APRICUS FINANCE

WEALTH MANAGEMENT

September
2026

The Diesel market is in turmoil

That was expected. We talked about it months ago when the price of diesel surged after the Iran war started, and back in 2022, when Russia invaded Ukraine.

For weeks the narrative of the US administration has been to talk about crude oil flows. About how many million barrels were seamlessly flowing the Strait of Hormuz: the rhetoric was clearly directed to the electorate as analysts and investors didn't believe it.

The issue is not so much about crude oil flows, although US refiners need Middle East grade for their refineries, but about how much refined product is shipped out of the region, (currently according to analysts such as Kpler almost none), and the weeks' long ban on exports by Russia. Before the halt in exports Russia was supplying about 12% of the world's total global diesel supply in 2023.

So suddenly Trump looked outside of the Gulf for a solution and declared that Russia and Ukraine had agreed to refrain from bombing each other's energy infrastructure. Instead, both countries continued, and, unsurprisingly, they both denied that such an agreement was in place.

Refining margins for diesel in the US have reached a record of over 117 USD per barrel. With a barrel of crude oil at 104 USD, it is easy to understand that the price of diesel is now more and more determined by the refining issues rather than the input (and flow) of crude oil. Refining companies are thus recording sky-high profits. Diesel is a global market: the US exports it too. Could it ban exports to bring down prices? It could, although most analysts, and even the energy secretary himself, have said that doing so could backfire. But this administration is unpredictable and is capable of doing anything to try to save the midterm elections.

In Alaska, diesel not only powers fishing boats but also fish refrigeration and even the fishermen's homes' power generators, used for electricity and electric heating: an ad for a democratic senator hopeful features a farmer who criticizes the Iran war and tariffs, citing higher diesel and fertilizer costs, adding: 'At a certain point, it's not just politics anymore. When you start taking money out of my pocket, it becomes personal.'

Another issue is maintenance: refineries have refrained from doing any, as currently their margins are so high. The longer this situation drags on, the higher the risk is that the price of refined products could reach much higher levels, even with lower crude oil prices, when refineries find themselves facing a compulsory maintenance shutdowns.

With diesel and gasoline at these prices the big winners are China's EV and hybrids' producers: in Europe, they are selling cars at a record pace and gaining market share. (In the United States they are unavailable due to national security issues).

Fed's Warsh and Treasury's Secretary Bessent are the two sides of the same coin

And they are both facing a credibility issue. Secretary Bessent declared his intent to quasi introduce a yield curve control by first announcing a doubling of purchases of long dated bonds, to finally triple it to 6 billion USD, which, per se, is a drop in the ocean for the US Treasury market, hence you need a lot of credibility to influence it. (we discussed the YEN intervention last month).

Bessent, in his recent public interventions, moved quite clearly from being the 'reasonable' and responsible member of the administration, (the Adult in the room), to a major political pawn of Trump's rhetoric. Thus, an issue for his credibility.

On the other hand, Fed Chairman Wash has a very opaque, to say the least, guidance for the front end of the curve. Both are trying to manipulate the market to contain the term premium and lower rates and thus credit costs, as interest payments alone on the debt surpassed defence spending. The also must convince investors like us though. And, so far, we aren't.

After both announcements, yields across the curve reached new highs. It is not that a 5% yield on a 10-year note is unprecedented: over the last couple of decades, we have been there a few times, including in 2023. What is unprecedented is where the policy rate was: both in 2023 and 2007 the lower bound Fed rate was at 5.25%. The issue is structural:

- Fiscally, the Federal deficit is running at around 6.3-6.5% of GDP, and we haven't heard about any plan for its reduction.
- Mechanically, US treasury debt is now competing for capital with domestic investment-grade credit, whose issuance has increased 30% year on year, led by debt issuance for the AI infrastructure build-out.
- There are over 7 trillion USD of Treasury Bills to be refinanced

The market is essentially doing the Fed's job or in other times and other markets we would have said the 'bond vigilantes' are at work. To attract (essential and needed) foreign investors, the US administration should rather let the yield curve steepen until it becomes attractive. It could also weaken the US Dollar, that in contrast would increase imported inflation as the trade balance, despite all the tariffs and import restrictions, is currently running in a worse shape than pre-pandemic.

The Federal Reserve last night ended up lifting its benchmark rate for the first time since 2023: we could hear the noise of a fuming Trump in the oval office. Short term, this certainly quelled fears about the Fed independence, however, with the market implying a 100% chance of a rate hike for this meeting, there was no room for a policy mistake. Trump immediately asked for rates at 1% or lower, defending Warsh, and blaming a 'hostile' board. The vote was unanimous, and it could be interpreted as defiance against political interference.

Warsh however refrained once again from giving any guidance. In view of the below, which could be used as a reason to say 'inflation is finally getting under control, or even 'was overstated for years', many investors and ourselves, are thus still unsure if this was a one-off rate hike to avoid greater damage to the bond market, or if we are effectively embarking on a new cycle that should lift rates to 4.5% by spring of next year, where they should be.

Some help is coming for Trump and Warsh: the revision of the PCE, manipulation?

Fed chairman Warsh at his Jackson Hole speech has clearly indicated that the PCE, the Personal Consumption Expenditures index, is, like for his predecessors, his preferred inflation gauge, and the key for future rate decisions. Well, some help is coming on that front.

With the end of September approaching, the methodology for calculating the US PCE data is set to be revised, prompting market scepticism over its 'credibility': Could this serve as a cover for the Federal Reserve to avoid raising interest rates?(next PCE is published on 30th of September)

The Bureau of Economic Analysis is adjusting its price calculation methodology for certain sectors of the economy, which is expected to downwardly revise recently published personal consumption expenditures (PCE) inflation data. The new methodology will take effect in September and be applied retroactively to 2021.

Economists expect that the adjustment could lower the core PCE inflation by 0.2 to 0.3%, it could be more. Obviously, this is not going to change what many consumers think about current affordability, however it could be sufficient for some Fed members to refrain from hiking rates further.

Critics argue that focusing downward revisions on categories currently driving inflation may create the perception of downplaying price pressures.

Again, the argument of sudden 'artificially' lower inflation, (or previously 'artificially too high'), is likely to feed Trump's megaphone.

In the end though, once again, it is all about credibility, and revising downward, all at once, a set of categories so tied to high inflation, rises a lot of eyebrows as to its timing along with its methodology, which is currently not entirely known to statisticians.

Gold's rally and short moment of debasement

For the second month in a row, China announced larger than expected Gold purchases: after 480'000 ounces in June, the Central Bank announced a further 640'000 ounces for July. At the same time, Turkey was bidding back reserves, that they had liquidated during the initial Iranian escalation, to defend its currency. That was enough for Chinese retail investors to spark a stampede into domestic ETFs backed by physical Gold, soon followed by US retail investors in their home market. Gold rallied 16% reaching close to 4700 USD an ounce, and investors started to talk about debasement once again. Soon however, towards the end of the month, USD bond yields started to rise again: the 2-year rate quickly moved from 4.17% to over 4.7%: Gold's negative correlation with USD rates was restored, and its price corrected by 8%.

As we mentioned in the past: we are ready to restore our strategic Gold weight of 5-6% in our portfolios, once Gold recovers its diversification characteristics, and natural, long-term holders, such as central banks and institutional investors are back buying again. Currently, this is only partially the case.

Current macroeconomic backdrop

The global cyclical backdrop has been resilient to the energy shock, with PMIs picking up year to date. Global manufacturing PMIs increased most in Germany and Japan, likely supported by fiscal policy: the massive German fiscal plan is now in full swing. Services PMIs, especially in Europe have somewhat lagged, possibly due to the drag from energy costs: for example, there was less traffic on French highways.

In China the divergence between strong exports (driving large currency account surpluses) and weak domestic activity has continued. In the second part of the year, rising geopolitical uncertainty and risk could create more headwinds for the cyclical picture with upcoming US midterm elections, elevated US/Canada trade tensions, continued Middle East and Russia/Ukraine conflicts as well as nine upcoming elections in the EU, with particular focus on France.

Financial markets over the Summer

A client looking at the performance of his balanced portfolio from the 1st of June is likely to see it essentially unchanged. The MSCI World is up marginally, while the benchmark for bonds is down. A snapshot of index-level returns totally obscures some tumult beneath the surface of the market, and each month had its own distinct ecosystem.

Firstly, the momentum factor was properly upended: DRAM producers are down 20%, semiconductor stocks are down 11%, while luxury and defense stocks continued to struggle. Unsurprisingly the posterchild of AI data center CAPEX spending, the Korean Kospi index, is down 24% over the period, and recovered only partially from its June-July collapse. It is, however, still up 60% for the year.

On the other end global healthcare stocks rose 11%, Eurozone banks rose 17%, energy stocks not linked to AI infrastructure rose 13% and cybersecurity stocks rose 10%. The latter is not surprising in view of the security worries AI is causing.

What about the Magnificent 7 you might ask? Well once again a mixed and not uniform picture: 3 up and 4 down. Performances ranged from +12% to -14%.

Strategy

In short:

- We are experiencing an historical investment Supercycle (CAPEX) and the AI revolution. Mega companies that once were 'capital-light' are now capital intensive.
- The developed economies have weat-hered the energy shock caused by the war reasonably well. European states are also fiscally helping sectors most hurt by rising prices and lowering taxes at the pump.
- Earnings on both sides of the Atlantic have been strong.
- Employment in the US continues to be reasonably strong.
- Inflation in the Western world looks contained, even if it is too high in the US.
- Spending in the US continues to be strong, aided by strong stock markets.

We continue to be cautiously optimistic about equities and are currently running an overweight position in equities, which is also partly a result of the lackluster performance of fixed income. One of our longstanding preferred exposures, Eurozone banks, continues to strongly outperform: at the time of writing as a group, it is up 24% year-to-date. Japanese stocks, another of our key overweights, despite the turmoil in the currency, in EUR terms, are up 21% and 25%, (on a hedged, respectively non hedged basis).

We continue to favor a balanced and diversified approach to sectors and geographies: we believe it is too early to dismiss the AI and AI infrastructure theme. At the same time, in recent weeks the markets have shown the benefits of having 'old economy' exposure such as (for example) consumer staples, pharma or telecom, when crowded sectors and stocks see profit taking and exposure adjustment.

Equity

We are slightly overweight. We keep an overweight in Eurozone and Asian equities versus the US ex. Mega Caps.

Fixed income

We continue to favor exposure to credit versus duration. However, we have increased the quality of our holdings. We have exposure to investment grade credit, European high yield, hybrids, financials' subordinated debt, insurance subordinated debt.

Foreign Exchange

The Japanese YEN exposure is entirely hedged, we now have 5% exposure to the US Dollar.

Gold

We keep our allocation to Gold of slightly over 2%.

Positioning

Overall Exposure

We are now slightly overweight Equities, and Underweight Fixed Income, with a reduced Gold position, Overweight Cash, JPY hedged.

Equity: Overweight

We have an Overweight to the Eurozone and an Underweight in US equities, Underweight US technology, Overweight Nasdaq 100 equal weight, Overweight S&P 500 equal weight, Neutral UK, Overweight Japan, Overweight Asia ex Japan.

Thematic Equities

European Family Holdings, Asian Technology, European Champions.

Fixed Income: Underweight

Long 1 to 3 years US Treasury Notes. Long 20+ years US Treasuries, Underweight Sovereigns. Overweight Investment Grade EUR and USD Bonds. Overweight High Yield in EUR and Underweight in USD. Long US inflation linker.

Thematic Fixed Income

Long Hybrids, Long Subordinated Financial Credit, Long subordinated European insurance bonds.

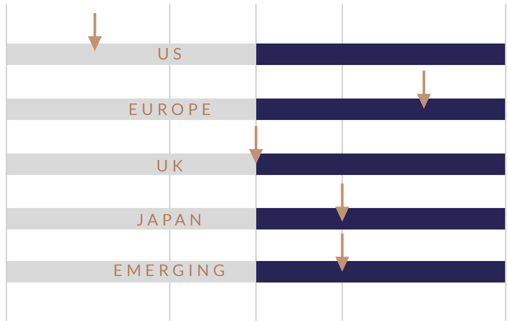
Currencies: Non USD-referenced portfolios are fully hedged YEN, have 5% exposure to the USD. USD-referenced portfolios are long EUR.

Commodities: Overweight

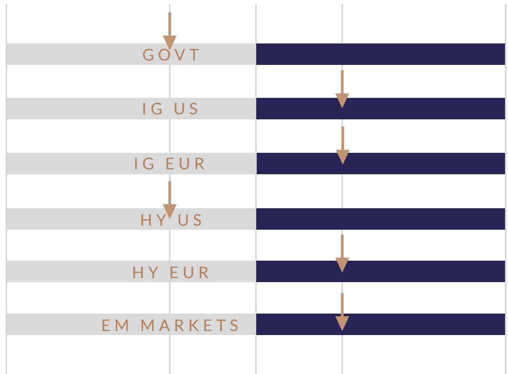
Long a small Gold position.

Conviction thermometer

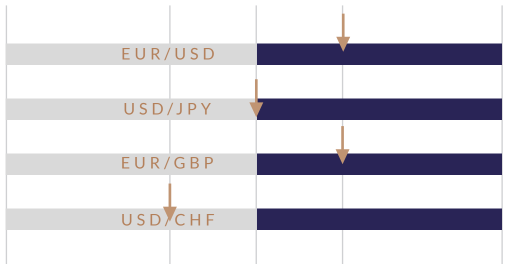
Equities



Bonds



Currencies



Commodities

Market Overview As Of September 16, 2026

Equities (local ccies)	Level	5D	MTD	YTD
MSCI WORLD HEDGED EUR	532,95	-0,98%	-1,85%	10,05%
US S&P500	7 551,81	-1,07%	-1,67%	11,23%
MAGNIFICENT 7 (CAP WEIGT.)	226,29	0,41%	0,18%	9,32%
NASDAQ 100	28 945,06	-1,60%	-1,69%	15,16%
EUROPE EURO STOXX 50	6 266,50	-0,71%	-2,39%	10,81%
GERMANY DAX	25 537,75	-0,15%	-2,74%	4,28%
FRANCE CAC40	8 140,59	-0,20%	-2,33%	2,49%
BELGIUM BEL20	5 733,49	-0,08%	-1,73%	15,62%
SWISS MARKET INDEX	13 868,66	0,59%	-2,80%	7,74%
UK FTSE100	10 688,47	0,19%	-1,21%	10,36%
RUSSELL 2000	2 858,81	-2,09%	-3,22%	16,32%
JAPAN TOPIX	4 061,72	0,37%	-2,28%	20,61%
MSCI EMERGING	1 687	-3,84%	-1,77%	22,13%
MEXICO MEXBOL	N.A.	-2,00%	-2,87%	0,64%
HONG KONG HANG SENG	24 713,78	-2,02%	-2,91%	1,01%
CHINA CSI 300	4 480,27	-1,93%	-3,02%	1,46%
INDIA SENSEX	74 336,45	-0,57%	-3,39%	-11,65%
KOREA KOSPI	6 717,97	-4,73%	-1,49%	60,62%
HANG SENG TECH	4 325,45	-2,16%	-6,34%	-20,92%
AUSTRALIA ALL-SHARE	5 753,95	0,15%	-1,46%	10,27%

US: Sectors	Level	5D	MTD	YTD
COMMUNICATION SVCS	467,15	2,92%	3,63%	3,78%
CONSUMER DISCRETIONARY	1 816,35	-2,24%	-5,34%	-5,35%
CONSUMER STAPLES	921,24	0,81%	-1,08%	8,37%
ENERGY	976,87	-1,65%	0,60%	45,07%
FINANCIALS	928,07	-1,96%	-3,06%	2,93%
HEALTH CARE	1 950,17	0,73%	-1,61%	9,35%
INDUSTRIALS	1 424,20	-1,81%	-3,70%	9,36%
INFORMATION TECHNOLOGY	6 867,58	-1,73%	-1,29%	21,30%
MATERIALS	632,09	-2,32%	-4,60%	11,32%
REAL ESTATE	271,78	-1,40%	-2,87%	8,97%
UTILITIES	417,20	-3,77%	-2,11%	-1,84%

EUROPE: Sectors	Level	5D	MTD	YTD
BASIC MATERIALS	3 556,11	-4,03%	-3,97%	23,62%
CONSUMER GOODS	3 819,26	0,87%	-1,53%	1,18%
CONSUMER SERVICES	1 306,23	-0,47%	-5,59%	-12,62%
FINANCIALS	1 785,68	-0,21%	-0,71%	19,00%
HEALTH CARE	3 696,90	1,19%	-2,87%	-1,08%
INDUSTRIALS	5 265,39	-1,29%	-4,44%	5,65%
OIL & GAS	2 274,82	0,58%	4,61%	40,03%
TECHNOLOGY	2 438,39	-3,69%	-3,66%	19,27%
TELECOMS	764,61	2,12%	2,30%	17,76%
UTILITIES	2 901,27	0,42%	-1,17%	14,42%

Apricus Finance SA, Rue du Rhône 30, CH - 1204 Geneva, Switzerland
Tel. +41 22 317 88 40 – Fax +41 22 317 88 50

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Fixed Income	Level	5D	MTD	YTD
Pan-Euro 3-5 yrs IG	217,18	-0,51%	-0,96%	-0,95%
Euro Aggregate	242,45	-0,48%	-1,11%	-1,76%
Pan-Euro HY Hedged Eur	481,36	-0,54%	-1,01%	0,84%
Global Inflation hedged EUR	235,92	-0,79%	-0,93%	-1,21%
US Corp High Yield	2 964,71	-0,63%	-0,94%	1,72%
EM USD Aggregate TR	1 389,59	-0,91%	-1,23%	0,20%
EM Aggregate TR Local Ccy	168,28	-0,81%	-0,32%	3,49%
EUR Banks CoCo Tier 1	177,41	-0,63%	-1,06%	1,49%
EU GOVT HEDGED EUR	210,85	-0,41%	-1,08%	-2,37%
Global Aggregate Hedged EUR	215,65	-0,64%	-0,97%	-1,85%

Commodities	Level	5D	MTD	YTD
GOLD	4 263,65	-3,07%	-3,92%	-1,29%
COPPER	643,15	-5,47%	-2,46%	13,19%
OIL WTI	102,43	6,64%	19,44%	78,39%
OIL BRENT	105,83	4,56%	16,95%	73,92%

Currencies	Rate	5D	MTD	YTD
EURUSD	1,1465	-1,44%	-1,32%	-2,39%
GBPUSD	1,3381	-1,23%	-1,24%	-0,70%
USDJPY	156,2600	1,76%	-2,18%	-0,29%
USDCHF	0,8257	1,91%	2,14%	4,18%
AUDUSD	0,7088	-1,79%	-1,10%	6,22%
EURCHF	0,9467	0,45%	0,81%	1,71%
USDCNY	6,7091	0,01%	-0,16%	-3,99%
USDKRW	1 471,95	2,69%	0,56%	-4,43%
USDBRL	6,1774	0,86%	-0,63%	-5,36%
USDTRY	48,6520	0,34%	0,81%	13,26%
BITCOIN	76 102,95	-2,81%	-3,49%	-13,17%

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