WYSS & PARTNER

Investment Policy 2026

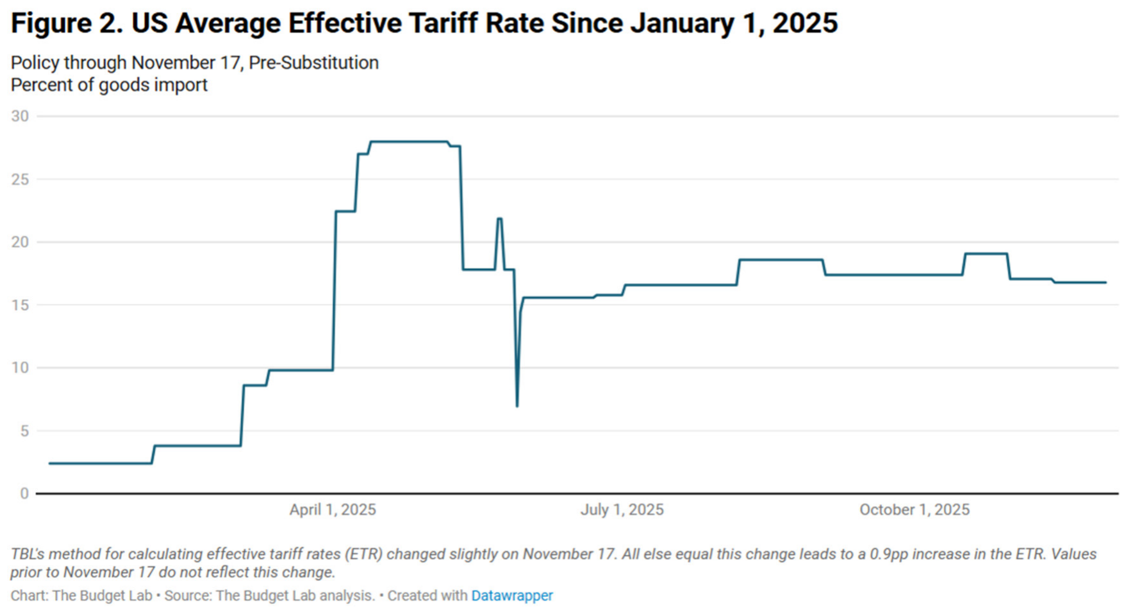
Market risks are rising – political risks less virulent

- US-economy experiencing (temporary) slump
- Fiscal stimulus in Europe, monetary stimulus in the US
- Trade war on hold until the midterm elections (?)
- Equities:The risk of a sharp correction in AI stocks remains
- Gold and silver remain well supported – but prices got ahead of themselves

Renato Beckmann

Review 2025: The year of tariffs

Chart 1: Effective Tariff rate



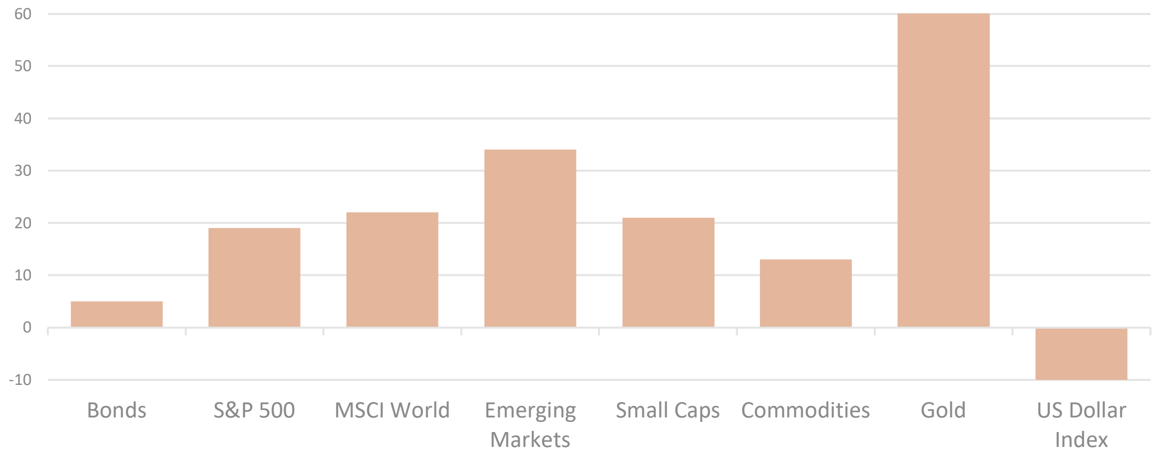
Source: The Budget Lab

The script for financial markets in 2025 was largely written in the White House. As soon as he took office, the new president, Donald Trump, began bombarding the global public on an almost daily basis with his sometimes absurd ideas, proposals and threats, which were not always easy to interpret. What was clear was his pressure on the chairman of

the Federal Reserve, Jerome Powell, to cut interest rates quickly and significantly. The Fed resisted this call and only cut the key interest rate in three steps by a total of 0.75% in the second half of the year, when signs of weakness in the labor market became more pronounced.
At the beginning of April, Trump announced a confusing package of shockingly high tariffs on imported goods. The reaction on the markets was a 14% loss on the global stock index, a sharp rise in risk premiums on debt securities, a decline in the US dollar and a rise in the price of gold. However, bilateral agreements were subsequently negotiated, with investment commitments and other concessions causing the threatened tariffs to tumble. Switzerland, for example, managed to negotiate the threatened rate of 39% down to the 15% rate applicable to the EU. The negative effects on growth and inflation that were initially feared did not materialize over the year, especially as the effective customs burden remained lower. Markets calmed down quickly and resumed a strong uptrend.
Under massive rhetorical pressure from the USA, European states decided to increase defense spending significantly. In addition, the new German government decided to allocate considerable additional funds for infrastructure and security. Thanks to favorable inflation trends, the European Central Bank was able to lower key interest rates in four steps from 3% to 2%. In Switzerland, the key interest rate was lowered to 0% to combat the threat of deflation and an ever-strong Swiss Franc.
The USD lost significant ground in the first half of the year and then stabilized. The trade-weighted loss amounted to 10%, while the loss against the euro was even more pronounced at 13%. The CHF remained virtually unchanged against the euro over the year. Contrary to widespread expectations, the yen did not appreciate, and the Chinese currency also remained firm against the USD despite the trade war.
Yields on 10-year government bonds declined in the US, remained unchanged in the UK and Switzerland and rose in the eurozone and sharply in Japan. Risk premiums declined again, hovering around multi-year lows, resulting in reasonable returns on bond investments from private debtors in the US dollar. For bond investors in Swiss francs, the total return was very modest, if not negative.
The commodity index rose by 13% in USD, which was mainly due to the performance of precious metals. The increased demand resulting from diversification efforts was clearly visible. Gold rose by 66%, platinum by 144% and silver by almost 170%. The price of oil fell by 17% to around USD 60 per barrel due to high production levels.
Political developments such as the attempted pacification of the Gaza Strip, efforts to achieve a ceasefire in Ukraine and the associated incursions into NATO airspace had little impact on financial markets. Even the US-China trade war had surprising consequences: The stock index for Chinese shares in Hong Kong rose by 28%, outperforming the S&P 500 as well as the Nasdaq. Adjusted for currency movements, European stock markets significantly outperformed US stocks. Even the “magnificent seven” group of stocks (Nvidia, Apple, Microsoft, etc.) lagged the performance of the SMI. Emerging Market equities achieved outstanding returns, significantly outperforming traditional markets (22%) with a gain of 34% (in USD). Korea, Poland, Vietnam and Chile were among the most notable stock markets in the EMA universe.

In terms of sectors, consumer and real estate stocks performed relatively poorly. The best-performing sector was communications services (Google, Meta, etc.) with returns of around 33%. Financials, industry, IT and utilities also performed above average. Overall, the hype surrounding artificial intelligence was no longer as dominant in the performance rankings and had spread geographically (Asia), and also attracted interest in other sectors (electricity suppliers).

Chart 2: Performances in USD

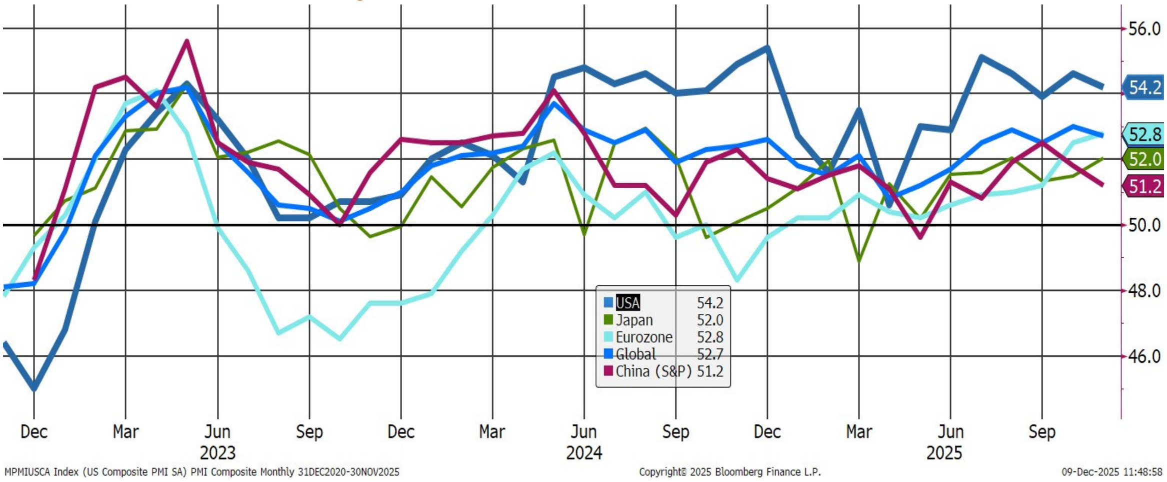


Source: Bloomberg

Outlook 2026

At the turn of the year, there is broad consensus among forecasters that economic growth will be encouraging in 2026. Purchasing managers' index values are above 50 in key economic regions, which indicates growth. The possibility of a recession in key parts of the global economy is considered low. This means that the risk of a full-blown trade war, as was still present after "Liberation Day," has been swept off the table. Depending on the region, monetary and fiscal policy stimuli are supporting growth, with inflation rates remaining stable overall. Nevertheless, certain areas of tension cannot be overlooked.

Chart 3: PMI above 50 means growth



Source: Bloomberg

USA: AI investment boom and consumer slump

The US labor market is slowing down, which, if continued in 2026, will lead to lower consumption and thus weaken the most important pillar of US growth. The AI industry's massive investment plans in computing capacity could at best partially offset this loss of growth, as some of these capital goods have to be imported.

Midterm elections for Congress are coming up in the fall, and continued Republican control of both chambers is not guaranteed. With a view to securing a parliamentary majority, the White House will probably do everything it can to win over voters. This will involve influencing the pricing of sensitive goods such as medicine, gasoline, and food (e.g. selectively eliminating tariffs). A one-time payment from customs revenues to households below a certain income threshold is also under discussion. In principle, the scope for additional government spending is limited with a budget deficit of 6% of GDP, and the market for government bonds is an alarm system in this regard. It is unclear to what extent the return of production facilities to the US and migration policy will improve job prospects, as skills and requirements are diverging. Furthermore, it can be assumed that Trump will keep the dispute with China on the back burner during this election year to avoid unrest.

In terms of monetary policy, there will be considerable pressure to cut interest rates significantly. There will be a change at the top of the Fed, with Powell likely to be succeeded by Kevin Hassett, a senior economic advisor from the White House. However, interest rate decisions are made by a committee that expressed extremely divergent opinions at the end of the year. It is rather doubtful whether the “new” Fed will implement the directives from the White House. Otherwise, there would be an irreparable loss of confidence, which would make monetary policy difficult and expensive. The market believes in an independent Fed and sees only two interest rate cuts in 2026. This can be interpreted as a compromise between supporting the economy and combating inflation.

Europe: Spending on security and infrastructure – faltering export engine

Fundamentally, the situation for consumers in Europe is significantly better than in the US, as debt levels are low, unemployment is low, and the burden of high energy costs has decreased. Greater concerns fall on the export industry, which is burdened by US tariffs and has to contend with a strong euro. The problem is exacerbated in the automotive industry, where China is entering the European market with an export offensive of electric cars. At the same time, European cars are no longer in demand in China, a key market for European industry.

Europe's commitment to improving its self-defense capabilities has and will continue to channel significant government funds into the defense industry. According to estimates, this is likely to contribute 0.2% to growth in the eurozone in 2026. At least as significant is the German government's infrastructure project, which will have an impact on growth in 2026 and 2027.

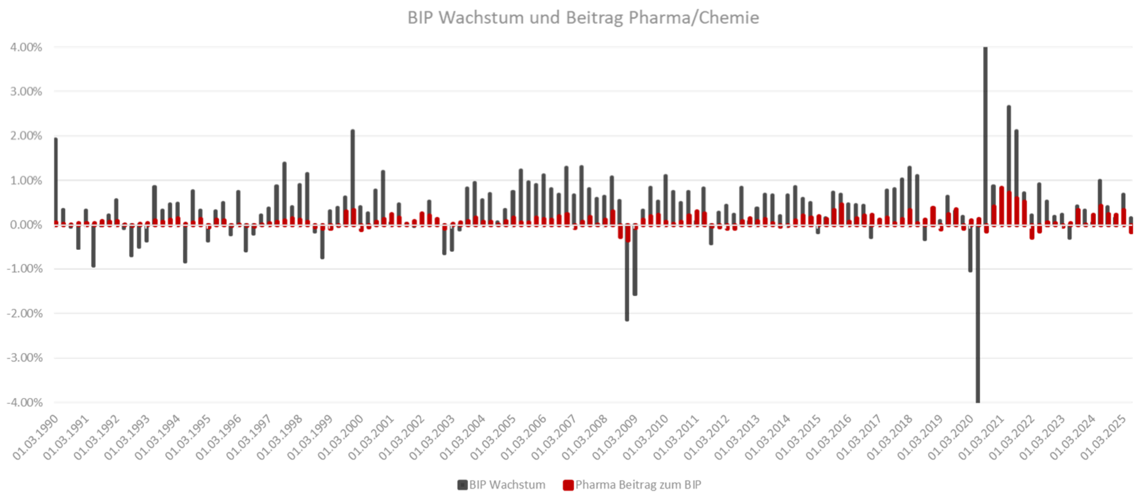
Inflation in the eurozone is around 2%, which is in line with the target, and with the key interest rate at 2%, there is scope for a further rate cut. Most observers, as well as the futures market, assume that interest rates will remain unchanged in 2026. However, if the economy weakens, we believe that monetary policy support is likely.

Switzerland

In Switzerland, key interest rates are at zero and, according to the central bank, the threshold for introducing negative interest rates is high. Alternatively, foreign exchange market interventions are available to limit the appreciation of the CHF. These may be criticized by the US government as currency manipulation and are therefore likely to be used sparingly. Looking at the more important real change in the CHF, there has been a 4% appreciation over the last five years, which seems to be an acceptable “loss of competitiveness” and can be offset by other measures.

With tariffs of 15%, the situation has worsened for parts of Swiss industry. The situation is unclear for the chemical and pharmaceutical industries, which negotiated with the White House independently of the government. The extent to which price concessions and production and research relocations to the US have been granted is unknown. This industry is hugely important for value creation and would have a major impact in a worst-case scenario. Chart 4 shows quarterly GDP growth, with the contribution of the pharmaceutical/chemical industry to overall growth shown in red.

Chart 4: Swiss GDP growth (q) and contribution of pharmaceutical/chemical industry

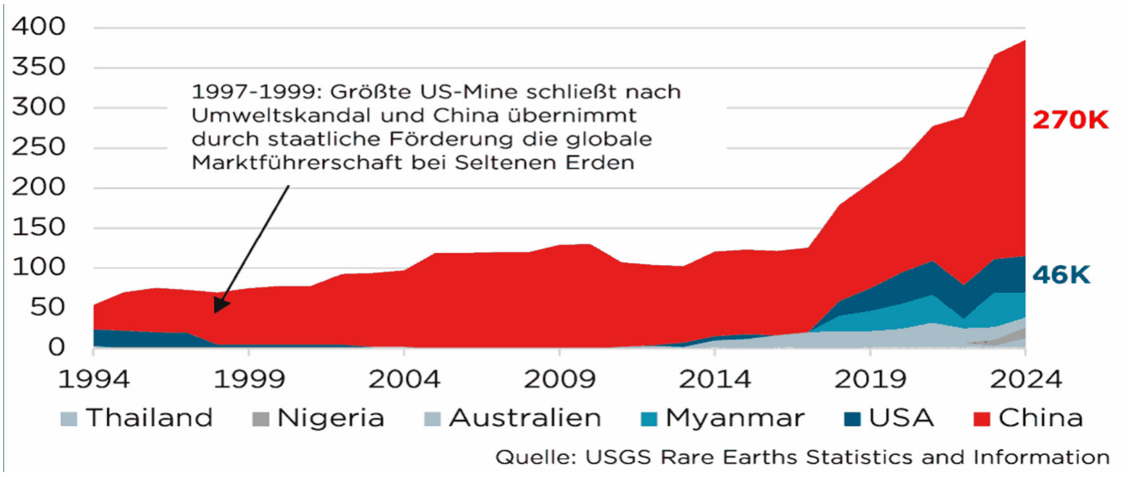


Source: SECO/Wyss & Partner

China: Export strength unbroken

The US government's efforts to reduce the foreign trade deficit with China have been somewhat successful. However, China has succeeded in tapping into alternative markets, with the result that its economy is still heavily dependent on foreign demand. It is attempting to sell its domestic overproduction abroad by specifically promoting key industries and flooding the markets with dumping prices. The long-proclaimed strategy of strengthening domestic demand, for example through targeted measures to promote environmentally friendly consumer products, has remained half-hearted and, at best, ineffective. The real estate crisis – with a large amount of pension money tied up in condominiums – is likely to remain a major drag on private consumption. It appears that China is de facto sticking to an export-driven economic structure and will play its trump cards as a quasi-monopolist in important metals, especially rare earths. In this constellation, China will become even less of a co-consumer of global production.

Chart 5: Global production of rare earths (in metric tons)



Source: USGS

Bond markets offer varying potential

In the US, we expect the yield curve to shift further downwards, not least because the Fed has stopped reducing government bonds on its balance sheet. With further key interest rate cuts, shorter-term interest rates are likely to fall more rapidly, leading to a normalization of the yield curve.

In the eurozone, the bond market will be influenced primarily by high government borrowing and country-specific fiscal policy. Since neither key interest rates nor inflation are likely to fall significantly, capital market interest rates are likely to trend sideways.

With interest rates below 1% on the capital market, the situation in Switzerland is only interesting for borrowers. Given stable inflation and solid public finances, yields on 10-year government bonds are likely to hover below 1%.

Chart 6: Government bond yields (10y)

Source: Bloomberg

Given these gloomy prospects for government bonds, there is a strong temptation to accept more risk when selecting debtors. Data from the USD sector (Chart 7) show that the increased risk is not necessarily rewarded. In particular, the risk premium for issuers from emerging markets is significantly lower than the average for the last five years. However, it should be noted that the macroeconomic situation in many of these countries has improved significantly. The yield premium on investment grade bonds appears acceptable, albeit on the lower end. On the other hand, we would avoid the high-yield segment, as the compensation does not correspond to the current default rate and vulnerability is above average.

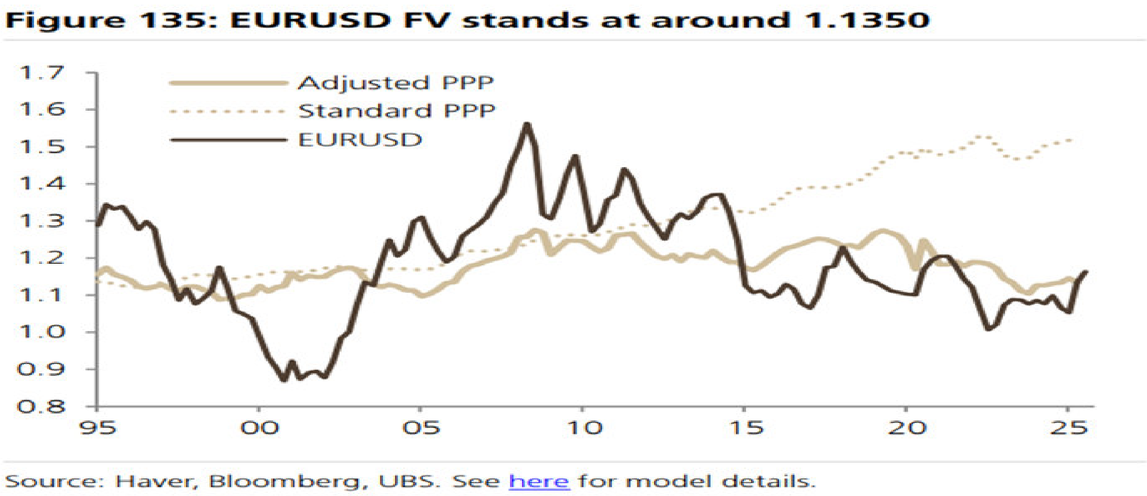
Chart 7: Credit spreads

Source: Bloomberg

Interest rate developments point to a weakening USD

The US currency came under pressure at the beginning of 2025 and has stabilized since the middle of the year. Interest rate cuts in the US, no cuts in Europe, and interest rate hikes in Japan point to renewed weakness in the USD. In addition, the US currency is still significantly overvalued in terms of purchasing power criteria and should therefore tend to weaken structurally. UBS has calculated productivity parity instead of purchasing power parity and has come to the surprising conclusion that the US currency is correctly valued according to this criterion. Essentially, this means that the US economy's superior productivity does not require devaluation to offset currency-related competitive weakness. However, "de-dollarization" in parts of the world will continue and dampen demand. Overall, a weakening trend in the US currency is most likely.

Chart 8: EUR/USD purchasing power parity

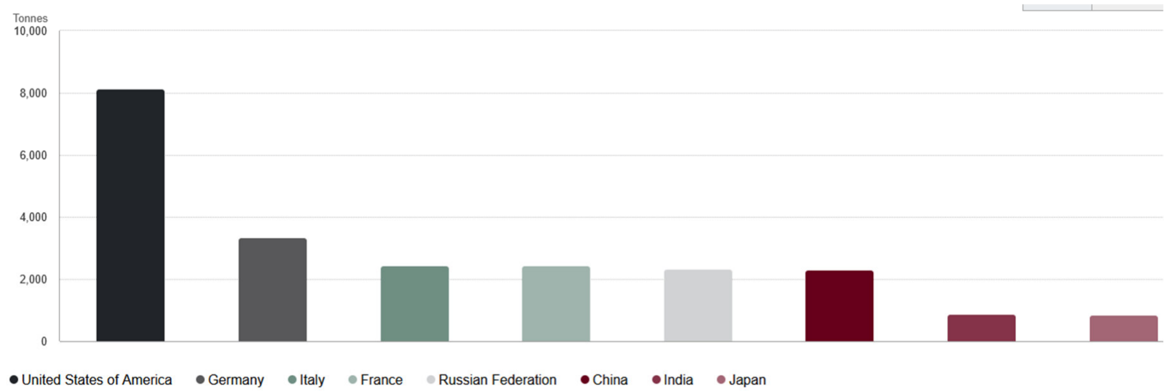


Source: UBS

The euro continues to strengthen against the US dollar, this is likely to have a similar effect on the Swiss franc. Under normal circumstances, the CHF should therefore also move within a narrow band against the euro, whereby an appreciation of 2% as a result of differing inflation trends would be easily manageable.
As was the case a year ago, the Japanese yen is the number one candidate for appreciation for a variety of reasons. After an initial appreciation in 2025, the trend reversed, with parity being restored by the end of the year. In the middle of the year, the currency pair decoupled from the development of US yields, which had been a reliable indicator up to that point. It is difficult to assess the extent to which the new government's economic policy intentions will rub off on exchange rate developments. The fact remains that the Japanese currency is heavily undervalued, and 2026 may bring a certain correction here.

Commodities – Precious metals continue to shine

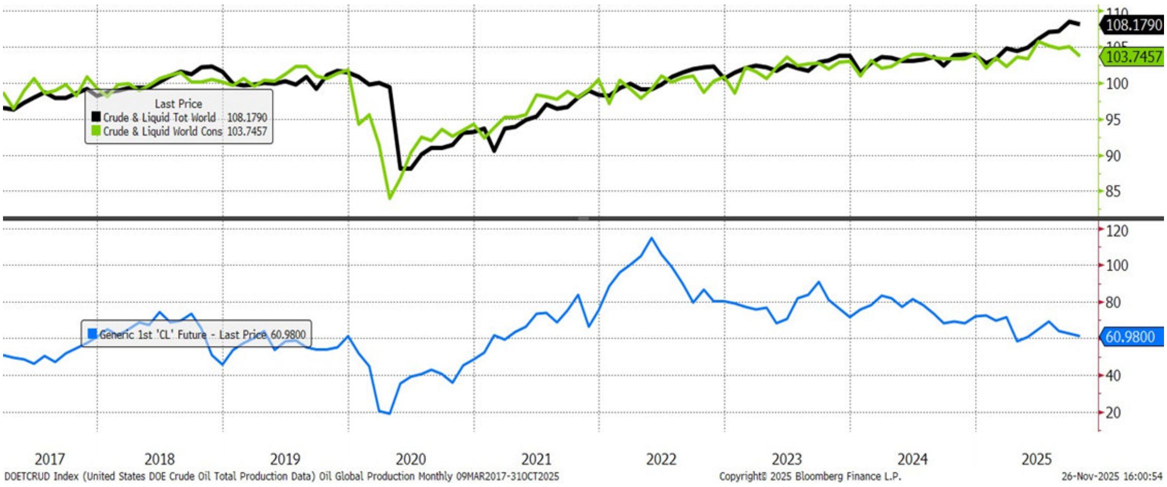
Chart 9: Gold reserves



Source: World Gold Council

Extrapolating price trends for 2026 is as easy as it is dangerous. However, there are several indications that the boom in precious metals is not yet over. Gold is the leader, and its share in private investments and central bank reserves is rising. The share of gold in total currency reserves is extremely modest in China, Japan, and India and clearly has potential for upward adjustment. Mistrust of the US government, protection against inflation, and currency turmoil are weighted more heavily than the lack of current income. The other precious metals remain in the wake of gold, with silver benefiting from its recent designation as a critical metal by the US government.

Chart 10: Oil market



Source: Bloomberg

The trend toward overproduction in the oil market is likely to continue. The failure of OPEC to control production volumes, full production in the US, and the virtually uninterrupted flow of Russian oil product exports are responsible for the abundant supply. On the other hand, demand is subdued, and with the growing importance of e-mobility, the shift in demand from petroleum to electricity will remain permanent. As a result, the price of black gold will tend to fall.

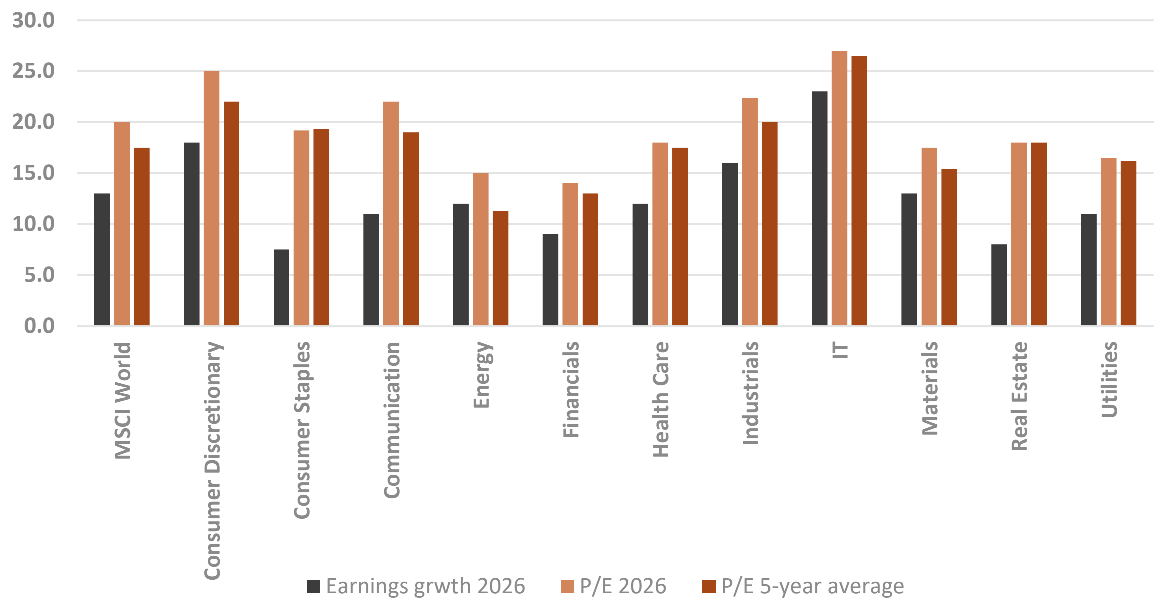
Stock markets – confidence and caution

Based on global economic developments, expectations are that corporate earnings on the world stock index will rise by an average of 13%. By sector, earnings growth ranges from 8% for consumer staples to 23% for IT stocks. Measured against the historical average, the valuation of the market and individual sectors is not favorable, even with the positive earnings trend in 2026. But a more benign interest rate situation is likely to prevail over any reservations regarding valuation.

In the US, sector earnings should be more balanced again, with expectations for the IT sector highest at over 20% earnings growth, closely followed by the commodities sector. On average, S&P profits are expected to rise by 13%. The US market is expensive and the risk premium – the difference between earnings yield and bond yield – is seriously low.

In Europe (Stoxx 600), earnings expectations are around 10%. Comparing the valuation of the European market with that of the US market reveals a significant discrepancy that has gradually built up since 2010. The reason for this is the different weighting of tech companies with their high valuations. This valuation imbalance will continue as long as AI dominates investor interest. In addition to artificial intelligence, other topics include the restructuring of supply chains in the wake of the experiences of the coronavirus pandemic, but also in particular as a reaction to US customs policy and the dissolution of a stable trade regime. Cybersecurity and the energy transition are further promising investment ideas, which are complemented by the politically initiated topics of armament/security and infrastructure in Europe. Based on the above, we would set the following investment priorities in the equity sector:

Chart 11: Sector valuation



Source: Bloomberg

- In the US stock market, preference for stocks related to AI and banks that are benefiting from changes in the yield curve and deregulation.
- In Europe, the banking sector is also in the spotlight despite strong performance in 2025. Infrastructure and security spending will favor industrial stocks.
- Due to falling interest rates and expected earnings growth of 20%, selected stocks from the small-cap segment are a suitable addition.
- Considerable potential for interest rate cuts and a fundamentally improved situation continue to make investments in emerging economies attractive.
- The energy transition and rising demand for electricity as a result of the rapid expansion of data centers are creating a number of interesting investment opportunities. For example, a renaissance in geothermal energy appears to be on the horizon.
- The use of AI in healthcare, particularly in drug research and development, may prove successful. Selective healthcare stocks therefore also belong in a diversified equity portfolio, especially as this sector is less sensitive to economic cycles.

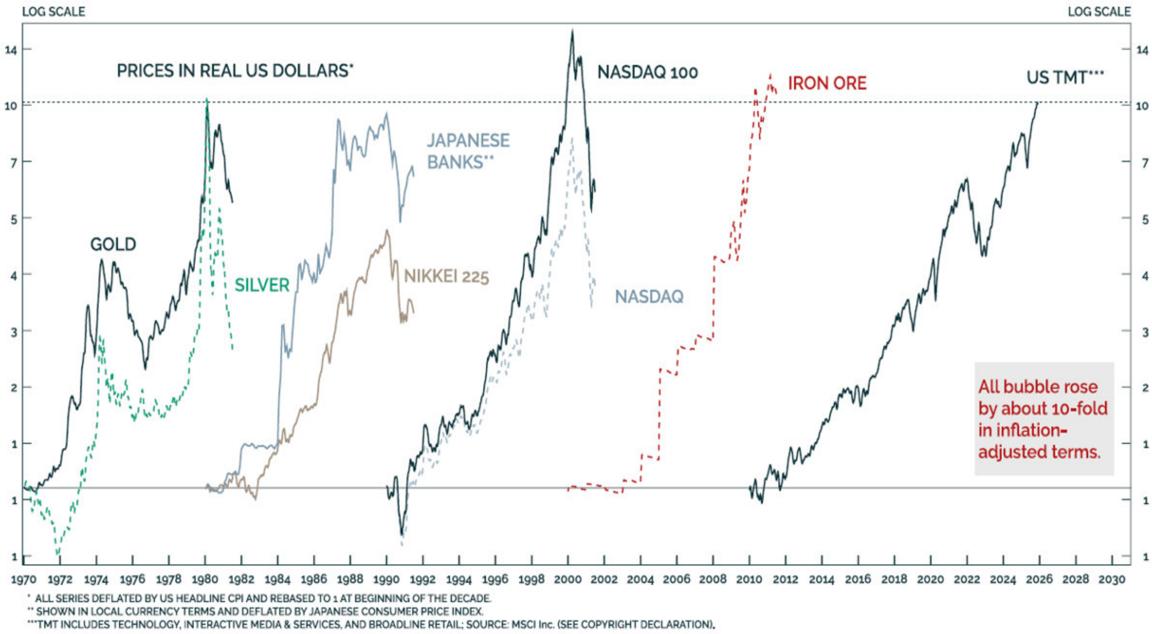
Investment policy conclusion – balanced portfolio construction

We fundamentally believe that a balanced multi-asset portfolio will be the best investment strategy for 2026 in order to seize market opportunities while keeping risks at a manageable level. The risks we are referring to are mainly latent turmoil on the stock market. These include a break in the AI euphoria, which seems possible at any time, as expectations are very high, and the likelihood of disappointing corporate news is increasing. Furthermore, a slide of the US economy into stagflation or recession is still a not insignificant possibility. A sudden loss of confidence among investors in the face of rapidly rising government debt would have a negative impact on both bond and stock markets. On the other hand, positive developments are also conceivable, such as a ceasefire in Ukraine combined with reconstruction plans. In this context, even some form of reintegration of Russia into international organizations and a lifting of sanctions would be conceivable. These prospects would in any case defuse geopolitical tensions.

For investors in USD, we would recommend placing the fixed-income portion in bonds with shorter maturities, as long-term yields are more exposed to negative inflation expectations. In addition, close attention should be paid to the quality and liquidity of the investments. We consider gold and other precious metals to be a suitable addition to a portfolio, not only for risk reasons, but also because of solid demand from private and institutional investors.

Finally, the most pressing question: Will the AI bubble burst? Chart 12 below, from BCA, an independent Canadian research institute, shows various bubble developments since 1970. It shows that all of these excessive events resulted in a tenfold increase in price, adjusted for inflation. The current boom began after the major economic crisis in 2010 and, in the case shown, encompasses stocks from various areas of IT, as well as interactive media and services. The result: a tenfold increase has been achieved and overshooting is entirely possible. Conclusion: a certain degree of caution is warranted.

Chart 12: Historical Bubbles



Source: BCA

Wangs, January 2026

PS: **No** AI was used in creating this report!