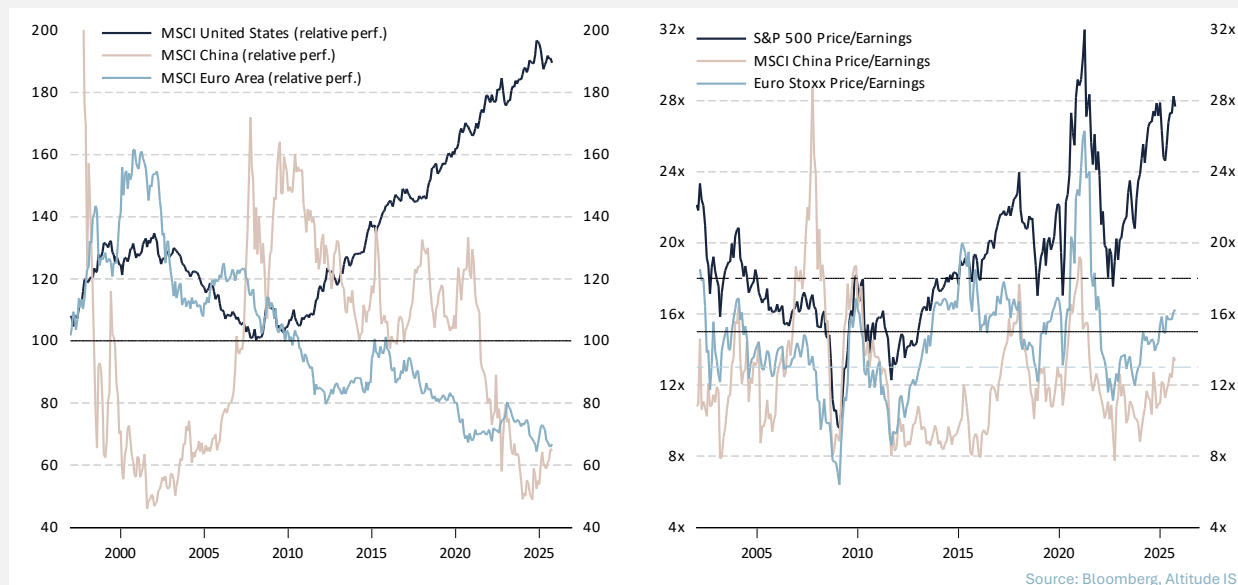


The flexiweekly that reaches new heights - published on 20 october 2025

"UNITED STATES, CHINA & EURO AREA: THREE GIANTS NOT SO DIFFERENT"

- Everywhere, the trend is towards lower growth and lower inflation
- Fiscal and monetary policies are very accommodative
- The advantage lies with US and European bonds...
- ...as well as with the yuan and Chinese equities

CHART OF THE WEEK: "Trend following or mean reverting?"



FINANCIAL MARKETS ANALYSIS

The United States, China and the Euro Area together account for more than half of the global economy, representing 26%, 17% and 15% respectively. Their weight is such that their growth dynamics influence those of their immediate neighbours and trading partners, whether Canada or Mexico for the former, India or South Korea for the second, or the United Kingdom or Switzerland for the latter. At the end of 2025, a year marked by military conflicts, trade tensions, budgetary slippage, political turmoil and natural disasters, **where do these three major regions stand?**



China's gross domestic product (GDP) growth is estimated at 5% for 2025. Although this is a significant slowdown compared to previous decades, it remains well above that of the United States and the Euro Area (see Fig. 2). The latter two are converging, below the 2% mark. As a result, despite international investors' concerns about the property crisis that has been plaguing China since 2021, the country alone accounts for 30% of global growth. Looking ahead, **leading indicators**, such as those based on opinion polls, **are struggling to rise**. Since 2023, purchasing managers' confidence has remained consistently below the 50-point threshold that separates areas of expansion from areas of contraction (see Fig. 3).

Fig. 2 – Economic activity

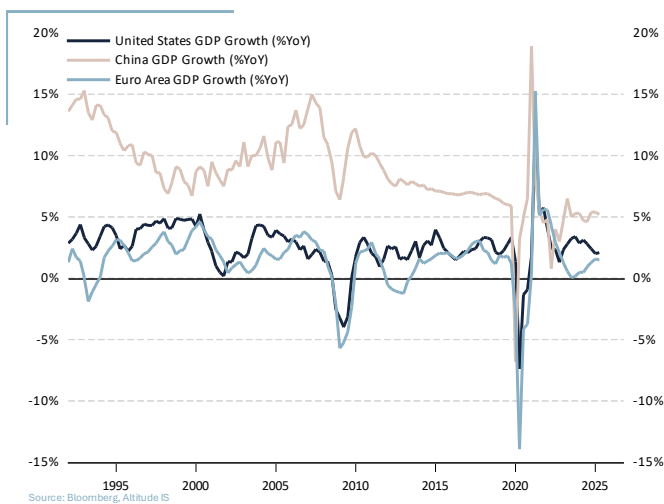
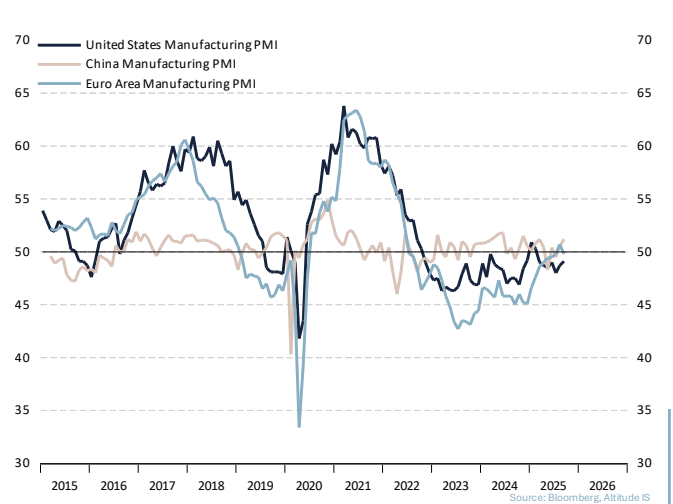


Fig. 3 – Business confidence



Households are no more optimistic (see Fig. 4). In the United States, public sector layoff policies, immigration restrictions and, above all, import taxes have fuelled fears of a new wave of inflation. Not only is uncertainty high, but purchasing power is falling dramatically. If employment were to contract, household confidence would fall even further.

Fig. 4 – Household confidence

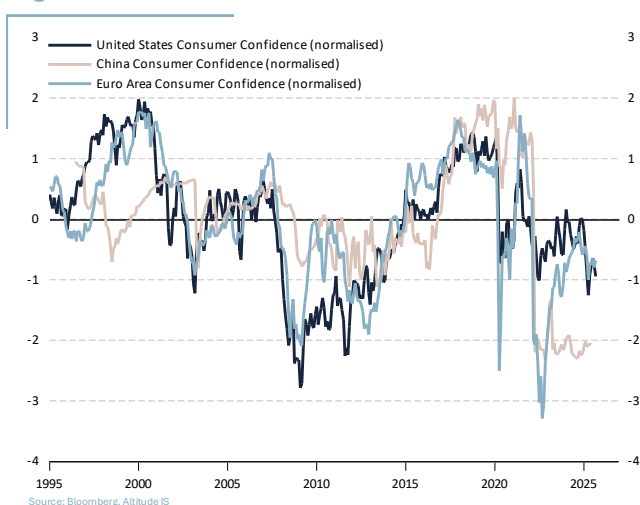
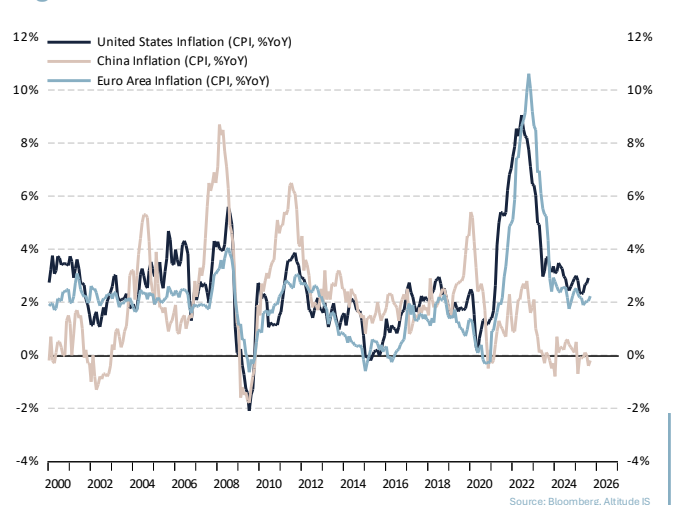


Fig. 5 – Inflation rate

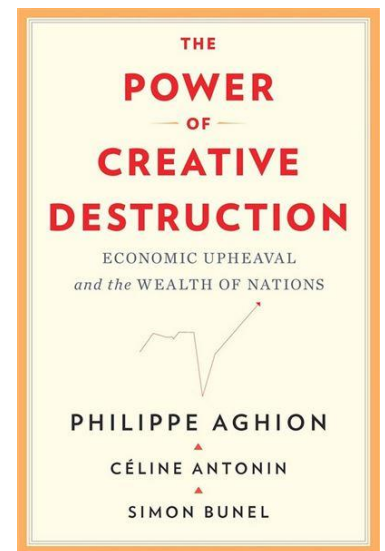


In China, as long as real estate loses value and the social security system fails to offer greater protection, households will remain anxious and continue to save a large proportion of their income. The



government's latest policy decisions, whether the stimulus plan or the "anti-involution" measures, are boosting households' ability to spend. Their confidence is no longer deteriorating. There is still some way to go, but this will enable consumption to take over from exports. In the Euro Area, household confidence is low, but this is no longer due to inflation, which had eroded purchasing power in recent years. However, the difficulties encountered by the automotive sector in Germany, the slippage in the budget deficit in France, the demographic crisis in Italy and the climate disasters in Spain are all factors that encourage moderation in consumer spending.

In the longer term, the growth trajectory will depend on the ability to innovate and disseminate technologies. Philippe Aghion, recently awarded the Nobel Prize in Economics alongside Peter Howitt and Joel Mokyr, emphasises that technological leadership is the key factor in economic power. In his work, supported by Céline Antonin and Simon Bunel, he does not stop there (see book reference). He highlights the role of secondary innovations that follow major breakthroughs. For a technology to be productive, it must rely on intermediaries to become affordable and spread throughout the economy. This diffusion begins within companies, with a period of adaptation, then spreads to households as prices fall and usage becomes widespread. For example, the assembly line is a secondary innovation brought about by the electricity revolution in the automotive sector. Similarly, online sales are an innovation derived from the internet and applied to the commercial services sector. These types of secondary innovations improve companies' production processes, increase their productivity and, ultimately, boost the economy's growth potential.



This mechanism will also need to apply to artificial intelligence (AI) if it is to become a source of productivity and long-term growth. This will take time and is likely to put the world's three largest economies on very different paths. In the United States, the culture of private financing for start-ups, as well as the links between universities and businesses, will enable a rapid cycle of innovation and effective internal adoption. In China, technological catch-up has given way to a phase of innovation in its own right. Unlike Japan in the 1990s, the country is not resting on its laurels. On the contrary, it is gaining the upper hand in certain sectors of the future. China's rise is far from over. In the Euro Area, the scientific community is of high quality, the industrial network is dense and the public sector is supportive, but financing and dissemination within companies remain difficult. A leap forward is needed.

Currently, weak demand is putting very little pressure on prices. In the United States and within the European Monetary Union, inflation is close to its ideal level, just below 2% (see Fig. 5). With wage pressures non-existent except in a few very specific sectors, a spiralling price increase is currently impossible. In China, this situation has been exacerbated by fierce competition between Chinese companies, particularly in the technology sectors. Price growth is so low that it sometimes becomes negative. This is not deflation in the strict sense of the term, as the decline in prices is not widespread, but rather very strong disinflation. This commercial strategy has put pressure on companies' margins and profits, but it has enabled Chinese leaders to emerge on the world stage. It has also made US customs duties almost painless.

In this context, **central banks can readily ease their monetary policy.** They began to do so in 2024 (see Fig. 6), with the ECB accelerating the pace and the PBoC continuing along the lines of the previous cycle. Only the Fed was forced to pause this year, concerned about inflation exceeding its target. It resumed its accommodative stance, which could be accentuated when economic figures show a marked deterioration.



In the sovereign bond market, the fact that China did not have to raise its key interest rates between 2022 and 2023 led to Chinese bonds significantly outperforming. Ten-year yields are already below the psychological threshold of 2% (see Fig. 7). In the United States and the European Monetary Union, **the downward trend has been slowed for two main reasons**. On the one hand, investors still have doubts about the ongoing economic slowdown. On the other hand, they are inclined to demand a higher risk premium than in the past given the excessive debt levels of governments. Ten-year yields are therefore still at 4.0% in dollars and 2.6% in euros. They will fall over the coming quarters to around the nominal growth rates of their respective economies, at 3.5% and 1.8%.

Fig. 6 – Key interest rates

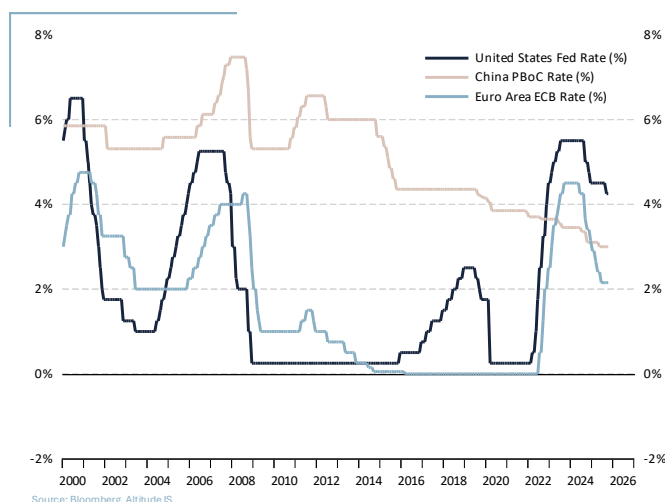
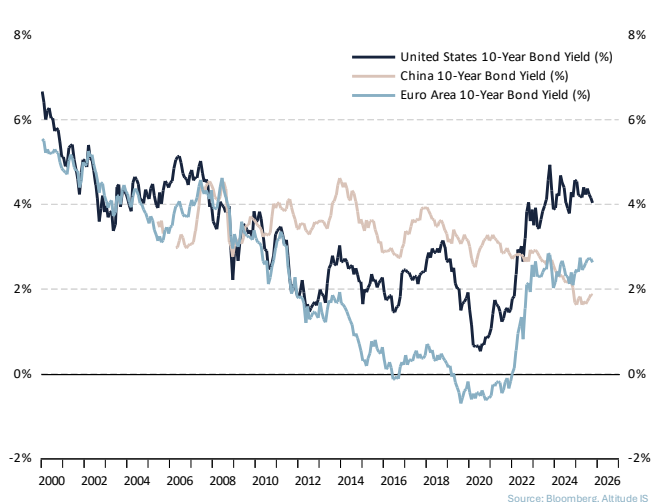


Fig. 7 – 10-year bond yields



In the foreign exchange market, our analyses have often focused on the two main global currencies, the euro and the dollar, concluding that **the single currency still had 11% to gain against the greenback**. This will happen as the Fed's monetary policy converges with that of the ECB. The situation is just as interesting for the Chinese yuan. Beijing strictly controls the evolution of its currency, using a system known as "managed floating". This year, the PBoC, under the authority of the State Council, did not want to see the yuan appreciate but preferred to peg it to the dollar (see Fig. 8). As China's main trading partners are Europe, Japan and neighbouring Asian countries, the recent weakness of the dollar, and therefore of the yuan, has given Chinese exporters an extraordinary competitive advantage.

Currency traders sometimes forget that inflation has been zero in China since 2023, while prices have risen by 9% in the United States. All other things being equal, **the yuan should therefore have risen by 9% against the dollar. In reality, it has fallen by 6%.** This wide gap has been an asset for major Chinese companies, but it will have to close, at least partially. If the three currencies were to trade at their equilibrium stocks, the yuan would appreciate by 4% against the euro, which itself would rise by 11% against the dollar (see Fig. 9).

On the stock markets, investors will have to choose between US stocks, whose momentum seems unstoppable but whose valuations have become exorbitant, and European or Chinese companies, which are struggling to convince but are cheap. **The Shanghai and Shenzhen stock markets could attract widespread attention**, as they have also begun to outperform since September 2024. The Chinese indices include tech giants, but also "normal" companies that would be a shame to overlook.



Fig. 8 – Exchange rates

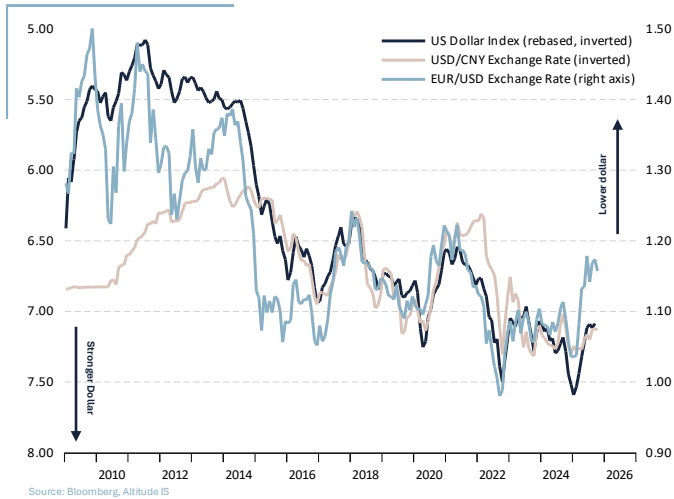


Fig. 9 – Deviation from equilibrium

	Exchange Rate	PPP FairValue	Over/Under Valuation	Expected Performance
EUR/USD	1.16	1.28	-9.7%	<u>10.8%</u>
USD/CNY	7.14	6.22	<u>14.8%</u>	-12.9%
EUR/CNY	8.25	7.97	<u>3.6%</u>	-3.5%
USD/CHF	0.80	0.78	<u>3.3%</u>	-3.2%
EUR/CHF	0.93	1.01	-8.0%	<u>8.7%</u>
GBP/USD	1.33	1.54	-13.8%	<u>16.0%</u>
EUR/GBP	0.87	0.84	<u>4.0%</u>	-3.8%
GBP/CHF	1.07	1.20	-11.0%	<u>12.3%</u>

Source: Bloomberg, Altitude IS

Conclusion:

In terms of fundamentals, the three giants of the global economy have more in common than meets the eye. However, they are not perceived and valued in the same way on the various financial markets. Rational discrimination is needed, favouring dollar and euro bonds over the yuan and Chinese equities.



RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
Equities							
World (MSCI)	983.9	54.00	1.2%	0.9%	18.8%	18.0%	22.8%
USA (S&P 500)	6664	53.00	1.7%	1.0%	14.5%	25.0%	26.3%
USA (Dow Jones)	46191	51.85	1.6%	0.4%	10.0%	15.0%	16.2%
USA (Nasdaq)	22680	54.28	2.1%	1.9%	18.1%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	589.8	55.59	0.9%	3.6%	20.3%	10.2%	19.5%
UK (FTSE 100)	9355	48.89	-0.7%	1.8%	17.9%	9.6%	7.7%
Switzerland (SMI)	12644	63.44	1.3%	5.4%	12.5%	7.5%	7.1%
Japan (Nikkei)	49029	60.89	-1.1%	6.9%	21.4%	21.3%	31.0%
Emerging (MSCI)	1362	56.02	-0.3%	1.1%	29.7%	8.0%	10.2%
Brasil (IBOVESPA)	143399	53.14	1.9%	-1.5%	19.2%	10.4%	22.3%
Mexico (IPC)	61744	54.47	2.1%	0.4%	28.4%	11.0%	22.4%
India (SENSEX)	84397	69.54	1.8%	1.5%	8.7%	9.6%	20.3%
China (CSI)	4531	48.96	-2.2%	-0.7%	17.5%	18.2%	-9.1%
Com. Services (MSCI World)	158.5	53.32	2.3%	-2.8%	28.2%	31.9%	38.1%
Cons. Discretionary (MSCI World)	450.0	45.16	1.2%	-3.2%	7.8%	20.7%	29.5%
Cons. Staples (MSCI World)	295.7	66.22	3.0%	0.7%	10.8%	4.7%	3.2%
Energy (MSCI World)	252.7	40.03	0.4%	-3.0%	8.7%	2.9%	6.0%
Financials (MSCI World)	210.6	37.00	-0.4%	-2.7%	20.0%	25.1%	16.4%
Health Care (MSCI World)	372.0	61.38	0.7%	4.1%	8.3%	1.5%	4.1%
Industrials (MSCI World)	455.4	48.05	0.6%	0.6%	22.7%	12.8%	22.5%
Info. Tech. (MSCI World)	953.0	58.28	1.8%	5.2%	24.7%	31.9%	51.4%
Materials (MSCI World)	371.6	54.76	1.6%	2.2%	24.0%	-7.7%	12.6%
Real Estate (MSCI World)	1012	54.33	2.5%	-0.5%	6.4%	-0.4%	5.3%
Utilities (MSCI World)	198.7	76.24	2.0%	7.2%	27.2%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.38%	60.36	0.8%	-0.3%	8.3%	-1.7%	5.7%
USA (Sovereign)	3.80%	66.93	0.4%	0.7%	6.4%	0.6%	4.1%
Euro Area (Sovereign)	2.74%	69.49	0.6%	0.9%	1.4%	1.9%	7.1%
Germany (Sovereign)	2.34%	68.86	0.5%	0.8%	-0.1%	0.6%	5.6%
UK (Sovereign)	4.49%	68.35	1.1%	1.1%	4.7%	-3.0%	5.6%
Switzerland (Sovereign)	0.35%	63.09	0.3%	0.3%	1.6%	5.4%	7.9%
Japan (Sovereign)	1.40%	60.87	0.4%	0.0%	-2.2%	-2.1%	0.9%
Emerging (Sovereign)	6.25%	66.99	0.5%	1.7%	10.3%	7.0%	11.0%
USA (IG Corp.)	4.71%	66.53	0.5%	0.8%	7.9%	2.1%	8.5%
Euro Area (IG Corp.)	3.00%	70.70	0.2%	0.8%	3.4%	4.7%	8.2%
Emerging (IG Corp.)	6.11%	55.44	0.4%	-0.3%	7.2%	7.0%	6.7%
USA (HY Corp.)	6.79%	53.08	0.5%	-0.3%	7.1%	8.2%	13.4%
Euro Area (HY Corp.)	5.48%	43.34	0.2%	-0.4%	4.2%	8.2%	12.1%
Emerging (HY Corp.)	7.96%	54.82	0.3%	1.3%	9.4%	14.9%	13.1%
World (Convertibles)	540.4	59.34	1.0%	2.5%	22.7%	9.4%	12.3%
USA (Convertibles)	716.4	58.68	1.3%	3.4%	19.7%	10.1%	14.6%
Euro Area (Convertibles)	287.7	45.31	-0.5%	0.4%	23.6%	14.7%	7.3%
Switzerland (Convertibles)	277.3	65.09	0.7%	1.0%	15.2%	10.5%	5.8%
Japan (Convertibles)	251.1	51.86	-0.7%	1.5%	10.8%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1771	90.62	n.a.	2.5%	10.0%	11.1%	7.8%
Macro	1426	79.77	n.a.	3.6%	6.2%	7.4%	1.6%
Equity Long Only	2412	83.30	n.a.	0.7%	9.1%	12.0%	15.9%
Equity Long/Short	1904	90.24	n.a.	2.4%	13.6%	14.0%	7.7%
Event Driven	1874	89.15	n.a.	2.4%	8.6%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1826	96.57	n.a.	1.9%	10.6%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1770	86.27	n.a.	1.0%	6.4%	9.8%	7.8%
Credit	1693	98.70	n.a.	0.8%	6.0%	8.5%	8.1%
Credit Long/Short	#N/A N/A	100.00	n.a.	0.4%	4.3%	10.0%	11.2%
Commodity	1995	94.47	n.a.	3.8%	11.5%	14.7%	7.3%
Commodity Trading Advisors	1379	63.21	n.a.	5.4%	2.8%	7.9%	-3.6%
Volatility							
VIX	20.78	57.15	-4.1%	32.2%	19.8%	39.4%	-42.5%
VSTOXX	20.24	62.46	3.3%	20.4%	19.0%	25.3%	-35.0%
Commodities							
Commodities (CRB)	538.2	n.a.	-0.3%	-2.6%	0.3%	5.1%	-8.0%
Gold (Troy Ounce)	4236	n.a.	3.0%	14.9%	61.4%	27.2%	13.1%
Silver (Troy Ounce)	51.57	n.a.	-1.5%	17.0%	78.4%	21.5%	-0.7%
Oil (WTI, Barrel)	57.54	n.a.	-2.3%	10.2%	-19.8%	0.1%	-10.7%
Oil (Brent, Barrel)	60.94	n.a.	-5.5%	10.6%	-17.8%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	98.47	51.92	-0.8%	0.8%	-9.2%	7.1%	-2.1%
EUR	1.1661	48.41	0.8%	-1.2%	12.6%	-6.2%	3.1%
JPY	150.71	44.78	1.0%	-2.0%	4.3%	-10.3%	-7.0%
GBP	1.3423	49.04	0.7%	-0.7%	7.2%	-1.7%	5.4%
AUD	0.6498	42.03	-0.3%	-1.5%	5.0%	-9.2%	0.0%
CAD	1.4025	35.88	0.1%	-1.5%	2.6%	-7.9%	2.3%
CHF	0.7934	55.98	1.3%	-0.1%	14.4%	-7.3%	9.9%
CNY	7.1242	54.75	0.1%	-0.1%	2.5%	-2.7%	-2.8%
MXN	18.380	54.62	0.5%	-0.1%	13.3%	-18.5%	14.9%
EM (Emerging Index)	1840.8	48.81	0.1%	-0.7%	6.5%	-0.7%	4.8%
XBT	111210	n.a.	0.0%	-4.0%	18.7%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)



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