate estimated by the NY Fed.

So even with inflation going up to 3%, US rates could go down below 4%.

## US 10y real rate



The USD is expected to remain stable, with the Fed cuts already expected by the markets.  
There are few reasons for a recovery as well.