

Vontobel

Investors' Outlook

Market pruning



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For US, Canadian and Latin American Clients

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Market pruning



—
Dr. Pascal Köppel
 Chief Investment Officer,
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Dear readers,

Although geopolitical uncertainties remain high, for instance due to the latest middle east escalation, we consider the conditions for global economic growth to be supportive, with central banks—Japan aside—across the G10¹ having been in easing mode. The cumulative effect of those interest-rate cuts should continue to filter through to the economy well into the year. Fiscal stimulus outside the US is also poised to provide positive impetus for global growth, while investors are awaiting the outcome of China’s National People’s Congress in early March, when the world’s second-largest economy may set a lower target for its 2026 gross domestic product.²

Beneath the solid macroeconomic environment, volatility has been dispersed in February. On the one hand, investors trimmed certain risk assets in February’s sell-off that reflected fears that AI disruption could cause an “SaaS-mageddon”.³ On the other hand, geopolitical volatility has taken deeper root, with markets on high alert as tensions between the US and Iran escalated into strikes and retaliations. This particularly increased energy price volatility.

With regards to the repricing of some Technology stocks, market behavior shows investors are vigilant and not necessarily willing to overpay for hope. Investors want to see earnings and guidance evidence, and we view this as being healthy, especially as it has paved the way for some (added) diversification. The rotation has seen investors broadening out on a regional and sectoral level, specifically out of the US into European and emerging-market (EM) equities, as well as from technology into consumer staples and industrials.

Regarding AI specifically, the pullback shared one common denominator—concern over business models that rely on human cognitive capital and limited competitiveness that make them vulnerable to AI displacement. We still need to learn what AI really means and that learning can only happen as we progress. Some volatility is therefore likely to accompany us going forward. As for geopolitical tensions, especially the US-Iran escalation that has fanned fears of broader regional instability and potential energy-market disruptions, we believe they highlight the importance of diversification. We have exposure to real assets, such as gold, as a geopolitical hedge.

We aim to help clients’ portfolios for longer-term growth over time.

¹ G10 (Group of Ten) refers to a group of 10 major advanced economies.

² Source: Reuters article, published January 23, 2026. www.reuters.com/world/asia-pacific/china-likely-set-2026-gdp-growth-target-between-45-5-scmp-says-2026-01-23/

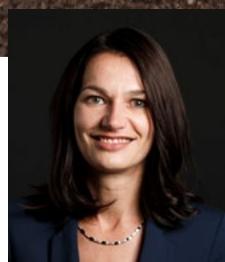
³ Informal term describing a collapse in the Software-as-a-Service sector as a result of AI disruption.



—
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Tending the ground

Winter debris is usually cleared in spring and what has grown too dense is thinned, allowing stronger shoots to emerge. That tending began early this year. In the first two months of the year, policymakers sowed new seeds, while investors pared back crowded trades.

In the US, President Donald Trump nominated Kevin Warsh to succeed Jerome Powell as chair of the US Federal Reserve when Powell's term ends in May 2026. In general, the announcement was well received by markets as it alleviated concerns about Fed independence. It triggered some gold price weakening while the US dollar strengthened.

In Japan, Prime Minister Sanae Takaichi celebrated a landslide snap-election victory. With a 316-seat supermajority, she now has the legislative muscle to override the Upper House and implement her "Sanaenomics"⁴ agenda. Alongside her January pledge to end "excessively tight fiscal policy and a lack of investment for the future"⁵, the win helped boost Japanese equities, which hit all-time highs.

Investors around the world trimmed some of their tech-heavy holdings in favor of more cyclical positions, amid reservations about AI-related software stocks. The rotation included moves into value stocks and sectors like energy, industrials and healthcare.

Overall, the global macro-economic environment remains positive and should be supportive for corporate earnings. We have increased our preference for equities via the more cyclical markets of Europe and emerging economies. At the same time, we have pruned our overweight in bonds somewhat. We continue to see value in both bonds (selectively) and equities.

⁴ Refers to Japan's Prime Minister Sanae Takaichi's economic policy agenda, focused on aggressive fiscal spending, state-led investment in key sectors like AI, semiconductors, and defense, and monetary easing to boost growth.

⁵ Source: CNBC article, published January 19, 2026. www.cnbc.com/2026/01/19/japan-pm-takaichi-calls-feb-8-election.html

	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		
	significantly	slightly		slightly	significantly	
1 Liquidity	→					We are keeping a lower allocation to cash. This reflects our current assessment that fixed income and equity investments may offer a more favorable risk-adjusted return potential than cash in the current environment.
2 Bonds				↘		We believe the outlook for high-quality fixed income is constructive, with support offered by current market conditions, including a moderately upward-sloping yield curve and positive real yields. However, we are selective with regard to our risk bias within the bond universe. We have a preference for quality and duration extension. We still believe that EM bonds will continue to benefit from better global growth conditions, a trend of moderating Fed interest rates and US dollar softness.
3 Equities				↗		The global macro environment remains constructive and we find an equity allocation with a moderate cyclical tilt to be appropriate. Regionally, we favor Switzerland, the euro area and emerging markets. The latter two typically benefit from improved cyclical conditions, while Swiss companies can take advantage of a better European growth environment. We also maintain a favorable view of the Swiss franc. We are keeping an underweight allocation in UK equities, as we see continued downside risks to the UK economy and British pound.
4 Commodities / Gold			→			Our positive view on gold remains intact. Gold rallied strongly in 2023 and 2024, and this trend extended into 2025. Heightened geopolitical and macroeconomic uncertainties, and ongoing strategic purchases of gold, especially by emerging markets central banks, continue to support this asset.

An uneven US recovery

US economic development has become bumpy. In the alphabet of economists, it includes letters such as the V (fast recovery), U (slow recovery) and L (no recovery), with the latest addition being the K-shaped economy.



—
Dr. Pieter Jansen
Chief Investment Strategist,
Vontobel SFA

The K-shaped economy describes an uneven economic recovery, in which certain sectors, industries or groups of people benefit (more) while others lag behind. The term comes from the visual representation of the recovery: after a recession, one sector of the economy or population experiences growth (the upward stroke of the K), while another stagnates or declines (the downward stroke of the K). This creates diverging economic outcomes.

When analyzing post-pandemic economic data, economists often come across patterns resembling a K. One such example is the growing disconnect between the US stock market and consumer sentiment (see chart 1).

The upper arm of the K reflects a resilient stock market that has weathered high prices, trade war concerns and geopolitical tensions. Large corporations have managed to shield (and even expand) their profit margins through aggressive pricing strategies and by passing higher costs on to consumers, these firms have maintained robust earnings.

The downward-facing arm of the K captures a growing divide between financial markets and the day-to-day reality that some consumers may face. Consumer confidence,

as measured by the University of Michigan Consumer Sentiment Index, remains subdued. This indicates that inflation is still a problem, or rather, the accumulation of past inflation overshoots where products are perceived as expensive. The University of Michigan survey focuses more on inflation-related questions, whereas the US Conference Board's consumer sentiment indicator focuses more on the labor market. The US Conference Board consumer sentiment survey is at a significantly better level than that of the University of Michigan survey on a standardized basis. This implicitly suggests that inflation is the bigger worry relative to labor market conditions.

For lower income groups, housing affordability, in particular, seems to be a pressing pain point. The US Housing Affordability Index⁶ dropped below the critical

⁶ The Housing Affordability Index (HAI) is a measure used to determine whether the average family can afford to purchase a median-priced home in a specific area, given current income levels, home prices and mortgage interest rates. It is a widely used tool in real estate and economic analysis to assess housing affordability trends over time. The HAI is typically set at 100 as the benchmark. A value of 100 means that a family earning the median income has exactly enough income to qualify for a mortgage on a median-priced home. A value above 100 indicates that the average family has more than enough income to afford a median-priced home. A value below 100 means the average family cannot afford a median-priced home.

100 threshold in mid-2022 for the first time since the 1980s and has hovered around that level ever since. It is especially an issue for lower income groups with smaller financial buffers. However, consumer sentiment surveys may underestimate overall consumption growth, as the surveys are not income weighted and middle-to-higher incomes may contribute relatively more to overall consumption growth. For instance, the Dallas Fed finds that 20 percent of top earners are responsible for 57 percent of consumption and notes that consumption concentration has increased modestly since the 1990s.

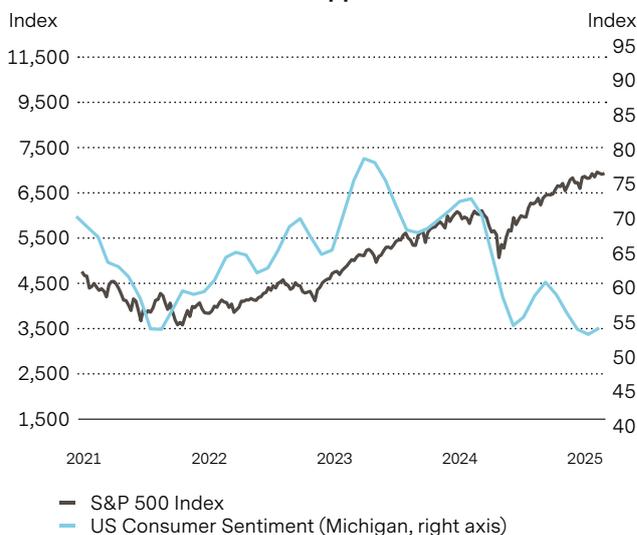
Winners and losers in a K-shaped economy

The primary beneficiaries seem to be the capital owners who can benefit through their asset exposure to new technological developments that support earnings growth. This may also apply to real estate owners to a lesser extent. Those left behind tend to be individuals without substantial savings. They probably make up the downward stroke of the K and often work in roles that require physical presence, like in hospitality, retail and traditional manufacturing. The result is a growing divide, where the “haves” see their wealth increasingly detached from the economic struggles of the “have-nots”.

There is some wage compensation too, as companies had granted nominal pay increases in response to the post-pandemic inflation surge. However, real (inflation-adjusted) wage growth did not turn positive until mid-2023. Even now, although wages are outpacing current inflation, the cumulative impact of high inflation has left many workers struggling to regain their previous purchasing power. Chart 3 shows that companies seem reluctant to increase wages further, despite the fact that their 12-month forward profit margins have soared to record highs.

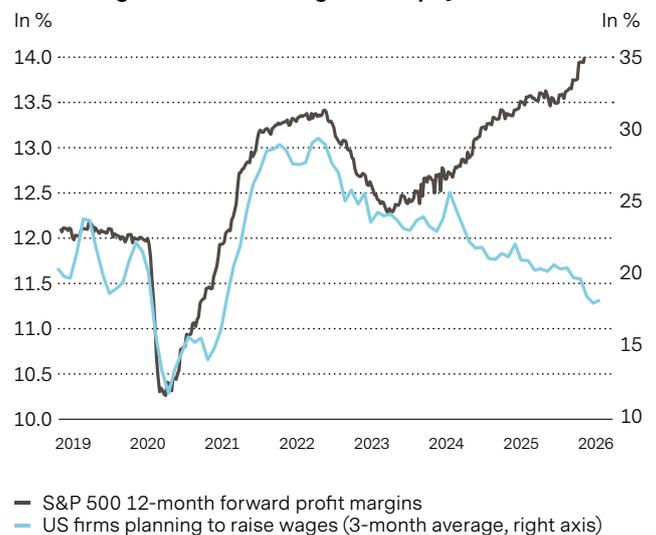
The impact of AI on the labor market is heavily debated. Clearly, there are opportunities in areas like AI development etc. but there will also be jobs that will be replaced as part of a creative destruction process. The labor market has become much looser now, which means that the overall employee negotiation power has weakened. A positive side effect is the resultant downward pressure on inflation, which can contribute to an easier monetary policy stance. Significant differences can be found within the labor market, which are based on the availability of cheaper or more efficient solutions, like replacement by AI. We might also see skill-mismatches in other areas. For now, exposure to equities may be one way to participate in potential macro productivity gains.

Chart 1: A booming US stock market, yet overall consumer sentiment has dropped to recession levels



Source: LSEG, Vontobel; as of February 20, 2026.

Chart 2: Companies are boosting profit margins to record highs without raising worker pay



Source: LSEG, Vontobel; as of February 20, 2026.

Waiting for the cut



—
Philipp Wartmann
Senior Investment Adviser,
Vontobel SFA

The Fed left the funds rate unchanged at 3.50 to 3.75 percent on January 28, with Stephen Miran and Christopher Waller dissenting in favor of a quarter-point cut.

Officials also removed language that had pointed to rising downside risks to employment and Chair Jerome Powell cited a “clear improvement” in the outlook alongside a steadier labor market. Futures still lean toward no move before June (see chart 1).

Warsh’s nomination could be the bigger driver of the curve. If he becomes Chair, we believe two-year yields would likely drift lower, as the front end mostly follows the expected policy path and markets price in a clearer easing bias around the leadership change. Warsh has signaled a preference for a materially smaller Fed balance sheet. A faster-than-expected reduction from the current roughly USD 6.7 trillion level could lift term premia and keep long yields stickier, because investors will demand more compensation for liquidity and funding uncertainty.

AI capex turns into a supply story for credit

Hyperscaler supply remains strong and a heavier pipeline raises the odds that spreads will need to cheapen if sentiment or liquidity turns. We already saw a surge for US

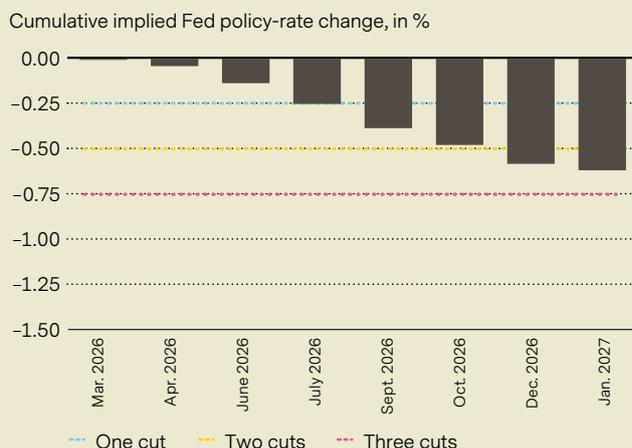
hyperscalers⁷ in 2025, and 2026 is starting in the same gear, led by Oracle’s USD 25 billion print and Alphabet’s USD 31.5 billion-equivalent multi-currency deal, including a rare USD 1 billion 100-year tranche (see chart 2).

Corporate and EM bonds seem to be well supported

The investment grade market remains well supported despite tight credit spreads (yield difference to government bonds), as fundamentals remain strong (interest coverage, net debt and rating upgrades versus downgrades by the agencies). All-in yields (total yields) continue to be attractive in the long-term historical context, especially for USD, EUR and GBP denominated bonds. Real yields are positive. Historically, periods of similarly high real yields have often coincided with above-average bond market total returns⁸. We are seeing record IG issuance this year, and this supply continues to be well absorbed by long-term asset allocators. Supply of G10 government bonds is also expected to be high. We believe this could contribute to steeper curves globally and in European currencies as well. Higher energy price uncertainty can also contribute to steeper curves. We prefer EM bonds. These are a tactical overweight in our allocation, reflecting what we view as supportive fundamentals in EM, a weak USD and the prospects of further Fed easing this year. Some EM countries benefit from higher energy prices (commodity exporters), while others are net importers. The allocation towards bonds overall is a positioned as a moderate overweight within our current asset allocation framework.

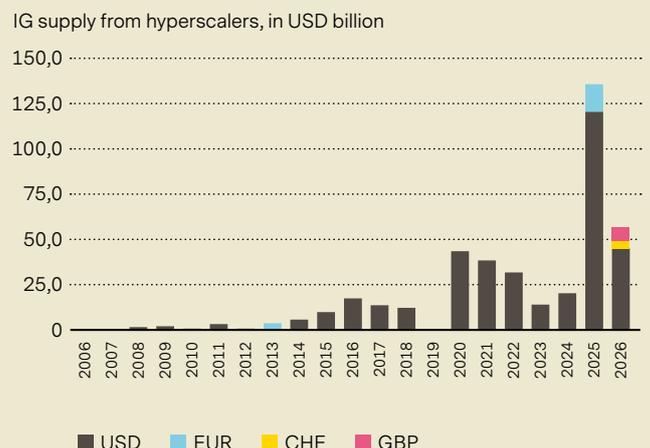
⁷ Amazon, Alphabet, Meta, Microsoft and Oracle.
⁸ Past performance does not guarantee future results

Chart 1: Markets anticipate the next Fed move in June, after Powell’s term as chair ends



Source: LSEG, Vontobel; as of February 19, 2026.

Chart 2: AI-related issuance floods credit market



Source: LSEG, Vontobel; as of February 19, 2026.

AI enthusiasm cools as markets grapple with uncertainty



—
Susanne Knorr
Deputy Head Managed Solutions,
Vontobel SFA

Investor sentiment toward AI turned sour in February, as initial excitement shifted to concerns over its disruptive potential, sparking an AI scare trade. Innovations from firms like Anthropic, including tools capable of performing independent legal, analytical and operational tasks, triggered a sell-off, particularly in global software.

Investors worry that AI agents could automate customer relationship management, workflow processes and data analytics, thereby potentially eroding subscription revenues, pricing power and earnings.

Within technology, the valuation and performance gap between software and semiconductor / AI infrastructure companies has widened (see chart 1). Semiconductor firms have benefited from hyperscalers' capex boom, with their performance, market caps, margins and valuations reaching unprecedented levels, therefore drawing closer investor scrutiny.

While the sell-off may seem indiscriminate and sentiment-driven, concerns about AI disruption are not without merit. AI could upend multiple industries, with rapid adoption accelerating its impact. Sectors reliant

on knowledge work and structured processes, especially those with low switching costs or limited competitive advantages, are particularly vulnerable. However, the correction magnitude seems excessive, especially in parts of the software sector, where valuations have compressed significantly. Many companies have deeply embedded processes or value chains that are not easily replaced by AI.

Market sentiment remains driven by two opposing AI-related views. On the one hand, concerns about capex returns suggest AI may not meet its hype, limiting its disruptive potential. On the other hand, substantial capex returns could follow if AI adoption proves highly disruptive. This uncertainty makes it difficult for investors to identify clear winners or losers.

In either scenario, diversification is key—across sectors and geographies. Elevated US equity valuations make them particularly vulnerable to AI-related earnings underperformance, given the heavy tech weighting. Conversely, if AI drives widespread disruption, lower valuations and cheaper adoption costs could benefit EM and Europe.

Investors can diversify away from tech concentration risks by looking to regions like Switzerland and Europe, which inherently offer complementary sector exposures (see chart 2). As we see it, Europe's favorable macro environment, supported by monetary and fiscal easing, may provide a supportive backdrop for corporate earnings. We have therefore raised our preference for equities to enhance diversification and increase exposure to areas that may benefit from improved cyclical trends, particularly in Europe.

Chart 1: Bifurcation in valuation multiples between software and semiconductors

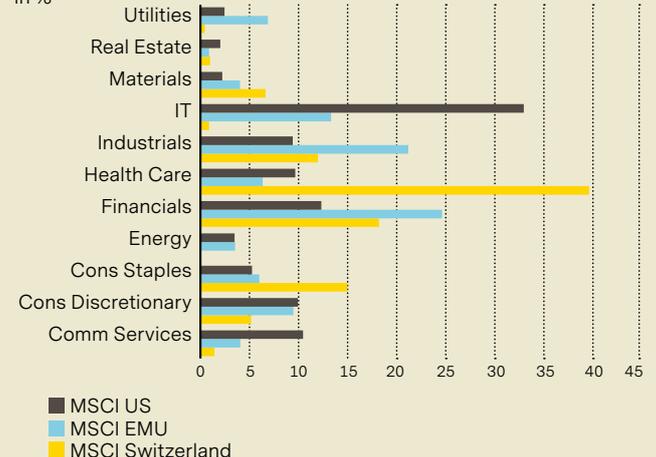
Price-to-sales multiples



Source: LSEG, Vontobel; as of February 20, 2026.

Chart 2: Differences in sector exposure across individual regions

In %



Source: Bloomberg, Vontobel SFA; as of February 25, 2026.

The geopolitical risk premium is back



—
Christoph Windlin
 Head Managed Solutions,
 Vontobel SFA

Until recently, most commodity forecasters were focused on the prospect of abundant oil supply. Key organizations, such as the International Energy Agency, projected a significant oil inventory build-up in 2026, driven by high US production and slowing demand in major economies. Although this is still relevant, a geopolitical risk premium has pushed the oil price higher, with WTI crude oil crossing USD 40 per barrel by early March.

Increased geopolitical uncertainty has contributed to a significant inversion of the oil future curve (see chart 1). Acceleration of shorter maturity future prices has led to a downward sloping curve (backwardation, compared to the beginning of the year, when the curve was still upward sloping (contango).

In general, when demand-supply conditions are (expected to be) tight, the curve tends to be downward sloping. The risk of production outages or disruptions to delivery can be a trigger and lead to increased investor demand and near-term prices to ensure delivery.

The change is also visible in net speculative positioning in CFTC data. Since mid-January, speculative investors have increased their long positions in futures and reduced their short positions. Although the increase of the long-minus-short as a share of total positions is significant, the ratio is still well below the long-term average (see chart 2). This repositioning also corresponds with the results of the Bank of America Merrill Lynch Fund Manager Survey for February, which noted a significant extension of investor positioning as investors effectively moved from an underweight to a more neutral position. For now, these shifts give the impression that investors are preferring to wait and see how tensions unfold in the Middle East. Although the escalation led to a further rise of the oil price, prices had already risen significantly in the first two months of the year.

Chart 1: WTI crude oil future curve

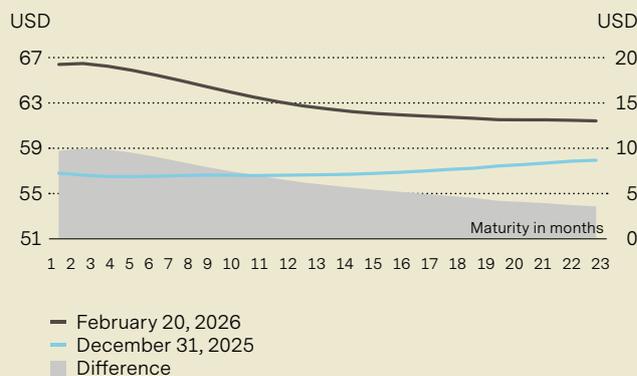
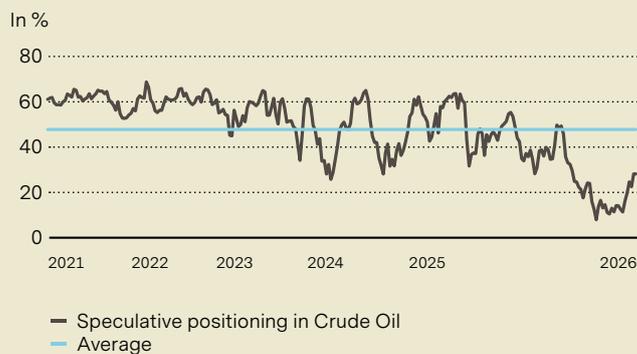


Chart 2: Net speculative future positioning*



*net speculative longs minus shorts as percentage of longs plus shorts

Withering US dollar support and an overgrown Swiss franc



—
Dr. Pieter Jansen
Chief Investment Strategist,
Vontobel SFA

The US dollar has started 2026 much as it did in 2025, soft and without follow-through. With US rates support no longer improving and positioning lighter, the current setup looks like it is moving closer to a weak-dollar period than a bull cycle.

Chart 1 puts the dollar’s year-to-date path into context. After last year’s slide, we have not seen a convincing rebound and the US dollar is still in negative territory. To highlight the difference, we have compared it with two extremes. The yellow line (1981) is a textbook strong-dollar year. Volcker-era⁹ rates were pushed to very high levels to crush inflation, US real yields were well above those of their peers and capital chased dollar assets. The red line (1985) shows the opposite. The US dollar had become overvalued, the trade deficit was large and the Plaza Accord¹⁰ delivered a coordinated push to weaken the currency.

Considering this history, 2026 so far and 2025, in particular, are much closer to the weak end of the distribution than to a true bull-dollar regime. According to CFTC data, many investors have meanwhile shifted to a tactical underweight to the US dollar compared to other currencies.

Elsewhere, the Swiss franc’s strength is turning into a growth headwind and policy constraint. With interest rates already at 0 percent and inflation near the bottom of its 0 to 2 percent range, we believe the Swiss National Bank (SNB) will likely hold steady and lean on foreign exchange (FX) intervention, even as markets are still pricing in a small chance of negative rates if the franc appreciates further. After gaining about 14 percent in 2025, the franc is up nearly another 3 percent this year, returning the USD/CHF close to the levels last seen during the 2015 shock.¹¹

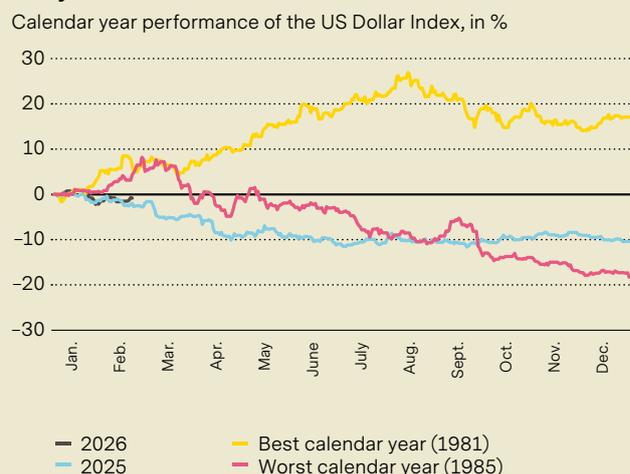
The exchange rate also complicates policy. With rates at zero, resisting further franc strength would quickly put negative rates back on the table, an option policymakers have little appetite to revisit. Markets are still assigning some probability to that outcome (see chart 2), which shows how central the currency has become to the outlook. For now, the SNB looks set to remain on hold, keeping FX intervention as a backstop and focusing on rebuilding policy room. We believe any rate hike would more likely materialize at a later stage if inflation remains steady, although the timing remains uncertain.

⁹ Refers to the period from 1979 to 1987, when Paul Volcker served as the Chair of the US Federal Reserve. The era is known for aggressive interest-rate hikes to fight high inflation in the US.

¹⁰ 1985 agreement between the US and Japan, West Germany, France, and the UK to weaken the US dollar.

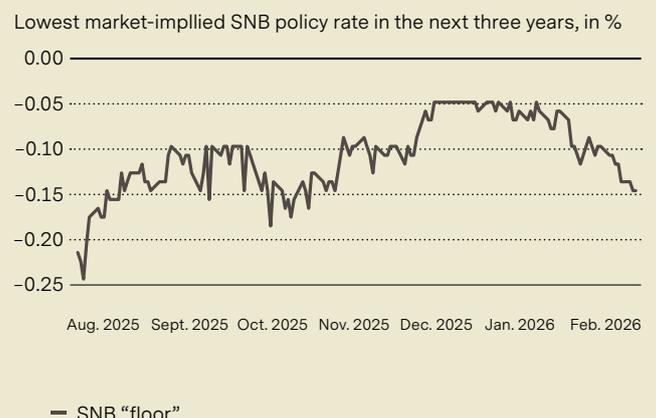
¹¹ Refers to the sudden surge in the Swiss franc after the SNB unexpectedly removed its cap on the franc against the euro.

Chart 1: The US dollar’s early-year performance mirrors last year’s softness



Source: LSEG, Vontobel; as of February 19, 2026.

Chart 2: Market-implied SNB “floor” drifts lower



Source: LSEG, Vontobel; as of February 19, 2026.

12 Forecasts

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 %)	2025¹	CURRENT²	2026 CONSENSUS	2027 CONSENSUS
Global (G20)	2.5	3.3	2.8	2.7
Eurozone	1.4	1.3	1.2	1.4
USA	2.2	2.3	2.4	2.0
Japan	1.1	0.1	0.8	0.9
UK	1.4	1.0	1.1	1.4
Switzerland	1.2	0.5	1.2	1.5
Australia	1.9	2.1	2.2	2.2
China	5.0	4.5	4.6	4.4

INFLATION	2025³	CURRENT⁴	2026 CONSENSUS	2027 CONSENSUS
Eurozone	2.1	1.7	1.8	2.0
USA	2.7	2.4	2.7	2.4
Switzerland	0.2	0.1	0.4	0.7

KEY INTEREST RATES (IN %)	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR (deposit rate)	2.00	2.00	1.99	2.00
USD (Fed funds rate, upper bound)	3.75	3.75	3.43	3.23
CHF	0.00	0.00	-0.01	0.04

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR (Germany)	2.86	2.75	2.89	3.01
USD	4.17	4.07	4.13	4.12
CHF	0.32	0.23	0.37	0.59

FOREIGN EXCHANGE RATES	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
CHF per EUR	0.93	0.91	0.93	0.94
CHF per USD	0.79	0.77	0.78	0.80
USD per EUR	1.17	1.18	1.20	1.21

COMMODITIES	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
Brent crude oil, USD per barrel	61	69	60	62
Gold, USD per troy ounce	4,319	4,926	4,500	4,330
Copper, USD per metric ton	12,423	12,620	12,000	11,315

Note: Views are as of February 18, 2026. Forecasts are based on current market conditions and assumptions and are subject to change without further notice. They do not guarantee future results.

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

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