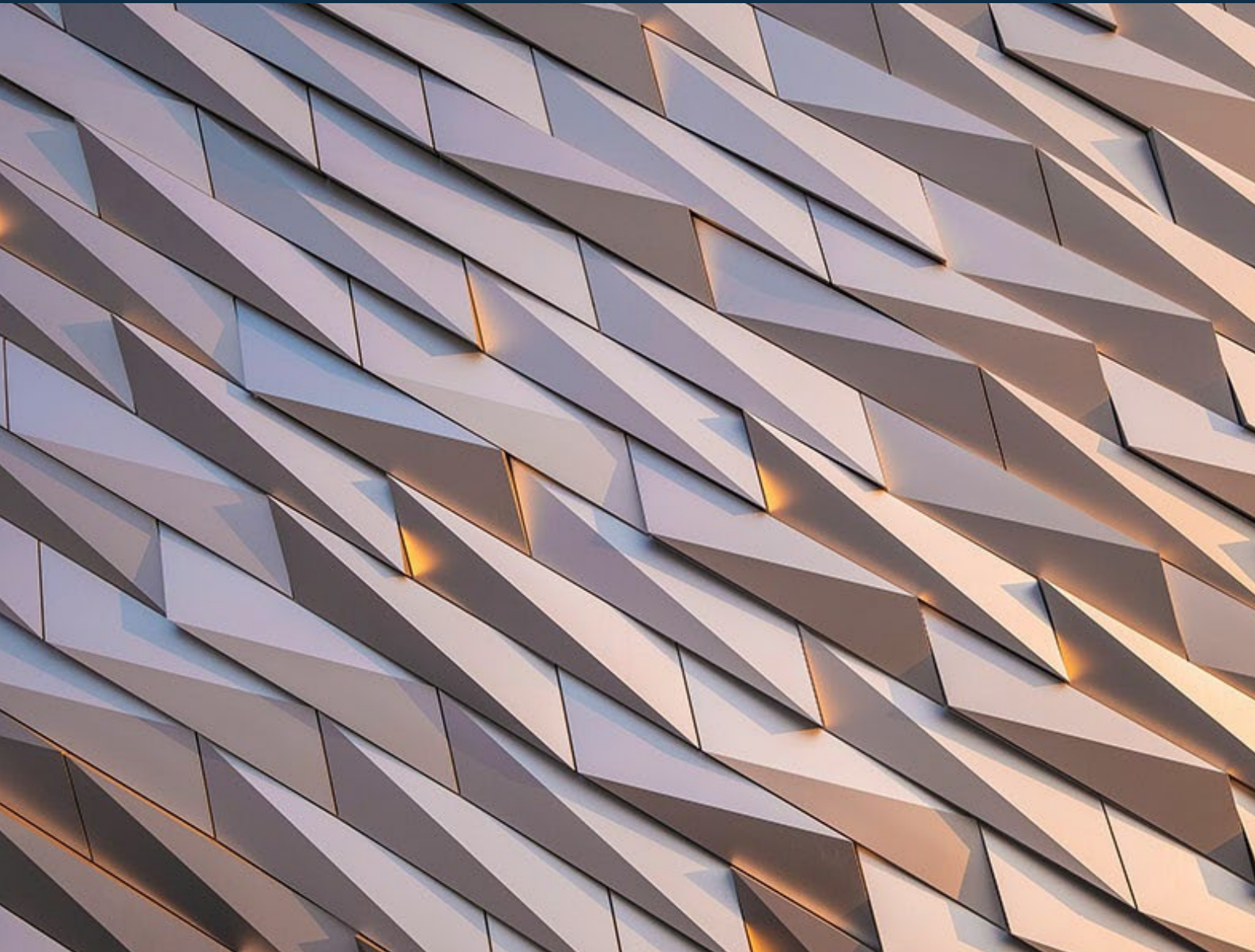


EVLI

Atlas Monthly Equity Navigator

SEPTEMBER 2025



The Goldilocks Rally Continues

September delivered healthy equity returns as markets embraced a goldilocks scenario: the Fed began its easing cycle with rate cuts while the economy remained resilient and tech stocks rallied on continued AI optimism. US earnings momentum remained solid, while European earnings showed signs of stabilization. The Fed's decision to cut rates in September, as widely anticipated, was well-received by markets, reinforcing the soft-landing narrative.

However, beneath the surface optimism, valuation concerns are mounting, particularly in the US technology sector where valuation levels have reached heights reminiscent of the dot-com bubble in 2000. Meanwhile, inflation data continues to show stickiness, that could disrupt the current equilibrium.

Global economic data presented a more balanced picture, with manufacturing showing tentative signs of stabilization while services remained robust. Fiscal stimulus by the US and Germany—and possibly by China—provide additional support to risk assets.

Equity markets delivered broad-based gains in Q3, with “super themes” of 2025—US technology, European defence and European banks—leading the charge, all advancing around 10%. The rotation dynamics from August reversed somewhat, as growth stocks reclaimed leadership. Defensive sectors lagged as investors embraced risk. Among regions, the US outperformed on tech strength, while Europe and Japan posted solid gains. Emerging markets benefited from China's policy support.

1. Valuation Risks Mount Amid Bubble Concerns

September's rally extended the year's gains, but valuation levels—particularly in US technology—are raising red flags about sustainability and potential correction risks.

- **US Tech Valuations Echo Dot-Com Bubble:** The US technology sector has reached valuation multiples that mirror the excesses of the year 2000 dot-com bubble. These measures have stretched to levels that assume near-perfect execution and sustained high growth rates. While today's tech giants have stronger fundamentals and actual earnings compared to the speculative names of 2000, the concentration of market capitalization and the premium investors are paying for AI-driven growth stories warrant caution. Any disappointment in earnings growth or capital expenditure returns could trigger a sharp repricing.
- **Goldilocks Scenario May Be Fragile** Markets are currently pricing in an ideal outcome—rate cuts without recession, continued earnings growth, and controlled inflation. However, this equilibrium is delicate. If inflation proves stickier than expected, the Fed may need to pause or reverse course. Conversely, if the economy weakens more than anticipated, earnings expectations may need to be reset lower. The current market pricing leaves little room for error in either direction.

2. European Comeback Thesis Strengthens

- **Europe's Improving Growth Trajectory:** Europe's economy is poised for a positive shift from external headwinds to strong domestic drivers. Although growth may be soft in the latter half of the current year due to factors like trade tariffs and an appreciating euro, the outlook for 2026 and beyond is optimistic. Fiscal easing, driven by Germany, is expected to take hold and boost growth significantly above trend in the coming years. This domestic strength is the key to overcoming current challenges and securing a robust economic future.
- **Key Drivers of Domestic Strength:** The foundation of Europe's economic resilience lies in a robust labor market, effective monetary policy transmission, and substantial fiscal easing. The labor market, with record-low unemployment, is acting as a “shock dampener,” giving households the confidence to spend. The delayed benefits of easy monetary policy, combined with improved credit conditions, are also set to further support domestic demand.

Global Equity Performance

Global equities rallied 3.3% in euro terms in September led by Emerging Markets and the USA. Europe and Japan lagged a bit. Among sectors, US technology firms and European bank and defence stocks were all strong. The euro gained 1% against the US dollar.

United States

- **Momentum** was strong in September while Quality and Value stocks underperformed the broad market. The “Magnificent 7” (+6.3% in euros) returned back to its strong six-month trend, while among sectors, Technology was the clear winner.

Europe

- **Even in Europe**, Technology returned back to the throne, closely followed by Defence and Bank stocks. Small-cap, Value and Quality followed the similar underperformance pattern from the US.

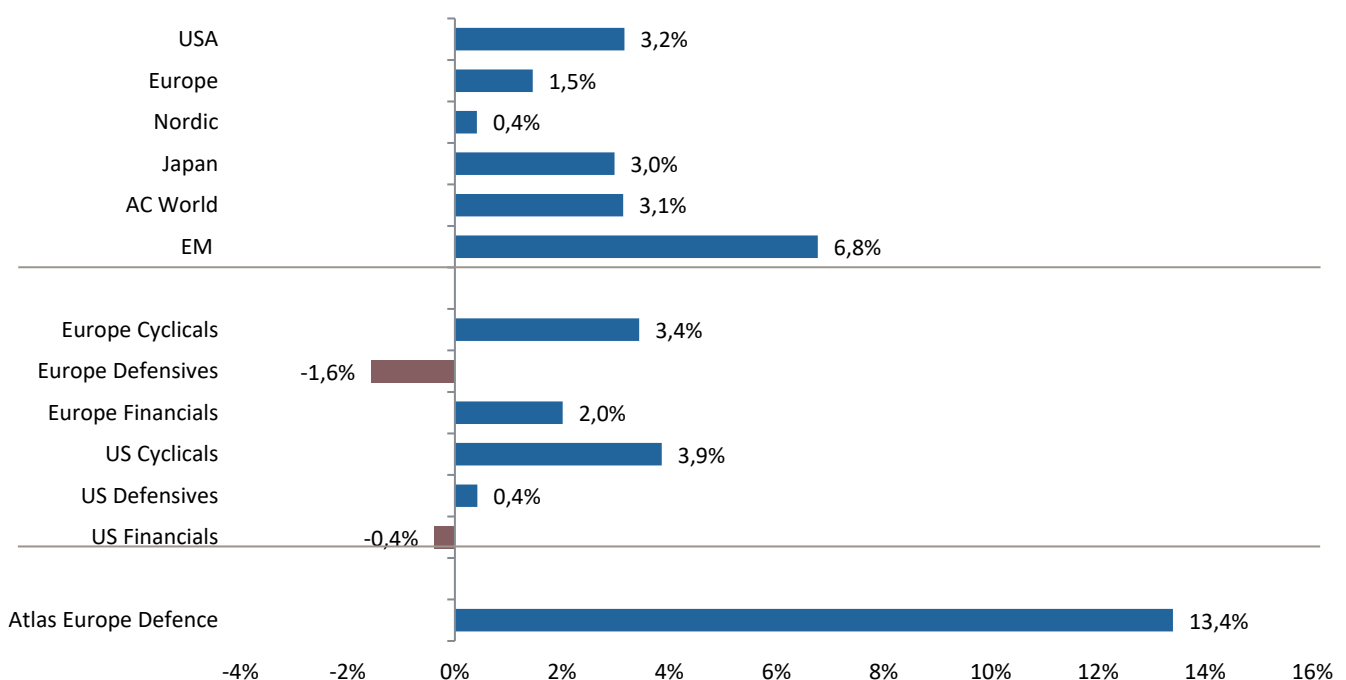
Emerging Markets

- China, Taiwan and South Korea led the group, also driven by the Technology sector rally.

Themes & Styles

- **European Themes Update:**
 - **European Banks:** The rally continues as loan growth picks up while margins remain healthy. The undervaluation case remains compelling despite the strong year-to-date performance.
 - **European Defence:** After consolidating over the summer, the defense theme showed renewed strength in September on elevated geopolitical tensions in Europe and sustained commitment to higher defense spending across Europe.
 - **Value vs Growth Rotation Reverses:** Growth companies reclaimed leadership in September as investors embraced the rate cut narrative and tech optimism. However, value remains attractive for longer-term positioning in an economic recovery cycle.
 - **Small-caps Still Lag:** Despite the favorable rate environment, small-caps continued to underperform in September as investors focused on quality and mega-cap names. This creates an interesting entry point for patient investors.
 - **Ukraine Rebuild Strategy:** This emerging builds on companies positioned to benefit from both direct reconstruction and European infrastructure investment present compelling long-term opportunities.

Atlas Equity Chart of the Month: Equity market returns, euro returns September 2025



Source: Evli Atlas Portfolio Technologies; Total returns in euros.

Goldilocks Rally May Be Short-lived – Diversify Selectively In 2026

September's strong performance was driven by the ideal combination of Fed rate cuts and continued economic resilience, but sustainability questions loom large. The most significant concern is the US technology sector, where valuations have reached levels last seen during the 2000 dot-com bubble. The premium investors are paying for AI-driven growth leaves little margin for error. However, the AI boom may still have legs. The theme could extend into 2026 if the strong growth phase continues, but investors should consider diversifying into next-phase AI themes like "adopters"—companies that implement rather than develop AI technologies.

Among US technology firms, concentration risk is particularly acute—a handful of mega-cap tech stocks account for an outsized portion of market capitalization and year-to-date gains. Any disappointment in AI monetization, capital expenditure returns, or regulatory headwinds could trigger a sharp correction with broad market implications.

Europe, by contrast, offers a more attractive risk-reward proposition. Fiscal stimulus is gaining traction, particularly in Germany, and the region's equities trade at significant discounts to US markets. As domestic drivers strengthen and the global economic backdrop improves, European equities could deliver positive surprises. The key is patience—the turn is underway, but it may take quarters rather than weeks to fully materialize.

The conclusion is that while the goldilocks scenario has driven strong returns, investors should be increasingly selective and cautious about concentration in expensive US tech. Diversification across regions, particularly into undervalued European markets, and across styles, including value and small-caps, makes sense as we head into the end of 2025.

What is Atlas?

Atlas is an intelligent platform empowering investors to build and manage highly personalized equity portfolios. Leveraging data and AI, we craft strategies aligned with your precise investment style, objectives, and sustainability goals—from classic value to emerging themes like AI.

- **True Personalization:** Go beyond generic models. Our AI helps craft strategies that perfectly reflect your vision.
- **Unprecedented Flexibility:** Don't get locked in. Shift from value to growth, or adjust thematic tilts, as your outlook evolves.
- **Powered Customization:** If our expert-designed, ready-made portfolios don't fit, our Atlas team of seasoned portfolio managers with the help of our proprietary AI engine will build a unique strategy for you.

Invest intelligently. Adapt instantly. That's Atlas.

Find out more about Atlas on <https://www.evli.com/en/atlas> or contact us at Atlas@evli.com.



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