



# J. Safra Sarasin Cross-Asset Weekly

10 October 2025

## AI increasingly boosts US growth

AI is increasingly everywhere. The 35% recovery in global equities from their April low has been much more than just a tech story. Industrials have surged on the back of rising demand for gas turbines while materials have benefitted from a commodity rally. Parts of the tech sector, which have previously been left behind, such as memory chips or hard drive producers are suddenly in the spotlight as AI is expected to lead to an exponential rise in demand for data storage capacity.

This just goes to show how AI is gradually penetrating the US economy, which is also reflected by its increasing impact on GDP growth. Investment in information-processing technology accounted for three quarters of US growth in H1 2025 and will likely be an important tailwind next year as well. The positive spill-over from the AI boom as well as tailwinds from the fiscal side have led us to upgrade our US growth and inflation forecasts for 2026. Yet this should not stop the Fed from cutting rates, albeit only cautiously. The euro area and Switzerland are expected to grow below potential. We have kept our China growth target at 4.8%. We expect growth in other emerging markets to slow, making rate cuts more likely in several EM countries. The current policy mix generally argues for steeper yield curves, a weaker dollar and further upside for gold.

Finally, equities are expensive after the strongest 6-month return in 30 years, apart from the post-recession rallies in 2009 and 2020. The upcoming earnings season could be a source of volatility although results are likely to come in ahead of expectations. We reiterate our preference for defensive sectors with a focus on healthcare and Swiss equities.

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### Monthly macro and strategy forecast update

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**The US economy faces opposing forces: tariffs and migration curbs have slowed hiring, while AI-driven investment has fuelled growth. There are signs that the fall in policy uncertainty in recent months is supporting consumer spending and employment intentions. Monetary and fiscal policy should soon turn supportive, with growth expected at 2% both in 2025 and 2026. Yet inflation risks are rising as firms pass on tariff costs and services inflation surprises to the upside. The Fed is likely to deliver two more rate cuts this year, but further easing looks limited, with rates ending 2026 at 3.5%. Economic growth in Switzerland and the euro area will remain below potential in the second half of the year but should pick up in 2026. While we firmly believe that the SNB will not cut its policy rate further, we still see room for the ECB to cut once more, or at least to maintain an easing bias in the coming months. We have kept our growth forecast for China at 4.8% this year, with a weaker second half compared to the first half of the year. We expect growth in emerging markets (EM) ex China to slow further on the back of weaker global trade. The backdrop for fixed income continues to be constructive. Lower policy rate expectations should allow for somewhat lower bond yields and steeper yield curves. We expect the dollar to soften further, though the pace of depreciation should be more gradual. We remain bullish on gold; it stands to benefit as a safe asset in the current environment, dominated by a multitude of uncertainties. Equities are expensive after the strongest 6-month return in 30 years apart from the post-recession rallies in 2009 and 2020. The upcoming earnings season could be a source of volatility although results are likely to come in ahead of expectations. We reiterate our preference for defensives with a focus on healthcare and Swiss equities.**

#### Global macro

**Strong cross-currents hitting the US economy**

The US – and, by extension, the global economy – has been buffeted by strong cross-currents in recent months: tariffs, changes in migration policy and a surge in AI-related capital spending. These forces help explain why private domestic demand has remained resilient in the first half of the year, even as employment growth has slowed sharply.

**Tariffs and policy uncertainty weighing on demand**

Tariffs and the uncertainty surrounding trade policy have clearly weighed on economy-wide corporate profits and firms' appetite for hiring. Many have put expansion plans on hold, and the hiring rate fell steeply between April and August (Exhibits 1-2). Yet companies have been reluctant to shed workers. At the same time, tighter migration policy has sharply reduced net immigration and, with it, the supply of labour. By our estimates, the breakeven pace of monthly payroll growth has dropped to about 40,000. Jay Powell, the Fed Chair, has suggested the true figure could lie anywhere between zero and 50,000. The recent uptick in unemployment indicates that labour demand has fallen slightly faster than supply, but the market still appears broadly in balance – albeit a fragile one.

**AI-related capex has surged**

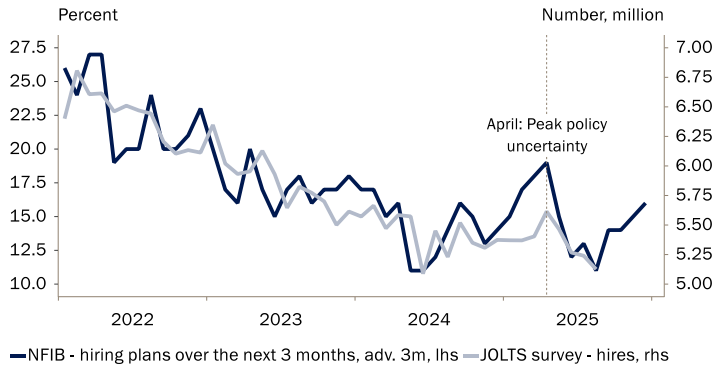
While tariffs and policy uncertainty have restrained parts of the economy, hyperscalers have continued to plough money – much of it internally generated until recently – into expanding AI infrastructure. Investment in information-processing technology rose at an annualised rate of around 30% in the first half of the year, contributing three-quarters of GDP growth despite making up only 4% of output.



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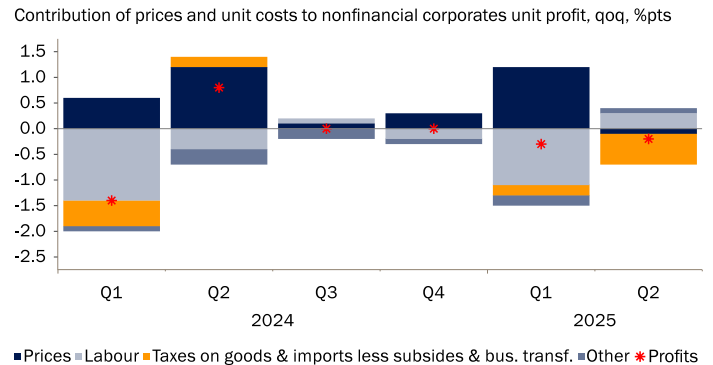
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**Exhibit 1: Hires fell April to August, but there are signs of a rebound**



Source: Macrobond, Bank J. Safra Sarasin, 07.10.2025

**Exhibit 2: Tariffs have hurt US corporate profits**



Source: Macrobond, Bank J. Safra Sarasin, 07.10.2025

## Growth outlook remains positive:

Looking ahead, the outlook for growth remains broadly positive for three main reasons:

- 1) More AI investment**
- 2) Drop in policy uncertainty should support aggregate demand**
- 3) Monetary and fiscal policy to turn from headwinds into tailwinds**

First, although questions persist about how long the AI investment boom will last, there are few signs of an imminent slowdown. The major players continue to announce further expansion plans for the coming quarters.

Second, declining policy uncertainty is lending support to activity. The rise in the household savings rate in the first half of the year was almost fully reversed in July and August, underpinning robust consumer spending. Hiring intentions among small businesses have also strengthened, suggesting a rebound in job creation. Combined with persistently weak labour supply, this should limit how far unemployment can rise. The risk of a negative feedback loop between weaker employment and falling demand appears low.

Third, both monetary and fiscal policy are set to turn from headwinds into tailwinds. On the Fed's own measures, financial conditions have eased enough for monetary policy to boost growth over the coming year. Meanwhile, additional tax cuts under the OBBBA will take effect next year, and the drag from higher tariffs should diminish. As a result, the fiscal impulse—measured by the change in the primary fiscal balance—is likely to swing from about  $-1.5\%$  of GDP in 2025 to nearly  $+1\%$  in 2026 (Exhibit 3). Overall, we expect growth of around 2% this year and next, stronger than previously anticipated.

## Stickier inflation next year

This brighter growth outlook complicates the inflation picture. So far, our work suggests that businesses have passed through only 30-40% of the tariff costs to consumers. But if the labour market stabilises and consumer demand strengthens, more companies may seek to restore margins by raising prices. A smaller inflow of migrants also means less slack in the labour market, implying that wage growth could accelerate more than expected. Combined with less well-anchored inflation expectations, this suggests inflation will be stickier than generally expected (Exhibit 4). We have raised our 2026 inflation forecast to 3.1%, from 2.7%.

## Two Fed cuts in Q4, only one next year

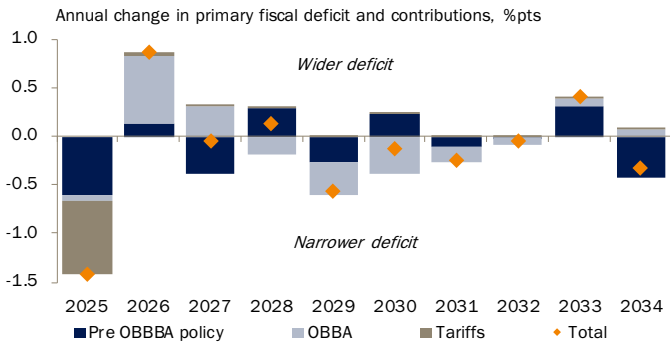
So, what does the Fed do in such an environment? With both sides of the dual mandate in tension, the central bank faces a delicate balancing act. For now, most policymakers see the risks to the labour market as greater than those to inflation. Given the government shutdown and the lack of additional official data releases, weak ADP employment figures for September (and past negative revisions), the Fed is likely to maintain that stance. We therefore expect two further 'insurance' cuts this year, rather than one as previously assumed. Beyond that, the scope for additional easing narrows. We still expect the upper band of the Fed funds rate to end 2026 at 3.5%.



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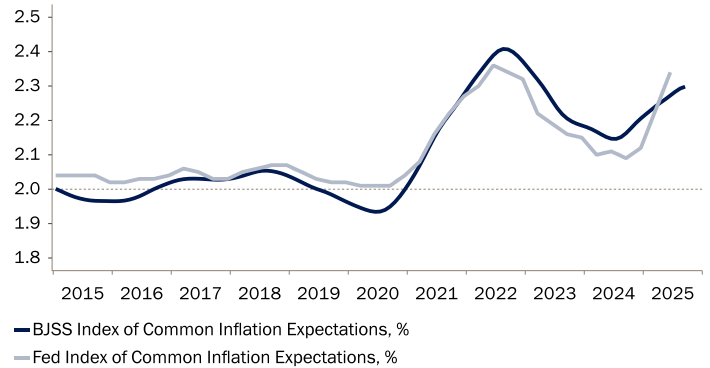
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**Exhibit 3: US fiscal policy to turn stimulative in 2026**



Source: Macrobond, Bank J. Safra Sarasin, 07.10.2025

**Exhibit 4: Inflation expectations not as well anchored as in the past**



Source: Macrobond, Bank J. Safra Sarasin, 07.10.2025

## Europe is not making any progress

The euro area is not making any progress. Growth has come to a standstill in Q3 as policy uncertainty, US tariffs as well as the strong euro weigh on the manufacturing and export sectors. A payback from frontloaded Irish exports will reduce GDP further in Q3. Household real incomes may rise again as inflation rates have been coming down but consumer confidence has remained below its long-term average. As a result, the household savings-to-income ratio increased to 15.4% last quarter. We doubt that the savings ratio will fall as much as the ECB assumed in its macro projections for the rest of the year, as the French political crisis will likely dent confidence in the euro area further. We are more optimistic for the coming year when more fiscal spending out of Germany should materialise. We note, though, that so far, companies have not expanded their production capacities in anticipation of greater demand, with investment spending and industrial orders remaining depressed (Exhibits 5 and 6). With inflation close to the 2% target, we still believe that a rate cut by the ECB is more likely than markets have priced in, though we acknowledge that there are no clear indications from ECB officials that there could be a consensus for one. We also see that the window for a rate cut will close at some point once the German fiscal impulse kicks in.

**Exhibit 5: Purchasing Manager Indices for the euro area remain weak**



Source: Macrobond, Bank J. Safra Sarasin, 07.10.2025

**Exhibit 6: German industrial production is back to 2005 level**



Source: Macrobond, Bank J. Safra Sarasin, 07.10.2025

## Below-potential growth in Switzerland, but a pick up is likely

Switzerland has been hit hard by US tariffs. And the appreciation of the Swiss franc has put additional pressure on its export sector (Exhibit 7). The adjustment process in the labour market is not over yet and will weigh on private consumption (Exhibit 8). In contrast to the euro area, monetary policy has been expansionary since end-2024, which has supported the real estate and construction sectors. Future tax changes on owner occupied



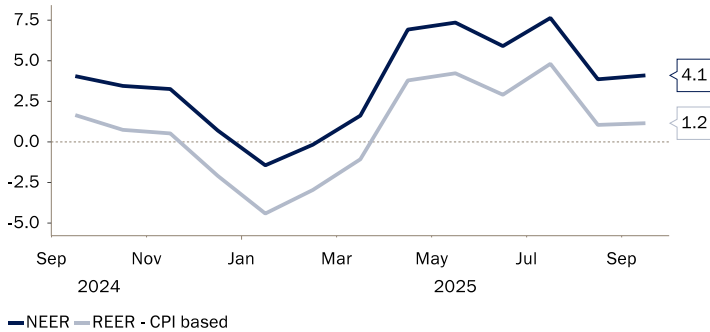
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housing should support these sectors and overall economic dynamics in the coming quarters. As a result, inflation should also rise, hence we do not believe that any additional rate cuts are needed.

## Exhibit 7: The Swiss franc has appreciated in real terms

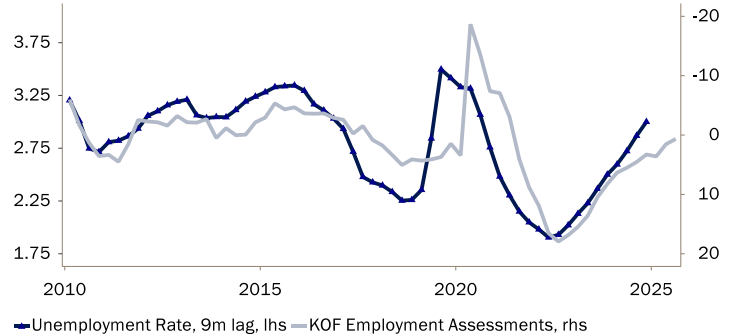
Switzerland, Nominal (NEER) and Real (REER) FX Indices, SNB, in % yoy



Source: Macrobond, Bank J. Safra Sarasin, 07.10.2025

## Exhibit 8: Unemployment should increase further this winter

Switzerland: latest KOF data: July 2025



Source: Macrobond, Bank J. Safra Sarasin, 07.10.2025

## UK economy to grow by 1.5% in 2025, though the fiscal outlook remains uncertain

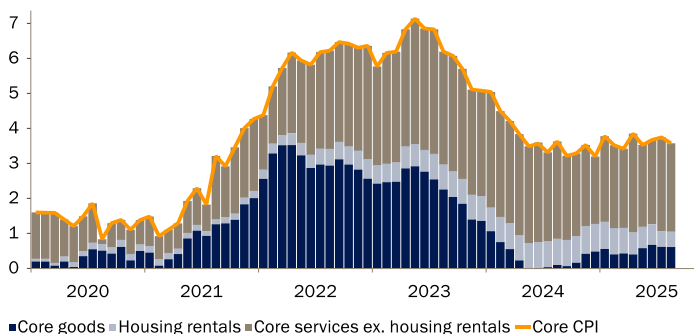
In the UK, we have raised our GDP growth forecast for this year to 1.5%, from 1.2%, after stronger-than-expected fixed investment and government spending. Looking ahead, households appear more willing to spend more of their real income gains. Even so, the outlook remains uncertain. The Chancellor has reaffirmed her commitment to the fiscal rules, implying that higher taxes and/or lower public spending are likely in the Autumn budget. We still expect one more rate cut this year, though there is a good chance that the Bank of England will 'skip' November and December meetings, given the persistence of underlying inflation (Exhibit 9).

## Japan's consumer spending is picking up

Japan's economy has also proved more resilient than expected, prompting an upward revision to our 2025 growth forecast to 1.4%, from 1.2%. We expect growth to remain at or a bit above potential in the coming quarters, supported by reduced policy uncertainty and robust consumer spending (Exhibit 10). Household consumption rose by 2.3% year-on-year in August, the fourth consecutive monthly increase and well above consensus forecasts of a 1.2% increase. Rising real incomes should continue to sustain spending, though this also suggests core inflation will remain relatively elevated.

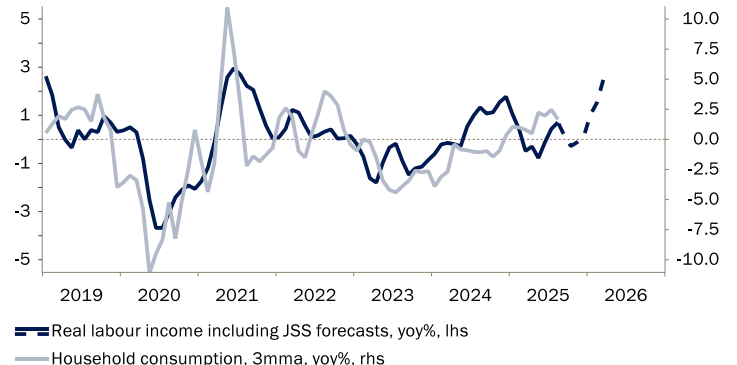
## Exhibit 9: UK core inflation has hovered at ~3.5% for the past year

UK: core inflation and contribution, in % yoy / %pts



Source: Macrobond, Bank J. Safra Sarasin, 08.10.2025

## Exhibit 10: Real income gains to support Japan's consumer spending



Source: Macrobond, Bank J. Safra Sarasin, 08.10.2025

## BoJ to continue with its policy normalisation process, despite new prime minister

The election of Sanae Takaichi as leader of the Liberal Democratic Party – and incoming prime minister – is unlikely to deter the Bank of Japan from continuing its gradual policy



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normalisation. Although she is often seen as a political heir to the late Shinzo Abe and his 'three arrows' strategy of loose monetary and fiscal policy combined with structural reform, today's conditions are markedly different. Japan no longer faces deflation but rather stubbornly high inflation. A renewed emphasis on structural reform – especially measures to raise corporate competitiveness and female labour-force participation – would be a welcome start to her premiership.

### Domestic demand in China has weakened as policy support fades. External demand should slow in the coming months

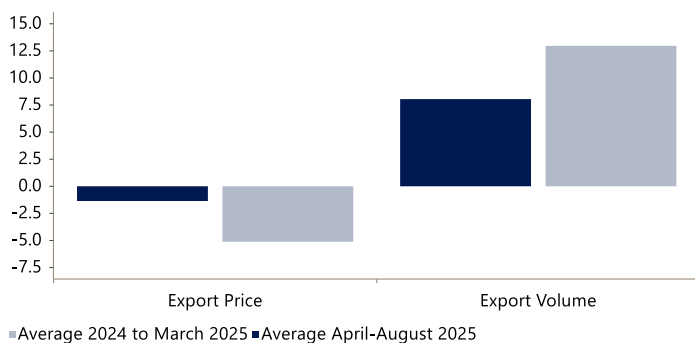
We have kept our growth forecast for China at 4.8% this year, with a weaker second half compared to the first half of the year. Monthly indicators in Q3 suggest that export volume growth has remained in high single digits, compared to double digit growth on average in the 12 months prior to April 2025 (Exhibit 11). We expect this trend to continue in Q4 as the frontloaded policy support fades and export market expansion is more difficult as trading partners such as the EU and Mexico become more protectionist. We only expect the government to add some incremental policy support in Q4 to ensure that the growth target of around 5% will be met. We expect no further easing of monetary policy this year.

### EM growth to slow further and their central banks to maintain an easing bias

We expect growth in emerging markets (EM) ex China to slow further as it is more sensitive to trade performance than in developed markets. The payback from frontloaded exports has started to show up in export data with negative month-on-month growth for ASEAN countries (Exhibit 12). But the inability of the US government to fully crack down on trans-shipment will likely mean that the slowdown may not be as severe as earlier expected. Moreover, AI investment has also supported trade in chips and other electronics, offsetting the trade impact of US tariffs. Still, we expect major EM economies to slow further, prompting their central banks to maintain their easing bias to support domestic demand.

#### Exhibit 11: Export volume growth has dropped in China

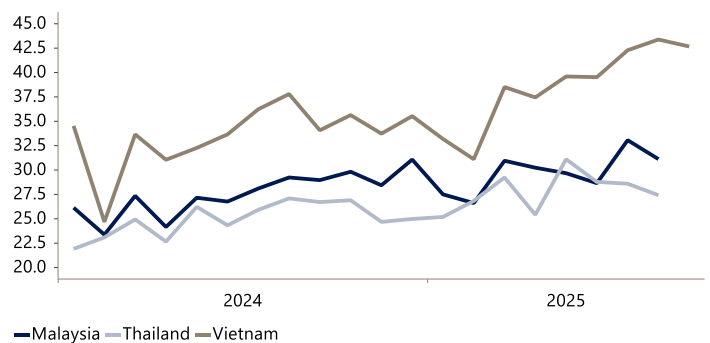
China, export price and volume, average monthly growth, %



Source: Macrobond, Bank J. Safra Sarasin, 08.10.2025

#### Exhibit 12: ASEAN exports have started to slow

ASEAN, monthly exports, USD billion



Source: Macrobond, Bank J. Safra Sarasin, 08.10.2025

### Fixed Income

### The Fed has an easing bias, European central banks much less

Central bank policy rate expectations confirm that the Fed has moved to an easing bias, while central banks in Europe have become a lot more hesitant to lower short-term rates further. After the weak July and August employment reports, the priced Fed Funds policy rate trough has dropped again to 3%, while policy rate expectations for the ECB, the Bank of England and SNB have trended up slightly over the past few months (Exhibit 13).





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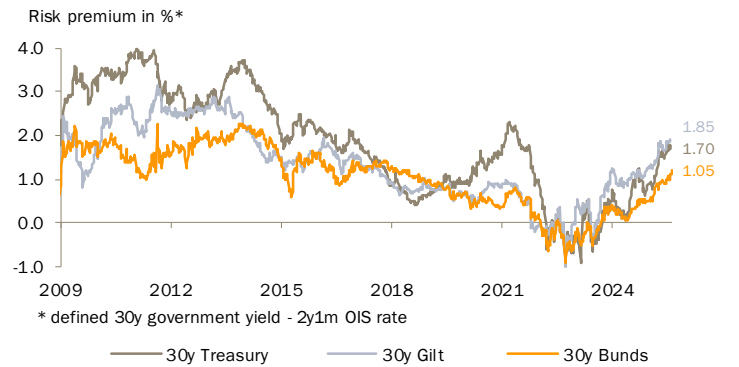
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**Exhibit 13: Policy rate expectations in Europe have trended up**



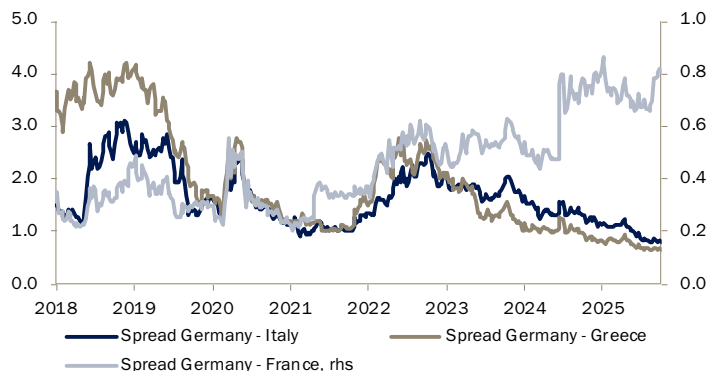
**Exhibit 14: Long-term term premia have risen sharply**



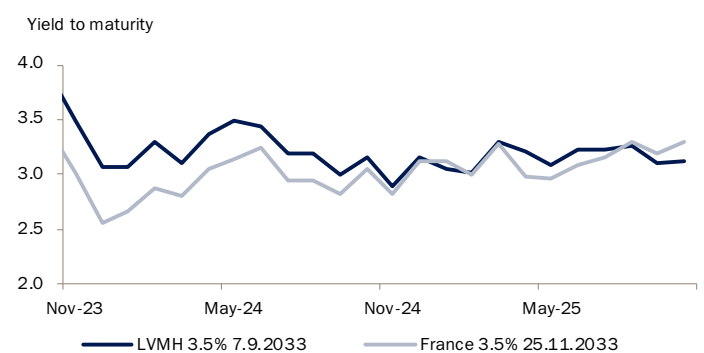
### Term premia on long-term bonds continue to be elevated

Term premia on global real long-term government yields continue to be elevated as inflationary concerns and debt sustainability risks due to high fiscal deficits across developed markets persist (Exhibit 14). France is a case in point: it has been unable to even marginally consolidate its fiscal position, let alone implement structural reforms to boost potential growth. The market's vote so far has been clear: while investors are not panicking, they demand higher risk spreads on French government bonds. Contrary to peripheral countries such as Italy and Greece, whose spreads to Germany are still grinding tighter, French spreads are actually rising notably (Exhibit 15). Investor unease with French debt has even led well rated French corporates to trade at lower yield levels (Exhibit 16). The latest example for ongoing investor discomfort is the nomination of a likely new prime minister in Japan. Sanae Takaichi is expected to support the broad economic principles of 'Abenomics', namely monetary easing and fiscal stimulus, amongst others. While it is not entirely clear how aggressive her policy agenda is going to be, her nomination was enough to cause a marked sell-off in long-term Japanese government bonds.

**Exhibit 15: France has become the new euro area problem child**



**Exhibit 16: Some French corporates trade at lower yields than France**



### The rise in risk premia comes at an inopportune moment

This happens at a time when the European economy is confronted with soft growth and would actually require lower long-term rates to support interest rate sensitive sectors, such as real estate. From that point of view, we suspect that, barring a change in the current price dynamics for long-term interest rates, future policy rate cuts will be less supportive than in previous cycles.

### Stick with intermediate maturities

Lower policy rate expectations and steeper yield curves have left short- to intermediate maturities with the best risk return trade-off this year. We deem the long ends of all yield



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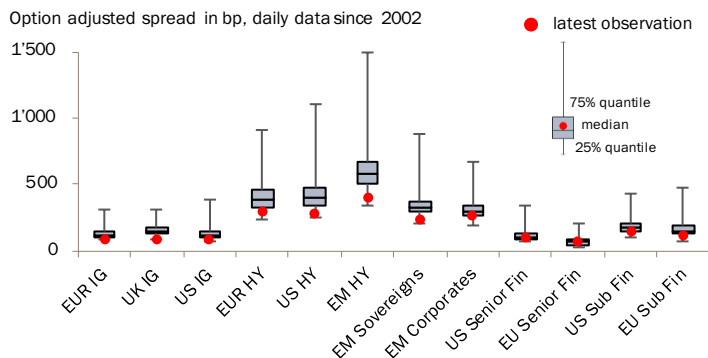
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curves (> 10 years) still fraught with too much risk and would continue to stick with intermediate maturities (5 to 7 years): (1) They benefit from steeper curves, (2) have sufficient duration to profit from lower yields, and (3) have enough carry to provide a cushion against adverse rate moves.

### Neutral on credit for now, despite credit spreads close to multi-year lows and some stress in private credit markets

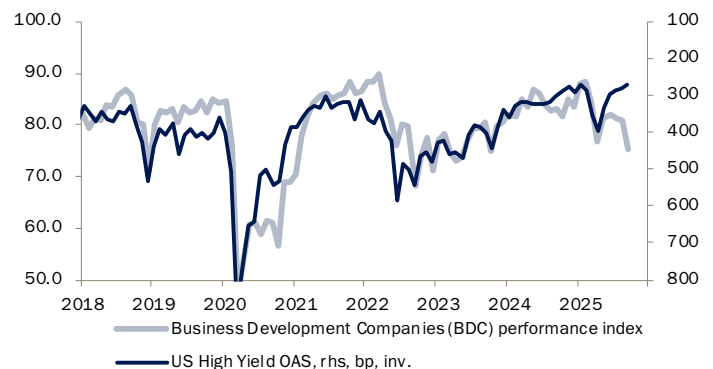
Credit risk premiums across all fixed income sub-asset classes remain close to their tightest levels in 20 years (Exhibit 17). Valuations are not compelling and risks for wider spreads are increasing. That said, our base scenario does not call for a sharp economic slowdown, let alone a recession, hence current yields likely offer enough of a cushion (break-even yield) to protect against losses. Yet there is anecdotal evidence from private credit markets that stress is building. Default rates are rising and share prices of Business Development Companies (BDCs), providers of capital to small- and mid-sized businesses, have notably underperformed this year, which frequently coincided with wider credit spreads also in public markets (Exhibit 18). We conclude that a structural underweight in credit is not justified currently, however, this space bears closer attention going forward.

**Exhibit 17: Credit spreads close to the lows**



Source: Bloomberg, Bank J. Safra Sarasin, 07.10.2025

**Exhibit 18: Anecdotal evidence of stress in private credit**



Source: Bloomberg, Bank J. Safra Sarasin, 07.10.2025

### FX

### Dollar-positive momentum could persist in coming weeks, but we expect the dollar to resume its broader downward trend in 2026

The Fed's decision to deliver a 'risk management cut' at its monetary policy meeting in September led markets to expect a faster pace of policy rate cuts, pushing the dollar to a temporary low (Exhibit 19). Yet the currency has rebounded from its mid-September trough on the back of robust soft and hard data from the US, but going forward, the macro picture is likely to be less complete. The US government shutdown, in place since September 30, is set to delay several data releases and in the absence of September job market data, we expect the Fed to deliver another rate cut at its October meeting. The relative weakness of euro area macro indicators has supported the dollar against the euro in recent weeks. We are inclined to think that dollar-positive momentum will persist throughout the coming weeks, with the political crisis in France presenting another headwind to the euro (Exhibit 20). Still, we stick to our view that the euro should gain momentum as we move into 2026. The currency should benefit on the back of the German fiscal package, which is set to lift growth meaningfully and push EUR-USD above 1.20. Given the likely growth convergence between the US economy and the rest of the world, we expect the dollar to resume its broader downward trend in 2026.





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**Exhibit 19: The dollar has rebounded from its September lows**

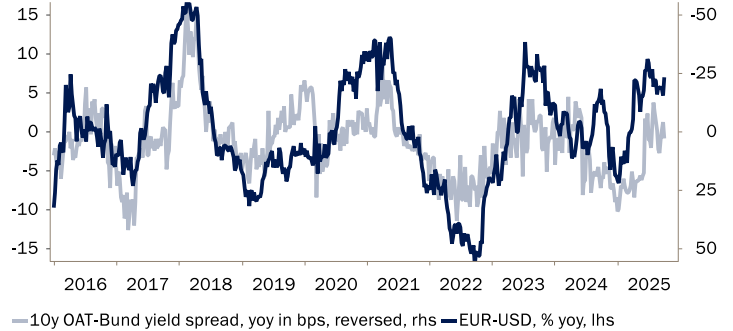
DXY dollar index



Source: Macrobond, Bank J. Safra Sarasin, 09.10.2025

**Exhibit 20: Widening French yield spread has weighed on euro lately**

EUR-USD vs OAT-Bund 10y yield spread, year-on-year changes



Source: Macrobond, Bank J. Safra Sarasin, 09.10.2025

## Constructive on Swiss franc, but cautious on pound sterling

The Swiss franc continues to hold steady versus the euro and we expect it to appreciate only gradually against the euro in coming quarters, while the move should be more pronounced against the dollar. With the Autumn budget 2025 in focus, we are cautious on sterling. The overshoot of the OBR's projections suggests that the risks for higher borrowing needs in 2025 and 2026 have increased. Hence the UK government will probably need to increase taxes, which should weigh on growth and increase the risk of more cuts than markets currently price.

## Hawkish bias of Bank of Japan should push the yen higher again

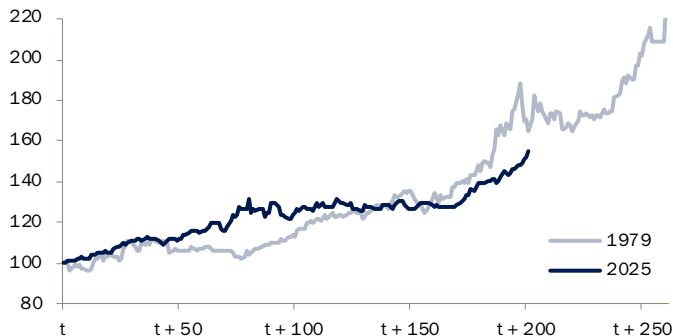
A known advocate of Abenomics, the appointment of Sanae Takaichi as LDP leader and prospective PM of Japan presents new challenges to the country's fiscal outlook and monetary tightening agenda, which has pushed USD-JPY above the important 150-level earlier this week. Given the stickiness of consumer price inflation, the BoJ will need to raise policy rates further. We expect the BoJ to deliver another rate hike at its October meeting, which should help to push USD-JPY back into the 140-150 range. We also remain constructive on the yen further out, given most central banks are maintaining an easing bias.

## Despite its sharp recent rally, we remain bullish on gold, as the fundamentally supportive backdrop should remain in place in the near-to medium term

Gold crossed the \$4'000 mark for the first time on Wednesday morning, adding more than \$600 to its price since early September, when President Trump attempted to dismiss Fed Governor Lisa Cook. As we argue in our [October FX Atlas](#), we remain bullish as a bundle of concerns will continue to support gold, including the integrity of US institutions, fiscal and debt sustainability in the US and in other developed markets, de-dollarisation and continued geopolitical fragmentation. In this 'perfect storm', gold stands to benefit as the ideal safe asset and an expedient way to 'short the dollar'. Growing [interest from the crypto industry](#) may provide additional upside, given the market's considerable size.

**Exhibit 21: Gold is up more than 50% ytd, reminiscent of 1979**

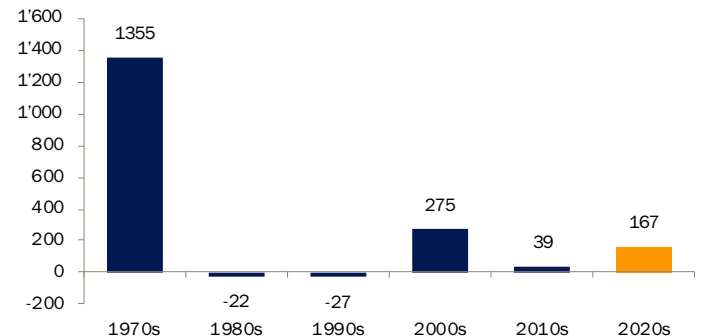
Gold, USD per troy ounce, rebased to 100 at the beginning of the year



Source: LBMA, Macrobond, Bank J. Safra Sarasin, 09.10.2025

**Exhibit 22: Historic gold bull cycles suggest some room for upside**

Cumulative gold performance, %



Source: LBMA, Macrobond, Bank J. Safra Sarasin, 09.10.2025



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**We highlight that the risk of a temporary correction has risen, but would likely represent an attractive entry opportunity**

Although breaking through psychologically important levels often triggers temporary retracements, we believe buying could be particularly strong throughout the fourth quarter, as a comparison with the 1979 bull run shows (Exhibit 21). In addition, the review of historical bull cycles suggests that the current rally still has room to run (Exhibit 22). Yet we highlight that, historically, sharp sell-offs in risk assets have forced large-scale gold liquidations, leading to near-term retracements of around 10%. Given the fast-paced simultaneous rallies in gold and AI-related risk assets, the risk of such an outcome has clearly risen, but would likely represent an attractive entry opportunity, in our view.

## Equities

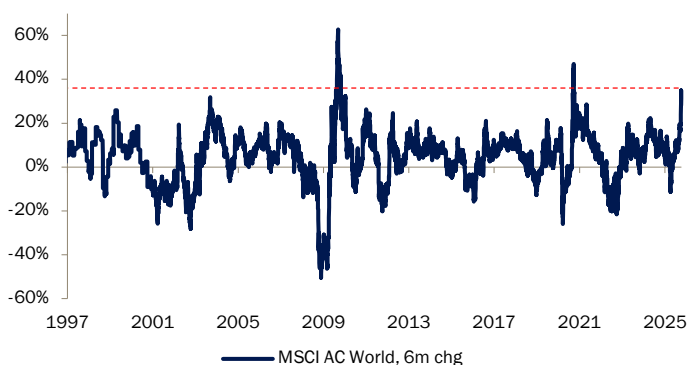
**Global equities with strongest six-month return in 30 years, apart from post-recession bounces in 2009 and 2020**

The rise in global equities since early April has been nothing short of remarkable. Apart from the two post-recession recoveries in 2009 and in 2020, the MSCI AC World has experienced no other instance over the past 30 years in which it has risen more over six months. Not even during the build-up or after the burst of the dot-com bubble (Exhibit 23).

**The AI trade has broadened to other sectors, such as industrials or materials**

What stands out over the past six months, in contrast to the previous two years, is the broadening of the AI trade. While tech has led way since the April lows, delivering a total return of more than 60%, this has not been an isolated move (Exhibit 24). Electrical equipment for example, a sub-sector to industrials, has gained 70% over six months, boosted by the performance of gas turbine makers. These are expected to fill the gap in energy supply for data centres. Other sectors which have unexpectedly turned out as AI plays are construction & engineering, miners and building materials, as well as memory chips and hard disk manufacturers. This just goes to show how an increasing number of sectors are set to benefit from the AI capex, which has carried GDP growth in the first half of the year.

**Exhibit 23: Global equities have risen by 35% since the low in April**



Source: LSEG, Bank J. Safra Sarasin, 08.10.2025

**Exhibit 24: The tech sector has led the way, but the rally broadened**



Source: LSEG, Bank J. Safra Sarasin, 08.10.2025

**US valuations at the highest since the dot-com boom**

As a result of this broadening rally, US equity valuations have broken out of the range they had been in over the past five years and are now trading at the highest price-to-earnings ratio since the year 2000 (Exhibit 25). This is not only the case for the entire US market but also for the US market excluding the magnificent 7, a reflection of a broad re-rating across sectors. Even though the AI narrative has been undisrupted lately, we would caution against chasing the market after such a strong rally and at these valuations.

**Q3 reporting a potential source of volatility, but likely to come in better than expected**

A potential source of volatility in the coming weeks is the Q3 US earnings season. Expectations are fairly moderate, at 5% yoy EPS growth for the aggregate US market (Exhibit 26).



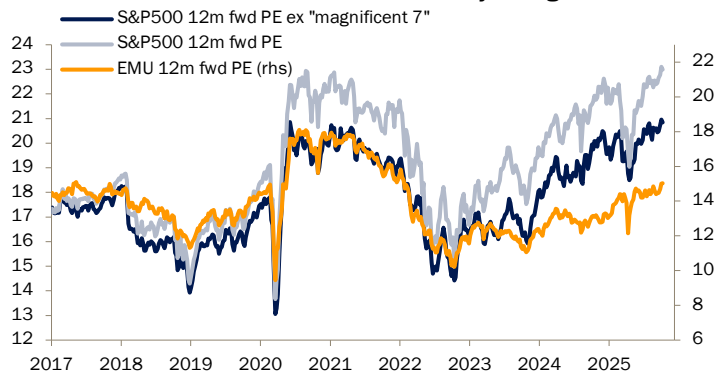
# J. Safra Sarasin

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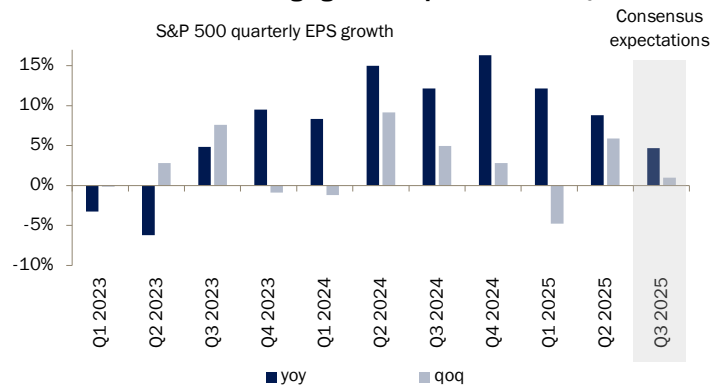
Four key themes are relevant in our view: i) AI capex, ii) banks, iii) tariffs and iv) the US dollar. In terms of i), AI capex, consensus expects a slight increase from the sharp rise in Q2. Yet the share of hyperscaler capex of total S&P500 capex is expected to remain stable at around 30%. Important in our view will be that hyperscalers do not disappoint on earnings and remain cashflow positive to avoid doubts arising over current valuation levels. On ii), from banks, which dominate the first weeks of earnings, we expect fairly solid results, given the pick-up in deal-making and issuance over Q3. Net interest income is unlikely to be a major EPS growth contributor which makes pure-play investment banks more likely to surprise to the upside than their universal banking peers. On iii), tariffs, they may finally become more visible in the earnings numbers as pre-tariff inventories are slowly being depleted.

**Exhibit 25: US valuations have risen to new cycle highs**



Source: LSEG, Bank J. Safra Sarasin, 09.10.2025

**Exhibit 26: Moderate earnings growth expectations for Q3**



Source: LSEG, Bank J. Safra Sarasin, 09.10.2025

### US dollar support has faded in Q3

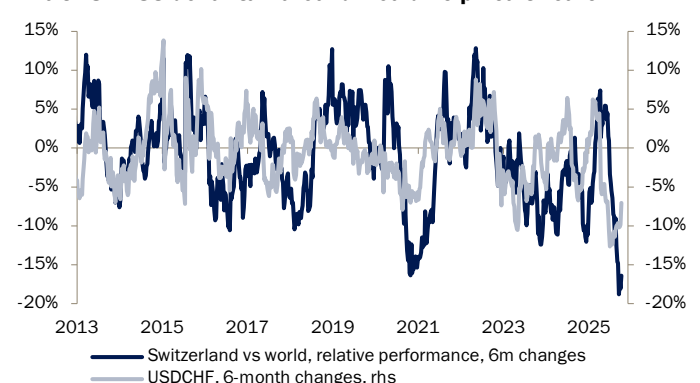
Lastly, on iv), the US dollar. The support from a positive US dollar is starting to fade as it has flatlined since the beginning of the third quarter. It may still add slightly to yoy growth, but far less than it did in Q2 and is set to weigh on relative revisions of US earnings vs the rest of the world in coming months (Exhibit 27). This leaves us with a slightly positive outlook for Q3 earnings, with a small but positive surprise likely. The positive tariff-impact offset from a weaker US dollar is likely to be much weaker than in Q2, but the generally strong cycle in Q3 and the outlook for better-than-expected financials results provide reason to expect stronger-than-expected EPS growth.

**Exhibit 27: US EPS upgrading cycle is weakening as USD strengthens**



Source: LSEG, Bank J. Safra Sarasin, 08.10.2025

**Exhibit 28: A US dollar turnaround would help health care**



Source: LSEG, Bank J. Safra Sarasin, 08.10.2025



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**We continue to prefer defensives over cyclical, with a focus on health care and Swiss equities**

On sectors, we stick with a defensive preference, with a focus on health care. The tide has clearly turned for the sector after a difficult couple months under the Trump administration. The two biggest headwinds in H1 were the weaker US dollar and the threat by President Trump to put tariffs on pharma products. Yet the US dollar has stabilised and tariffs have been announced but came with major exceptions. They are unlikely to have much of an impact and thus leave room for health care to bounce back (Exhibit 28). This should also provide support to Swiss equities, which is our key preference among regions.



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## Exhibit 29: JSS Forecast overview

### Breakdown per Asset Class

Equities Countries / Regions	
USA	→
Eurozone	↑
Switzerland	↑
United Kingdom	→
Japan	→
Emerging Markets	→
China	→

Equity Sectors	
Energy	→
Materials	↓
Industrials	→
Consumer Discretionary	→
Consumer Staples	↑
Health Care	↑
Banks	→
Insurance	→
Information Technology	→
Communication Services	→
Real Estate	→
Utilities	↑

Fixed Income Performance	
US Treasuries	→
German Bunds	→
UK Gilts	→
Swiss Eidgenossen	→
IG Credit	→
HY Credit	→
EM USD Government Bonds	→

↑ **Overweight**
→ **Neutral**
↓ **Underweight**

Asset class views (overweight, neutral, underweight) express a tactical recommendation with a 3-month horizon. Tactical views might diverge from year-end stock index targets, which are based on our long-term economic and interest rate forecasts.

### Stock Index Price Targets

	06.10.	1Q26	2Q26	4Q26
S&P 500	6'740	6'750	6'975	7'200
MSCI UK	2'699	2'850	2'875	2'900
DJ Euro Stoxx 50	5'629	5'650	5'700	5'800
DAX	24'378	26'000	26'250	27'000
SMI	12'551	12'700	12'825	13'000
MSCI Japan	1'974	1'990	2'065	2'100
MSCI EM	1'372	1'350	1'375	1'400
MSCI China	91	88	90	92

### Key Policy Rates in %

	06.10.	1Q26	2Q26	4Q26
US Fed Funds	4.25	3.50	3.50	3.50
EUR Depo Rate	2.00	1.75	1.75	1.75
SNB Target Rate	0.00	0.00	0.00	0.00
BoE Base Rate	4.00	3.50	3.50	3.50
BOJ Policy Balance Rate	0.50	0.75	0.75	1.00

### Bond Yields (10yr Benchmark)

	06.10.	1Q26	2Q26	4Q26
USA	4.15	4.20	4.20	4.20
Germany	2.68	2.45	2.45	2.45
Switzerland	0.26	0.45	0.45	0.45
United Kingdom	4.81	4.35	4.35	4.30
Japan	1.65	1.55	1.55	1.60

### FX Forecasts

	06.10.	1Q26	2Q26	4Q26
EUR-CHF	0.93	0.92	0.92	0.91
EUR-USD	1.17	1.21	1.22	1.24
EUR-GBP	0.87	0.88	0.89	0.90
GBP-USD	1.35	1.38	1.38	1.38
USD-JPY	150	139	138	135
USD-CHF	0.80	0.76	0.75	0.73
USD-CNY	7.12	7.05	7.00	6.90
Gold, USD per ounce	3'955	4'200	4'300	4'500

### Macro Forecasts

		2024	2025	2026
US	GDP	2.8	2.0	2.0
	CPI	3.0	2.8	3.1
Euroland	GDP	0.9	1.1	1.2
	CPI	2.4	2.1	1.8
Switzerland	GDP	1.4	1.6	1.4
	CPI	1.1	0.2	0.7
UK	GDP	1.1	1.5	1.1
	CPI	2.5	3.5	2.5
Japan	GDP	0.1	1.4	1.0
	CPI	2.7	3.2	2.0
China	GDP	5.0	4.8	4.0
	CPI	0.2	-0.2	0.4



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## Economic Calendar

### Week of 08/09 – 12/09/2025

Country	Time	Item	Date	Unit	Consensus Forecast	Prev.
<b>Monday, 13.10.2025</b>						
EC	08:30	Oct. Eurozone Survey	Sep	Index	--	--
<b>Tuesday, 14.10.2025</b>						
UK	08:00	Average Weekly Earnings 3M/YoY	Aug	yoy	--	4.70%
	08:00	Employment Change 3M/3M	Aug	1'000	--	232k
GE	11:00	ZEW Survey Expectations	Oct	Index	--	37.30
EC	11:00	ZEW Survey Expectations	Oct	Index	--	26.10
US	12:00	NFIB Small Business Optimism	Sep	Index	--	100.80
<b>Wednesday, 15.10.2025</b>						
US	13:00	MBA Mortgage Applications	Oct10	wow	--	-4.70%
	14:30	Empire Manufacturing	Oct	Index	--	-8.70
	14:30	CPI MoM	Sep	mom	--	0.40%
	14:30	CPI YoY	Sep	yoy	--	2.90%
	20:00	Fed Releases Beige Book				
<b>Thursday, 16.10.2025</b>						
UK	08:00	Index of Services MoM	Aug	mom	--	0.10%
	08:00	Index of Services 3M/3M	Aug	3M/3M	--	0.40%
US	14:30	Retail Sales Control Group	Sep	mom	--	0.70%
	14:30	PPI Ex Food and Energy MoM	Sep	mom	--	-0.10%
	14:30	PPI Ex Food and Energy YoY	Sep	yoy	--	2.80%
	14:30	Initial Jobless Claims	Oct11	1'000	--	--
	14:30	Initial Claims 4-Wk Moving Avg	Oct11	1'000	--	--
	14:30	Continuing Claims	Oct4	1'000	--	--
	16:00	NAHB Housing Market Index	Oct	Index	--	32.00
<b>Friday, 17.10.2025</b>						
EC	11:00	CPI Core YoY	Sep	yoy	--	2.30%
US	14:30	Housing Starts	Sep	1'000	--	1307k
	14:30	Building Permits	Sep P	1'000	--	1330k
	14:30	Building Permits MoM	Sep P	mom	--	-2.30%

Source: Bloomberg, J. Safra Sarasin as of 04.09.2025





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### Market Performance

#### Global Markets in Local Currencies

Government Bonds	Current value	Δ 1W (bp)	Δ YTD (bp)	TR YTD in %
Swiss Eidgenosse 10 year (%)	0.24	1	-9	
German Bund 10 year (%)	2.69	-1	33	
UK Gilt 10 year (%)	4.75	5	13	
US Treasury 10 year (%)	4.13	1	-40	
French OAT - Bund, spread (bp)	81	0	-2	
Italian BTP - Bund, spread (bp)	81	-1	-35	

Stock Markets	Level	P/E ratio	1W TR in %	TR YTD in %
SMI - Switzerland	12,609	18.3	1.5	12.2
DAX - Germany	24,611	17.9	0.8	23.6
MSCI Italy	1,371	13.5	-1.0	25.8
IBEX - Spain	15,585	13.5	0.6	38.6
DJ Euro Stoxx 50 - Eurozone	5,626	17.0	-0.4	18.2
MSCI UK	2,707	14.3	0.9	19.7
S&P 500 - USA	6,735	25.5	0.3	15.6
Nasdaq 100 - USA	25,098	31.5	0.8	20.1
MSCI Emerging Markets	1,376	15.7	0.6	31.0

Forex - Crossrates	Level	3M implied volatility	1W in %	YTD in %
USD-CHF	0.81	7.1	1.3	-10.8
EUR-CHF	0.93	4.2	-0.2	-0.9
GBP-CHF	1.07	6.3	-0.1	-5.5
EUR-USD	1.16	6.8	-1.5	11.2
GBP-USD	1.33	7.3	-1.3	6.0
USD-JPY	152.9	9.5	3.7	-2.5
EUR-GBP	0.87	5.3	-0.2	4.9
EUR-SEK	11.03	5.3	0.2	-3.9
EUR-NOK	11.66	6.9	-0.4	-1.1

Commodities	Level	3M realised volatility	1W in %	YTD in %
Bloomberg Commodity Index	106	9.4	0.2	6.8
Brent crude oil - USD / barrel	67	27.7	2.3	-8.8
Gold bullion - USD / Troy ounce	3,972	14.0	3.0	52.4

Source: J. Safra Sarasin, Bloomberg as of 05.09.2025



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