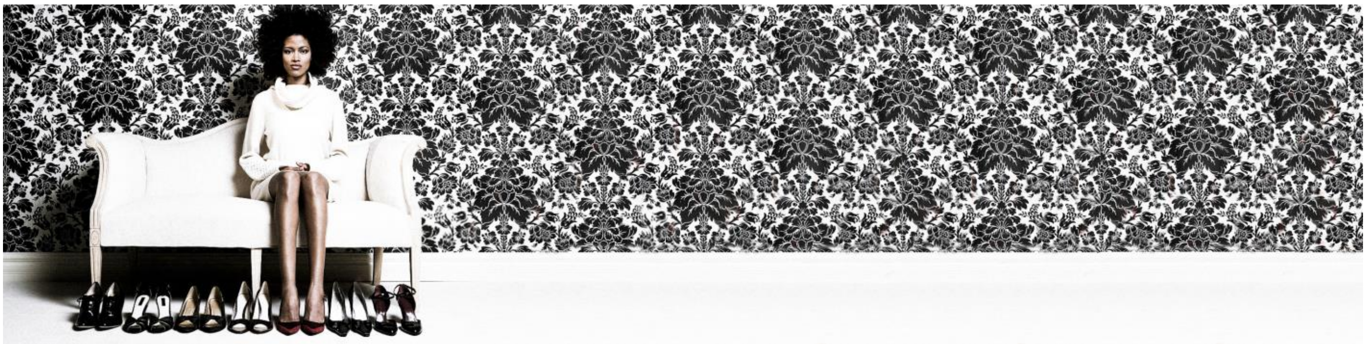
AquilaViewpoints

Market Outlook | 3rd Quarter 2026



Tactical Perspective: Macro ▶ Bonds ▶ Equities ▲ Other Asset Classes ▶

Executive Summary

- The US is showing resilience thanks to a booming technology sector; consumer sentiment is recovering, although inflation picked up again in May, weighing on purchasing power.
- In the eurozone — particularly Germany — growth remains weak, though sentiment indicators are brightening.
- The SNB and Fed left their policy rates unchanged in June — the SNB at 0% given low inflation of 0.6%, the Fed at 3.50–3.75%.
- The ECB, by contrast, raised rates for the first time since September 2023 by 25 basis points to 2.25%, responding to heightened inflationary pressure.
- The central dilemma remains unresolved: the inflationary surge is supply-driven, not demand-driven.
- Government bond yields have eased after their mid-May peak; even UK gilts declined despite political turbulence.
- Credit spreads remain at historically tight levels, with global corporate bonds even at a 22-year low.
- Equity indices reached all-time highs in June, driven by AI infrastructure stocks — amid high index concentration.
- SpaceX took advantage of the favourable market coditions for the largest IPO in history.
- USD/CHF has recovered from its multi-year low of 0.76 at the start of the year to around 0.81; USD/JPY is trading at around 161.5, near a 40-year low.
- The US-Iran agreement triggers a correction in energy commodities.

Our macroeconomic assessment

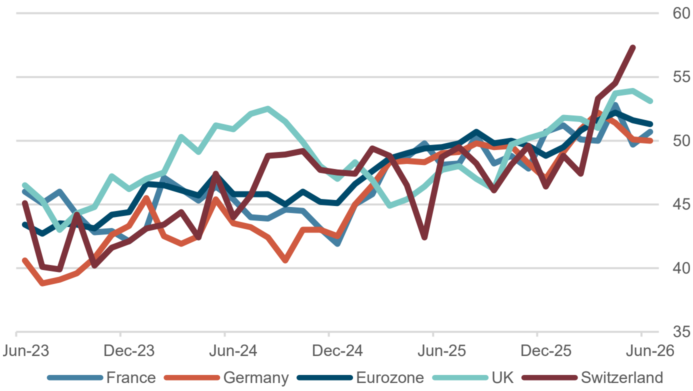
Business cycle

- The energy shock caused by the Iran war was managed surprisingly well at the global level. However, the effects on inflation and growth varied considerably by region.
- The US appears best placed to manage the tensions, not least due to a booming technology sector. The University of Michigan leading indicator, which measures sentiment, current conditions, and expectations, recovered sharply in June from historically low levels.
- While US real GDP is growing at a solid 2.6% year-on-year, the eurozone and Germany in particular are lagging well behind at 1.4% and 0.4% respectively. Encouragingly, consumer sentiment is also rising on the old continent, brightening the outlook.
- In the eurozone, the manufacturing PMI has shown a positive trend for three years and has remained in expansionary territory above 50 points for months. The recent slight decline is attributed to the Iran conflict and higher costs. The more important services sector and the weighted composite are moving in the opposite direction, recovering towards the growth zone.

Monetary policy

- The SNB left its policy rate at 0% at its June meeting. Inflation of 0.6%, unrivalled internationally, lies within the range of price stability as defined by the institution and justifies this decision. The strength of the franc has favoured low inflation, but increases the central bank’s willingness to intervene in the foreign exchange market.

Europe: Purchasing manager indices manufacturing



Source: Bloomberg Finance L.P.

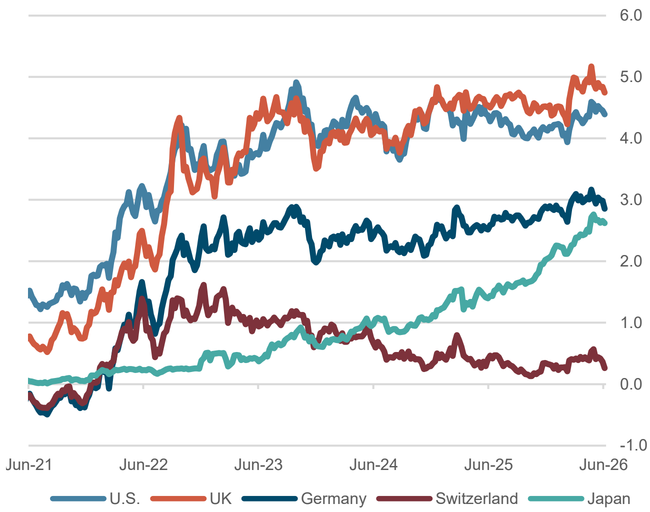
- The Fed also left its policy rate unchanged at 3.50–3.75%, surprisingly unanimously. Heightened geopolitical uncertainty, robust economic growth.
- The ECB raised all three reference rates by 25 basis points despite weak growth — the first hike since September 2023 — to counter inflationary pressure of 3.2%.
- The central dilemma for central banks remains unresolved: the inflationary surge is supply-driven, not demand-driven, which blunts the traditional interest rate instrument. Overly aggressive tightening risks triggering a recession, while insufficient resolve risks accelerating inflation.

Our investment policy conclusions

Bonds

- Ten-year government bond yields have eased somewhat after rising to a one-year high in mid-May and are currently at around 0.3% in Switzerland, 2.6% in Japan, 2.9% in Germany, and 4.4% in the US. Even political uncertainty in the UK failed to push yields higher. Yields there have fallen from 5.2% to 4.7%.
- Spreads on emerging market, corporate, and high-yield bonds are at historically tight levels despite a challenging global geopolitical backdrop. The yield spread on global corporate bonds is at a 22-year low thanks to rating improvements for the issueres in the index.
- Redemptions in the US private credit market remain elevated. Illiquid assets packaged in an investment vehicle offering daily liquidity can become problematic under certain circumstances. The redemption restrictions now in effect are an integral part of the prospectuses and reflect the expected behaviour of these vehicles during periods of elevated demand for liquidity.

10-year government bond yields in %, last 5 years

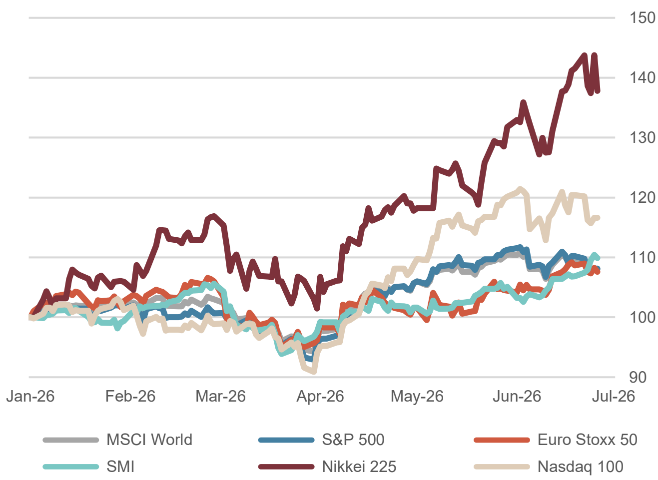


Source: Bloomberg Finance L.P.

Equities

- Numerous equity indices reached all-time highs in June. Winners were concentrated among suppliers for the build-out of AI infrastructure. US indices are highly concentrated in technology and the ten largest companies account for almost 40% of the S&P 500.
- Elon Musk took advantage of the favourable market conditions for the largest IPO in history. The market was ready to welcome the loss-making company with oversubscription and share price gains. The AI IPO pipeline is well stocked with Anthropic and OpenAI representing two further large issuances.
- Even the established and highly profitable “hyperscalers” face significant capital requirements. These are surpassing the USD 700 billion threshold this year — with a rising trend. Google is financing this partly through the issuance of bonds and shares. The latter was critically questioned by the market not only for the company itself but for the entire sector.
- We see signs of a bubble and expect a broadening of the market base.

Equity markets, performance year to date, indexed



Source: Bloomberg Finance L.P.

Forex

- The US dollar is currently trading at around 0.81 against the franc, close to a 12-month high, having traded at its multi-year low of 0.76 at the start of the year. The structural headwinds for the greenback — including fiscal deficits, high public debt, and its role as the global reserve currency — have receded. The Middle East conflict is supporting its safe-haven function and the widened interest rate differential provides fundamental support. In addition, the SNB has reaffirmed its willingness to intervene in the foreign exchange market to weaken the franc, which will also have an effect on the EUR/CHF cross.
- The most closely watched currency pair at present is USD/JPY. It is trading at around 161.5, near a 40-year low. With interventions and the recently announced 25-basis-point rate hike having failed to produce a lasting appreciating effect, talks between Bessent and Katayama are now attracting market participants' attention.

Dollar and Euro vs Swiss franc, last 12 months

Source: Bloomberg Finance L.P.