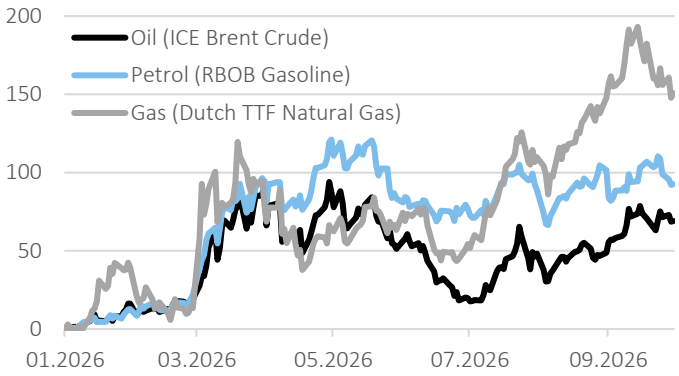
BELVALOR
Vermögensbetreuung

Financial Markets 2026: Equities Facing Higher Yields

Robust economy, higher commodity prices

The easing of tensions in the Middle East in early summer proved short-lived. Oil prices quickly climbed back towards their highs for the year. For the global economy, however, crude oil matters less than refined products such as diesel and jet fuel, as well as gas. Their prices have risen even more due to tight refinery capacity and expensive transport routes, adding to inflationary pressures.

Graph 1: Fossil fuel price development in 2026



Source: Bloomberg, Belvalor; price development of crude oil, petrol and natural gas measured in USD, in %, from 1 January 2026 to 30 September 2026

So far, however, the global economy has absorbed higher commodity prices well, helped not least by the release of global reserves. Despite geopolitical uncertainty, the world economy continues to grow at a solid pace and corporate earnings are still rising, supported by strong investment activity. The cyclical recovery is also becoming increasingly broad-based.

Capital spending boosting growth and corporate profits

Numerous central banks, however, have responded to higher energy prices and the resulting rise in inflation by raising their key interest rates. Among them is the US Federal Reserve, which has thereby also underlined its independence from the Trump administration. Only the Swiss National Bank has so far refrained from abandoning its zero interest rate policy.

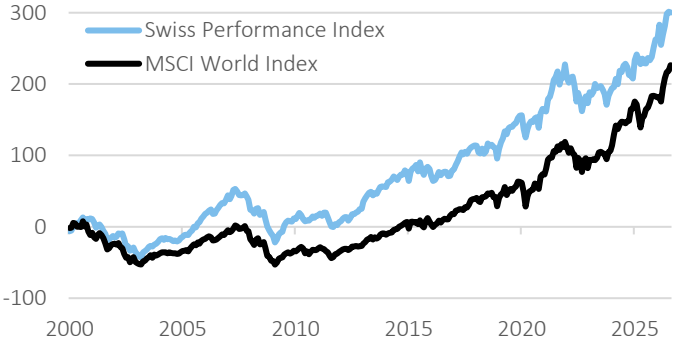
Far more relevant for financial markets is the accelerating rise in long-term interest rates. As rising yields push bond prices down, bonds have so far failed to make a positive contribution to returns in balanced portfolios in 2026. We take a closer look at the causes and consequences of rising long-term rates on the next page.

Cautious optimism in equity markets

Despite the unresolved conflict in the Middle East and rapidly rising interest rates, equity markets have performed solidly since the start of the year. Globally, gains are carried by a narrow group of equities, led by the large US technology companies. The expansion of data centres is driving prices along the entire value chain.

Our domestic market rests on a broader foundation. Rather than relying on a handful of investment themes, the Swiss equity market benefits from a diverse range of high-quality companies. The cyclical recovery has yet to reach all equities, and solid half-year results suggest considerable catch-up potential in many cases. As Graph 2 illustrates, Swiss equities demonstrate their strengths over the course of the full economic cycle.

Graph 2: Equity returns since the turn of the millennium



Source: Bloomberg, Belvalor; index returns including dividends measured in CHF, in %, from 1 January 2000 to 30 September 2026

Conclusion and investment strategy

Despite more restrictive central bank policies, the outlook for further corporate earnings growth remains intact. We therefore maintain our equity exposure while selectively taking profits, for example in emerging market equities. Our basket of Swiss industrial companies *(«Industrial Recovery Basket»)* should continue to benefit from improving conditions in the industrial sector.

In fixed income, our preference for short maturities allows us to reinvest maturing proceeds at higher yields as interest rates rise.

We view the Swiss franc's weakness so far this year as temporary. We therefore remain committed to our home currency and continue to keep foreign currency exposure low.

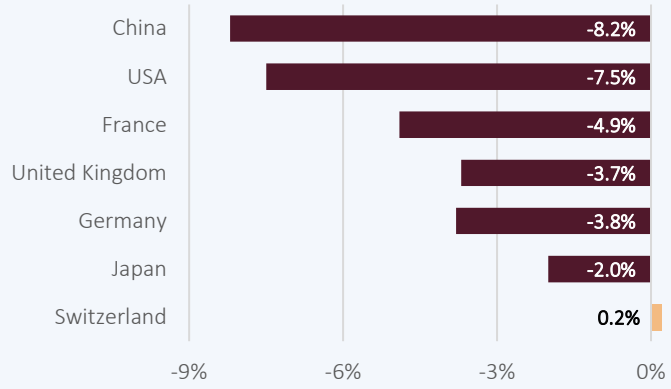
Money Is Getting Scarcer – Implications for Investors

Growing demand for capital

While Switzerland continues to hold its key interest rate at zero per cent, interest rates abroad have long since normalised. What is remarkable is that long-term yields keep rising. For us, this is the most important development in financial markets, more important than any single central bank meeting. The cause may come as a surprise, as it is not only fear of inflation. Market-based inflation expectations have risen only slightly. Instead, competition for available capital has intensified. As a result, money has become more expensive. Four major sources of demand are competing at the same time:

(1) Governments are financing huge deficits, in the case of the US around 7.5% of economic output and are refinancing old debt at higher interest rates. In Europe, rearmament adds to the burden. **(2) The AI boom** is consuming vast sums: this year alone, the five largest technology companies have issued over USD 220 billion in bonds and are now competing directly with governments for capital. **(3) The real economy** is once again investing in energy, power grids and production after years of restraint. **(4) Large IPOs**, most recently that of SpaceX, are tying up additional capital.

Graph 3: Projected budget balance in fiscal year 2026



Source: International Monetary Fund (IMF), Belvalor; expected budget balance of selected economies in fiscal year 2026, in % of GDP (as of April 2026)

The competition among these borrowers for scarce capital is known as *«crowding out»*. This scarcity is compounded by the fact that central banks, long the main buyers of government bonds, are now taking a more cautious approach.

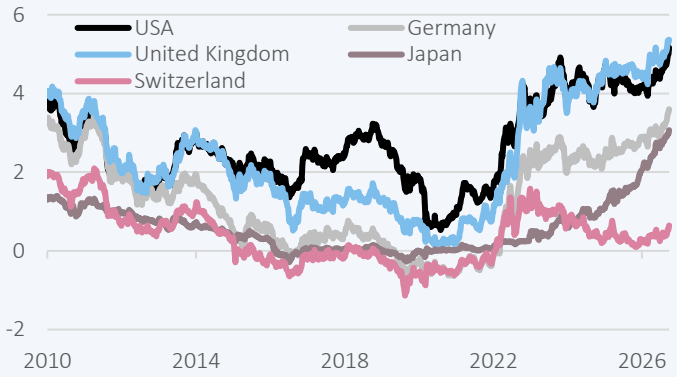
However, rising interest rates are not necessarily a negative. They may also reflect higher growth expectations, driven by artificial intelligence and new investment. We share this optimism but remain cautious.

Consequences for risk assets

The discount rate applied to future earnings is rising, with implications for risk assets. Investments that only pay off when financing costs are low come under pressure: higher discount rates reduce the present value of (unprofitable) growth companies whose projected earnings lie far into the future. Furthermore, the higher bond yields climb, the more bonds become a serious alternative to equities.

Graph 4 illustrates that rising long-term interest rates are a global phenomenon, with Switzerland being the notable exception.

Graph 4: 10-year government bond yields compared



Source: Bloomberg, Belvalor; 10-year government bond yields, in %, from 1 January 2010 to 30 September 2026

Companies with low valuations (*«value investing»*) are less affected. Companies that can finance their operations internally also have an advantage. Those with stable earnings, pricing power and strong balance sheets are less reliant on raising scarce capital on unfavorable terms.

Conclusion

Quality remains our foremost investment principle in equities. Sound business models, strong balance sheets and global competitiveness provide a solid foundation for our clients' portfolios. This also includes the value investments mentioned above, to which we have gradually increased our exposure over the past year.

In fixed income, we continue to stay away from the long end of the yield curve. Higher interest rates are a headwind for gold, but other forces are supporting the price, above all ongoing purchases by numerous central banks.

In a world where money once again comes at a cost, Switzerland plays to its strengths: stability, a strong currency and high-quality companies. For us, it remains one of the most attractive places to invest your assets.