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asset management

Investment Monitor
September 2026

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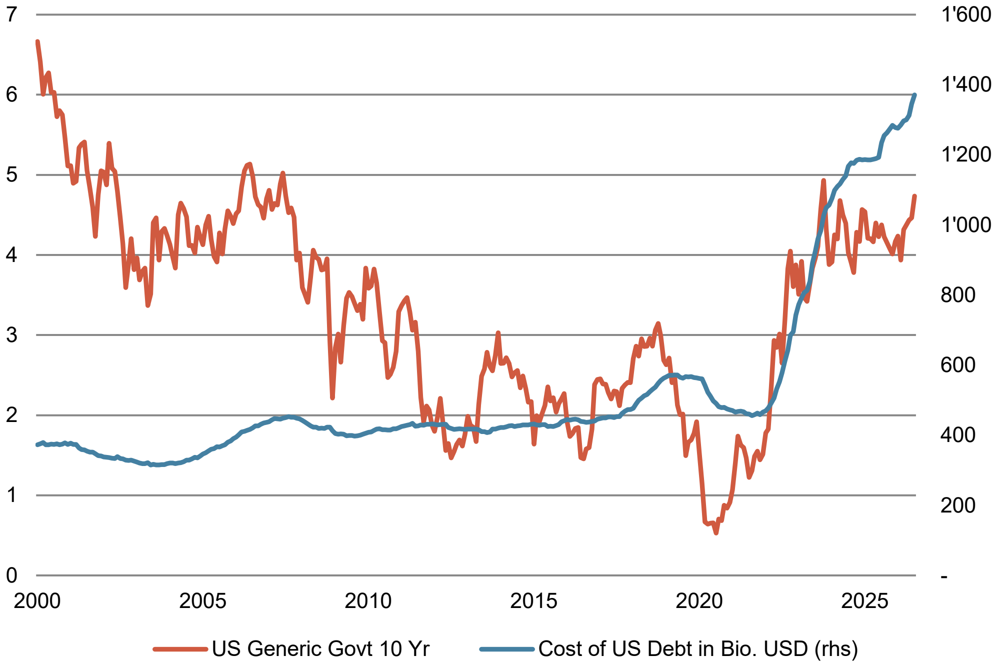
Executive Summary

- The US economy is losing momentum despite robust private consumption and AI investment. Second-quarter real growth stands at an annualised 1.5%. The consumer, however, is coming under increasing pressure.
- The eurozone grew 0.4% quarter-on-quarter and 1% year-on-year. In Switzerland, adjusted for major sporting events, all estimates were exceeded at 1.5%.
- The ECB and the Fed stood pat in July and are leaning toward monetary tightening by year-end – the ECB possibly as early as September.
- The BoJ is balancing yen weakness, its debt burden and inflationary pressure. Three steps are expected by mid-2027.
- In a disinflationary environment, the SNB sees no immediate need to act.
- US long-dated bonds are under pressure. The bear steepening is likely to persist despite US Treasury interventions.
- Earnings season confirms the broadening market. Alongside technology, industrials, financials and cyclical consumer names are also driving profit momentum.
- The US Treasury's buyback announcement noticeably weakens the dollar.
- Thanks to its structural strength, the franc remains unsuited to carry trades.
- Precious metals are benefiting from solid demand. The technical correction of the first half of the year appears complete.
- The recovery across the commodities market is broadly based, with the exception of industrial metals.

US: Gross Government Debt and 10-Year Yield



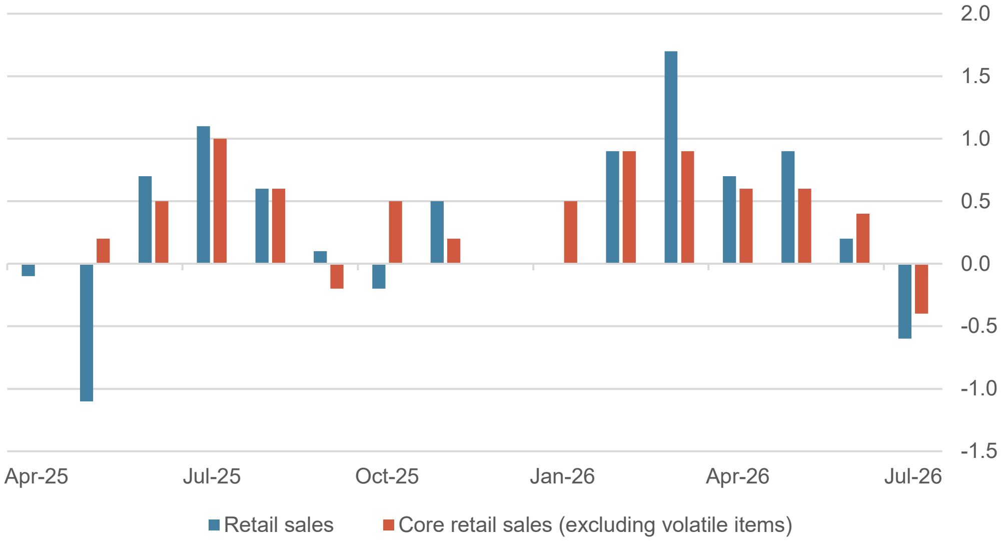
Source: Bloomberg Finance L.P.

Rising debt service places an additional burden on the budget

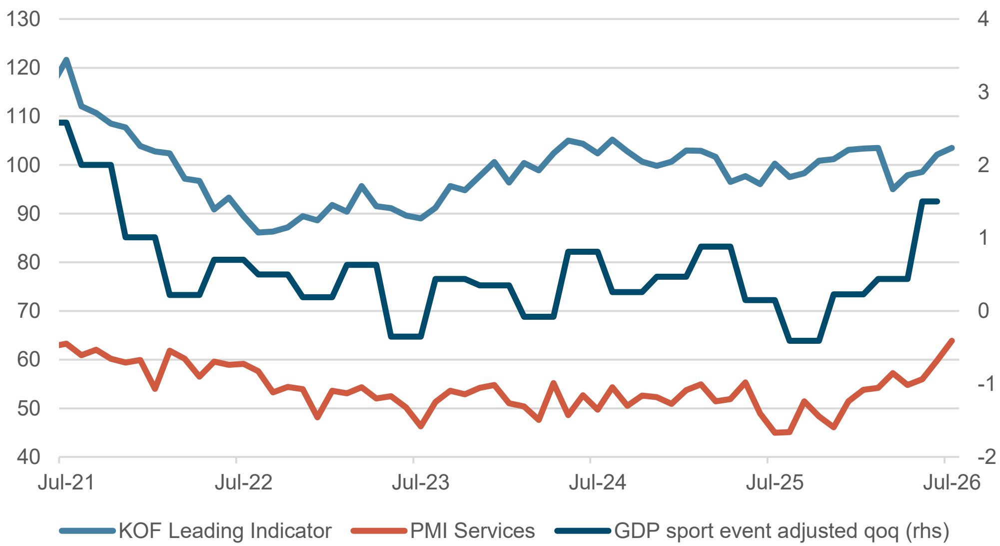
- US gross government debt recently crossed the USD 40 trillion mark, equivalent to around 123% of GDP. With a high annual budget deficit projected at roughly USD 2 trillion – just under 6% of GDP – unchecked growth is preprogrammed. The Congressional Budget Office considers the level and trajectory unsustainable.
- The cost of servicing this debt currently amounts to USD 1,370 billion per year, up from a modest USD 450 billion in 2021. This increase stems not only from rising debt but also from the interest-rate turnaround in the wake of the Covid crisis.
- Since the 2020 lows, yields have risen across the entire curve, from 4.0 percentage points at the short end to more than 4.5 points at the long end – a classic "Bear Steepener".
- At present, meteorological and geopolitical uncertainties – with supply shortages in foodstuffs and energy commodities – together with numerous investment programmes for infrastructure, data centres, defence and the energy transition, are sustaining persistent inflationary pressure that not only keeps rates elevated but also harbours the potential for a further increase.
- A substantial portion of the debt falls due for refinancing within twelve months, having originally been issued at lower rates. Given the yield structure, it is currently refinanced predominantly at the short end. The entire debt burden is shifting ever further toward the short end, which – in the event of a renewed inflation shock – forces the government and the Fed into a dangerous, self-reinforcing refinancing spiral and narrows their room for manoeuvre.

Economy

US: Retail Sales, Monthly Changes in %



Switzerland: More Favourable Signs (5 Years)



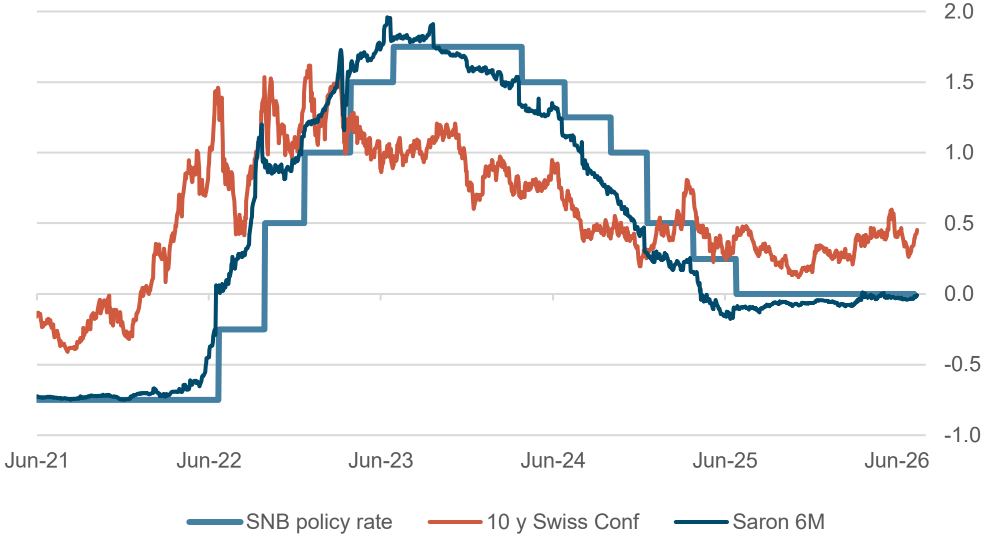
Source: Bloomberg Finance L.P.

Europe holds, America slips, China searches

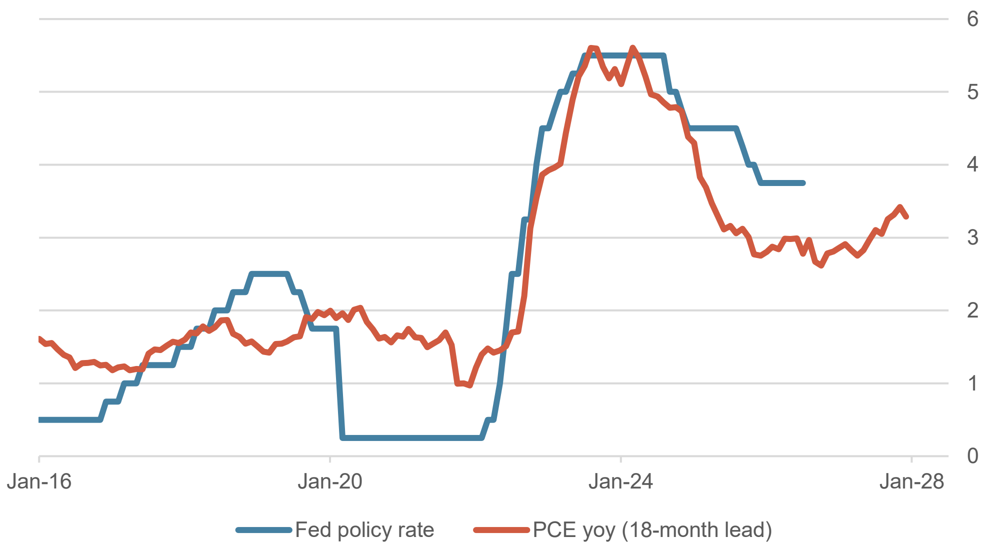
- The US economy grew at an annualised 1.5% in the second quarter in real terms, after 2.1% in the first. Private consumption rose more than expected, by 3.2%, supported by tax refunds from the expiring “One Big Beautiful Bill Act”. At the same time, companies continued to push their AI investments. Lower government spending and weaker net exports acted as a brake.
- US consumer sentiment has been declining since March 2026, and retail sales fell for the first time in nine months. The University of Michigan consumer sentiment index dropped even more sharply in August.
- The labour market is clearly deteriorating. In July, 23,000 jobs were lost, and the two preceding months were revised down by 103,000 in total. For context: the labour force is shrinking as immigration wanes and the boomer generation increasingly retires. The unemployment rate consequently falls to 4.1% and holds a fragile equilibrium.
- Annual inflation slowed again in July, to 3.4%, and the core rate fell to 2.5% as energy costs continued to ease. This lowered the probability of a Fed rate hike.
- The eurozone grew 0.4% quarter-on-quarter and 1.0% year-on-year in the second quarter. Germany and France continue to disappoint, at 0.2% each. Leading indicators such as the purchasing managers’ index are recovering in most subcategories, confirming the recovery trend under way for months.
- The Swiss economy defied higher energy costs and persistent trade uncertainty. Adjusted for sporting events, GDP grew 1.5% quarter-on-quarter in the second quarter and beat all analyst estimates. Pharma and chemicals carried the industrial sector, primarily reflecting an extreme base effect from the first quarter. The services sector also advanced. Switzerland benefited here from its lower dependence on fossil fuels.
- In Japan, the Tankan business climate index stands at 18 points, its highest since around 1990, when the equity indices were holding their highs of that time. Today, accommodative rates and a weak yen support the export environment.
- In China, July data came in weak across the board, evidencing the sluggish turn out of the crisis. The property market remains lethargic and retail, too, stays subdued.

Monetary Policy

Switzerland: Policy Rate, 6-Month Saron and 10-Year Government Yield



US: Fed Policy Rate and Year-on-Year PCE Change in %



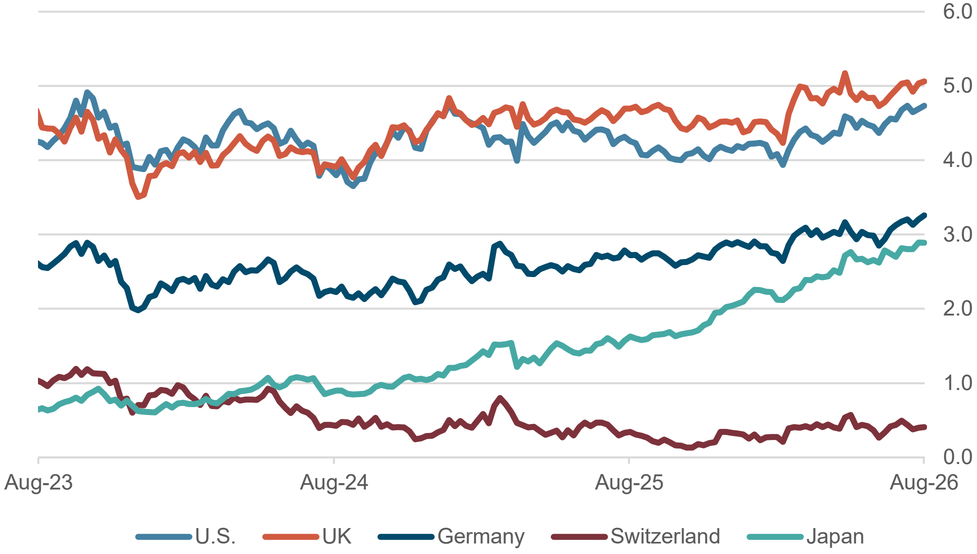
Source: Bloomberg Finance L.P.

Slightly more restrictive, without compelling rate moves

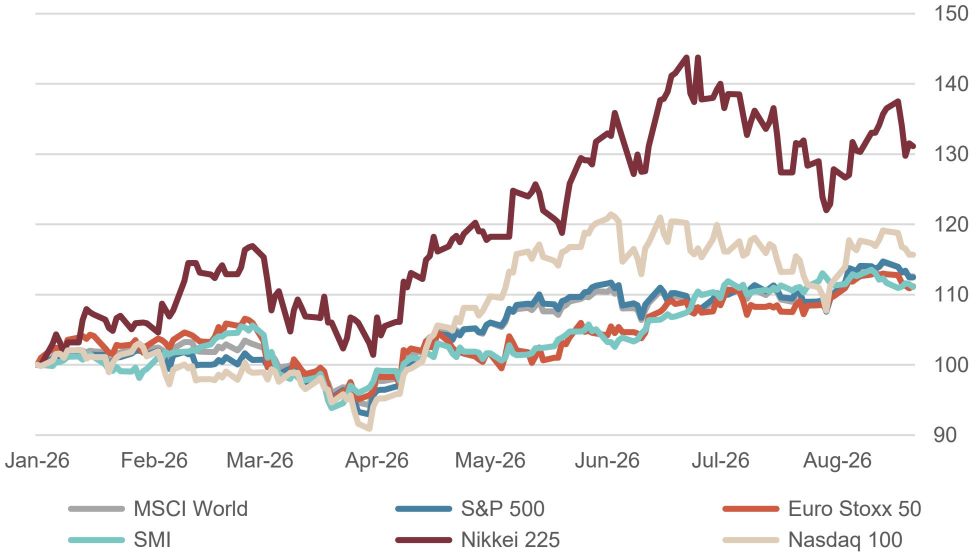
- The major central banks left their key rates unchanged at their July meetings. Inflation, however, remains the focus of the monetary authorities, who appear inclined toward further tightening by year-end, justified by persistently elevated inflation. The next decisions are expected between 10 and 24 September.
- The ECB opens the round on the 10th, with a clear expectation of a 25-basis-point rate hike. Eurozone inflation edged up again in July, to 2.9%. A further increase is generally not ruled out and is underpinned by rising commodity prices, which heighten inflationary pressure or at least sustain it.
- Given the facts, the Fed has only limited room to yield to the Trump administration's political pressure for lower rates. The low-volatility personal consumption expenditures (core PCE) for the second quarter rose 3.4% year-on-year – the Fed's preferred gauge for steering its monetary policy. At the last press conference, Kevin Warsh had unequivocally reaffirmed the 2% target.
- The recently published Fed minutes of the 29 July meeting confirmed the more restrictive stance of the Open Market Committee participants. In addition to the three official dissenters who voted for a rate increase, further members favoured tightening should inflation fail to fall. Some doubt whether financing conditions are restrictive enough to reach the 2% inflation target at all. Discussions covered findings from the balance-sheet task force, the reduction in the scope of projections and the spacing-out of the meeting cadence. Ahead of the next Fed meeting on 16 September, the annual economic symposium of leading central bankers, economists and policymakers takes place in Jackson Hole, Wyoming, at the end of August, providing further input on Fed monetary policy. A rate hike remains to be expected by year-end.
- The Bank of Japan decides on 18 September on its monetary tightrope walk between yen weakness, financial-market stability, debt and interest burdens, growth uncertainties and inflationary pressure. The intervention coordinated with the US has, for now, eased the pressure on the currency. Without an accelerated rate-hike cycle, a solution will scarcely be attainable. Three steps are expected by mid-2027.
- The SNB meets on 24 September. Thanks to a disinflationary environment, its governing body has no need to act for now. In addition, its meetings – held only quarterly – offer less latitude than those of other central banks. Only for the June 2027 meeting is a rate increase of a quarter percentage point, to 0.25%, expected.

Asset Classes – Bonds / Equities

10-Year Government Bond Yields in %, 3 Years



Equity Markets: Performance since 1 Jan 2026, indexed, in local currency



Source: Bloomberg Finance L.P.

Premium for longer maturities ("term premium") triggers Bessent

- The yield on the 30-year US Treasury has hovered above 5.2% for weeks and continues to trend higher – the highest level in 24 years. The market is demanding a term premium, a surcharge for holding long-dated bonds. A slight easing at the short end, the result of receding inflation worries, is not reaching the long maturities; market participants seem to regard it as temporary. Against this "bear steepening", the Treasury is buying back long-dated bonds and financing the buybacks through issuance at the short end. Bessent is thus resorting to an instrument he still condemned in 2024, when his predecessor Janet Yellen deployed it.
- From 9 September, the ministry plans to at least double the buyback volume in long-dated bonds. The announcement immediately and markedly pushed down yields globally and across all major currencies, while the short end remained anchored.
- The intervention acts less as a strategy than as a stopgap, for want of other levers. Whether it takes hold durably, we doubt: political uncertainty remains high. Indeed, within 24 hours yields had already climbed back to their starting level. A drop in the ocean.

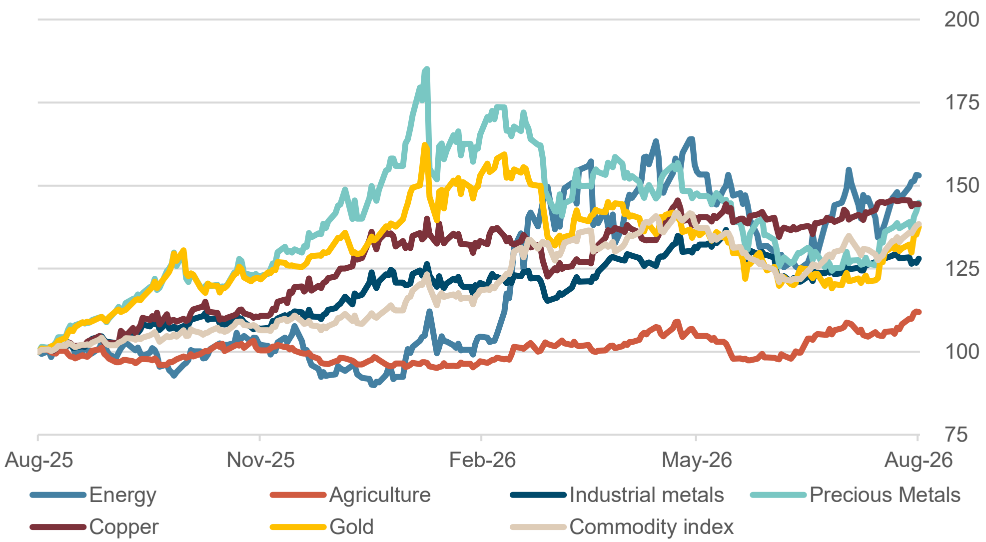
Broadening of profits, shift in financing

- Earnings season confirms the expected broadening. S&P 500 companies raised second-quarter profits by around 35% year-on-year, with four out of five beating expectations. Industrials, financials and cyclical consumer names now contribute as well; profit momentum no longer hinges on a handful of technology giants. In Europe, too, earnings momentum has improved after years of stagnation. Accordingly, the S&P 500 price/earnings ratio has fallen since the start of the year from around 23.5 to about 19, even though prices have risen.
- Leading indicators support the cyclical side. The eurozone purchasing managers' index climbed to 52.1 in August, the manufacturing gauge to 52.8 – its highest since May 2022 – and even to 54.1 in Germany. For the first time this year, companies added staff again. The drivers are defence orders, the construction of data centres and increased inventory-building owing to supply-chain risks in the Middle East. The services sector remains weak in Germany and France...
- The AI sector's capital needs are seeking new channels. Broadcom is raising funds on the bond market to pre-finance, together with private-equity partners, the data centres of its own customers. Whoever buys the chips no longer has to pay for them immediately; in return, the supplier bears the risk that the customer will be solvent later.

Asset Classes – Currencies and Other Investments

Euro and Dollar against Franc (12 Months)

Commodity Indices (12 Months)



Source: Bloomberg Finance L.P.

Washington fuels volatility on the currency market

- The US Treasury's intervention triggered a slide in rates and a marked depreciation of the dollar which, compared with the move on the bond market, is persisting.
- Against the franc, the greenback shed 1.8%, while retaining a gain of around one per cent since the start of the year. Despite low rates, the franc – thanks to its structural strength – is not a typical carry-trade funding currency; low government debt and a stable political environment underpin confidence.
- The euro-dollar exchange rate is moving similarly. The narrower rate differential with the dollar supports it, which also has an effect against the franc. We expect a renewed test of the 0.94 mark and anticipate a successful break.
- The franc and the yen suffer from the rate discount versus the main currencies, above all against the dollar. The coordinated intervention by the US and Japan to stabilise the yen has already half-dissipated, but the level of 160 against the dollar held. The measured interplay of rate policy and interventions is now more promising thanks to US assistance. The real risk is not the weak yen but its abrupt reversal: should an overcrowded carry-trade position tip over suddenly, as in August 2024, the shock transmits to global equity and bond markets.

Firming quotations

- The Chinese central bank is concentrating gold holdings – from London among other places – in Hong Kong and thereby appears to underscore its intention to build a further global trading hub for gold. It has also expanded its purchases in recent months and thus ranks among the largest public-sector players.
- All precious metals are enjoying solid demand and rising prices. Technically, the January-to-June correction appears complete, and the subsequent bottoming was left behind in early August.
- Turning to the other commodity segments, we discern a broadly positive trend, with the exception of industrial metals and copper. The subdued price performance in this category raises the question of the cyclical trajectory, which we continue to monitor closely.
- In our base case, we continue to expect broadly strong commodity demand, driven by the energy transition as well as by infrastructure and defence programmes worldwide.

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