

Investment Monitor

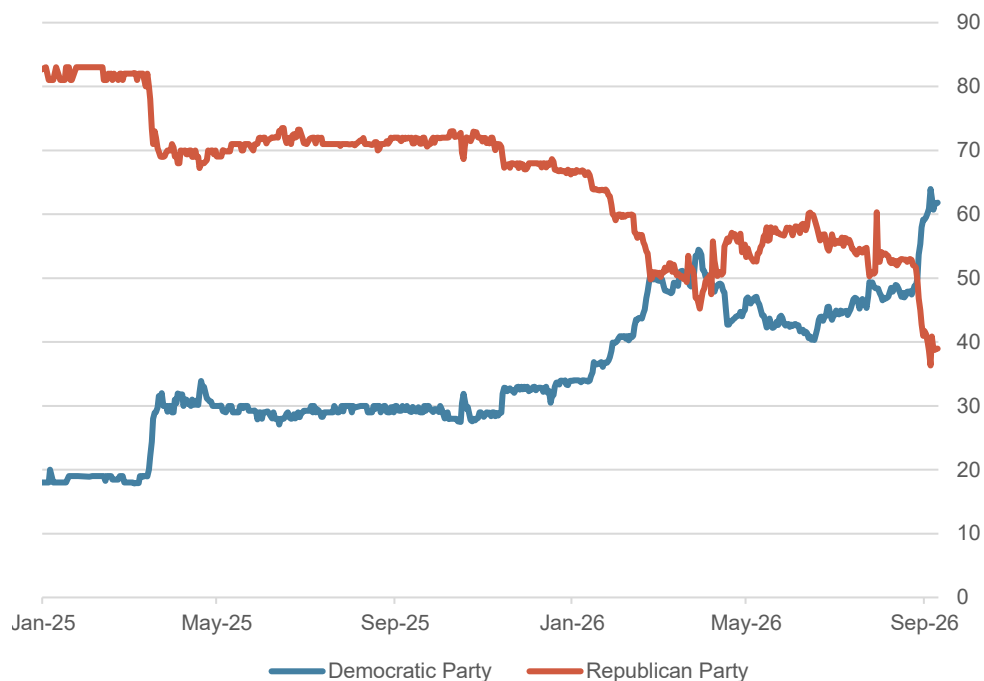
October 2026

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Executive Summary

- Factory orders, retail sales, GDPNow and purchasing managers' indices point to a robust US economy. The resulting inflation is driving yields higher. In the short term, the positives prevail.
- In the eurozone, sentiment is running ahead of the real economy; German fiscal policy is likely to lift German growth to just under 2% in 2026 and 2027, well above the consensus of 1.0% and 1.1%, respectively. Switzerland grew strongly in the second quarter, driven by pharmaceuticals.
- The Fed, ECB and BoJ each raised rates by 25 basis points in September to counter the war-related, energy-driven surge in inflation, although rate hikes have only limited effect against a supply shock.
- Thanks to low inflation, the SNB is sticking to its zero interest rate policy.
- Yields are rising across the curve on the back of tighter monetary policy. Weak auction demand, particularly from foreign buyers, adds further pressure.
- Earnings remain solid support. In the US, analysts expect third-quarter earnings growth of 28.9%, with estimates rising. Headwinds come from the discount rate, as yields above 5% depress the present value of future earnings.
- The SNB's zero interest rate policy is weakening the franc. In Japan, currency interventions have fizzled out, and with a negative real interest rate the BoJ remains behind the curve.
- Record diesel and high gasoline prices are weighing on Republicans ahead of the midterms; US–Iran talks are unlikely to bring much relief.

Which party will win the Senate?



US midterm elections

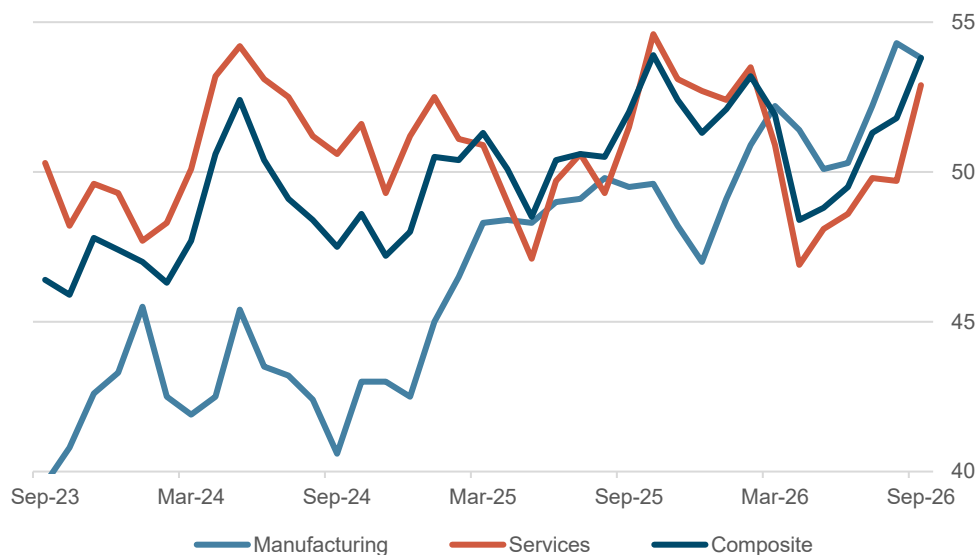
- On November 3, all 435 seats in the US House of Representatives are up for election, along with 35 of the 100 Senate seats: 33 regular seats plus special elections in Ohio and Florida. With Republicans defending 22 of these seats and Democrats only 13, the Republicans carry the greater risk.
- Trump heads into the midterms with an approval rating of 38%. The last president in a similarly weak position was George W. Bush in 2006; only Harry S. Truman polled lower, at 33% in 1946. In both cases, the president's party lost its majority in both chambers. In 1946, the opposition Republicans gained 55 seats in the House and 12 in the Senate.
- With just under 40 days to go, prediction markets are pricing in a clear shift in favor of the Democrats. Polymarket puts the probability of a Democratic majority in the House at 93% and in the Senate at 62%, leaving the Senate still in play. A House majority alone would give the Democrats blocking power over the budget, since no budget can pass without the approval of both chambers.
- This does not mean a return to predictable politics. The president retains his veto and can continue to govern around Congress by executive order. Gridlock between the White House and Congress is therefore more likely. The result is likely to be protracted budget negotiations and a higher risk of a government shutdown, while new legislation largely stalls.
- We take a critical view of the US administration's decision to forgo OSCE election observers. It weakens independent oversight of the election and increases the risk that the result will be contested.

Economy

Atlanta Fed GPDNow



Germany: purchasing managers' indices rising



Source: Bloomberg Finance L.P.

Strong data, shaky sentiment

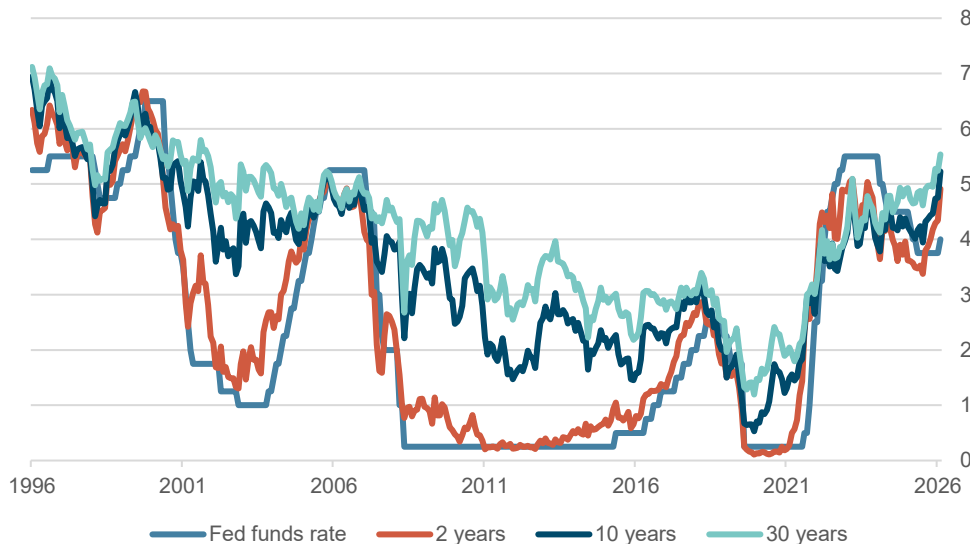
- In the US, preliminary factory orders for July jumped 1.1% month over month. Retail sales were similarly strong in August, rising 1.2% month over month. The Atlanta Fed's GPDNow model confirms this picture: based on current data, it estimates annualized real growth of 5.0%. In addition, S&P Global's purchasing managers' indices for September came in well above expectations and remain upbeat. As a result, government bond yields rose sharply: after the Fed's first rate hike, markets now expect further hikes and a longer tightening cycle, which is weighing on capital markets.
- The robust data also reflect strong demand and, by extension, elevated inflation, whichever measure is used (CPI or PCE, core or headline). Rising costs, in turn, pushed the Conference Board's consumer confidence index for August down to 89.4 points, a level last seen at the low point of the COVID-19 pandemic.
- For now, we expect the positives to prevail.
- In the eurozone's largest economies, hard growth data remain disappointing, while sentiment indicators and the outlook are improving sharply from a low base.
- This confidence is likely to feed through to the real economy in the coming quarters. Germany's business-friendly fiscal spending should bring the domestic economy long-awaited growth and also benefit its trading partners. We consider the consensus forecasts of 1.0% for 2026 and 1.1% for 2027 far too low and expect growth of just under 2% in both years.
- The Swiss economy grew more strongly in the second quarter than at any time since 2021. However, almost half of the growth came from the volatile pharmaceutical sector, which was already losing momentum in August. While the ECB and the Fed are tightening, the SNB is holding on to its zero interest rate policy for the time being. The resulting depreciation of the franc supports exporters and nudges inflation slightly higher without pushing it out of the target range. Encouragingly, this is helping a recovery take hold in cyclical sectors such as machinery, electrical engineering and metals.

Monetary policy

Switzerland: SNB policy rate, 6-month SARON and 10-year government bond yield



US: Fed policy rate and Treasury yields across maturities



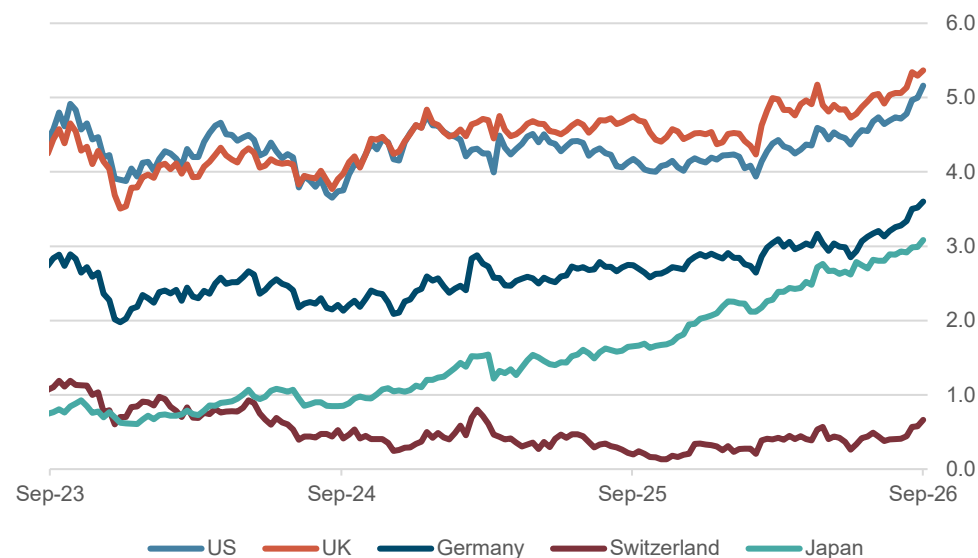
Source: Bloomberg Finance L.P.

The US has started a new hiking cycle too

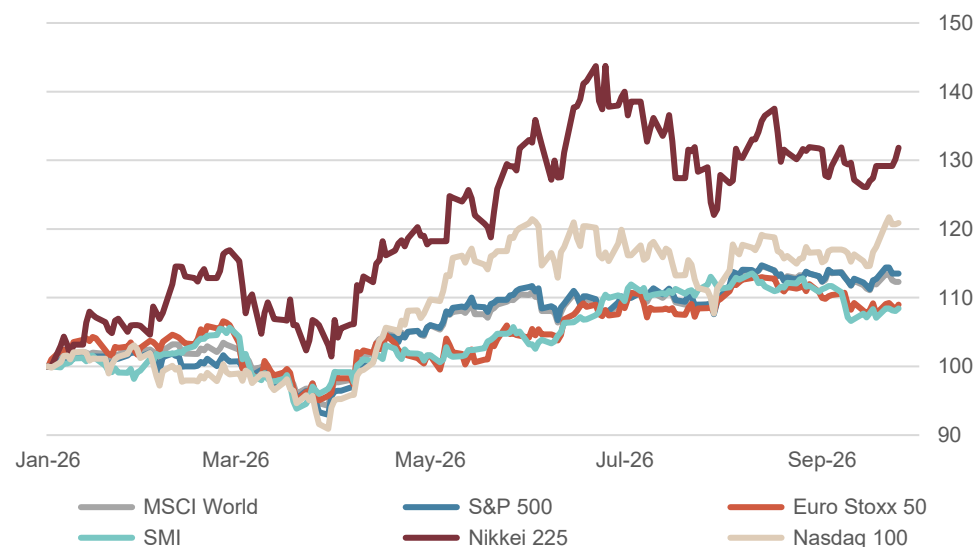
- In September, three major central banks each raised their policy rates by 25 basis points: the ECB lifted its deposit rate to 2.50%, the Fed its target range to 3.75–4.00% and the Bank of Japan its policy rate to 1.25%. All three cited the war-related, energy-driven surge in inflation. However, rate hikes do little against a supply shock of this kind. They cannot lower the oil price; their aim is to stop inflation from becoming entrenched in wages and inflation expectations.
- The Fed's decision carries the most weight. Donald Trump appointed Kevin Warsh to head the central bank with the stated expectation that he would cut rates. Instead, the Federal Open Market Committee has now voted unanimously for a hike, against the president's wishes. Warsh also pointed to robust growth, geopolitical risks and persistent inflationary pressure to justify the move. The committee judges that financial conditions are not yet restrictive enough. The projections support this view: the Fed raised its PCE inflation forecast for 2026 to 3.7% and its core forecast to 3.4%. The committee will only consider the cycle complete once core inflation trends back toward 2%.
- The market is going further than the Fed, pricing in another hike by the end of 2026 and two more in 2027. The entire yield curve sits above the policy rate, and the 10-year yield, at over 5.2%, has reached its highest level since 2007. The market is thus signaling that it considers the tightening so far insufficient. Other asset classes reacted rather positively, a sign that many investors read the move as “too little, too late” to seriously curb inflation.
- In Japan, headline inflation stands at 1.9% and core inflation at 1.6%, both above the policy rate. The short-term real interest rate therefore remains negative and monetary policy too expansionary. The BoJ is acting pre-emptively to guard against accelerating inflation, a possible wage-price spiral and further yen weakness. For 2027, the market expects two further hikes. Even then, a policy rate of 1.75% would only roughly match today's inflation.
- The SNB is keeping its policy rate at 0% even as growth picks up again. With inflation low, it can afford to, and we consider the decision appropriate. The SNB remains willing to intervene in the foreign exchange market. Interventions are hardly needed at present: the franc is already weakening on its own, given the interest rate differential with the other major currencies. The market is not pricing in any hikes before March and June 2027.

Asset classes – bonds / equities

10-year government bond yields in %, 3 years



Equity markets: performance since Jan 1, 2026, indexed, in local currency



Source: Bloomberg Finance L.P.

Monetary tightening and buyer restraint

- Inflation rates stubbornly above target have prompted the major central banks to tighten. Bond markets are following suit, with yields rising across the entire curve. Ten-year government bonds yield over 5.2% in the US, over 5.3% in the UK, over 3.6% in Germany, over 3.1% in Japan and over 0.6% in Switzerland.
- France deserves particular attention. Its 10-year yield has risen to over 4.7%, above those of Spain, Italy and Greece. The market thus rates France as riskier than the eurozone's former stressed sovereigns. The reason is the poor state of its public finances.
- The ongoing tightening cycle is keeping buyers on the sidelines. As long as further rate hikes are priced in, price losses loom, so investors are waiting. Demand is only likely to return once yields reach a level that compensates for further hikes, or once the end of the cycle comes into view, which is not yet the case.
- Auctions in Germany and the US confirm this restraint. In both cases, the main reason is weaker demand from foreign buyers.

Earnings and the economy support equities, higher rates weigh on them

- US companies grew earnings by 35% year over year in the second quarter, with momentum spread somewhat more broadly across sectors than before. For the third quarter, FactSet expects slightly lower growth of 28.9%. Analysts have raised their estimates by 1.6% since the end of June. Thanks to higher oil prices, energy sector earnings are growing by more than 100%. The slowdown is likely due to shrinking net margins and partly to base effects, which will be felt in full in 2027.
- In Europe, earnings expectations have been raised sharply over the course of the year. Goldman Sachs expects 15% growth for the Stoxx 600 in 2026, up from 5% in January. Around half of the increase comes from commodity companies, which makes the upward revision more fragile than it first appears.
- Germany looks different. At 8%, expected earnings growth for 2026 is below the European average, but it is likely to accelerate to around 16% in 2027 thanks to the cyclical recovery and fiscal stimulus.
- Earnings growth thus remains solid support for equities and offsets the headwinds from the bond market.

Asset classes – currencies and other investments

Euro and dollar against the franc (12 months)



Commodity indices (12 months)



Source: Bloomberg Finance L.P.

Central bank decisions, interest rate differentials and interventions

- The SNB welcomes the weaker franc, and its zero-rate policy reinforces the trend while the ECB and the Fed tighten. Following the SNB decision, the dollar rose to around CHF 0.83, its highest level in 16 months. As markets are pricing in a further widening of the interest rate gap, this upward trend is likely to continue.
- Against the euro, the franc has traded in a narrow range since the start of the month: EUR/CHF is holding steady at around 0.9450, well above its March low of around 0.90.
- For the Swiss economy, the weaker franc cuts both ways. It gives exporters a tailwind but also makes imports more expensive, nudging inflation slightly higher. As long as the franc keeps weakening, the SNB has no need to intervene.
- For the yen, two instruments are working in tandem: BoJ rate hikes and the joint US–Japanese intervention. The intervention had only a brief effect, and rate hikes alone are not enough to reverse the trend. With a policy rate of 1.25%, headline inflation of 1.9% and core inflation of 1.6%, the real interest rate remains negative, leaving the BoJ behind the curve.

Political influence on commodity prices

- Energy prices are back in focus ahead of the midterm elections. Diesel hit a record of over USD 6.50 per gallon at the pump, and its impact is broad, if indirect: as the fuel for freight, agriculture and construction, it feeds into consumer prices through transport costs.
- The US–Iran talks on the sidelines of the UN General Assembly are likely to do little more than lift the mood. Both sides are acting rationally. Trump needs lower energy prices before November 3, so he is signaling a willingness to negotiate. Iran, by contrast, has little reason to make concessions before the election, since waiting strengthens its hand. The prospect of a deal after the midterms fits this pattern. We do not expect the two sides, still far apart, to move much closer.
- We therefore see short-term setbacks as a buying opportunity for commodities and energy stocks. The main risk is an unexpected and far-reaching breakthrough in the talks, which we consider unlikely.

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