Outlook 2026: (Swiss) Equities Are Attractive

Growing imbalances meet an increasingly scarce resource: Money

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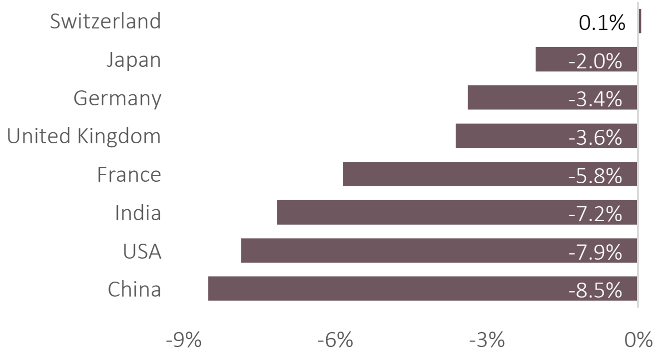
The global economy is undergoing a period of profound transformation. Established rules are being questioned, multilateral agreements are losing relevance whereas national interests are increasingly moving to the forefront. The old world of reliability is giving way to an environment where tariffs and trade policy interventions are likely to become the new constant. Forecasts remain inherently uncertain in this phase of transition, yet the direction of change is evident.

The world is confronted with a series of imbalances that have built up over many years and have recently intensified. Government budgets exhibit structural deficits, while overall debt levels in numerous countries now far exceed annual economic output. Low interest rates have long masked these developments and facilitated expansionary fiscal policies. Without a willingness to undertake fundamental adjustments, however, this model cannot be sustained indefinitely. The combination of high debt levels, rising long-term interest rates and increasing geopolitical tensions has left many systems vulnerable.

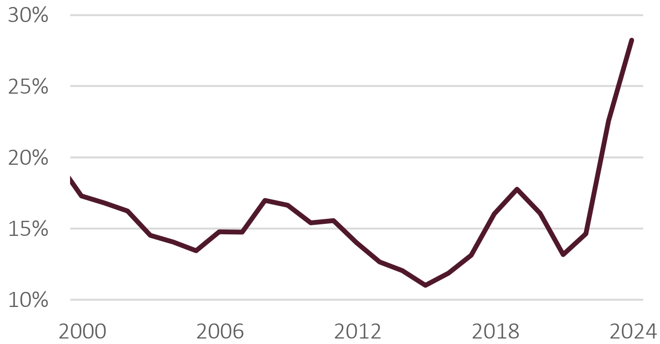
Graph 1: Projected budget balance in fiscal year 2026



Source: International Monetary Fund IMF, Belvalor; Projected budget balance of selected economies in fiscal year 2026 (as of 30 November 2025)

As illustrated in Graph 1, rising debt is a global phenomenon. In the United States (U.S.), the deficit is driven primarily by high social spending and a comparatively low tax base. In Europe, debt levels are increasing further due to higher defense expenditures and extensive infrastructure programs. In addition, the growing tendency to support strategic industries through fiscal stimulus measures is adding to overall financing needs.

Graph 2: U.S. interest burden relative to tax revenues



Source: St. Louis Fed, Belvalor; Annual U.S. federal net interest expense as a share of federal tax revenues (2000 - 2024)

From an economic perspective, there are strong indications that part of the necessary adjustment will occur through financial repression: real negative interest rates that erode the value of debt over time. For investors, this implies a continuation of asset price inflation, as witnessed in real estate and equity markets in recent years. This dynamic is likely to continue shaping financial markets going forward.

Investments in real assets are becoming increasingly important for investors

For the global economy, these expenditures also have a positive side, as they provide new growth impulses. This includes the sharp increase in worldwide investments in data centers and artificial intelligence (AI), which is accelerating technological progress. For companies, however, it remains uncertain whether the high expectations for AI-driven efficiency gains will be met, while governments face the risk that debt dynamics continue to intensify.

We maintain a positive outlook for the investment year 2026, not least due to looser monetary policy, a temporary easing of political tensions and an emerging cyclical recovery in the industrial sector. However, this changed environment demands an active investment approach. We remain committed to our investment concept based on quality and continue to favor the Swiss Franc as a stable base currency in portfolios and rate Swiss equities as attractive for 2026.

Economic environment

Global economic conditions were challenging in 2025. Protectionism, geopolitical tensions and heightened political uncertainty placed significant pressure on the macroeconomic environment. Rising debt levels and persistent fiscal deficits further indicate that many economies are likely to face substantial challenges over the medium term.

Graph 3: Estimated GDP and Inflation in 2025 and 2026

	Gross Dom. Product (GDP)		Inflation	
	2025E	2026E	2025E	2026E
World	3.0	2.9	3.6	3.4
USA	2.0	2.0	2.8	2.9
Eurozone	1.4	1.1	2.1	1.8
Germany	0.3	1.0	2.2	2.0
United Kingdom	1.4	1.1	3.4	2.5
Switzerland	1.2	1.2	0.2	0.6
Japan	1.3	0.7	3.1	1.8
China	4.9	4.4	0.0	0.8

Source: Bloomberg, Belvalor; Year-over-year estimates in percentage (as of 30 November 2025)

Despite the challenging environment, global economic developments in 2025 proved more resilient than widely expected, even though momentum varied significantly across regions. While the U.S. maintained broad-based growth supported by consumption and investment, other economies – including many in Europe – came under renewed pressure and recorded only marginally positive growth rates. The persistent weakness in the industrial sector and continued uncertainty in global trade acted as additional headwinds.

Tariff-related uncertainties weighed on global trade in 2025

Whether the weakness of recent years is primarily cyclical or increasingly structural will be decisive for the path ahead. Structural factors such as intensifying competition from China are raising competitive pressures for export-oriented economies. At the same time, cyclical conditions are now beginning to brighten.

After four years of recessionary tendencies in the industrial sector, a gradual recovery appears to be taking shape, which should become more visible over the course of 2026. Lower interest rates, a more stable global demand environment and reduced trade-policy uncertainty could support this process and help moderate growth expectations for 2026 to be exceeded. However, the global picture remains heterogeneous, with growth in the U.S. likely to be broader based.

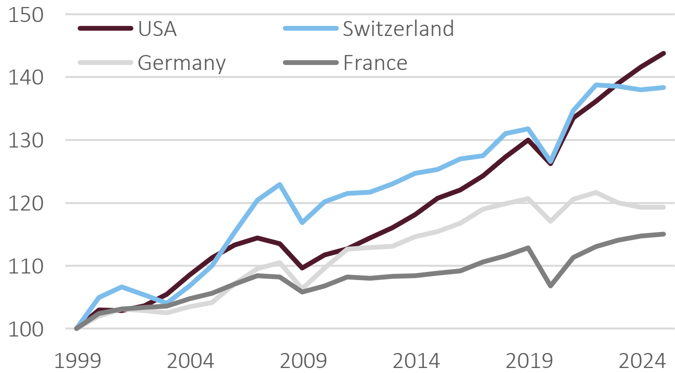
The positive effects of lower policy rates are beginning to take hold and investments in infrastructure, energy and industry are gaining momentum. The technology sector remains a key driver of growth: earnings expansion and an ongoing investment cycle centered around automation, AI and digital infrastructure continue to support the broader economic backdrop.

China remains in a state of transition. The country is increasingly diversifying its exports into new markets and evolving from being merely the manufacturing hub of the West toward higher-value-added production models. At the same time, competitive pressures on Western industries are intensifying, creating both challenges and opportunities for globally diversified companies.

The German economy has now been stagnating for six years

Europe is expected to see a modest improvement in 2026. Germany's infrastructure package should have a stabilizing effect on economic activity, although risks remain regarding its implementation and pace. Many European economies additionally stand to benefit from lower energy prices, moderating inflation and the prospect of a less restrictive monetary policy. The Swiss economy is likely to gain from these trends as well, having lost momentum in 2025 due to heightened trade policy uncertainty.

Graph 4: Real per-capita economic growth since 2000



Source: International Monetary Fund IMF, Belvalor; Increase in real GDP per capita in local currency, indexed to 100 (2000 - 2025)

Overall, the global economic picture remains complex, but the growth outlook for 2026 is more constructive than a year ago. Cyclical forces are regaining importance, even as structural challenges persist. For investors, this environment creates selective opportunities driven by technology-led productivity gains, infrastructure investments and a cautious recovery in the industrial sector.

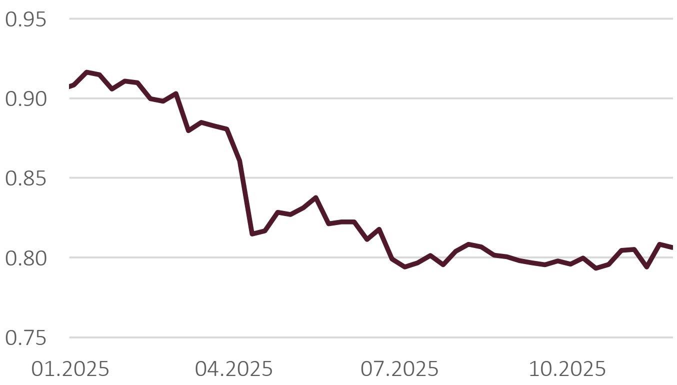
Currencies

This year's currency movements were influenced less by central banks and more by political decisions. Trade and fiscal policy measures have undermined confidence in the existing fiat money system. At the core of the issue lie rapidly rising government debts and deficits – an old diagnosis that is increasingly moving into focus. At the same time, concerns are growing that central banks may come under political influence to keep interest rates artificially low. In the U.S., this trend has become particularly evident under President Trump. While persistently loose monetary policy may ease debt sustainability, it also raises the risk of higher inflation rates and continued currency depreciation.

The strength of the CHF will continue

Consequently, several major currencies came under pressure in 2025. The U.S. Dollar depreciated substantially, the Japanese Yen suffered from rising debt and ultra-expansionary policy while fiscal uncertainties mirrored the same patterns in the Euro and the British Pound.

Graph 5: USD/CHF exchange rate development in 2025



Source: Bloomberg, Belvalor; USD performance against the CHF (01 January 2025 - 30 November 2025)

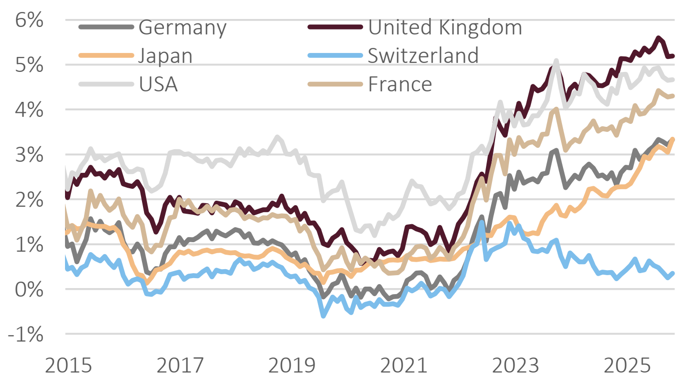
Following the sharp depreciation in 2025, the USD does have short-term appreciation potential. Over the medium to long term, however, the USD is likely to weaken further, not least because it remains overvalued on a purchasing-power-parity basis. The weakness of the EUR is structural in nature and offers little prospect of improvement.

By contrast, we continue to view the CHF as one of the most – if not the most – stable currencies globally. This is primarily due to Switzerland's robust fiscal and monetary policy framework, but also its high competitiveness, political stability and strong legal certainty. Against this backdrop, our recommendation remains unchanged: Maintain a high CHF allocation in portfolios and minimize foreign currency exposure, or hedge it selectively.

Interest rates / bonds

All major central banks lowered their policy rates in 2025. Despite persistent inflation risks, particularly in the U.S., monetary easing is likely to continue, although we only expect a few additional rate cuts. We therefore consider the projected policy rate levels for the end of 2026 – 0% for CHF, 1.5% for EUR and 3% for USD – to be realistic. It is noteworthy that, despite falling policy rates, long-term yields have risen markedly due to the structural issues described earlier (see Chart 6). This is a development we will monitor closely in 2026 and one that reinforces our view that investors should be cautious with longer maturities due to duration risk.

Graph 6: Rising long-term government bond yields



Source: Bloomberg, Belvalor; Yield development of 30-year government bonds for selected countries (01 January 2015 - 30 November 2025)

In CHF, the interest-rate environment remains challenging for savers and conservative investors. Refinancing rates (excluding credit spreads) are in negative territory for maturities of up to three years. A deterioration in the global economy represents a downside scenario and would trigger immediate upward pressure on the CHF, potentially resulting in a return to negative interest rates.

The return potential for Swiss bond investors remains low

Given the limited return prospects, we recommend a low-risk strategy and, where possible, taking advantage of yield opportunities outside traditional fixed-income investments. Catastrophe bonds («cat bonds»), for example, offer an attractive combination of low correlation with conventional bonds and appealing returns (even in CHF terms).

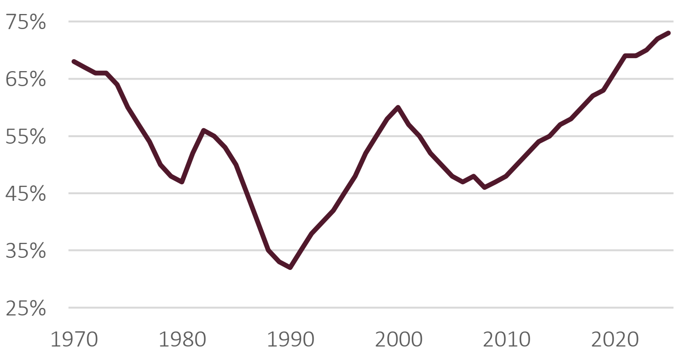
For investors with appropriate risk tolerance, equities of dividend-paying quality companies continue to offer an opportunity to generate a steady income despite the low-interest environment, particularly as the total volume of dividend distributions is expected to increase again in 2026.

Equities

Against a backdrop of global imbalances and uneven growth dynamics, equity markets performed solidly overall in 2025. All indices relevant to our universe delivered positive returns in local currencies. Beneath the surface, however, a marked dispersion emerged: equities from the AI and defense sectors advanced strongly, while cyclical names, affected in part by Trump's «Liberation Day» in early April, lost momentum.

The continued strength of equity markets is partly attributable to a further expansion in valuations, with prices rising faster than underlying corporate earnings. At the same time, more than 70% of the MSCI World Index is now accounted for by U.S. equities (see Chart 7). While this dominance has contributed to attractive returns in recent years, it also represents a diversification risk that, in our view, many investors underestimate.

Graph 7: Weight of U.S. equities in the MSCI World Index

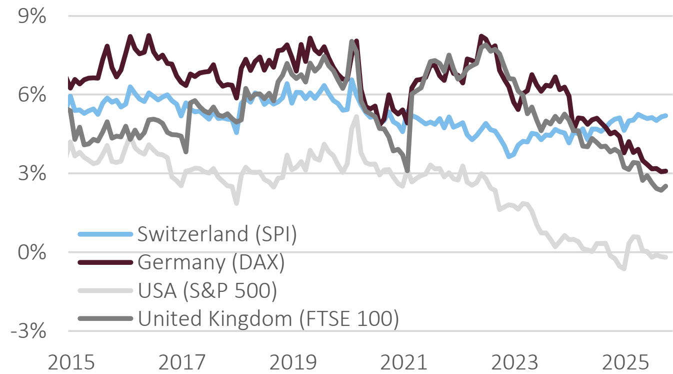


Source: Morningstar, Belvalor; MSCI USA weight within the MSCI World Index at year-end (1970 - 2025)

The increasing economic fragmentation we described earlier has gained importance in our analyses. However, this does not imply a departure from our established investment approach – quite the opposite. Current developments reinforce our conviction that quality remains the decisive criterion in equity selection. In this regard, the Swiss equity market stands out: with its heavy weighting in defensive companies, it provides a stable foundation even during periods of economic or geopolitical uncertainty. At the same time, Switzerland is home to numerous firms that are successfully adapting to technological and societal shifts, enabling them to benefit from long-term structural trends.

For this reason, we view the Swiss market positively not only because of its defensive characteristics. We also see attractive opportunities among companies that are likely to deliver above-average growth in an economic upturn. Valuations are moderate in many cases and the risk premium remains appealing by international standards (see Chart 8).

Graph 8: Risk premiums among selected equity indices



Source: Bloomberg, Belvalor; Earnings yield of equity indices minus yields on 10-year government bonds (01 January 2015 - 30 November 2025)

In light of these factors, we consider an overweight allocation to the Swiss equity market to be appropriate in 2026.

As earnings growth in the new investment year is expected to materialize across a broader range of sectors, we are also taking advantage of selective opportunities internationally. These include value-oriented equities, emerging-market equities and companies poised to benefit from the infrastructure programs announced by numerous governments. Since investments in foreign currencies can lose value in a strong CHF environment, we systematically incorporate this risk into our investment decisions.

Alternative investments

Real estate investments have recorded significant price increases in recent years, which has also benefited listed Swiss real estate companies. They remain attractive in the current low-interest-rate environment, not least due to their stable dividend yields. In contrast, we take a more cautious view of real estate funds given their substantial premiums to net asset value.

Precious metals continued their positive trend and made a meaningful contribution to the performance of balanced portfolios in 2025. Although predictions of the USD's demise appear exaggerated, substantial central bank buying has further underpinned demand for gold. Precious metals remain a compelling portfolio diversifier and hedge, even though the rally of the past two years has heightened the risk of short-term corrections.

Private equity investments have so far benefited only to a limited extent from lower policy rates and a revival in transaction activity. This may change in 2026. Accordingly, we see attractive return potential in the shares of private-market specialists as well.