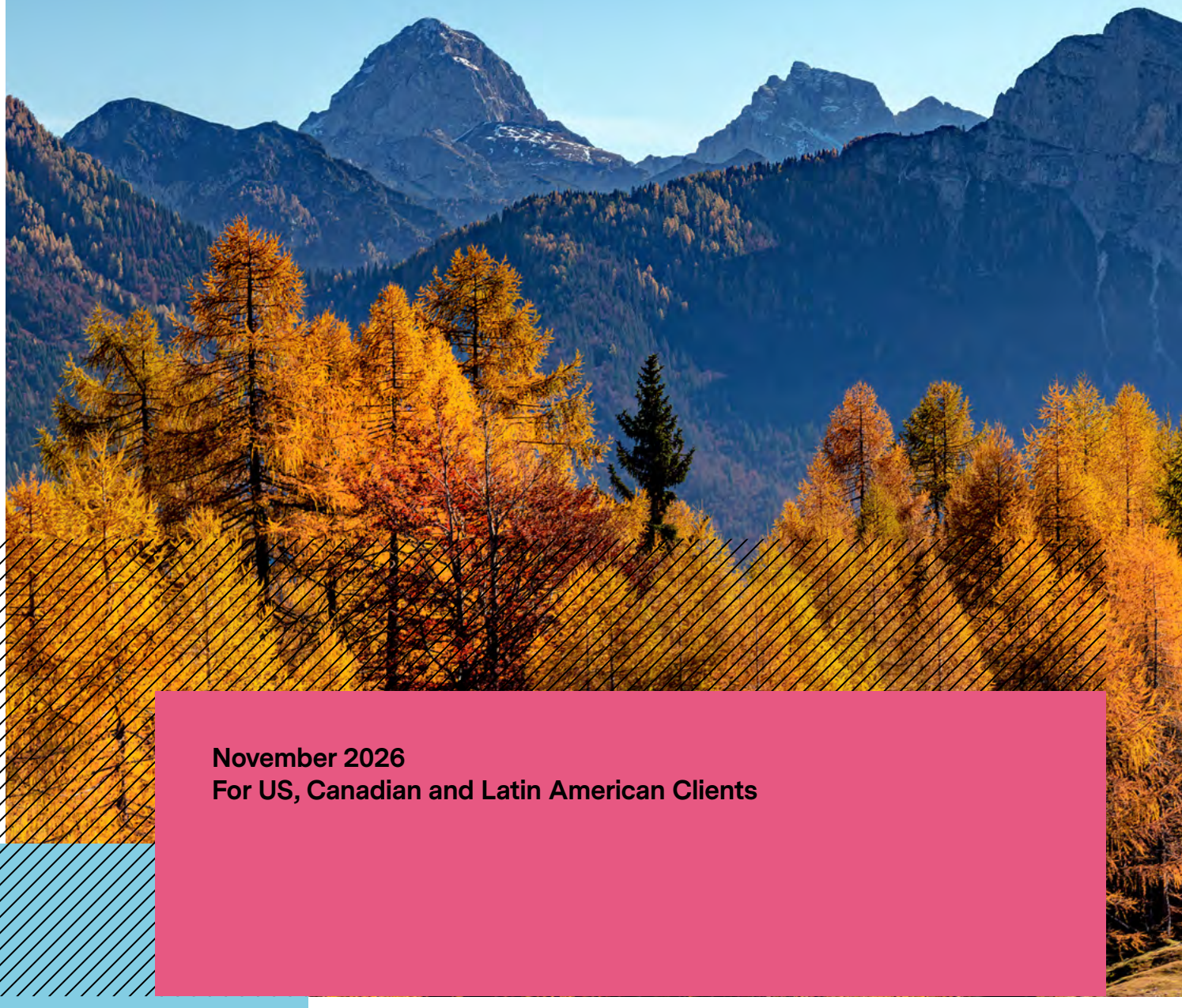
Vontobel

Investors' Outlook

Over the peak



November 2026
For US, Canadian and Latin American Clients

Vontobel Swiss Financial Advisers AG

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Over the peak



—
Dr. Pascal Köppel
Chief Investment Officer,
Vontobel SFA

Dear readers,

As the year's final quarter got underway, markets were on edge again. October brought another bout of artificial intelligence (AI)-related volatility and a reminder that the air has become a bit thinner at these heights.

Reports that China had developed a more efficient memory cell put pressure on margin expectations. Investors are also scrutinizing the cost of building data centers, delays to construction and how these projects will be financed. The enthusiasm for all things AI is coming up against a more skeptical market, especially given the more than USD 3.5 trillion associated with investment in a sector where many companies are still counting on future revenues.

Investors have become more critical. The divide between companies with strong profits and cash to spare and those reliant on external funding is becoming more apparent. Valuations have eased, with the S&P 500 Index's forward earnings multiple falling from around 25× to below 20×. Nonetheless, we see scope for limited further multiple compression, although this remains subject to market conditions, which puts the onus on earnings to drive returns from here.

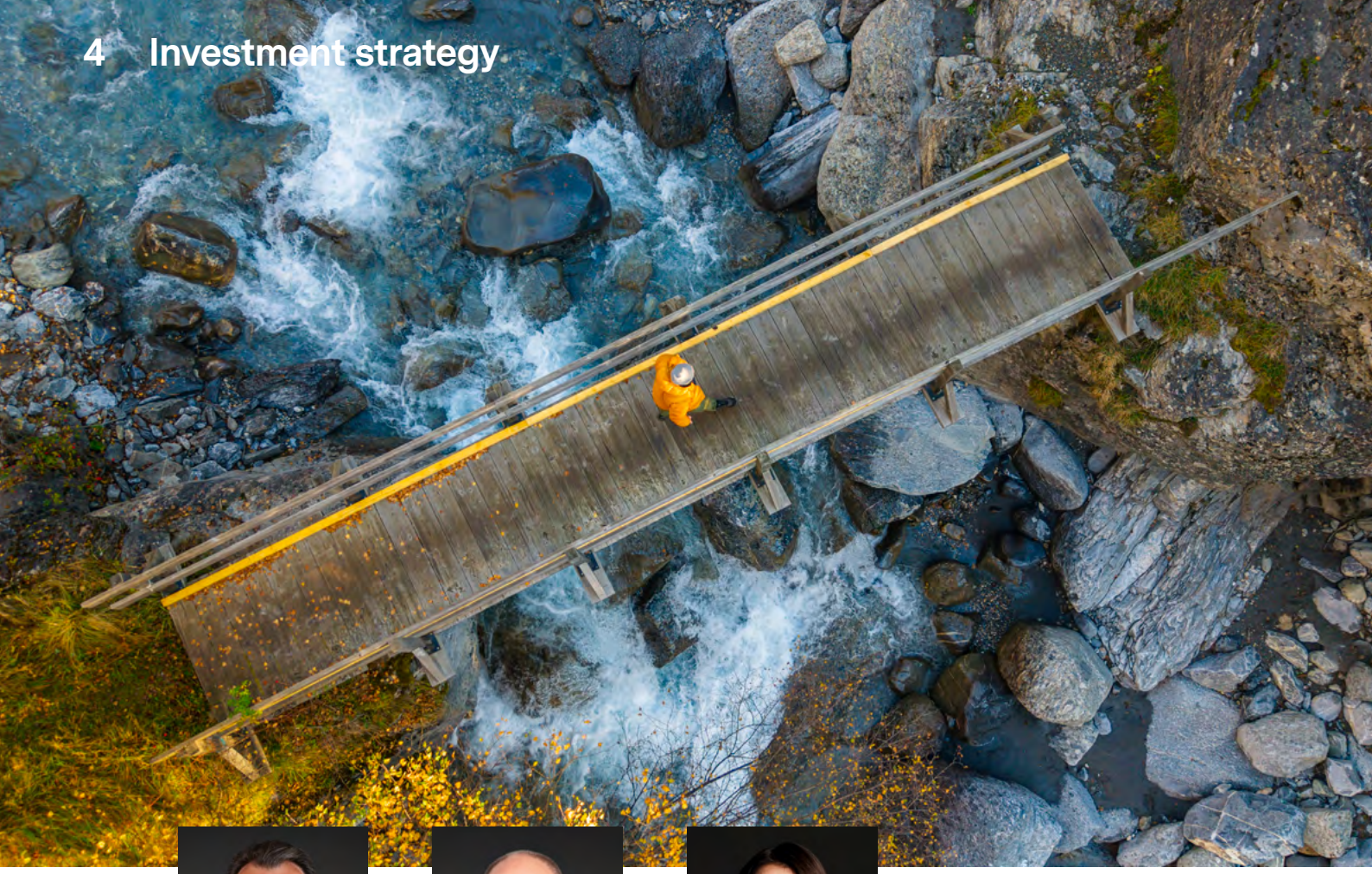
In Europe, French government bond spreads over German Bunds have come close to euro-crisis highs. France's large budget deficit and heavy debt burden are becoming harder to address, as public frustration over the cost of living adds to political pressure, especially ahead of elections. Even so, we currently do not expect the problems in France to trigger a more widespread financial crisis, although the risk of contagion cannot be ruled out.

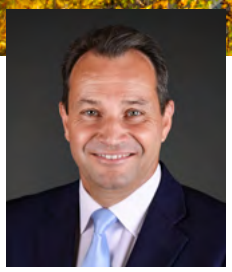
There was also significant focus on the midterm election during October, in which the Democrats achieved a majority in both the House and the Senate.

Looking ahead, we believe inflation and 10-year US Treasury yields may have peaked or could be close to their peak. Based on this outlook, we anticipate flatter terrain in 2027.

Growth will likely remain strong but momentum may ease somewhat. With fiscal support around the world poised to fade, especially in the US, we believe demand could lose some steam. Corporate earnings remain well supported in our view.

We're already gearing up for the year ahead, keeping a close eye on the opportunities and obstacles we can expect along the way. Our aim is to support our clients at every step, even in adverse conditions.





—
Dr. Pascal Köppel
Chief Investment Officer,
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October volatility

October has a reputation for being volatile at times. We saw this again this year, when the VIX reached a peak of around 20 during the month. Higher bond yields, concerns about France, the potential scenarios for the midterms and AI stock repricing all kept investors busy.

However, macro-economic data continues to indicate that the global economic cycle can withstand these headwinds, at least for now. The manufacturing sector, in particular, is showing strength across different regions. This is also supporting corporate earnings. The MSCI World Index has been in a consolidation phase since August, but we are generally seeing support from the earnings side. This has helped make valuations more supportive.

We have seen consolidation too in some key bond markets, although French bonds have been under pressure. In general, we see increased awareness of fiscal constraints in some markets, as discussed in this month's market highlight text.

Looking ahead, volatility may persist as investors digest incoming information, while fundamentals remain broadly constructive despite the risks discussed above. For that reason, we have not made any changes to our tactical allocation.

Find the details of our asset allocation on page 5.

	UNDERWEIGHT significantly	UNDERWEIGHT slightly	NEUTRAL	OVERWEIGHT slightly	OVERWEIGHT significantly	
1 Liquidity	→					We are maintaining our lower allocation to liquidity. This reflects our current positioning in equities and fixed income, based on our assessment of market conditions and portfolio objectives, which may change as market conditions evolve.
2 Bonds				→		We believe the outlook for high-quality fixed income is constructive. This view is based on our current assessment of market conditions, including a moderately upward sloping yield curve and positive real yields. However, this environment remains subject to uncertainty, including potential interest rate volatility and spread changes. Within the bond universe, we are selective in our risk positioning and currently favor higher-quality securities and longer duration, recognizing the associated risks.
3 Equities				→		Despite ongoing geopolitical challenges, we believe the underlying global macro environment remains relatively supportive, despite persistent uncertainty. In this context, we still view an equity allocation with a moderate cyclical tilt as appropriate. Regionally, we currently favor Switzerland, the euro area and emerging markets based on our assessments of potential cyclical improvements, while recognizing the associated risks and market volatility. We also maintain a constructive view on the Swiss franc. Our positioning reflects a related underweight to the UK, given our assessment of downside risks to the pound sterling.
4 Commodities / Gold			→			Our positive view on gold remains intact. Gold rallied strongly in 2023, 2024 and 2025. This increase has attracted more speculative investors, which has probably contributed to higher volatility and decline during spring 2026. In our view, ongoing geopolitical and macroeconomic uncertainties, along with continued demand from central banks, particularly in emerging markets, remain supportive factors for gold.[1]

Changes month-on-month: same → higher ↗ lower ↘

[1] Current market trends may evolve over time, and future performance may differ from current expectations.

Is there still safety in bonds?



—
Dr. Pieter Jansen
Chief Investment Strategist,
Vontobel SFA

Central bank interest rates and bond yields have returned as a key market topic. The surge in oil prices early in the year triggered a turnaround in central banks expectations.

The 10-year US Treasury yield has risen by about 100 basis points this year to its highest level since 2007. In Japan, the 10-year government bond yield has risen to around 3 percent, a level not seen since 1996. Additionally, within Europe we have seen increasing turmoil in French bonds, where the spread versus their German counterparts has widened to around 140 basis points, close to the level reached at the peak of the European sovereign debt crisis (151 bp).

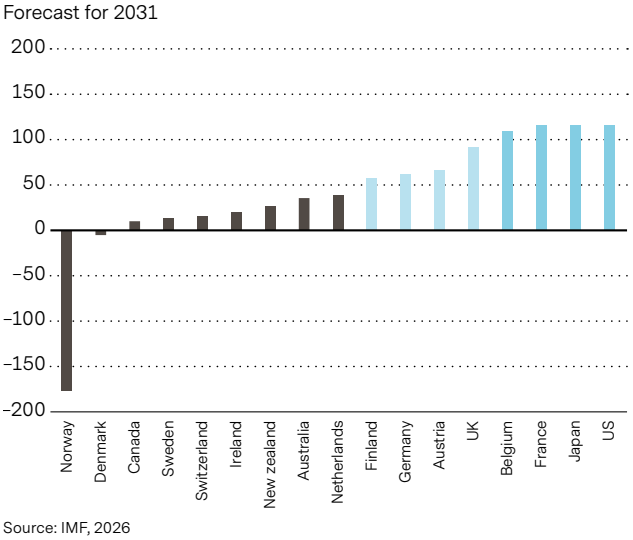
While these three countries all have their own specific reasons for the rise in yields, they share fiscal and debt-related challenges (see chart 1 for the latest IMF estimates of the net debt-to-GDP ratio).

For the US and Europe, the increase in yields is not driven by long-term inflation expectations. This bond yield component, proxied by long-term inflation swaps, has remained quite stable this year. Real yields rather than inflation are the reason for the higher yields. For the US, it shows that bond investors assume the Fed will have to keep interest rates higher not just in the short term but also in the longer term. The term premium has also risen, driven for one by the greater long-term uncertainty with regard to inflation and interest rates, with investors demanding an extra premium for this uncertainty. A rising demand and supply mismatch is probably equally as significant. US debt is rising fast and interest among some international investors, like Asian central banks or the Fed, appears to be falling. According to data from the US Treasury, the share of US debt held by international investors has already declined from about 33 percent 10 years ago to 25 percent now. However, there is likely to continue to be demand for USD-denominated debt, as the US dollar remains the global reserve currency. However, we believe the mismatch between demand and supply could continue to put upward pressure on the term premium.

This is happening at a time when the technology sector is already accumulating rising volumes of USD debt as well the scenario where USD debt is competing for international investor demand.

In France, loud protests make it difficult to implement the necessary economic reforms, especially given the upcoming presidential elections in 2027. This could make fiscal change unlikely in the short term. In our view, the current deficit and debt situation is difficult to sustain over the longer term and is likely to require tougher measures in the medium term.

Chart 1: Net debt as % of GDP



Source: IMF, 2026

Spread levels are currently wide. On the positive side, other countries that were forced to undergo reform during the European crisis are in a much better position now. This has prevented any meaningful contagion to other countries in the European periphery. At this point, the ECB probably does not want to step in and will instead weigh up the incentive for France to adjust its serious fiscal situation against having to intervene. Higher spreads and yields could be instrumental for this. However, spreads can rise beyond a level justified by fundamentals. The situation can then become counterproductive and ultimately lead to systemic risks, such as via the financial sector or if investors look to move their funds to other countries. The ECB could potentially provide a backstop if conditions deteriorate sufficiently, but in our view we are not at that point yet.

A positive factor for France could be a potential upturn in German economic developments, with benefits spilling over into France.

Japan is moving more towards a macroeconomic regime change, with inflation having returned after decades of battling deflation. This could be beneficial in the sense that it can support nominal GDP growth and help reduce debt ratios, although higher refinancing costs remain an important consideration.

However, investors are pricing in this new regime, resulting in substantially higher yields. Fiscal discipline remains important here, as refinancing will come at increasingly higher costs.

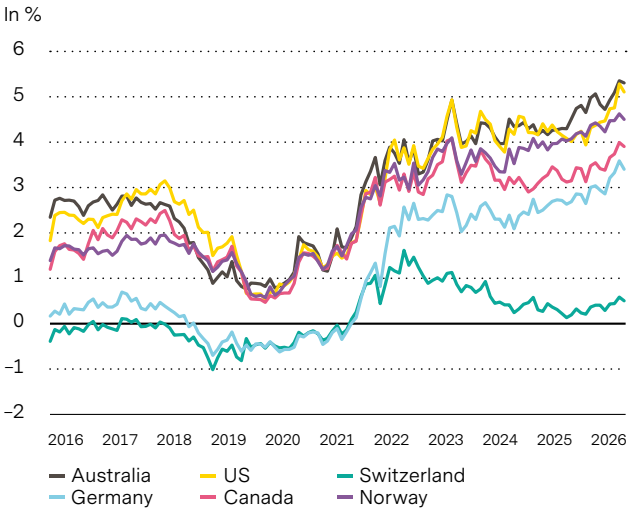
Where have the safe bonds gone?

According to IMF estimates, the three countries we have just discussed have total expected outstanding debt of USD 54 trillion. OECD countries have outstanding sovereign bond debt of around USD 61 trillion. Several countries have lost their AAA rating since the Great Financial Crisis, so that AAA-rated debt is significantly less liquid now.

This does not rule out alternatives that may offer some defensive characteristics. Within the US, A-rated corporate debt does not offer much spread over US Treasuries, but it may offer an interesting yield to maturity for longer-term investors, subject to credit and market risks.

Internationally, there is a mix of AAA-rated bonds that may offer interesting yields or opportunities for currency diversification, although these investments remain subject to interest-rate and currency risks.

Chart 2: 10-year bond yields



Source: Bloomberg, Vontobel SFA, Updated October 21st 2026

Bond yields in some AAA-rated countries, such as Norway and Australia, are not that far below US yields (see chart 2). Although these may offer diversification opportunities from a carry perspective, they should not necessarily be expected to provide protection against macro-driven equity corrections.

Both these countries are commodity exporters and even though their fiscal risks are relatively small, the currencies can correlate with commodity price changes.

Other AAA rated bonds may provide some support during these events through flight to safety flows. In our view, the Swiss franc is one of the more compelling safe-haven candidates, with the euro (Bunds) potentially offering similar characteristics to a lesser extent.

Because Swiss bonds do not offer much yield, reflecting low inflation and low debt, the potential return from a US investor's perspective may depend more on currency movements, including possible Swiss franc appreciation. This could accelerate during downturns as investors search for safe havens, although such movements are not guaranteed. Germany is the largest AAA-rated debt issuer and is generally regarded as one of the most liquid in this space.

US Treasuries have historically benefited from periods of uncertainty, offering high liquidity and often serving as a safe-haven asset. At current debt levels and with shifting strategic international demand, it remains to be seen whether this will continue to be the case in the next crisis.

Running ahead



—
Philipp Wartmann
Senior Investment Adviser,
Vontobel SFA

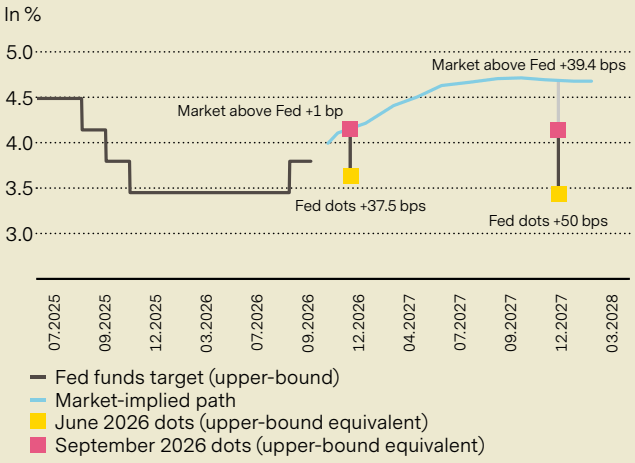
In September, the Fed raised its median policy rate forecast by 37.5 bps for year end-2026 and by 50 bps for year-end-2027 compared to its June predictions. This brought it closer to market pricing for this year, with both now expecting one more hike, most likely in December. The gap appears in 2027, where the Fed's median shows flat rates, while markets anticipate close to two further hikes (see chart 1).

In our view, the market could converge toward the Fed's projections rather than the other way around. Energy has been behind much of this year's rise in inflation and wage growth has stayed moderate. If sticky core services inflation eases, the additional rate hikes priced in for 2027 would likely be the first to go. The composition of the rise in yields supports this view. Almost all this year's rise in 10-year Treasury yields reflects higher real yields rather than higher inflation compensation.

At around 5 percent, we see 10-year yields offering potentially attractive asymmetry, meaning the potential gain could outweigh the potential loss under our assumptions although actual outcomes may differ and investors may experience losses. The outcome will depend on the evolution of yields, holding period and other market factors (see chart 2). On the basis that the longer-dated maturities may offer less protection against high supply and large deficits, we currently favor medium maturities.

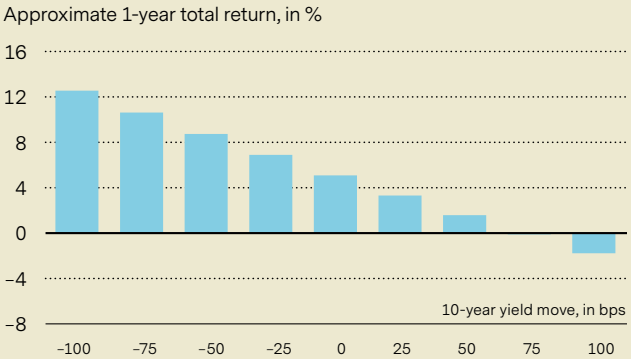
Credit spreads widened and the market saw greater dispersions of the lower end of the quality spectrum. At the same time, primary issuance remained robust, led by banks. On October 20, JPMorgan issued two tranches of USD 3.75 bn at 6.117 percent (2037) and USD 2.9 bn at 5.615 percent (2030). US investment grade bonds rallied through October 27, supported by falling Treasury yields and softer rate-hike expectations. The Treasury curve bull-steepened, while 10-year real yields fell 22bp, from 2.9 percent on October 1 to 2.7 percent on October 26. The US investment-grade bond market, as represented by LQD US, delivered a total return of approximately 2 percent month-to-date through October 27, benefiting from the rally in rates. Given that spreads are tight and provide little cushion, returns are likely to come from carry and rates, rather than from tighter spreads. However, we expect credit markets to remain relatively resilient despite the challenging backdrop, supported by healthy corporate fundamentals, though market conditions could evolve differently than expected and risks remain.

Chart 1: Market expectations for Fed rates



Source: LSEG, Vontobel; as of October 22, 2026.

Chart 2: 10-year US Treasury yield changes



Note: Scenarios assume a parallel shift in the US Treasury yield curve over 12 months, in US dollars, before costs.

Source: LSEG, Vontobel; as of October 22, 2026. This content does not constitute investment advice or a recommendation to buy, sell, or hold any financial instruments. For illustration purposes only; this is not a forecast, actual returns may differ.

Equities navigate AI doubts and rate risks



—
Susanne Knorr
Deputy Head Managed Solutions,
Vontobel SFA

October was marked by elevated volatility and sharp market divergence as investors reassessed the sustainability of the AI capex cycle amid higher inflation, rising borrowing costs, energy pressures and geopolitical uncertainty. The result was a rotation away from highly valued technology leaders toward more defensive, value-oriented and cyclical sectors.

The most significant event was the semiconductor selloff, with the Philadelphia Semiconductor Index (SOX) down 25 percent between June 30 and October 31. Concerns centered on stretched AI valuations, rising financing costs on AI-linked debt as credit markets approach absorption limits and uncertainty over whether future AI revenues can justify unprecedented capex. The weakness spread globally, with AI-sensitive markets coming under pressure, including South Korea's KOSPI declining 32 percent over the same period. Investors increasingly questioned whether access to financing, rather than chips or power supply, could become the key constraint on AI growth.

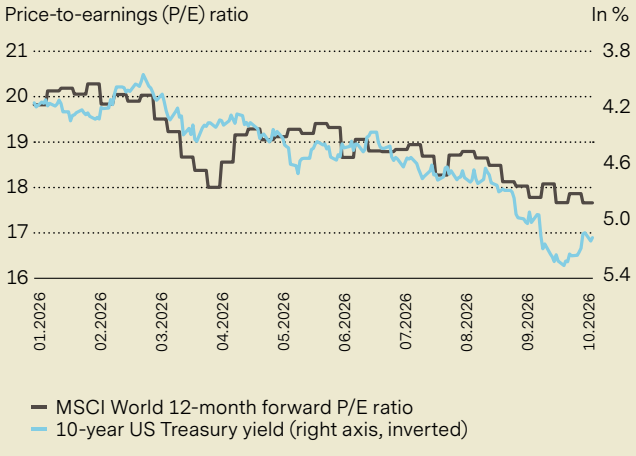
Sticky US inflation reinforced expectations of further monetary tightening, pushing bond yields to multi-decade highs and weighing on equity valuations (see chart 1). Investors became more selective, favoring companies able to fund investments through internal cash flows. Equity markets were supported by encouraging earnings growth across regions (see chart 2), stabilizing bond yields and less stretched market positioning. Broader market participation offset tech weakness, with consumer staples, energy and healthcare outperforming. European equities benefited from a constructive earnings season and a weaker euro, with earnings revisions improving for a second consecutive quarter, a historically positive signal for cyclicals.

France remained the key exception. Fiscal concerns, social unrest, and a sharp bond sell-off weighed on the CAC 40. While rising French yields have largely been linked to domestic political risks, part of the weakness could reflect global capital flows rather than purely France-specific concerns. Many strategists view broader European contagion risks as limited, given stronger banking fundamentals and the ECB's potential role as a backstop.

Looking ahead, the key question remains whether the AI capex supercycle can generate returns that justify the scale of investments. While financing, inflation and geopolitical risks may continue to keep volatility elevated, strong earnings trends, stabilizing yields and continued demand for computing power suggest the AI cycle remains intact. The recent correction may resemble healthy repricing rather than the end of a structural growth theme.[2]

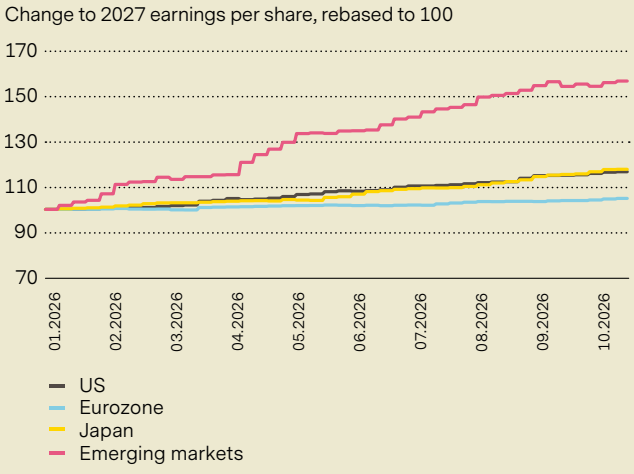
[2] Current market trends may evolve over time, and future performance may differ from current expectations.

Chart 1: US Treasury yields and Equity valuations



Source: LSEG, Vontobel; as of October 22, 2026.

Chart 2: Global earnings growth forecasts



Source: LSEG, Vontobel; as of October 22, 2026.

From tight to tamer



—
Ljilja Jevtic
Senior Investment Adviser,
Vontobel SFA

2026 was a year of tight, volatile oil markets. Supply disruptions kept prices well supported, even as demand suffered its second-largest annual decline in 60 years. Despite the recent strength, our base case for 2027 is one of gradual normalization, with prices potentially remaining firmer in the first half and softening in the second.

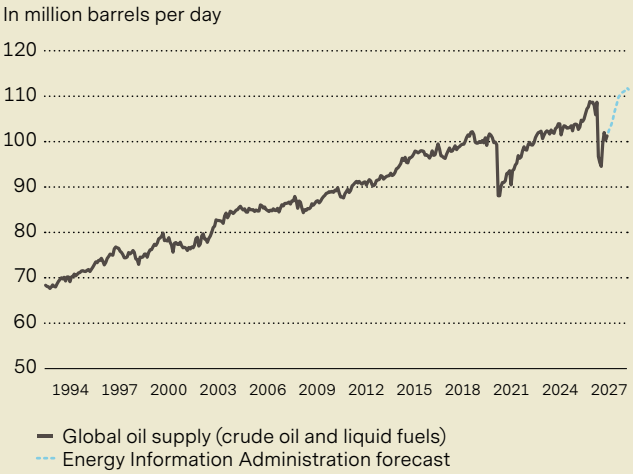
Inventories absorbed most of the supply shock. Rather than being offset by increased production elsewhere, much of the supply disruption was absorbed through drawdowns of government and commercial inventories. Hundreds of millions of barrels were released from stockpiles to compensate for lost Middle Eastern supply, helping to prevent a further escalation in oil prices. Yet high prices ultimately did what high prices have historically tended to do: they curtailed demand. According to the International Energy Agency (IEA), global oil demand is estimated to have fallen by around 2.5 to 2.6 million barrels per day in 2026, with the decline most visible in Europe and Asia.

The outlook for 2027 looks different (see chart 1). As Middle Eastern exports normalize and trade flows recover, the market is generally expected by many analysts to shift from a deficit to a surplus. Non-Middle Eastern producers have little incentive to restrain output after benefiting from elevated prices throughout much of 2026, so that supply growth could stay robust, at least early in the year. However, a looser market does not automatically translate into a big drop in prices. The 2026 inventory drawdowns have created substantial restocking needs, so that part of the expected surplus may never reach the spot market, as governments, refiners and traders seek to rebuild depleted reserves. The US Strategic Petroleum Reserve (SPR), which is near its lowest level since 1982 (see chart 2), is a case in point. No meaningful refilling has taken place yet. Meanwhile, commercial oil inventories have already shown signs of rebuilding, while product inventories are lagging. This supports our view that oil prices could stay relatively well supported in the first half of 2027. As restocking runs its course and surplus production becomes harder to absorb, softer market fundamentals could become increasingly visible in the second half.

One risk is that the Middle East conflict escalates into a broader regional war, damaging energy infrastructure, disrupting key shipping routes and removing significant volumes from the market. We do not view this as the most likely scenario, although geopolitical developments remain difficult to predict. An oil shock could significantly reduce oil demand.

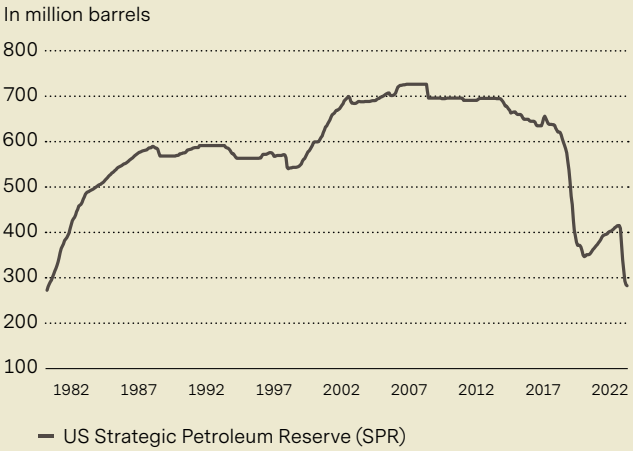
Conversely, the cohesion of the Organization of the Petroleum Exporting Countries and its allies (OPEC+) may be tested. Some producers may prefer to maximize exports while prices remain high instead of managing supply jointly. If producers end up competing for market share, oil prices could fall more than expected.

Chart 1: Global oil supply



Source: LSEG, Energy Information Administration, Vontobel; as of October 23, 2026.

Chart 2: US strategic oil reserves



Source: LSEG, Vontobel; as of October 23, 2026.

Rate differentials have favored the US dollar



—
Dr. Pieter Jansen
Chief Investment Strategist,
Vontobel SFA

Since the start of the year, (expected) rate differentials have been a supportive factor for the US dollar versus other currencies (see chart 1), with markets pricing out cuts and repriced hikes providing considerable support.

This has been the theme this year compared with 2025, when investors focused much more on diversification out of the US dollar. Chart 1 shows that some of these losses have been recovered now. However, concerns may return at some point once momentum in expected rate changes starts to fade. Fundamentally, the fiscal position and trade deficits could lead to a return to dollar weakness. The diversification out of US dollar assets by some central banks, like the PBoC, is also slow moving and much more long-term in nature. The share of US Treasuries in global foreign exchange reserves has gradually declined since 2016, according to the underlying US Treasury and central bank data. This trend may continue for some time.

Yen becoming less attractive as a funding currency

The yen carry trade has been struggling since the summer (see chart 2), as the yen appreciated. Still, the yen appears significantly undervalued based on relative purchasing power parity, i.e., inflation differentials. On the basis of this measure, an exchange rate of 70 – 75 yen per dollar could represent a fair-value estimate, according to Bloomberg data. Of course, the different factors that drive currencies can also vary over time, and currencies can remain misaligned with PPP measures over extended periods. Although actual currency movements may differ materially from valuation-based estimates, this does suggest in our view that there is potential upside for the yen over the long term, although this is not guaranteed.

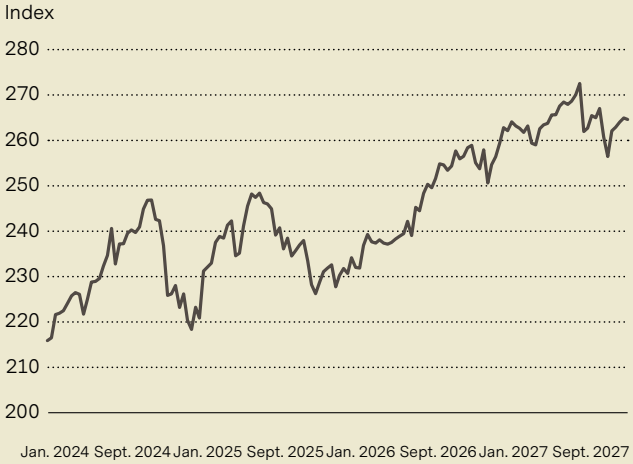
One factor that may have kept the yen weak is the so-called yen carry trade, where investors borrowed in yen and reinvested in US dollar, for instance. However, the appeal of borrowing in yen may become less attractive, following the substantial rise in yields denominated in yen. While unwinding this trade would support the yen, the fiscal outlook could continue to weigh on the currency.

Chart 1: Trade weighted dollar (DXY Index)



Source: Bloomberg, Vontobel SFA, updated at October 21st 2026

Chart 2: Return of borrowing in JPY and investing in USD



Source: Bloomberg, Updated at October 21st 2026

Economy and financial markets 2025 – 2027

The following list shows the actual values, exchange rates, and prices from 2025, as well as consensus forecasts for 2026 and 2027 for gross domestic product (GDP), inflation / inflationary expectations, key central bank interest rates, 10-year government bonds, exchange rates, and commodities.

GDP (IN %)	2025[1]	CURRENT[2]	2026 CONSENSUS	2027 CONSENSUS
Global (G20)	2.6	2.7	2.4	2.7
Eurozone	1.4	1.2	1.0	1.3
USA	2.1	2.2	2.2	2.2
Japan	1.1	0.9	0.8	0.8
UK	1.4	1.4	1.3	1.2
Switzerland	1.4	2.6	2	1.4
Australia	2.0	2.1	2.0	1.6
China	5.0	4.5	4.6	4.4

INFLATION	2025[3]	CURRENT[4]	2026 CONSENSUS	2027 CONSENSUS
Eurozone	2.1	3.8	3.0	2.6
USA	2.7	3.7	3.4	2.5
Switzerland	0.2	1.0	0.7	0.8

KEY INTEREST RATES (IN %)	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR (deposit rate)	2.00	2.50	2.81	2.65
USD (Fed funds rate, upper bound)	3.75	4.00	4.28	4.09
CHF	–	–	0.07	0.24

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR (Germany)	2.86	3.35	3.36	3.11
USD	4.17	5.03	4.81	4.6
CHF	0.32	0.50	0.64	0.64

FOREIGN EXCHANGE RATES	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
CHF per EUR	0.93	0.92	0.94	0.94
CHF per USD	0.79	0.82	0.83	0.80
USD per EUR	1.17	1.12	1.14	1.17

COMMODITIES	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
Brent crude oil, USD per barrel	61	112	89	76
Gold, USD per troy ounce	4,319	4,086	4,500	4,850
Copper, USD per metric ton	12,423	14,356	14,000	13,700

Note: Views are as of October 22, 2026. Forecasts and consensus estimates shown are based on current market conditions and assumptions as of the stated date and are subject to change without notice. Forecasts are not indicative of actual results and are not guaranteed. Actual outcomes may differ materially. This information is provided for illustrative purposes only and does not constitute investment advice or a recommendation. Please refer to the full disclaimer on page 13.

[1] Subject to revisions (e.g., potential revisions to 4Q data)
[2] Latest available quarter
[3] Subject to revisions
[4] Latest available month, G20 data only quarterly
[5] ↑ above consensus, → in line with consensus, ↓ below consensus

Source: Vontobel, respective statistical offices and central banks; as of October 22, 2026.

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