

Outlook Q3 2026



Reuss Private

The Big Picture I

Structural Environment

- **Politics:** The age of globalisation has given way to geo-economics. Trade and capital flows are becoming politicised, with trade fragmenting along geopolitical lines. The rules governing the global trade architecture are weakening.
- **Demographics:** Birth rates have recently fallen sharply on a global basis. This can lead to social tensions and in the longer term put additional pressure on trend growth.
- **Macro-economics:** 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).
- **Technology & energy:** Artificial intelligence (AI) is driving a technological transformation of the global economy, while electrification is driving an energy transformation.

Economy

- The global economy and the financial markets are currently caught between a stagflationary shock resulting from the Iran war and an AI-driven mini-boom.
- Thanks to monetary easing by many central banks and fiscal easing in the largest economies, global growth can pick up moderately. Downside risks are nonetheless considerable.
- 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 can raise rates several times. In the US, rate hikes are warranted on macro-economic grounds before the end of the year. However, due to the new FOMC chair and the politicization of monetary policy, this will be delayed. Over the medium term, monetary policy at major central banks will tend to be too accommodative for economic conditions.
- 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 and Taiwan) have increased and will remain elevated for a prolonged period. This reinforces the de-globalization trend.
- Political risks are elevated, in particular given the rise of EU-/Euro-critical parties in Europe and protectionist measures by the US administration. A renewed escalation of the global trade war – above all between the US and China – would have lasting consequences and would ultimately weigh further on global growth and financial markets. The risk of a technological decoupling between the US and China and an economic bloc building has increased.
- 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.
- Fiscal policy will remain expansionary, and no austerity policy is likely to be pursued.

Market Environment

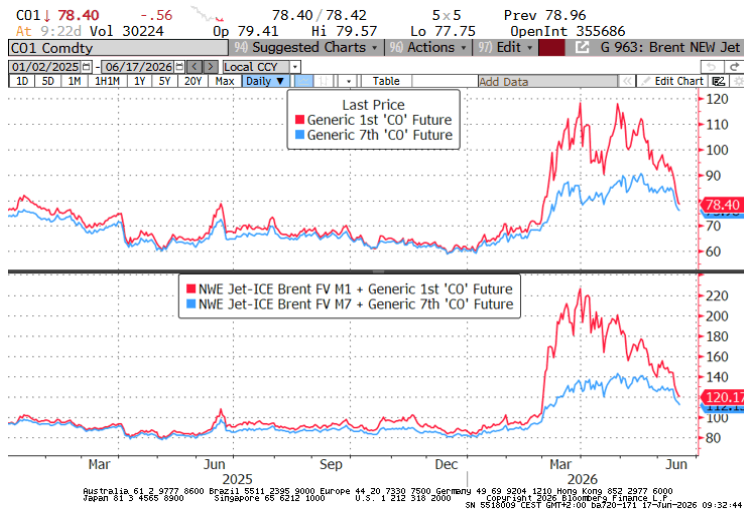
- Given higher nominal growth and the AI-driven technological transformation, equities offer a more attractive risk/reward profile than bonds.
- The outlook for equities is volatile and accompanied by pronounced setbacks but remains fundamentally positive in the long term. Corporate profits can increase 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.
- Carry and roll-down remain important for fixed income investors. Focus should be on short- and medium-term maturities, high-quality assets, and defensive sectors. Exercise caution at the long end.
- We are positive towards the Swiss Franc but see long-term downside risks for the British pound.
- Longer term friendly environment for precious metals.

Positioning

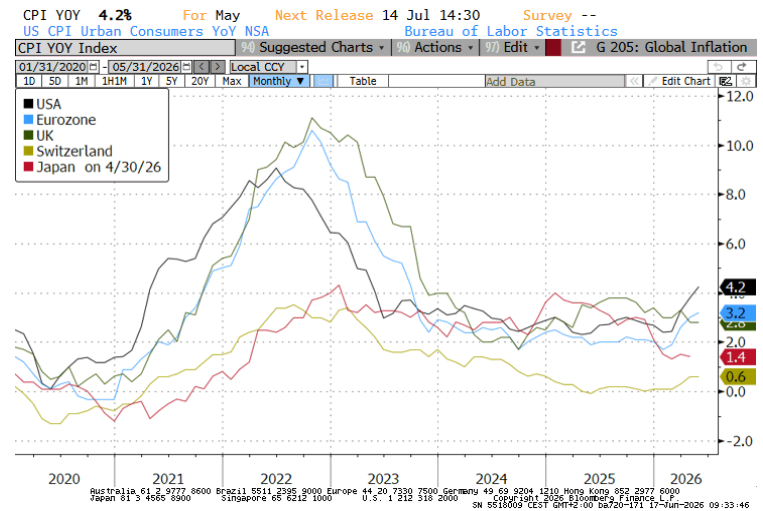
| Asset Class | What we like | What we underweight |
|-------------------------|---|---|
| Liquidity | | |
| Bonds | <ul style="list-style-type: none"> ▪ Short term to medium term investment grade assets (funds) ▪ Corporate bonds | <ul style="list-style-type: none"> ▪ Long-term segment |
| Equities | <ul style="list-style-type: none"> ▪ Solid dividend stocks ▪ AI infrastructure, Quantum Computing and Robotics & Automation-AMCs ▪ Sectors: Healthcare, Materials and Technology | |
| Alternative investments | <ul style="list-style-type: none"> ▪ Precious metals (focus on Gold & Silver) as well as Uranium (all physical) ▪ Cryptos: Bitcoin ▪ US Bridge Financing & Cat Bonds | |
| Currencies | <ul style="list-style-type: none"> ▪ CHF | <ul style="list-style-type: none"> ▪ GBP |

Energy Prices & Inflation

Brent and kerosene futures prices (in USD/bbl)



Headline inflation (YoY. in %)

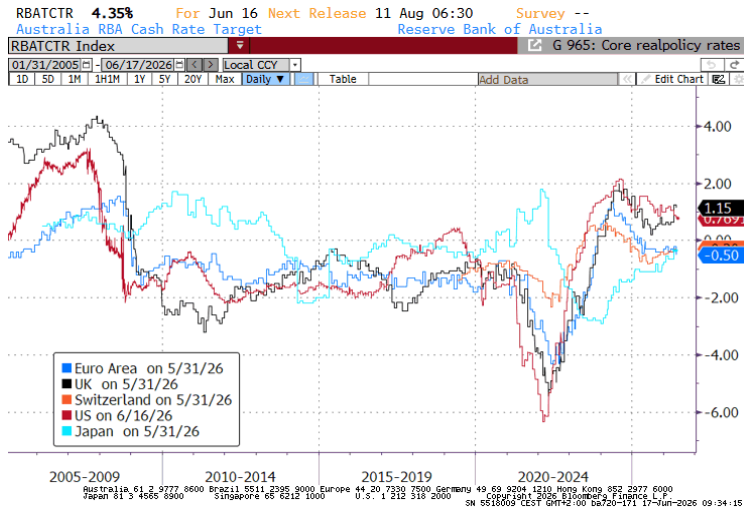


Source: Bloomberg

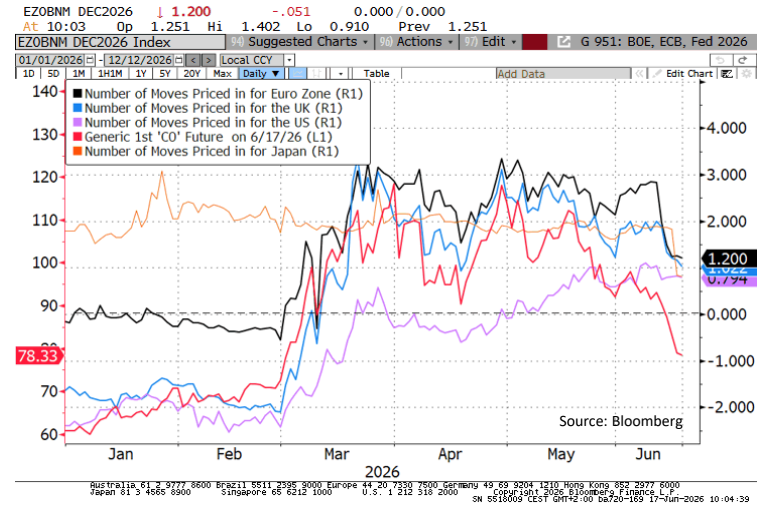
- The US and Iran have reached a provisional agreement to reopen the Strait of Hormuz. Consequently, energy prices have fallen recently and the stagflationary shock is easing. However, the possibility of forthcoming detailed negotiations failing and a return to open hostilities cannot yet be ruled out completely. It will likely take several weeks for the global supply situation to normalise with regard to crude oil, and several months with regard to refining capacity in Asia.
- However, the rise in inflation is likely to persist for longer than expected and will be accompanied by significant second-round effects. This will also cause core inflation to rise. Inflation persistence is likely to be high where productivity gains are weak. This particularly applies to European economies, although Switzerland is likely to fare better than the rest. Japan is more affected by the current energy shock than it was by the one in 2022. In the US, the growth outlook is relatively favourable. Despite strong productivity growth, second-round effects are therefore likely due to the combined impact of the inflationary impulse.

Central Banks

Real policy rates (nominal rate minus core inflation)



Priced-in policy rate changes by end-2026

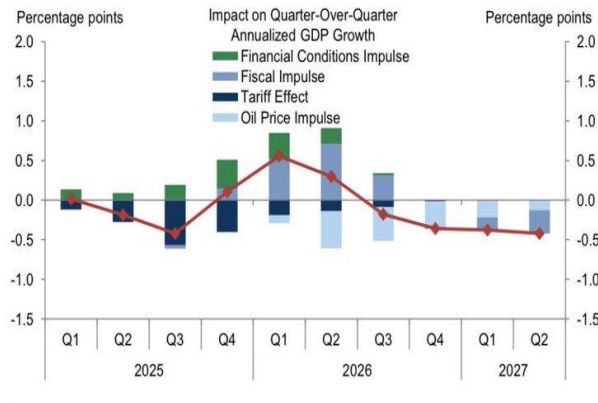


- There is a clear risk that central banks will raise interest rates by more than the consensus expects and markets anticipate. A key reason for this is that as inflation rises, the real policy rate falls, making monetary policy looser if no action is taken. This is a particular problem for the ECB, given that the real policy rate based on core inflation is already negative. The ECB is likely to raise its policy rates by a further three 25-basis-point steps, taking them to 3% by mid-2027. The SNB is in a relatively better position, even though its real policy rate is also negative. As was the case during the 2022 energy price shock, second-round effects tend to be considerably smaller. The SNB can wait significantly longer and will probably only raise rates slightly towards the turn of the year or in 2027. The BoJ policy is already too accommodative, and the BoJ shows no sign of bringing forward rate hikes in response to the additional inflationary impulse. In the case of the US Fed, rate hikes before the end of the year would be warranted. However, the new FOMC chair Warsh is likely to delay the necessary rate hikes.
- Over the medium term, monetary policy at major central banks is likely to be too loose relative to the macro-economic backdrop. In the coming years, inflation should therefore settle above pre-pandemic levels and often above official central bank targets.

US Economy

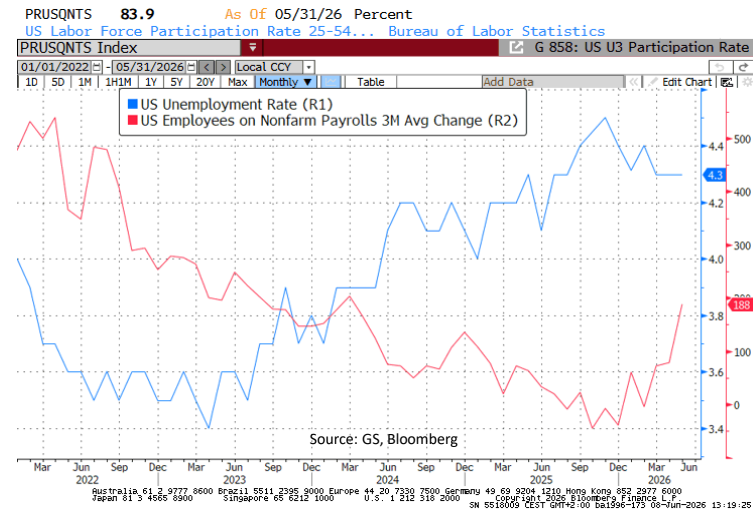
Macro-economic drivers of GDP

Exhibit 8: The Boost to Growth from Tax Cuts Will Be Roughly Offset by the Drag from Higher Oil Prices



Source: Goldman Sachs Global Investment Research

Labour market

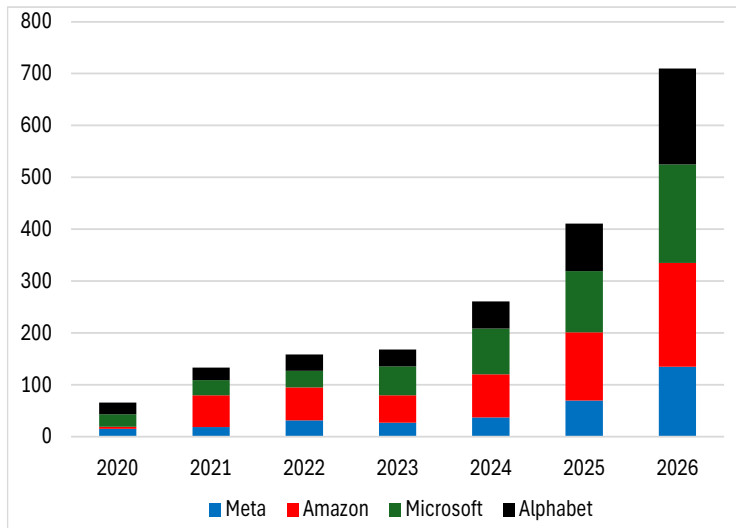


- Despite the tighter immigration policy, trend growth will remain high thanks to continued productivity gains. The artificial intelligence sector is experiencing a mini-boom due to investment in IT infrastructure and data centres. Meanwhile, the financial and energy sectors are benefiting from deregulation.
- Fiscal support for US consumers in the form of higher tax rebates under the OBBBA* comes just at the right time. Meanwhile, the negative effects of tariff increases are fading. On top of this, monetary policy has been eased. While the US macro policy was restrictive in terms of both fiscal and monetary policy last year, it now supports growth. There are growing signs that economic momentum is recovering. Growth could rise above trend again over the course of the year. A recession remains only a risk scenario.
- Despite robust overall growth, the consumer landscape remains divided. The economic environment for households with low incomes and with low wealth continues to be challenging.

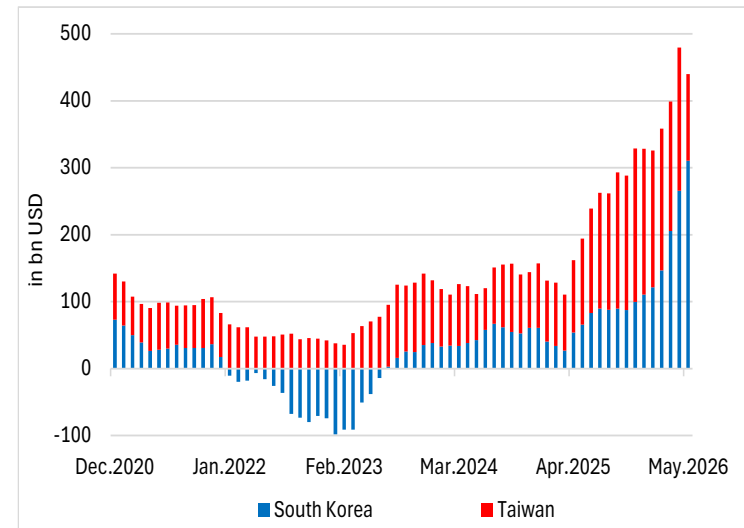
*One Big Beautiful Bill Act

Artificial Intelligence: Technological Transformation

CAPEX of the US hyperscalers (in USD bn per year)



Trade balance South Korea & Taiwan (3m. annualised)

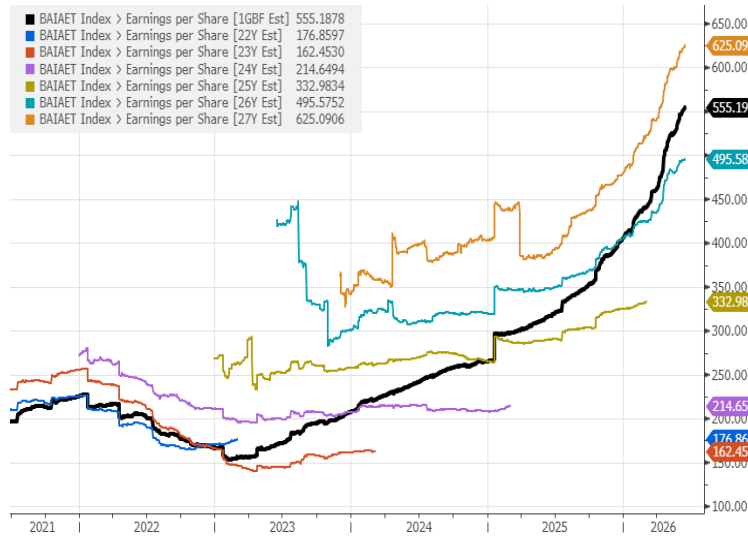


Source: Bloomberg

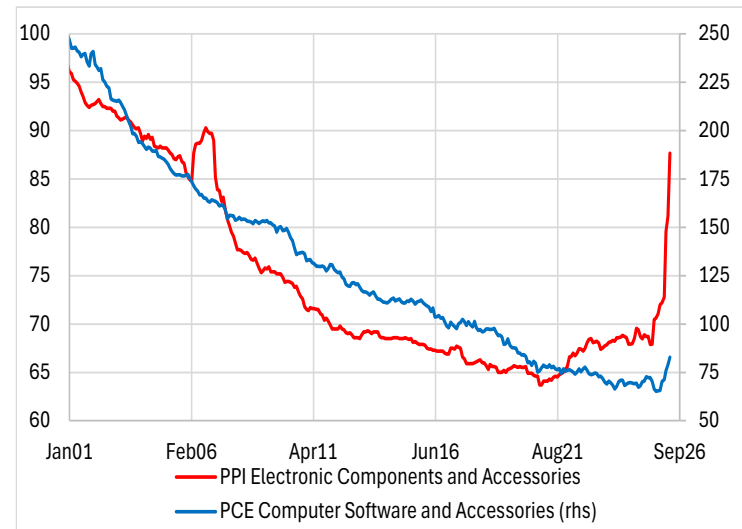
- The artificial intelligence theme is fueling a mini-boom. There is currently no sign of a slowdown in investment. Quite the opposite: momentum has recently increased considerably.
- These investments are leading to increased demand for data centers, power plants, and memory and computing chips. As the US imports a significant proportion of its semiconductors, Taiwanese and South Korean exports have soared since last year. As a result, trade surpluses and GDP growth have risen significantly.
- The AI-driven technological transformation of economies will continue for some time. Currently, there is no indication that the dynamics of adoption and investments are slowing down.
- Additionally, data centers are highly power-intensive, which drives up electricity demand. At the same time, critical economies are advancing in terms of electrification (e-mobility, renewable energy, power grids and storage systems). The war in Iran is likely to accelerate this process further. Consequently, demand for commodities such as copper, silver and uranium is also rising.

Artificial Intelligence: Inflation & Earnings

Earnings expectations Bloomberg AI-index



US Prices for electronic components & software

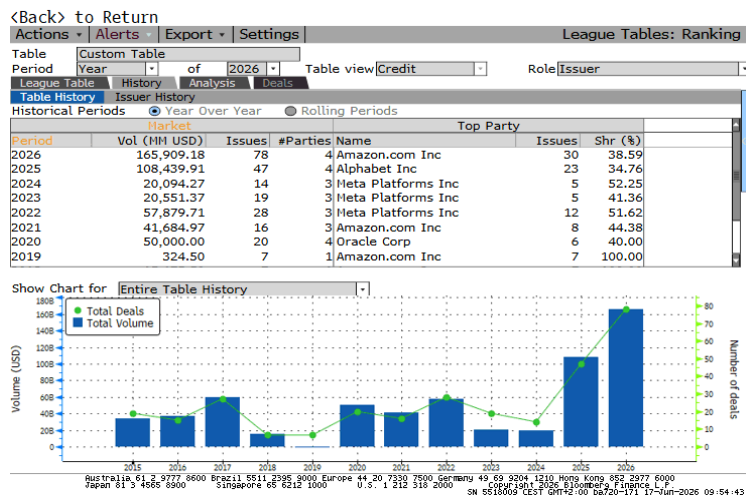


Source: Bloomberg, St. Louis Fed, BEA

- The main beneficiaries are producers of computing and memory chips as well as industrial companies involved in building data centres. Due to the scarcity of the necessary hardware such as compute and memory chips, the relevant producers also have considerable pricing power. Tech-heavy equity markets, such as those in the US, South Korea and Taiwan, are therefore experiencing strong earnings growth.
- Historically, a new general-purpose technology first generates an inflationary impulse and then in its mature phase acts as a disinflationary force. The AI investment phase is very capital- and energy-intensive. Consequently, prices for electronic goods have turned around and both electricity consumption and prices are rising in the US.
- This inflationary impulse comes on top of that caused by the war in Iran and increases the likelihood of longer-lasting and more persistent second-round effects. It is only when the productivity effects become widespread and the investment momentum eases (probably from 2028/2029 onwards) that the balance will tip from an inflationary to a disinflationary contribution.

Artificial Intelligence: Capital Needs

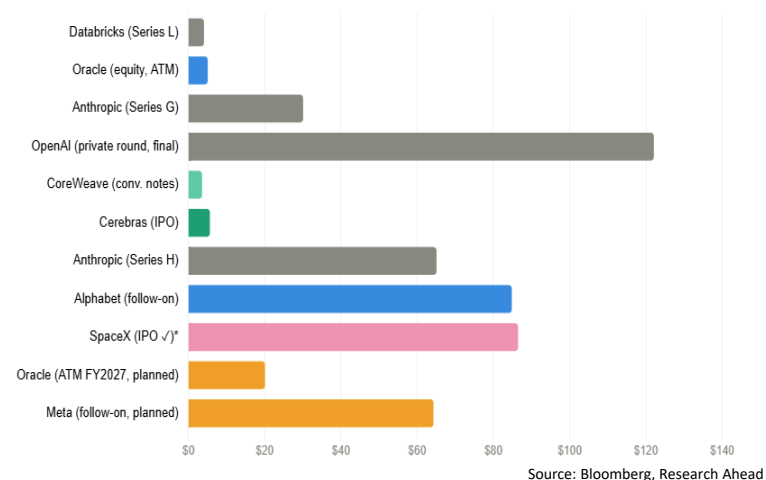
Bond issuance by US hyperscalers (in USD)



IPOs by US AI companies

YTD 2026 — completed and announced, in USD bn

IPO proceeds Follow-on (listed) Private round (pre-IPO) Planned / under consideration



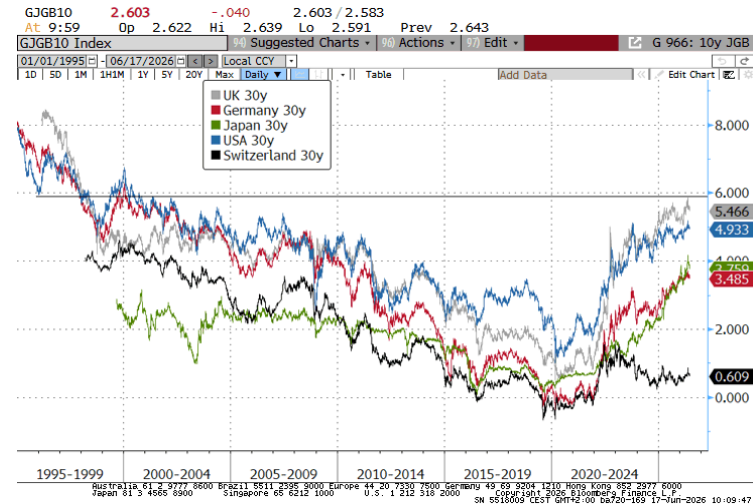
- Until May of this year, hyperscalers had relied primarily on cash flows and debt financings.
- This has also resulted in a greater number of AI companies present in the credit markets. In the US, for instance, tech companies' share of the investment grade index rose from under 2% in 2006 to currently over 10%.
- This year, unlisted AI companies such as Anthropic and OpenAI have held major funding rounds and announced IPOs. More recently, listed companies such as Alphabet and Meta have also begun to raise equity.
- Given the large sums involved – more than USD 80 billion for Alphabet alone – this can put temporary pressure on the overall market.
- In the base case, however, the positive dynamic from capital expenditure and earnings growth will dominate over the longer term.

Government Bonds

10Y government bond yields



30Y government bond yields

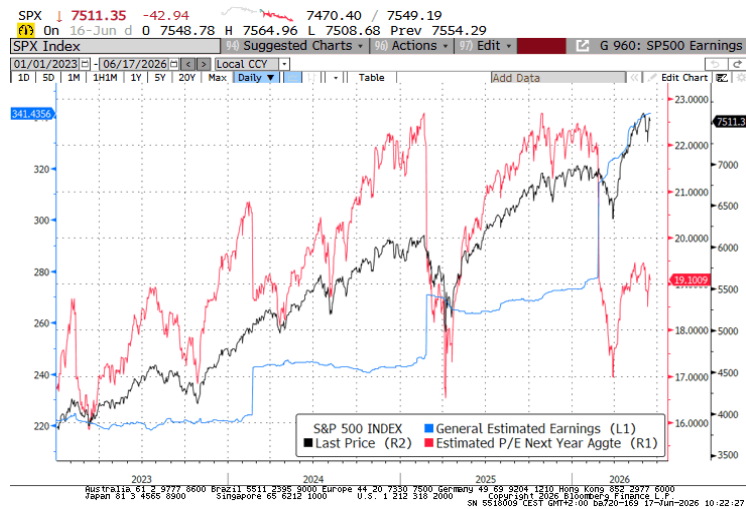


Source: Bloomberg

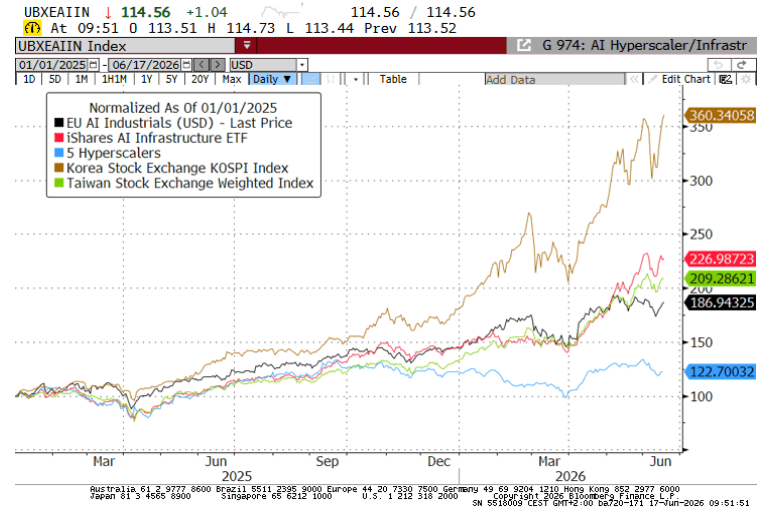
- The inflationary impulse will be stronger than expected, resulting in stronger-than-forecast monetary tightening into 2027. Nevertheless, major central banks – particularly the US Fed and the BoJ, and to a lesser extent the European central banks – will set monetary policy too loose over the medium term relative to the macro-economic backdrop. Consequently, long-term inflation expectations are likely to rise. Term premia could continue to increase in the coming years due to the prospect of higher nominal growth and the unsustainable debt paths of major sovereigns.
- From a strategic perspective, the outlook for the long and very long ends of global government bond curves remains challenging. Phases of falling yields, such as in the event of the Strait of Hormuz reopening, present themselves as selling opportunities.
- Focus can remain on positions at the short and medium part of the curve that benefit from carry and roll-down.

Equity Markets

S&P 500, earnings expectations & P/E



Selected AI-dominated equity indices (performance since Jan 2025)

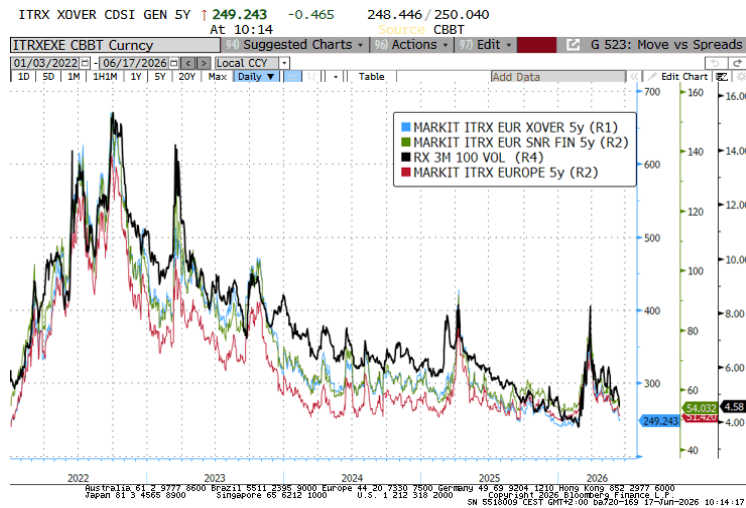


Source: Bloomberg

- In equity markets, a geographically well-diversified neutral allocation can be maintained.
- The key to maintaining a neutral position in equities is that the US economy – given its importance to the global economy and its dominant share of global equity markets – does not fall into a recession. In the event of a recession, corporate earnings would decline cyclically and insolvencies would rise sharply. Without a recession, however, earnings would rise.
- On top of this, there is a mini-boom in the AI theme. Tech-heavy equity markets, such as those in the US, South Korea and Taiwan, therefore demonstrate particularly strong earnings growth. South Korea has overtaken the UK and Canadian markets to become the world's seventh largest by market capitalization, while Taiwan has become the fifth-largest.
- Consequently, earnings expectations in the US have increased significantly in recent weeks. Despite new record highs, the valuation of US equity markets (P/E) is therefore lower than at the turn of the year.

Bonds vs. Equities

Credit spreads vs. implied volatility Bund future



10Y UST/Bunds/Dax/S&P 500



Source: Bloomberg

- The global economy and financial markets are currently caught between a stagflationary shock resulting from the war in Iran and an AI-driven mini-boom. While the inflationary impact of the war in Iran initially weighs on real growth, second-round effects mean that core inflation will ultimately be higher, and nominal growth could even rise somewhat over the medium term. Higher nominal growth means that cash flows in the economy will increase more significantly. This goes hand in hand with higher yields on 'safe' bonds but supports corporate earnings growth.
- Additionally, valuations of non-sovereign bonds are high given tight spreads, so the buffer against adverse developments is thin.
- Due to higher earnings expectations, equities offer a more attractive risk/return profile than bonds in the context of high nominal growth and AI-driven technological transformation.

FX, Precious Metals & Commodities

Real currency indices



Gold, silver and copper



Source: Bloomberg

- European currencies – particularly the Euro, but also Sterling – remain overvalued in real terms. In contrast, major Asian currencies – particularly the Chinese yuan and the Japanese yen, as well as the South Korean won – are undervalued. Therefore, from a multi-year perspective, positions in Asia can be built up relative to Europe.
- Electrification in major economies is advancing and is likely to receive a further boost from supply chain disruptions caused by the war in Iran. On top of this, higher electricity demand is coming from the AI theme. This will lead to increased demand for relevant commodities, particularly for copper, silver and uranium, which remain attractive.
- The long-term outlook for gold remains favourable. Multi-year support stems from geopolitical developments, the erosion of the US dollar's reserve status and the prospect of major central banks – particularly the US Federal Reserve – adopting overly loose monetary policies. However, the Iran war is a temporary headwind. The negative economic effects have impacted various emerging markets, putting pressure on their currencies. This limits the scope for central bank gold purchases and has led to gold sales in some countries – such as Turkey – to support the domestic currency.

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