

Outlook Q4 2026



Reuss Private

The Big Picture I

Structural Environment

- **Policy:** The age of globalization has given way to geo-economics. Trade and capital flows are becoming politicized, with trade fragmenting along geopolitical lines. The rules governing the global trade architecture are weakening.
- **Demographics:** 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.
- **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 financial markets are currently caught between a stagflationary shock from the Iran war and an AI-driven mini-boom.
- Thanks to past 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. **From a macro-economic perspective, several interest rate rises would also be appropriate in the US before the end of the year. However, due to the new FOMC Chair and the politization of monetary policy, these increases will be smaller than necessary.** Monetary policy at major central banks will tend to be too accommodative for the macro-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 and Taiwan) have increased and will remain elevated for a prolonged period. This will reinforce the trend of global trade fragmentation.
- 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 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-dollarization and a possible decoupling from the West of an enlarged BRICs group seems possible, but this would result in two newly competing currency systems.
- The polarization 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 on short and medium maturities, high-quality assets, and defensive sectors. Exercise caution at the long end.
- We are positive for the Swiss franc but see long-term downside risks for the British pound.
- Longer term friendly environment for precious metals.

Asset Allocation

EUR						
Income		Balanced		Growth		
strategic	tactical	strategic	tactical	strategic	tactical	
10.0	7.5	5.0	5.0	0	2.5	
50.0	50.0	35.0	30.0	20.0	15.0	
30.0	32.5	50.0	55.0	70.0	75.0	
10.0	10.0	10.0	10.0	10.0	7.5	

Liquidity
Bonds
Equities
Alternatives

USD						
Income		Balanced		Growth		
strategic	tactical	strategic	tactical	strategic	tactical	
10.0	7.5	5.0	5.0	0	2.5	
50.0	50.0	35.0	30.0	20.0	15.0	
30.0	32.5	50.0	55.0	70.0	75.0	
10.0	10.0	10.0	10.0	10.0	7.5	

CHF						
Income		Balanced		Growth		
strategic	tactical	strategic	tactical	strategic	tactical	
10.0	7.5	5.0	5.0	0	2.5	
50.0	50.0	35.0	30.0	20.0	15.0	
30.0	32.5	50.0	55.0	70.0	75.0	
10.0	10.0	10.0	10.0	10.0	7.5	

Liquidity
Bonds
Equities
Alternatives

GBP						
Income		Balanced		Growth		
strategic	tactical	strategic	tactical	strategic	tactical	
10.0	7.5	5.0	5.0	0	2.5	
50.0	50.0	35.0	30.0	20.0	15.0	
30.0	32.5	50.0	55.0	70.0	75.0	
10.0	10.0	10.0	10.0	10.0	7.5	

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	▪ Sectors: Financials, Energy, Materials and Technology (AI & Chips) ▪ Solid dividend stocks ▪ AI Infrastructure-, Quantumcomputing-, Robotics & Automation- and Photonics-AMCs	
Alternatives	▪ Precious Metals (focus on Gold & Silver) as well as Copper, Uranium and Zinc (all physical) ▪ Cryptos: Bitcoin ▪ Cat Bonds	
Currencies	▪ CHF	▪ GBP

Bonds

	Underweight	Neutral	Overweight
Investment Grade			
High Yield		Funds only	
Emerging Markets		Funds only	
Convertibles		Funds only	
Short-term maturities			
Medium-term maturities			
Long-term maturities			

Equities

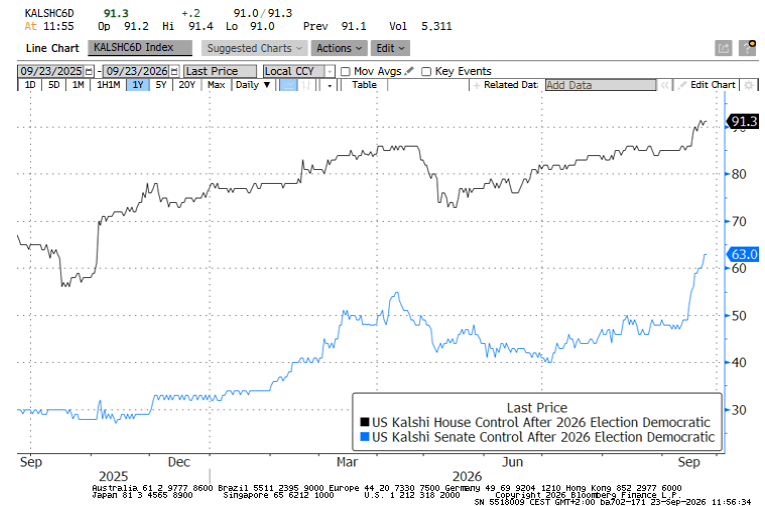
	Underweight	Neutral	Overweight
Energy			
Financials			
Health Care			
Industrials			
Consumer Staples			
Consumer Discretionary			
Materials			
Information Technology			
Communication Services			
Real Estate			
Utilities			

USA: Midterm Elections

President Trump approval rating



Betting odds for the Democratic Party

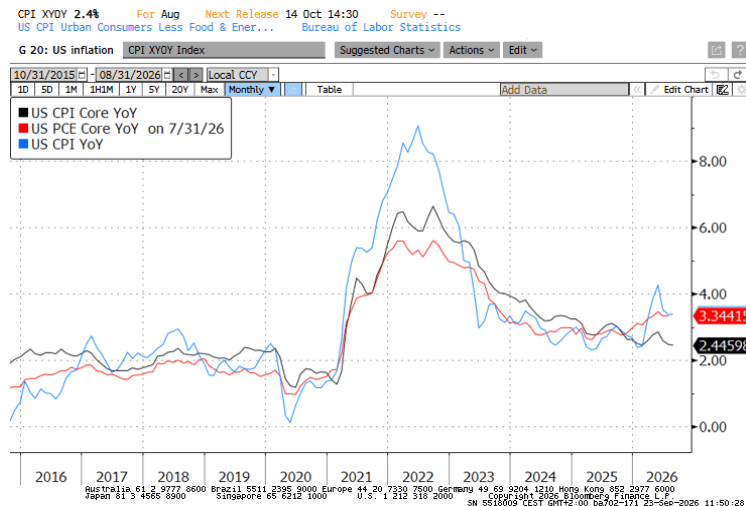


Source: Bloomberg

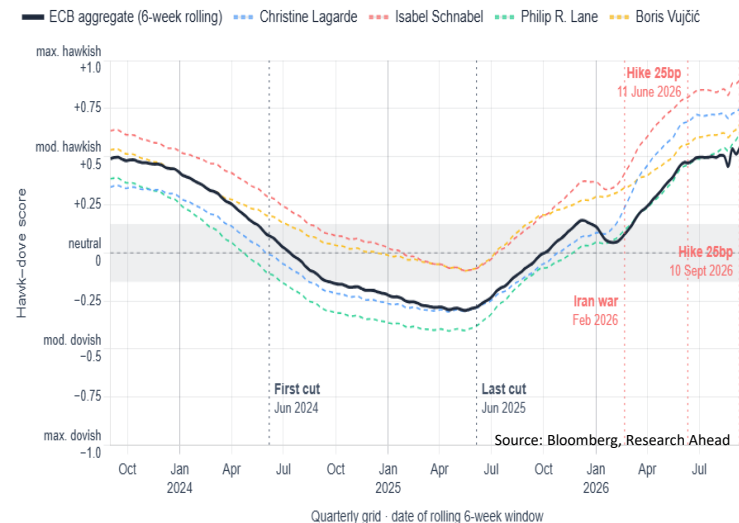
- In the US, growth in real disposable household income has been subdued. Nevertheless, consumption has increased considerably in recent quarters. This has been driven by high earners and wealthy households in particular. Conversely, consumers with no assets and low incomes are under increasing pressure. This divided consumption landscape reflects the challenging economic circumstances faced by many households, despite the favourable overall growth environment. According to polls, the cost-of-living crisis is a key issue for voters. The war in Iran and the resulting price rises are consequently reducing the chances of Republican candidates in the midterm elections in early November. Betting markets expect a Democratic majority in both the House of Representatives and the Senate. This means that President Trump can no longer count on Congress, and the likelihood of passing legislation will fall significantly. However, Trump then is likely to rely even more heavily on executive orders, thereby becoming even more unpredictable.
- Historically, the 12 months following midterm elections have however tended to be mostly positive for stock markets.

Central Banks

US: Inflation Rates (YoY in %)



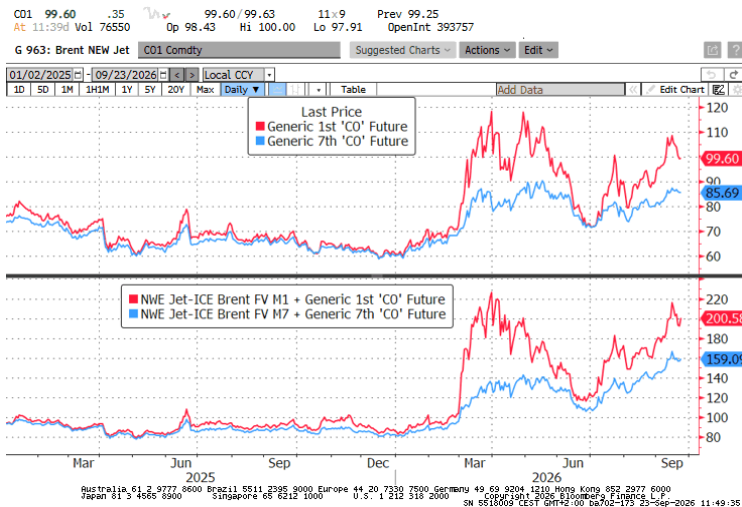
Euro Area: ECB Hawkometer



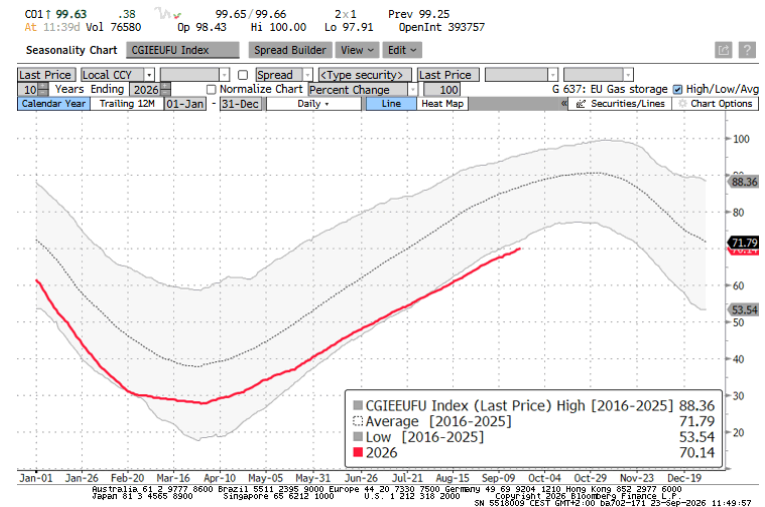
- Trend growth in the US is high due to significant productivity gains. This reduces the risk of a recession and is accompanied by a higher neutral policy rate. Given the cyclical growth recovery and the fact that inflation is still too high, it would be appropriate to implement two to three rate hikes this year and one to two next year. However, FOMC Chair Warsh is likely to implement only one or two hikes. Under Warsh, the Fed is likely to shift its focus towards data that is more timely and less prone to revisions. Its footprint in the economy should shrink and communication will become sparser. The inflation target may also be interpreted more generously. Monetary policy therefore will be too loose over the medium term.
- In recent years, weak productivity growth has kept inflationary pressure in the Euro area elevated. This year, inflationary impulses from the Iran war and the AI build-out are being added. The risk is that significant second-round effects materialize, resulting once again in pronounced inflation persistence. The deposit rate of the ECB is likely to rise to 3% by mid-2027. The longer commodity prices remain at their current elevated levels, the greater the probability of even higher rates.
- Swiss inflation is picking up. Absent countermeasures, monetary policy loosens. Two rate hikes of 0.25% each expected by end-2027.

Iran War & Energy

Brent Crude & Jet Fuel (Spot & Forward Prices, in USD pB)



Europe: Gas Storage Levels 2026 & 10-Year High/Low (in %)

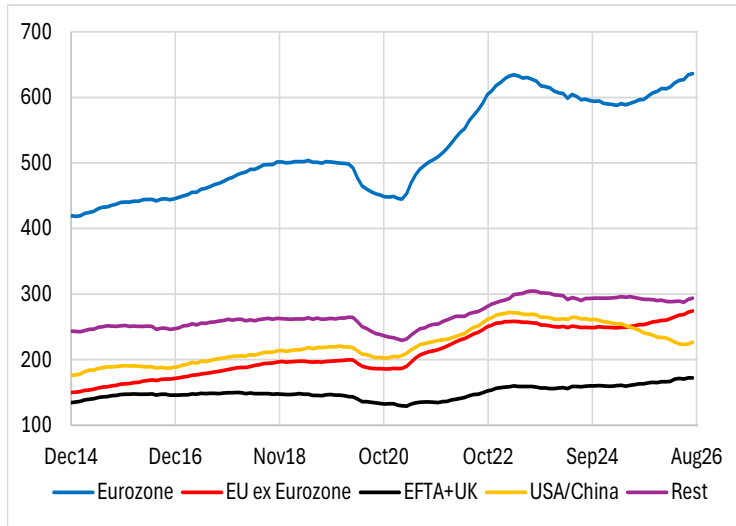


Source: Bloomberg

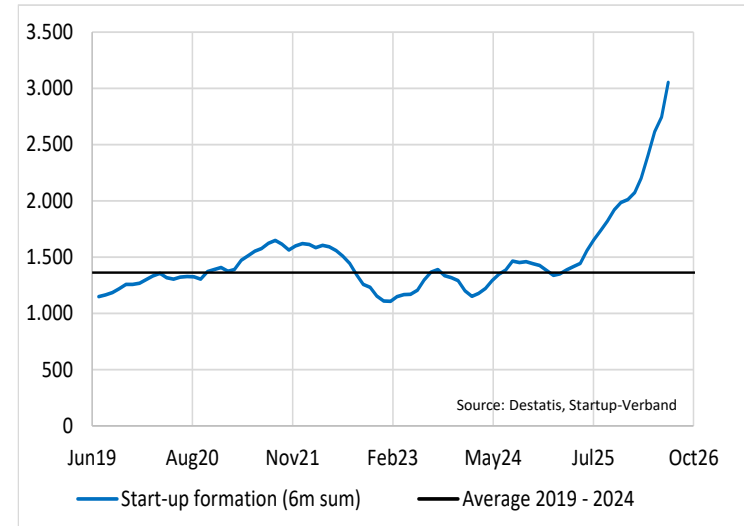
- The situation in the Strait of Hormuz (SoH) remains fragile, with repeated outbreaks of hostilities. Furthermore, the Houthi militias are becoming increasingly involved in the fighting, and Saudi Arabian oil infrastructure has been damaged. Passage through the SoH remains restricted, and the shortage of fossil fuels, refined products and other essential goods has not yet improved significantly. It is currently unclear how a new agreement can be reached to ensure that the SoH remains open to shipping in the long term.
- Four factors have offset the loss of oil deliveries through the SoH and limited the rise in oil prices: Large pre-war surpluses and record inventories, pipeline workarounds and increased production, the largest ever release by the IEA plus a drawdown of Chinese inventories and significant demand destruction. However, these buffers are being depleted and their effectiveness is declining, particularly those of US reserves. If the SoH remains closed, the supply situation could deteriorate significantly over the winter.
- European gas storage is filling slowly due to elevated spot prices following the SoH closure and a hot summer. Storage levels are low for a cold winter and dependence on LNG is accordingly high.

Germany

Exports by Region (12-month sums, EUR bn)



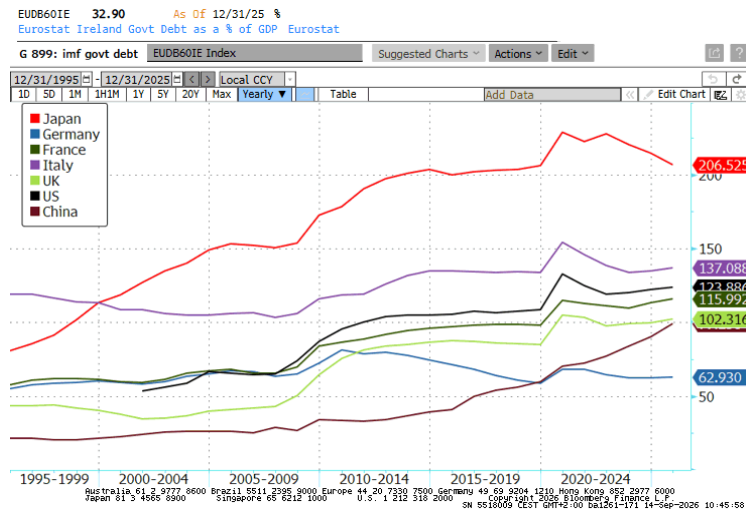
New Start-ups (12-month sums)



- The structural problems of the German economy such as excessive bureaucracy and regulation, high energy prices, the 'China shock 2.0' and a more challenging trade environment remain unchanged. Nevertheless, the expected cyclical improvement has materialized. The phase of underperformance is probably over.
- The fiscal easing is to a significant extent investment-related and therefore needs time. It will gradually feed through to the economy this year and, above all, next year. Exports are being weighed down by the US and China, but Europe is holding up well: Eastern Europe has more than offset the losses, Poland has overtaken China as an export market and export expectations have reached their highest level since early 2022. Germany is becoming more European!
- The AI boom is supporting the German economy in three ways: 1. It is increasing demand for hardware (data center expansion, electrical engineering and specialized machinery). 2. AI is opening up new business areas. 3. AI is reducing the cost of setting up a company. It is thus contributing to record start-ups, with new businesses growing faster than insolvencies.
- Risks: A potential collapse of the AI investment cycle, a severe winter, and external shocks that could jeopardize the export recovery.

Bonds I

Government Debt/GDP Ratios



Ways to escape unfavourable sovereign debt dynamics

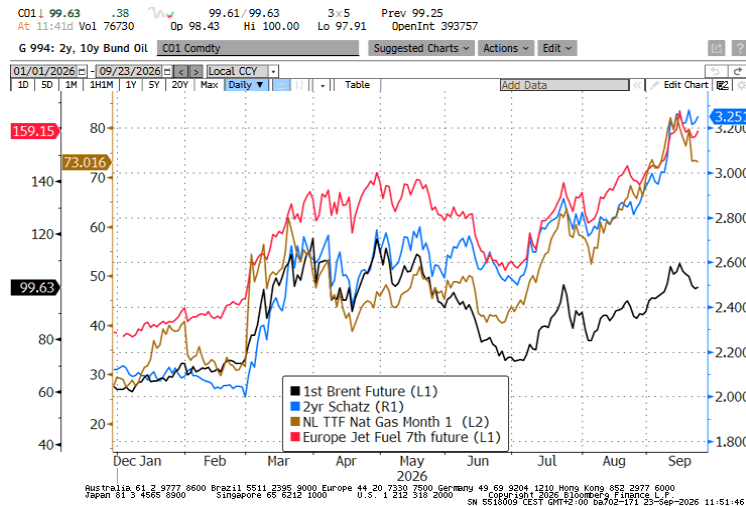
Four Ways Out	Assessment
Deficit reduction	There is a lack of political will — fiscal policy has recently been noticeably loosened in the four largest economies. Measures to reduce deficits face considerable political and societal opposition.
Higher real growth	It was the decisive channel after the Second World War, but today it is significantly constrained by demographics and a lack of productivity gains, which go hand in hand with low trend growth. The US is an exception — yet even there, the ratio is rising due to the high deficit.
Default	Avoided wherever possible: the massive economic, social and political damage it causes is often accompanied by financial crisis and currency collapse.
Higher inflation	The path of least resistance — the base case.

Source: Bloomberg, Research Ahead

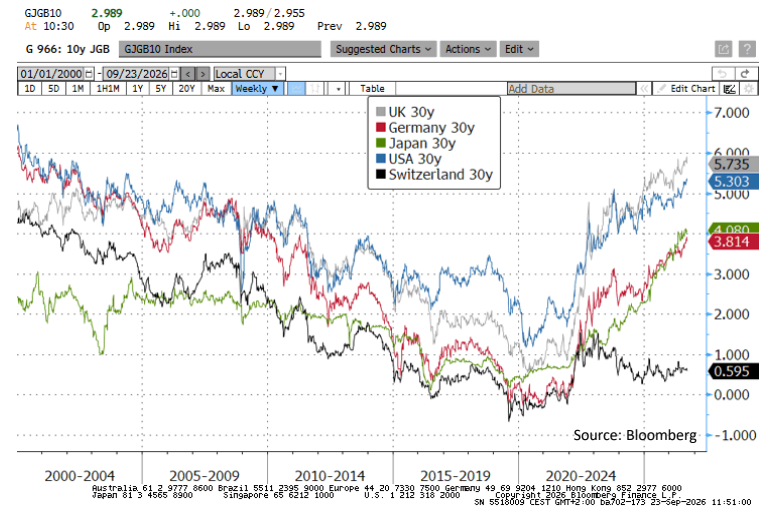
- The debt dynamics of major economies are not sustainable in the long term. Because deficit reduction is politically unfeasible, real growth is limited by demographics, and sovereign default is not an option. Inflating through higher nominal growth, financial repression and shorter debt maturities are the easiest option. Higher inflation means higher nominal growth, with tax revenues rising and GDP – the denominator in the debt/GDP ratio – growing. This devalues existing debt.
- The politization of central banks will continue to increase. High government debt creates fiscal pressure on central banks to keep interest rates low since every percentage point of higher yields substantially raises the interest burden on the public budget. This pressure can be openly political, as in the US, or implicitly structural, with central banks effectively softening their inflation targets to secure fiscal debt sustainability. The outcome is the same in both cases: Monetary policy becomes too loose relative to macro-economic conditions, with the medium-term consequence of structurally elevated inflation and rising term risk premiums.

Bonds II

Oil, Gas, Jet Fuel & 2Y Schatz Yield



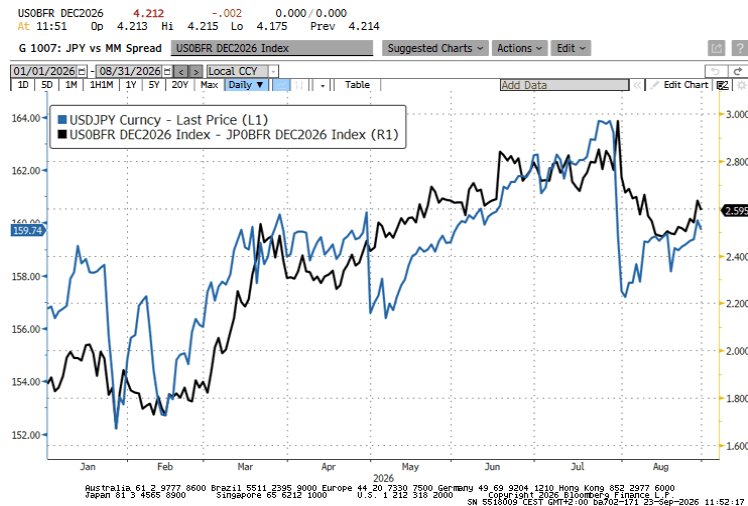
30Y Government Bond Yields



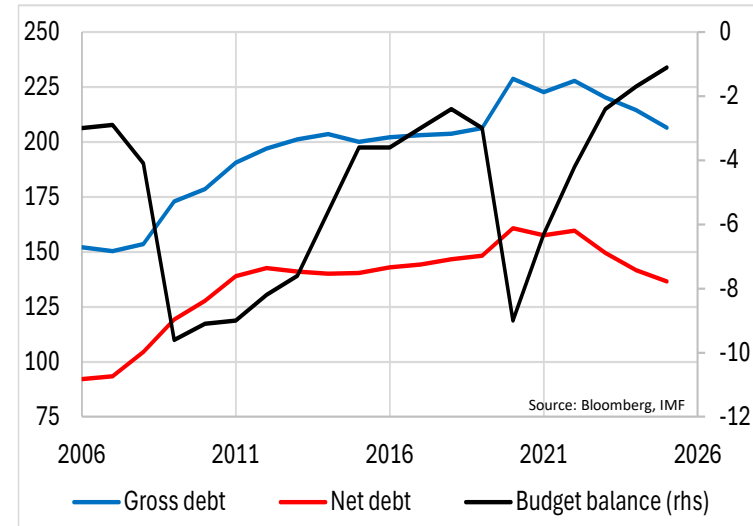
- Prices for refined products and gas have risen more sharply than crude oil prices and are more closely correlated with bond yields. The inflationary impact of the Iran War is proving to be more significant and persistent than anticipated. Consequently, monetary policy tightening looking toward 2027 will also be more significant than most forecasts suggest.
- Nevertheless, major central banks – particularly the US Fed and the BoJ, and to a lesser extent the European central banks – will adopt too loose a monetary policy over the medium term. This is because the debt dynamics of the most economically significant countries are, in most cases, unsustainable. This has a particular impact on the longer end of the yield curve. Added to this is the capital requirement associated with artificial intelligence which comes with significant bond issuance and exerts further upward pressure on yields.
- The bond bear market is not over. It is a global phenomenon that originates at the long end of the curve. Switzerland is an exception: This is due to the combination of relatively high trend growth and government debt of less than 30% of GDP. Consequently, the supply of government bonds – and thus of duration – as well as the risk of inflating debt away is considerably lower than in other jurisdictions. Consequently, the rise in yields is significantly more contained.

Japan: BoJ & JPY

JPY & USD vs. JPY Dec 26 OIS Spread



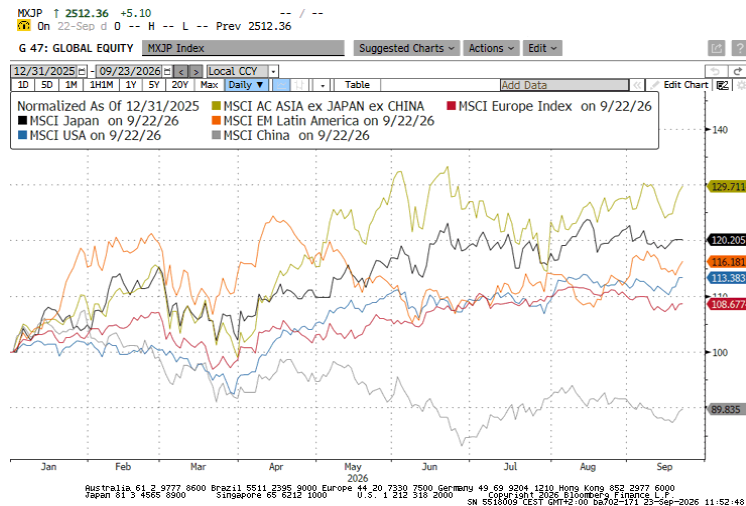
Debt-to-GDP Ratios & Fiscal Balance (in % of GDP)



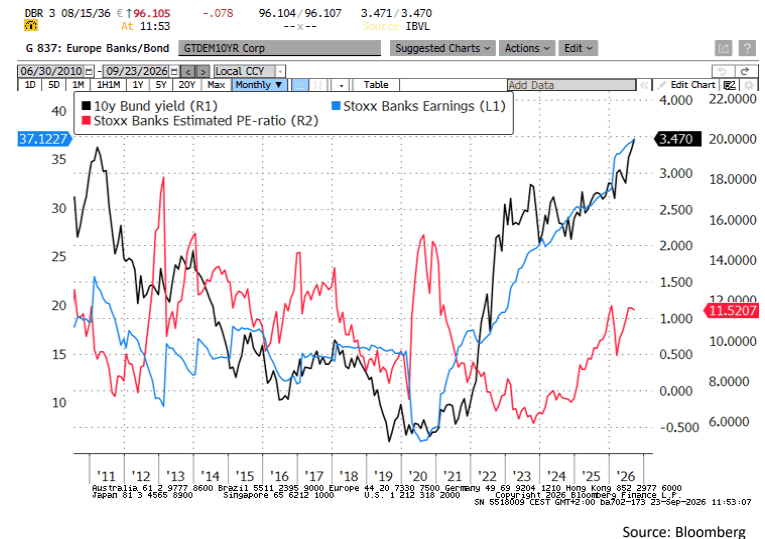
- To reduce its debt ratio, Japan has embarked on a path of sustained higher inflation. This devalues existing debt and increases government revenue which helps to lower the budget deficit. However, as a result, bond yields have risen sharply in recent years, and the yen has depreciated significantly. The Iran war has exacerbated this trend. Despite the additional inflationary impulse, the BoJ did not initially tighten monetary policy more quickly. Meanwhile, other central banks, such as the ECB, are tightening their monetary policy, and expectations regarding US monetary policy have shifted from cuts to hikes. Consequently, money market spreads have moved against the yen, putting further pressure on it.
- Japan intervened in support of the yen in the spring and again at the end of July, this time in collaboration with the US. The consensus view is that interventions achieve nothing without changes to fundamental factors. However, Japan's budget deficit is low and its debt ratios are falling. Net debt is in any case considerably lower. American participation is also likely to result in faster and more extensive tightening by the BoJ. Over the medium term, the government pension fund should also support the yen by converting foreign currency holdings into the yen. Therefore, the yen is likely in an extended bottoming process that will be followed by a trend reversal.

Equity Markets

Global Equity Markets (Performance 2026)



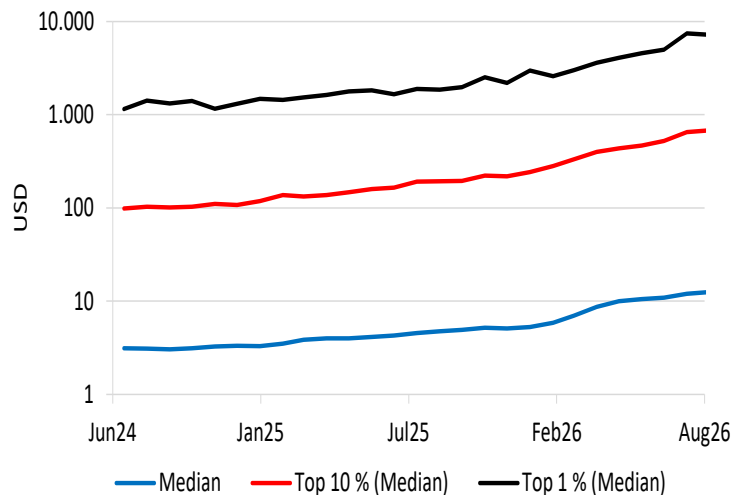
Stoxx Banks: Earnings Expectations & P/E vs. 10Y Bund Yield



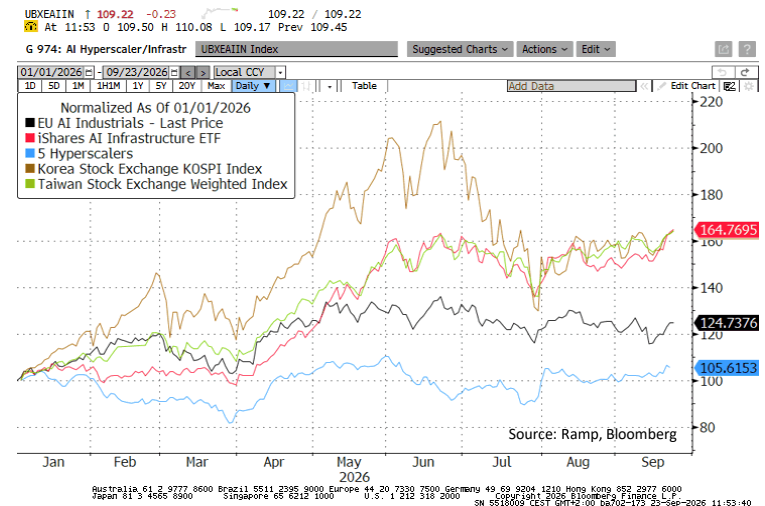
- The global economy and financial markets are still caught between a stagflationary shock resulting from the Iran war and an exceptional economic cycle driven by AI. Nominal growth remains high. Consequently, cash flows within the economy are increasing significantly. While this is accompanied by higher yields on 'safe' bonds, it supports corporate earnings growth.
- In equity markets, maintaining a geographically well-diversified neutral weighting is advisable. A key factor in achieving this is ensuring that the US economy – given its importance to the global economy and its dominant share of world equity markets – does not fall into a recession. In a recession, corporate earnings would decline cyclically and insolvencies would increase significantly. By contrast, without a recession, earnings would rise.
- Market valuations (P/E ratios) are mostly above average but are no longer considered expensive. They are likely to trade sideways to slightly lower, with earnings growth accounting for the dominant part of the performance.
- Higher bond yields are positive for European banks. They are accompanied by wider interest margins and rising profits.

Artificial Intelligence

AI spending per employee and month (USD, logarithmic)



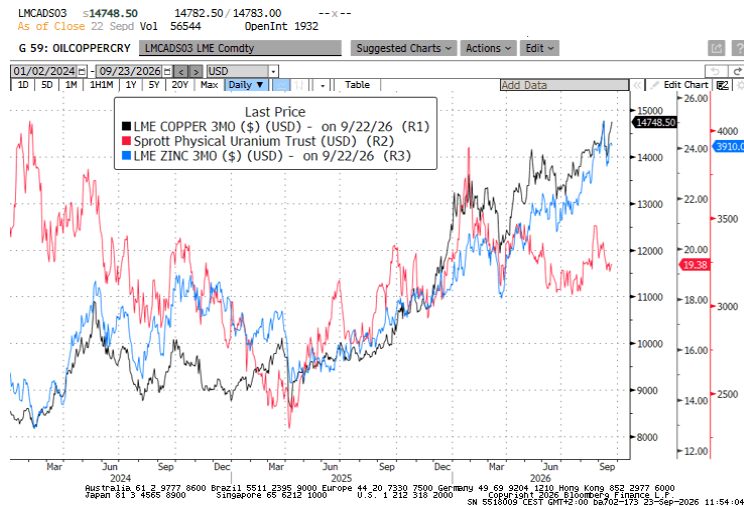
AI-Heavy Equity Indices (Jan 2025=100)



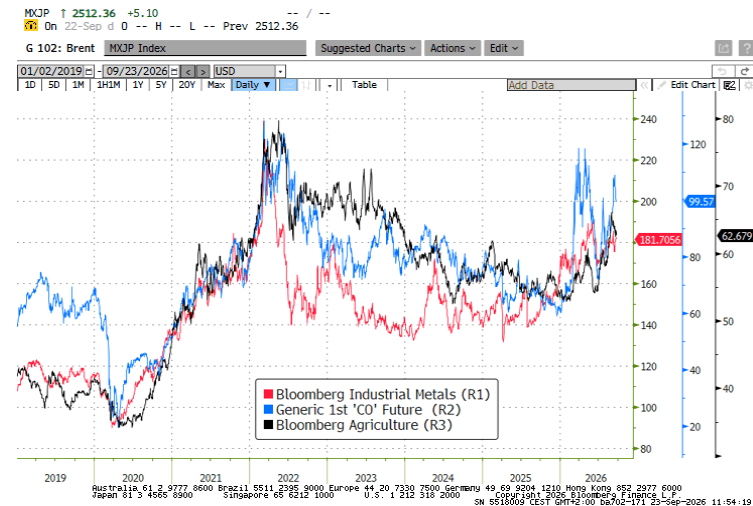
- AI-heavy equities underwent a sharp correction in early June. This was triggered by the issuance of around USD 220 billion of AI-related equity measures, doubts about monetization fueled by the progress of significantly cheaper Chinese models, and the unwinding of highly leveraged positions.
- However, the monetization doubts fall short. Despite cheaper models being available, total AI spending is not declining since cheaper models enable users to achieve more with AI, causing the revenue base to grow substantially. According to Ramp, Anthropic's Q2 revenues were almost two and a half times those of the previous quarter, and median AI spending per employee has more than doubled this year. Added to this is a competitive imperative: Whoever invests less, risks falling behind. In the systemic competition between the US and China, the model landscape is also likely to split into two spheres, each with its own technology infrastructure and the need to duplicate them becomes a capital expenditure driver.
- Crucially, the hyperscalers did not reduce their investments in the last quarters. The outlook for the AI sector has therefore stabilized even if a new wave of equity issuance could temporarily weigh on it the fall.

Commodities

Copper, Uranium, Zinc



Oil, agriculture & industrial metals



Source: Bloomberg

- The demand outlook for commodities remains mixed. On one hand, highly commodity-intensive construction activity in major property markets – China in particular – has weakened. On the other, electrification (electric mobility, renewable energy, power grids and storage) is advancing in key economies, with enormous investments in artificial intelligence further boosting electricity demand. This is increasing demand for commodities such as copper, uranium and zinc, which therefore have a favourable long-term outlook.
- The energy transition is putting pressure on the demand for fossil fuels, and an oversupply was therefore expected. However, the war in the Middle East has severely impaired the supply of fossil fuels, leading to increasing shortages. Higher fertilizer prices are also feeding through to the prices of agricultural goods. Added to this is the prospect of a strong El Niño event, which has mostly been accompanied by significant crop failures and temporarily higher agricultural prices in the past. Therefore, the outlook for fossil fuels and to a lesser extent agricultural commodities remains highly uncertain and depends heavily on developments in the Middle East.

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