Outlook Q2 2026

Reuss Private

The Big Picture I

Structural Environment

- The age of globalisation has given way to geo-economics. Trade and capital flows are becoming politizised, with trade fragmenting along geopolitical lines. The rules governing the global trade architecture are weakening.
- High indebtedness + adverse demographic developments + low productivity growth = low global trend growth. Among other things, the high level of indebtedness leads to a more unequal distribution (Gini index). This is one of the reasons for shifts in political constellations (polarization).
- Geopolitical tensions – especially the conflicts in the Ukraine and in the Middle East – remain heightened.
- A de-dollarisation and possible decoupling from the West of an enlarged BRICs group seems possible, but this would result in two newly competing currency systems.
- The polarisation between the "West" and the "Global South" can make it more difficult to finance Western debt in the long term – also due to the confiscation of state assets.

Economy

- Thanks to monetary easing by many central banks and fiscal easing in the largest economies, global growth may increase moderately. However, there are considerable downside risks. Due to US trade policy, there is a great deal of uncertainty about the development of the global economy and the US economy in particular.
- **The consequences of the war in Iran are fuelling inflation and are jeopardising the global economic recovery.**
- Productivity gains in the US remain high, and actual growth may rise above trend over the course of the year. Europe is experiencing a slight recovery in growth, but overall economic momentum remains subdued.
- China's weak domestic demand but growing production capacities threaten the industrial sectors in the advanced economies.
- The ECB and the SNB have ended their rate-cutting cycles. The Fed could potentially cut interest rates further. However, this would result in US monetary policy being too loose in 2026.
- In the longer term, (government-led) investment should increase and support growth.

The Big Picture II

Influencing Factors

- Geopolitical risks (i.e. Iran, Ukraine, Israel, Turkey, Syria and Taiwan) have increased and will remain elevated for a prolonged period. This reinforces the deglobalization trend.
- Fiscal policy will remain expansionary, and no austerity policy is likely to be pursued.
- Political risks, with the potential for long-term very adverse outcomes, remain substantial, especially amid the ascent of EU/Euro critical parties in Europe and protectionist measures by the US government. Global risks, and thus the potential for markedly negative long-term scenarios, remain pronounced. The risk of a technological decoupling between the US and China and an economic bloc building has increased.
- Birth rates have fallen sharply recently on a global basis. This can lead to social tensions and put additional pressure on trend growth in the longer term.

Market Environment

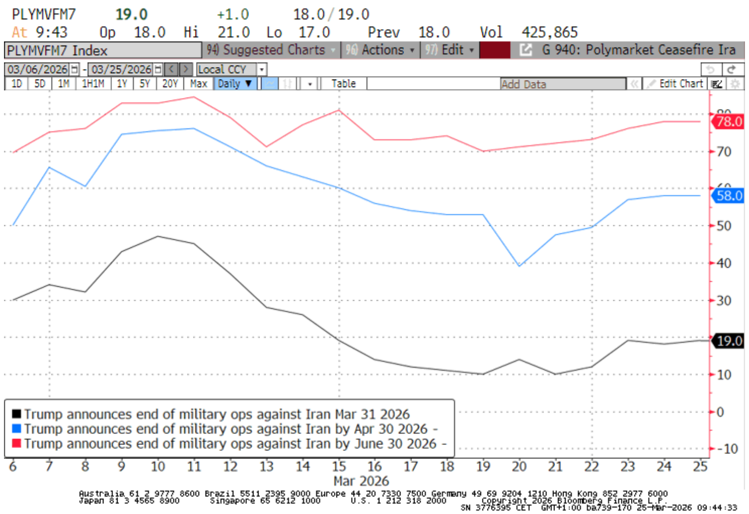
- Due to increased nominal growth and the likely easing of monetary policy in the US, risk assets are attractive in the long term.
- The outlook for equities is volatile and accompanied by pronounced setbacks but remains fundamentally positive in the long term. Corporate profits can increase and will contribute significantly to a positive performance.
- The trend towards sustainable investments and "green finance" will intensify across all asset classes in the coming years.
- Yields of “safe" bonds such as German Bunds and US Treasuries will mostly trade sideways on a multi-year horizon but move somewhat higher at the long end.
- With rate cuts, spread products become more attractive. Carry and roll-down remain important for fixed income investors. Focus on short and medium maturities, high-quality assets and defensive sectors. Exercise caution at the long end.
- We are positive about the Swiss franc. Long-term downside risks for the British pound.
- Longer term friendly environment for precious metals.

Positioning

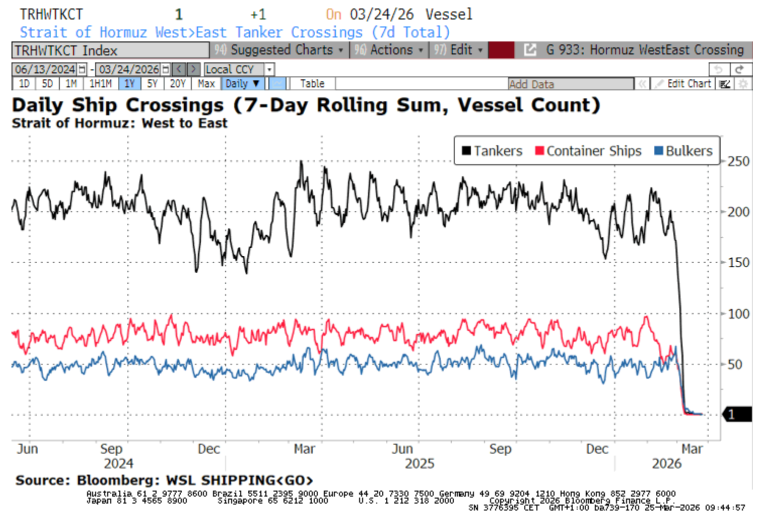
Asset Class	What we like	What we underweight
Liquidity		
Bonds	▪ Short to medium term investment grade assets (funds) ▪ Corporate bonds	▪ Long-term segment
Equities	▪ Solid dividend stocks ▪ AI Infrastructure, Quantum Computing, Robotics & Automation AMCs ▪ Sectors: Healthcare and Energy	
Alternative Investments	▪ Precious Metals (focus on Gold & Silver) as well as Uranium (all physical) ▪ Cryptos: Bitcoin ▪ US Bridge Financing & Cat Bonds	
Currencies	▪ CHF	▪ GBP

Iran War

Betting odds for end of war (in %)



Shipping traffic Strait of Hormuz



Scoure: Bloomberg

- Despite the current 'thaw', there is still no end to the conflict in sight. Iran's strategy is to inflict significant damage to energy infrastructure in the Middle East, thereby increasing the cost of the war. However, with the mid-term elections approaching, President Trump is unlikely to want a prolonged war, and Iran's military infrastructure is suffering increasingly severe damage. In the base scenario, the situation should gradually calm down within a few weeks. However, this development is highly uncertain. Every war develops its own dynamics. The risks of prolonged fighting cannot be ignored.
- The main problem is the paramount importance of the Middle East for the supply of key raw materials. In addition to oil and gas, this particularly applies to refined products such as jet fuel, as well as goods such as naphtha, helium, and fertilisers. In this context, the extraction, processing and transport of fossil fuels are all significantly restricted.
- For the global economy and financial markets, it is not just the duration of the conflict that matters, but also the severity and duration of significant restrictions to the production and transport of energy sources such as oil and gas. The greater the damage to the energy infrastructure, the more severe and long-lasting the negative effects will be.

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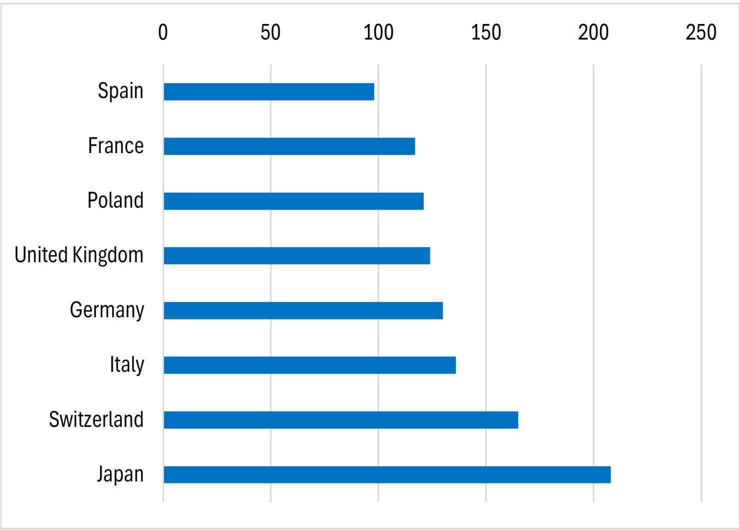
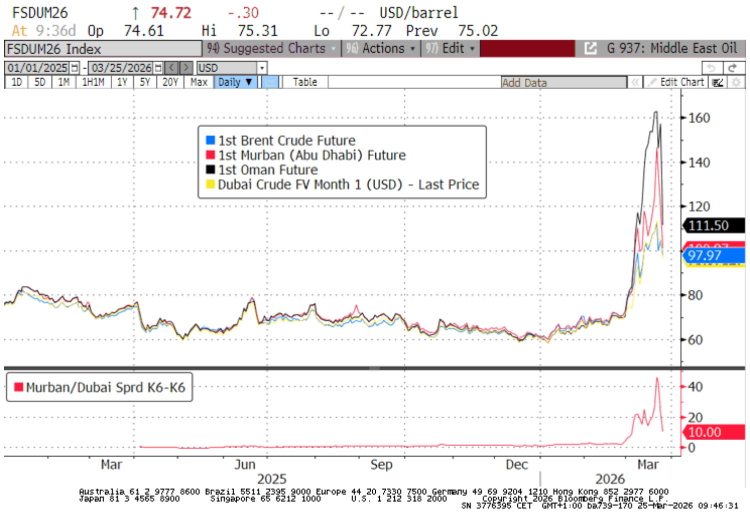
Oil

Oil reserves (in days of net imports)



Regional oil prices (top) & Murban-Dubai spread (bottom)

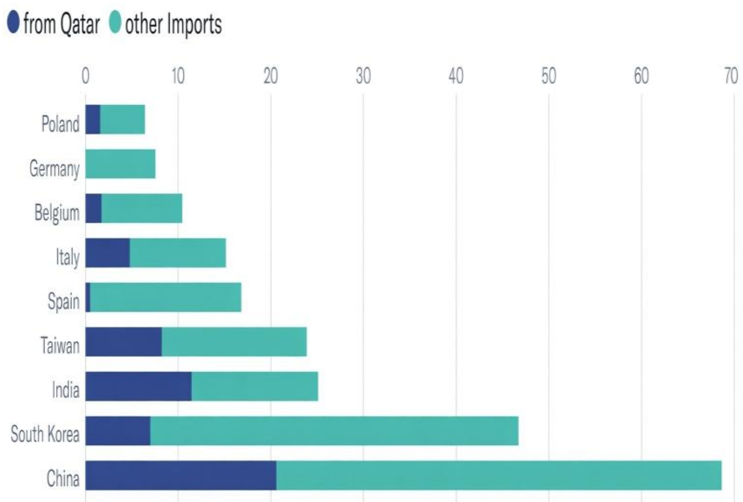


Source: IEA, Bloomberg

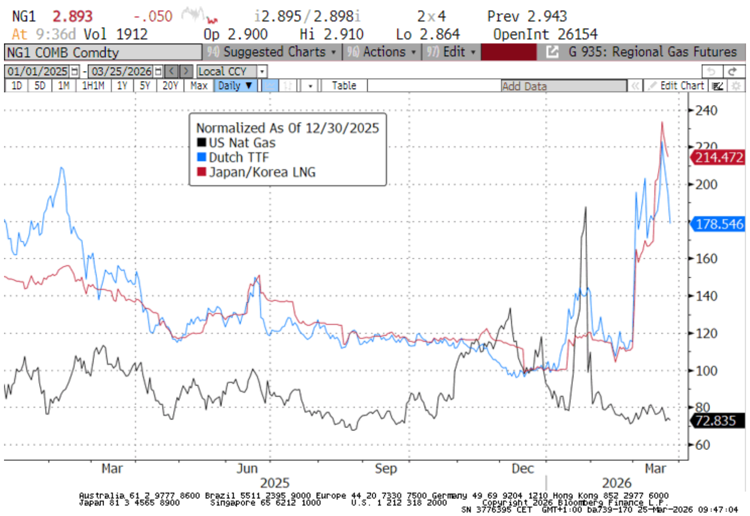
- Oil has a significantly higher energy density than non-liquefied gas. Consequently, it is easier to store. In response to the energy crisis of the 1970s, many countries built up substantial oil reserves. This is a key reason why the rise in prices in major consumer nations has remained limited so far, despite the significant restrictions in the Middle East. In producer countries, price rises are in some cases much steeper and price differences are pronounced due to transport restrictions.
- The US is a net energy exporter. As a result, security of supply is guaranteed, and price rises for energy sources have so far been less pronounced than in Europe and Asia. Europe is significantly more affected by higher energy prices. In the short term, however, no threat to security of supply is expected. However, problems could arise with refined products and gas next winter. Asia is also heavily affected by higher energy prices. However, due to its heavy reliance on energy supplies from the Middle East, the situation is more precarious there. Emerging economies without significant raw material reserves are particularly at risk of supply bottlenecks.

Gas

Imports of liquefied natural gas (LNG) in million tonnes



Regional gas prices (normalized as of end 2025)

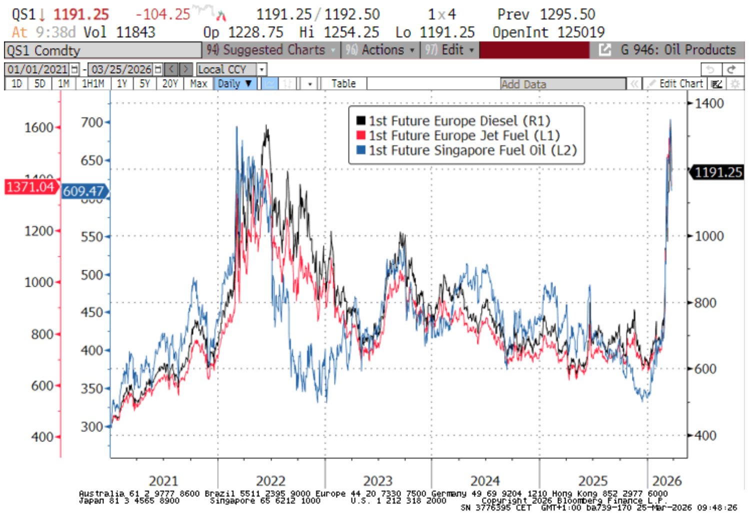


Source: NZZ, Bloomberg

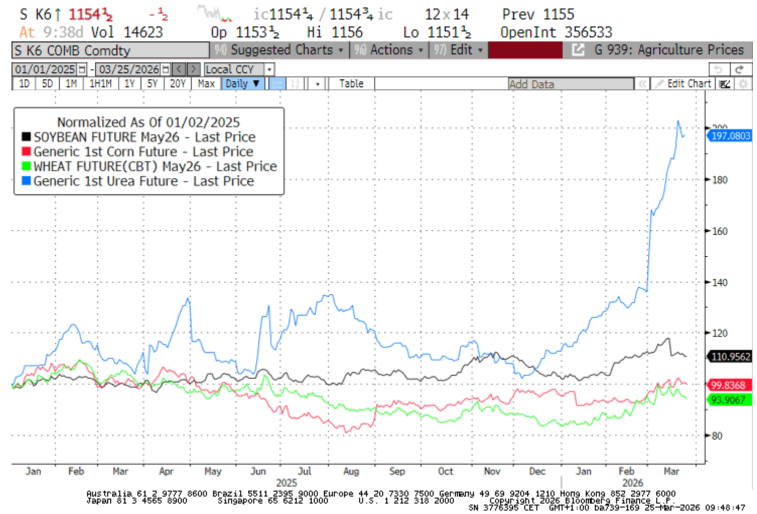
- In the baseline scenario, the extraction and transportation of essential goods from the Middle East will be severely restricted for a period of a few weeks. Thereafter, supplies should be largely restored within about a month. This will either be because the war has ended, or because transport via the Strait of Hormuz will be possible again to a significant extent.
- Around 20% of global oil supplies and LNG deliveries currently pass through the Strait of Hormuz. Asia is significantly more dependent on supplies from the Middle East than Europe. The US is considerably less affected.
- Transporting gas requires specific infrastructure, such as LNG carriers or pipelines. Furthermore, gas requires substantial storage capacity. Consequently, stock levels are often low compared to consumption. These limitations mean that gas prices vary significantly from region to region. Nevertheless, gas prices remain well below their 2022 peaks.

Refined Oil Products & Agricultural Goods

Refined oil products



Prices of agricultural goods (normalized as of Jan 2025)

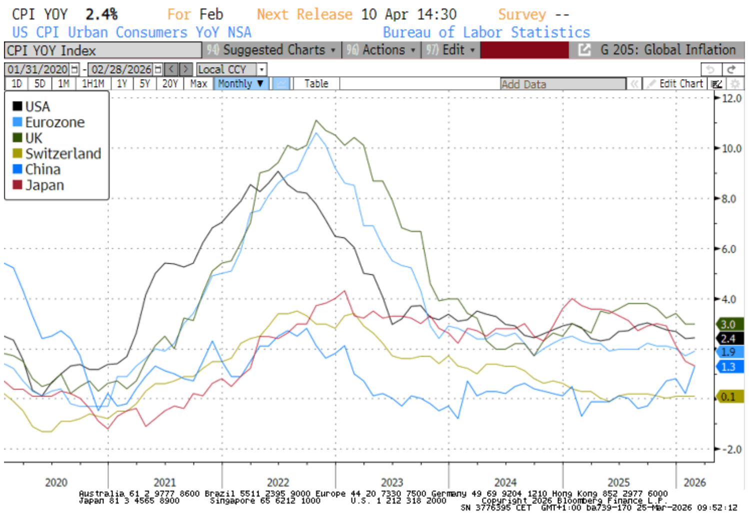


Source: Bloomberg

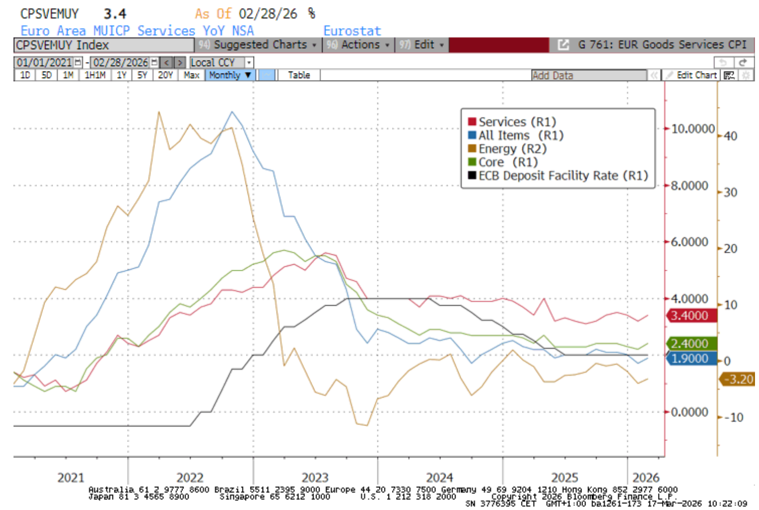
- Unlike in 2022, significant refining capacity is also being affected now, and the transport of refined products is just as restricted as that of crude oil. Although oil and gas prices have risen, they remain well below their 2022 peaks, while the prices of some refined products have already reached a new highs. The transportation of essential goods such as fertilisers, naphtha and helium is also being restricted. This is already leading to production cutbacks at chemical plants in South East Asia, as well as higher global fertiliser prices.
- Even if hostilities were to end soon, it would take time for oil and gas prices to fall back to their lows from the start of the year. This is due to higher risk premiums, prolonged restrictions on energy infrastructure in the Middle East and increased gas demand in Europe over the summer in order to refill empty storage facilities. Furthermore, a prolonged period of higher prices is on the horizon, particularly for refined products and agricultural goods.

Inflation & Monetary Policy

Headline inflation rates (yoy in %)



Eurozone inflation and ECB deposit rate

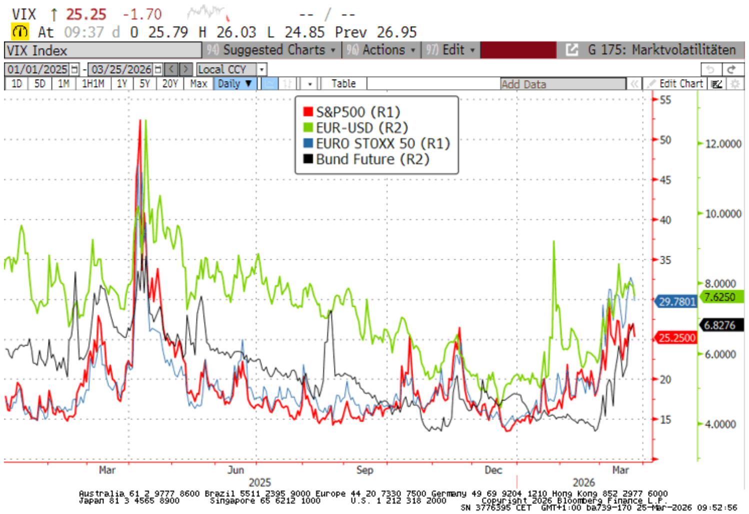


Source: Bloomberg

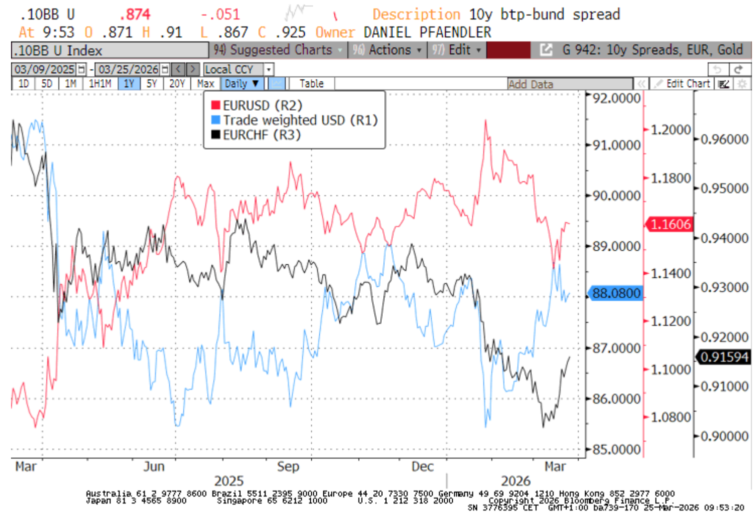
- The inflationary impact is likely to be stronger than expected. There is a risk of prolonged disruption to energy infrastructure. Even if the war ends quickly, it is unlikely that oil and gas prices will fall back to the lows seen at the beginning of the year. Furthermore, it will take even longer for prices of refined products, fertilisers and agricultural goods to normalize. Macro-economic models used for inflation forecasting generally only take oil and gas prices into account and not the sharper rise in prices for refined products. Consequently, they underestimate the inflationary impact. The main driver of disinflation over the past three years — lower energy prices — is now becoming an inflationary force. Domestic price pressures are often exacerbated by a lack of productivity gains.
- For the ECB and the SNB, the next step is an interest rate hike. In the base scenario, the ECB's first rate rise will likely occur in Q4 2026, while the SNB's will follow later in 2027. In the US, a rate cut would also no longer be appropriate from a macro-economic perspective. However, given the new FOMC Chair and the politicisation of monetary policy, a rate cut remains a possibility. Furthermore, necessary interest rate hikes will be delayed. In the medium term, the monetary policy of major central banks is likely to become too accommodative.

Financial Markets

Implied volatilities



Trade weighted USD, EUR/USD, EUR/CHF

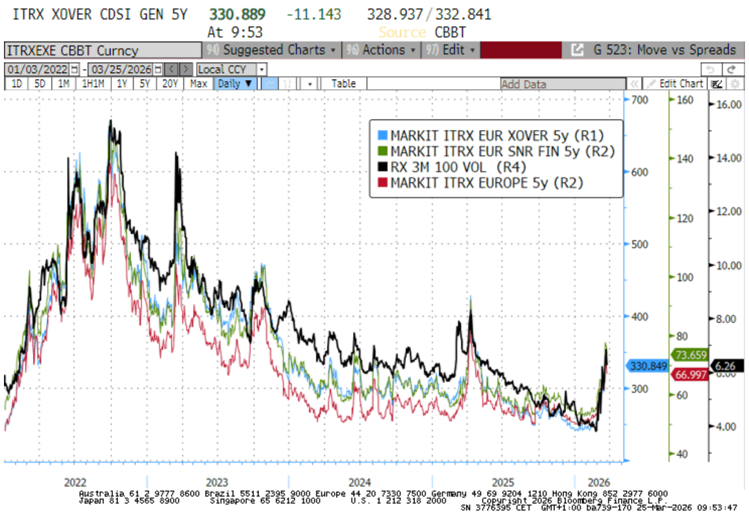


Source: Bloomberg

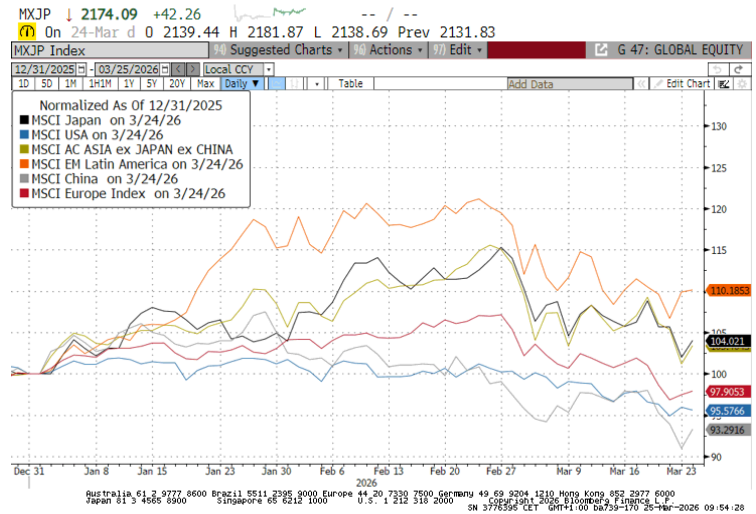
- In some cases, the sharp price corrections point to significant position liquidations. In particular, realised and implied volatilities in the bond markets have been very low in recent quarters. The same is true, to a lesser extent, of the currency and equity markets. However, as volatility and risk perception increased with the outbreak of the war, the risk tolerance of many investors, particularly those using leveraged strategies, declined. Consequently, positions must be closed, which further amplifies market movements.
- The US dollar has shown considerable strength since the outbreak of war. Due to low trade volumes with the Middle East and its own energy production, the US has only been marginally affected by the turmoil in the global commodities market. Europe and Asia have been hit much harder by the negative effects. As a safe haven, the Swiss franc is also showing relative strength. However, the Swiss National Bank is likely to counteract any excessive appreciation against the Euro through currency interventions.

Fixed Income & Equity Markets

Credit spreads vs. implied Bund future volatility



Global equity markets (performance 2026)

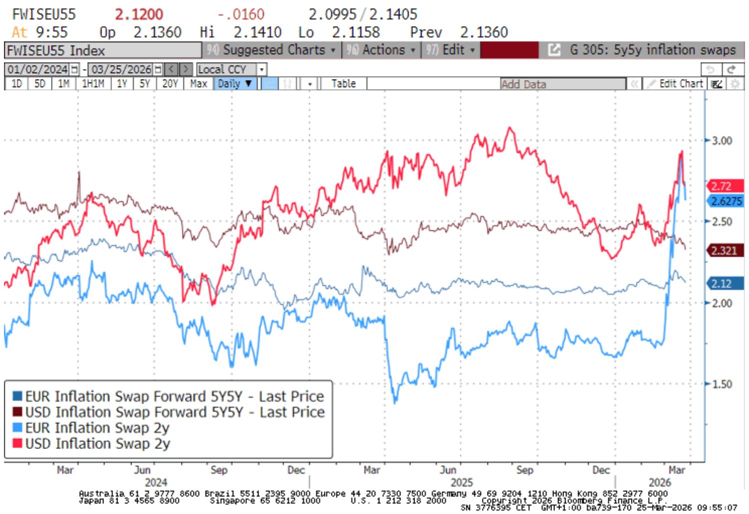


Source: Bloomberg

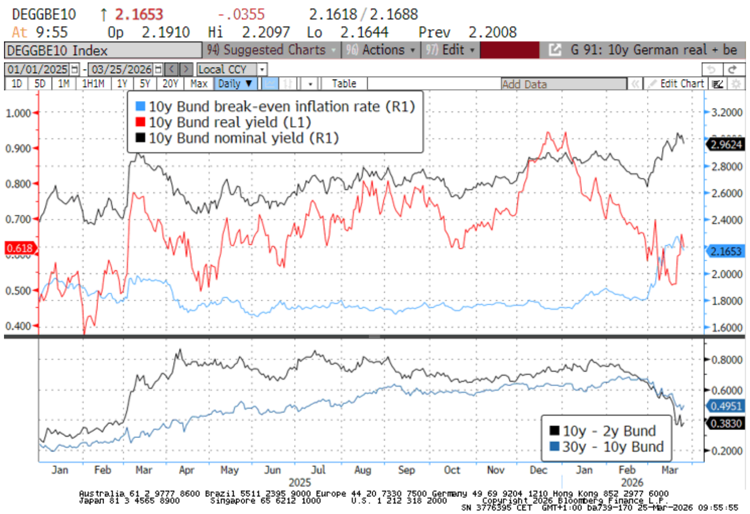
- Companies are under pressure from higher input prices, a weaker real economy, potential supply disruptions and the resulting production losses. In addition, increased financial market volatility is reducing the risk appetite of key investors. Consequently, risk assets such as equities and corporate debt are under significant downward pressure.
- From a strategic perspective, the basic structure of the existing asset allocation can be maintained for the time being. This involves taking a cautious stance on the long end of the curve for 'safe' sovereign bonds, maintaining a neutral credit allocation with a focus on the short and medium term segments and in defensive sectors. We also continue to recommend investments in commodities and precious metals. In the equity markets, risk exposure should be reduced slightly for the time being in favour of holding more cash — particularly in Asian markets, but also in European ones.

Sovereign Bonds

Short and long-term inflation swaps (in % p.a.)



10y Bund yield (top) & yield curve (bottom)



Source: Bloomberg

- Higher inflation makes further interest rate cuts less likely and increases the probability of rate hikes. Furthermore, markets have significantly revised their inflation expectations upwards. Whether or not central banks can ignore the rise in prices will depend largely on the duration of the war and the extent of the damage to infrastructure. Added to this is the possibility that governments will respond to rising energy prices by easing fiscal policy. Consequently, yields on 'safe' bonds such as Swiss Confederation, German Bunds and US Treasuries have been rising.
- From a fundamental perspective, the outlook for government bonds remains challenging, and yields are likely to trend sideways over a multi-year horizon but move somewhat higher at the long end.

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