

Vontobel

Investors' Outlook

A shorter leash

October 2026
For US, Canadian and Latin American Clients

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A shorter leash



Dr. Pascal Köppel
Chief Investment Officer,
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Dear readers,

The global economy continues to grow, although the ride appears to be getting a bit bumpier. Oil prices have increased once again to around USD 100 as the turmoil in the Middle East continues, keeping upward pressure on headline inflation. Although central bankers typically tend to look through temporary supply shocks, the Federal Reserve (Fed) is uncomfortable with the current level of inflation and, in a unanimous decision, raised interest rates at the last FOMC meeting. The Fed was not the only central bank to take action in September, with the ECB having increased rates earlier in the month, its second hike this year.

The door remains open for another Fed hike this year. That said, in our view, there is limited need for significant additional tightening of monetary policy. As it stands, we find it to be already somewhat on the tight side in the US and see this hike more as fine tuning. It also suggests that the Fed is prepared to take measures to keep inflation expectations anchored, which, in our view, it has broadly achieved so far since the oil price started to rise from the end of February. With long-term inflation expectations having actually fallen back a bit after the latest hike, the Fed's credibility with regards to price stability appears to be well established.

That said, the focus remains on the bond market. The 10-year US Treasury yield crossed the five percent mark last month, its highest level since 2007. It is primarily the real yield that has been pushing yields up. One key element is the term premium, which is more due to demand and supply conditions. High level of debt, i.e. significant bond supply, is a factor weighing on the Treasury market, as international investors are less keen to pick up this extra supply.

Risk assets took a bit of a breather after what has been a significant run. The combination of a good year so far, with elevated oil prices and bond yields, against a background of the upcoming US midterms might have prompted some investors to take the foot off the gas pedal. Nonetheless, equity valuations are not extreme as the rally was largely driven by improved earnings. For now, we view the earnings environment still as supportive and stick to our tactical overweight in equities, while recognizing the risks associated with elevated interest rates and geopolitical developments.



—
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—
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A dose of accommodation removed

The Fed delivered its first interest-rate hike in three years. Several other central banks around the world have already taken a similar step. With rate increases having resumed across major economies, the global easing cycle has effectively come to an end. But much of the inflationary pressure central banks are responding to stems from supply-side factors, such as higher oil prices and the lingering effects of tariffs, which monetary policy can't do much about. As such, we believe there is limited scope for additional tightening.

Although economic growth has accelerated this year, we are seeing some headwinds, such as higher interest rates and higher oil prices. Fiscal policy is still a supportive factor, albeit mainly for Europe, and is expected to ease off globally in 2027. Yet, our base case is that the global economy can withstand higher interest rates

without entering a recession. The FOMC statement also indicated that the Fed continues to expect relatively strong economic growth.

The impact of the war in Iran on the oil market is also more limited and is not disrupting energy flows as much as feared, with alternative export routes being developed and production expanded elsewhere. The elevated price may also enable some de-escalation. That said, the global economy has so far proven to be resilient against the oil price shock, with important support coming from other areas, such as AI-driven investments and potential productivity gains.

The SFA Investment Committee has refrained from making any changes to its asset allocation. Find the details on page 5.

	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		
	significantly	slightly		slightly	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.
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, although market conditions and outcomes may vary.

Markets and the US midterms



Dr. Pieter Jansen
Chief Investment Strategist,
Vontobel SFA

Many investors and market commentators are focused on the midterms. According to current polling, several outcomes are on the table, which creates some uncertainty. The poll outcomes can of course change dramatically up to election day and have not always given a reliable prediction in the past.

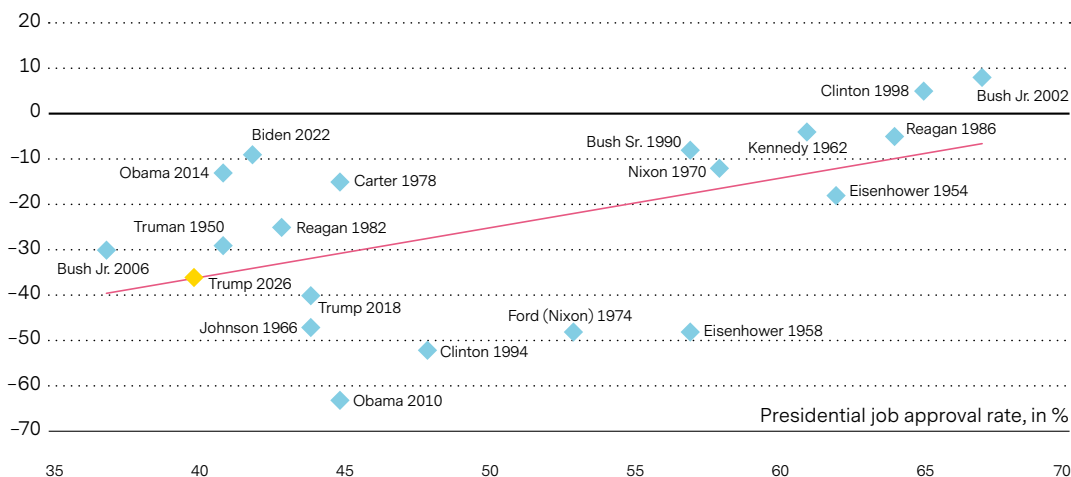
Historically, the loss of a House of Representatives majority by the president's party in the midterms is not that uncommon (see chart 1). The Senate is designed to provide greater continuity, as senators serve six-year terms and only a portion of seats are contested in each election cycle. Although losing either chamber would make it more difficult for the president to implement economic policy changes, losing the House is currently viewed as the more immediate risk. As of mid-September, the prediction market Polymarket indicated a market-implied probability that Republicans would lose control of the House at more than 84 percent, compared with roughly 50 percent for the Senate.¹

Investors and voters may have a different view on how well the economy is doing. Macro statistics, put the US economy in good shape. With solid passthroughs in corporate earnings data, equity markets also continued to post positive returns this year. Corporate earnings have generally exceeded expectations in 2026 to date, and technological innovation, particularly in AI, has contributed to gains in some markets and sectors. Yet, not all Americans may have benefited from this prosperity. Against a background of higher mortgage rates, higher fuel prices and an inflation overshoot in recent years, certain consumer groups are more dependent on credit, so that the negative forces may have outweighed the positives.

¹ Source: Polymarket. polymarket.us/event/us-ho-midterms-2026-11-03 and polymarket.us/event/us-se-midterms-2026-11-03; as of September 14, 2026.

Chart 1: Low presidential approval ratings have historically led to big losses in the House of Representatives

House seats lost / gained



Source: BCA calculations (June 2026), Gallup, Vontobel; as of September 14, 2026.

This divide has contributed to what some observers describe as a K-shaped economy. Higher-income households, which control the majority of financial assets, have benefited significantly from rising stock prices, appreciating business values and exposure to AI-related investment themes. Meanwhile, many middle- and lower-income households continue to grapple with high living costs, housing affordability and concerns about job security. This implies that to one segment of the economy feeling increasingly prosperous, with another perceiving little improvement despite optimistic economic headlines.

Equity markets and the midterms

From an investment perspective, the months leading up to the midterms can be challenging for equities. Investors generally dislike uncertainty, and questions surrounding congressional control, fiscal policy, taxation and regulation can contribute to bouts of volatility ahead of the vote.

Historically, however, US equities have often posted positive returns in the periods following midterm elections (see chart 2). Once the outcome is known, investors gain greater clarity regarding the policy environment for the next two years, thereby removing an important source of uncertainty. Markets have historically shown periods of positive performance under divided government, as it reduces the likelihood of major policy changes and increases policy predictability. Similarly, administrations of both parties often seek to support economic growth as the next presidential election approaches. Ultimately,

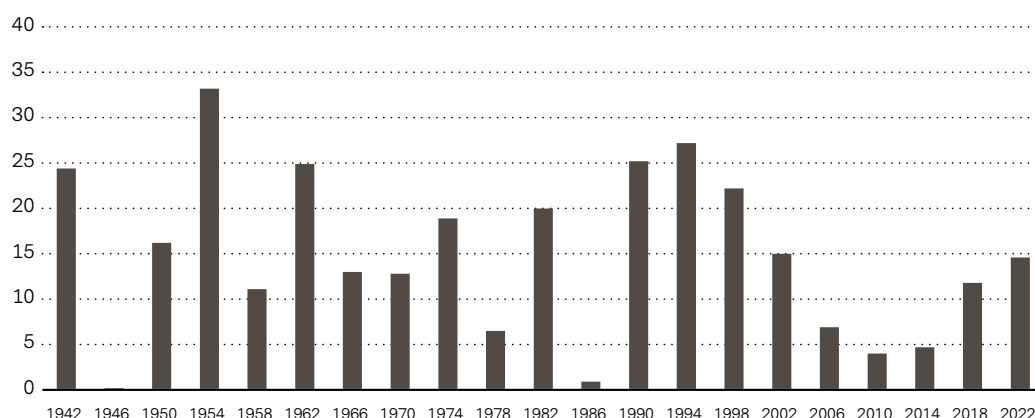
equity markets tend not to be driven by political election outcomes alone. What matters is what happens to underlying fundamental factors. Of course these can be impacted by policy changes as well, but in the end corporate earnings drive equity market performance in the longer run.

Equity investors may also have other reasons to take a pause, given that equities have performed very well this year, despite higher oil prices and interest rates. The positive impact of a strong economic environment and potential offered by new technological developments has had a positive impact on earnings. Against the current background of higher energy prices and interest rates, we could see some repositioning or profits-taking as the midterms loom. However, we continue to see fundamental support for equities, while recognizing that higher energy prices, interest rates and political uncertainty could weigh on returns and do not expect the midterms to lead to significant policy shifts that impact the underlying corporate earnings path. A more significant repositioning could also create opportunities, although outcomes would remain dependent on market and policy developments.

Not all uncertainty may disappear after the midterms either. If Republicans lose control of one or both chambers, the likely outcome is legislative gridlock, making it harder for the administration to advance its agenda. domestic agenda through conventional channels.

Chart 2: Historical S&P 500 price returns in the 12-month period following a US midterm election since 1942

Returns, in %



Source: LSEG, Vontobel; as of August 28, 2026. Past performance is not a reliable indicator of current or future performance. For informational purposes only. This content does not constitute investment advice or a recommendation to buy, sell, or hold any financial instruments.

Closing the gap



—
Philipp Wartmann
Senior Investment Adviser,
Vontobel SFA

The September Fed meeting made clear that the US interest rate environment has changed. The unanimous 25bps increase took the policy rate to 3.75–4.00 percent, while the new projections combined stronger growth, lower unemployment and higher near-term inflation with a higher path for policy rates. The median Fed funds forecast rose to 4.1 percent for both year-end 2026 and year-end 2027, bringing the Fed much closer to levels already priced in by the markets.

That convergence is important for what comes next. Ahead of the meeting, investors had already built a sizeable tightening cycle into forward rates. The September projections brought the Fed closer to market pricing, although the market-implied policy rate for year-end 2027 is still somewhat above the Fed's median forecast (see chart 1). The US Treasury curve has shifted materially higher at the front end, with a pronounced bear flattening dynamic: short-to-intermediate tenors sold off sharply while the long end was nearly unchanged. The 2s30s spread compressed by roughly 33 bps up to September 22.

The tone of the meeting also suggests that the Fed has become more comfortable keeping policy tighter while

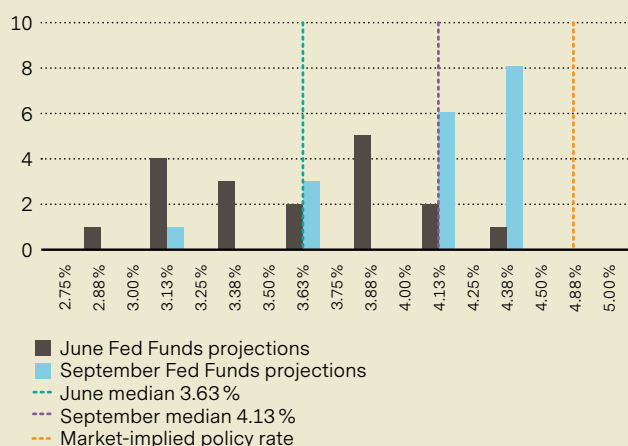
the economy remains resilient. Strong activity and a stable labor market make it easier to lean against inflation.

We still believe yields are likely to retreat over a nine- to 12 month horizon, as inflation moderates and policy expectations stabilize. However, we consider the scope for a large rally at the long end to be limited. Fiscal deficits are large, Treasury supply is heavy and the term premium has rebuilt from the unusually low levels seen in the period after the Global Financial Crisis.

We saw little change in the credit space. Investment-grade fundamentals appear sound, but spreads are tight and heavy supply continues to pose a technical headwind. LQD US, the ETF that tracks the US IG bond market, had recovered to USD 105 as per September 22nd (see chart 2). The mid-market weakness is consistent with the sharp rise in front-end Treasury rates. AI-related financing accounts for a growing share of issuance. In the EM space, Qatar issued two USD benchmark sovereign bonds (5yr + 10yr) with a total volume of USD 3 billion, amid fiscal pressure from the impact of the US-Iran war on LNG exports. The sovereign bond issue was the country's first public international bond of the year and was heavily oversubscribed.

Chart 1: The Fed has moved closer to the market, but investors still price in higher rates by end-2027

Number of FOMC participants



Source: LSEG, Vontobel; as of September 28, 2026.

Chart 2: LQD investment grade corporate bond ETF (total return, USD)

Index



Source: Bloomberg, Vontobel SFA, updated at Sep 23, 2026.

Robust earnings defy rising interest rates



—
Susanne Knorr
Deputy Head Managed Solutions,
Vontobel SFA

After a strong August, global equity markets faced a more challenging backdrop in September, as renewed geopolitical tensions in the Middle East fueled inflation concerns. Investors were forced to adjust to a more restrictive monetary policy outlook following the Fed's first rate hike since 2023. Higher rates have triggered bouts of volatility across financial markets. However, equities have remained relatively resilient, supported by robust earnings growth.

Historically, higher yields have been viewed as a headwind for equities, particularly in rate-sensitive sectors, as 5 percent risk-free returns become increasingly competitive. However, history suggests that rising rates are not inherently negative for equities when they reflect stronger underlying economic activity. In previous tightening cycles, the first rate hike was often followed by periods of positive equity market returns over the subsequent year (see chart 1).

While investors often focus on the valuation impact of higher discount rates, earnings ultimately remain the primary driver of long-term equity returns. Encouragingly, earnings growth continued to surprise positively across

many regions and sectors (see chart 2), balance sheets remain healthy, leverage is contained and interest coverage ratios are near historical highs.

The main challenge for investors is that the market has become increasingly concentrated. While earnings expectations remain constructive, technology leadership has stalled since early summer after driving much of the market's gains. The widening gap between technology and broader market earnings growth highlights the importance of diversification beyond index heavyweights.

AI-spending remains a key structural growth theme despite elevated volatility. Mounting risks around return-on-investment (ROI) justification, macro financing conditions, supply bottlenecks and geopolitical exposure triggered a temporary sell-off in semiconductor stocks, raising the question as to when the inflection point will be reached. Yet, the strategic competition for AI leadership continues to support large-scale capex by hyperscalers, which suggests the longer-term AI investment cycle remains intact despite periodic setbacks.

Looking ahead, the key question is whether earnings growth can continue to offset the headwinds from higher rates. Much of the valuation reset has already occurred, with equity multiples compressing meaningfully over the past year. Should inflation moderate and allow policy-makers to pause tightening, both bonds and equities could benefit. While near-term volatility is likely to remain elevated, resilient earnings and healthy corporate fundamentals support our constructive view on equities, while emphasizing diversification across sectors, styles and regions.

Chart 1: Equities have historically recovered after the first Fed hike

S&P 500 average return around rate hiking cycles*

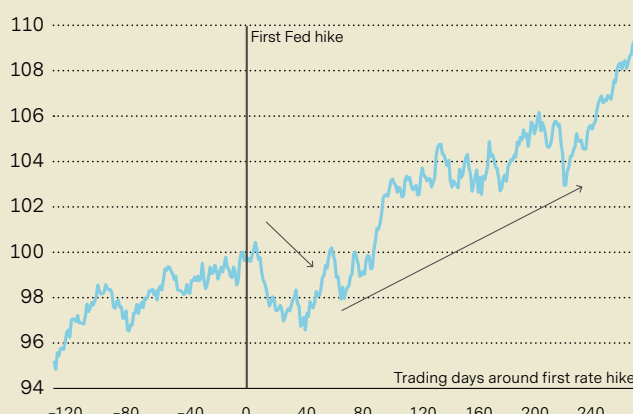
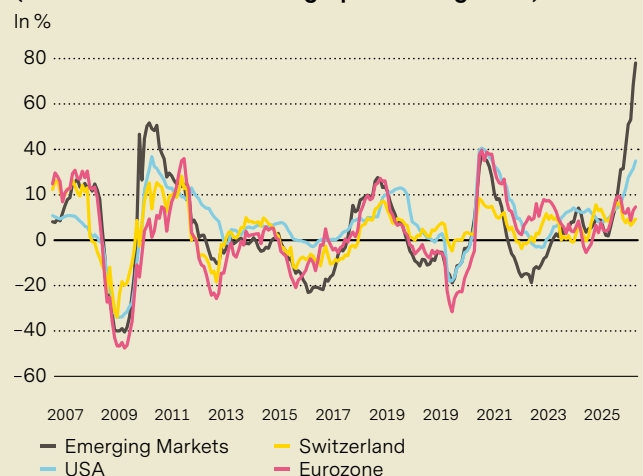


Chart 2: Solid earnings momentum across major regions (Forward 12-month earnings-per-share growth)



Source: Bloomberg, Vontobel SFA, until end of August 2026.

Oil markets rally as supply risks Intensify



—
Ljilja Jevtic
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September proved an exceptionally turbulent month for energy markets, with Brent crude surging from USD 90 / bbl at the start of the month to an intra-month high of almost USD 110 / bbl, before pulling back to USD 100 / bbl (see chart 1).

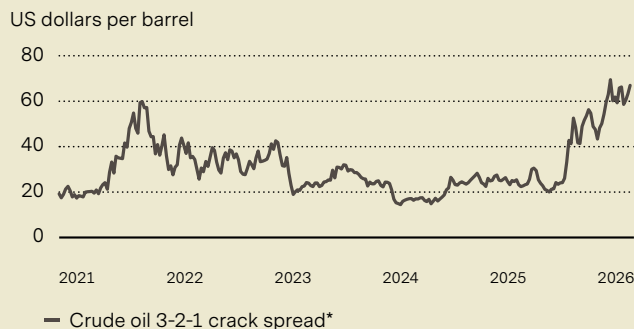
The move was driven by a simultaneous accumulation of supply disruptions rarely seen in combination. These were the closure of the Strait of Hormuz, reduced flows through the Bab el-Mandeb and the shutdown of Saudi Arabia's East-West pipeline, which is the kingdom's key route for bypassing the Strait of Hormuz. Meanwhile, Ukraine intensified strikes on Russian refining infrastructure. The IEA believes cumulative drone attacks are causing lasting damage to Russia's refining system as sanctions hinder repairs. The shocks came as previous buffers, including strong US exports, weak Chinese imports and ample inventories, became depleted. Commercial stocks have fallen and US export volumes have started to reverse.

While crude oil prices captured headlines, refined products experienced tightening. Disruptions to the Strait of Hormuz curtailed Gulf exports, while Russian refinery outages reduced refining capacity. Unlike crude, refined products are harder to reroute because they require dedicated tankers, specialized storage and local distribution networks. This led to sharp tightening on the diesel, gasoline and jet fuel markets. The impact was apparent in crack spreads, a measure of refinery profitability (see chart 2). Low European gas and heating-oil inventories added pressure. Refiners responded by maximizing throughput, with US refinery utilization reaching 97 percent in September.

Although high utilization has helped alleviate shortages, sustained operation near maximum capacity increases the risk of failures and unplanned outages. Saudi Arabia has begun restarting the East-West pipeline. If sustained, this could provide relief to the energy market.

² Refers to the difference between the price of crude oil and the prices of refined products made from it, commonly used as a measure of refinery profitability.

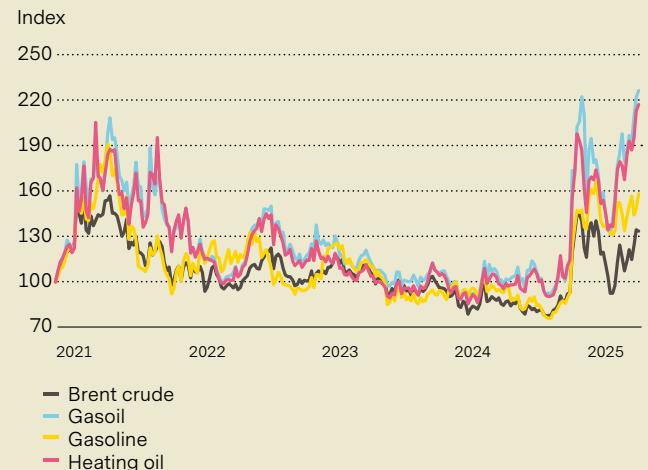
Chart 1: What a time to be a crude oil refiner



*A 3-2-1 crack spread is a widely used benchmark for refinery margins that assumes a refinery converts 3 barrels of crude oil into 2 barrels of gasoline and 1 barrel of distillate fuel (typically diesel/heating oil).

Source: LSEG, Vontobel; as of September 18, 2026.

Chart 2: Energy price development



Source: Bloomberg, Vontobel SFA, updated until September 18th 2026.

The dollar gets support from the Fed



—
Dr. Pieter Jansen
Chief Investment Strategist,
Vontobel SFA

The September rate hike and higher Fed projections have provided support for the US dollar's near-term outlook. US growth is holding up, its rate advantage over other currencies has increased and carry looks more attractive than a few months ago. However, the Fed's path relative to other central banks has been a key driver of currencies and not just the level of US rates.

The Fed dot-plot implies that members potentially see another hike this year and that rates could stay higher for longer than projected in June. In our view, this may lend the dollar more support in the near term. The September move was largely priced in and further tightening is already embedded in expectations. We believe a more sustained rise in the dollar may require US rate expectations moving higher relative to those elsewhere.

The Fed is not tightening alone. Markets expect higher policy rates over the next two years across most major economies (see chart 1). The US still has a substantial rate premium over the euro area, but the key question for currencies is whether that differential will widen further. As the US tightening cycle nears a plateau, we believe the boost from relative policy may fade.

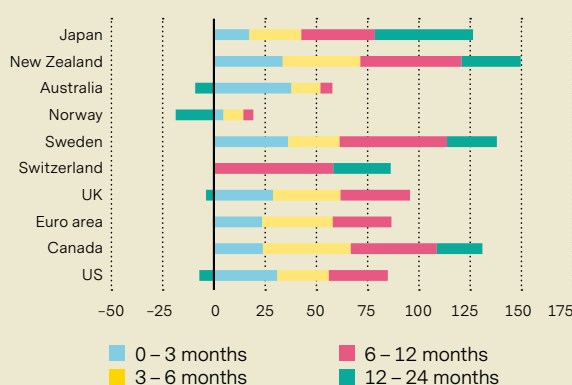
Over the next nine to 12 months, our base case is that the dollar's rate advantage will recede as the energy-driven inflation impulse fades and policy paths stabilize. This may give the euro room to recover gradually. In our view, the Swiss franc should remain resilient, although its sizeable yield disadvantage could curb a sustained appreciation.

More important for the medium to longer term, once policy expectations settle, we believe structural fundamentals may come more to the fore. Current-account positions, fiscal balances and debt dynamics offer a way to distinguish currencies with stronger underlying support from those more dependent on cyclical yield advantages (see chart 2).

The dollar still benefits from high yields, safe-haven demand and deep capital markets. Yet, we believe that large fiscal deficits and a persistent external imbalance may weigh on the currency in the medium term. The euro has a more balanced profile, with a positive external position and healthier aggregate debt dynamics, despite fiscal risks in parts of the region. The Swiss franc also appears relatively well supported, even though its yield disadvantage may leave limited room for further appreciation.

Chart 1: Higher policy rates are now priced in across the major economies

Market-implied policy-rate change, in basis points



Note: Segments show the additional policy-rate change priced in within each window, not the cumulative level.

Source: LSEG, Vontobel; as of September 28, 2026.

Chart 2: Our assessment of G10 currencies*

		RANK	CURRENT ACCOUNT	BUDGET BALANCE	DEBT
Structural Out-performers	Norway	1	1	1	2
	Switzerland	2	2	2	1
	Sweden	3	3	4	3
Structural Neutral	Australia	4	9	3	4
	Canada	5	6	5	8
	Euro Area	6	5	9	6
	New Zealand	7	10	6	5
Structural Under-performers	Japan	8	4	7	10
	UK	9	7	8	7
	US	10	8	10	9

*Note: Composite ranking based on average 2027 – 2029 consensus forecasts for current account, budget balance, and government debt. Higher current-account and budget balances and lower debt receive better ranks. All three indicators are equally weighted.

Source: LSEG, Vontobel; as of September 17, 2026. For informational purposes only. This content does not constitute investment advice or a recommendation to buy, sell, or hold any financial instruments.

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.

			2026	2027
GDP (IN %)	2025¹	CURRENT²	CONSENSUS	CONSENSUS
Global (G20)	2.6	2.5	2.4	2.7
Eurozone	1.4	1.2	0.9	1.3
USA	2.1	2.1	2.1	2.1
Japan	1.1	0.9	0.8	0.8
UK	1.4	1.2	1.2	1.2
Switzerland	1.4	2.6	1.3	1.4
Australia	2.0	2.1	1.9	1.7
China	5.0	4.3	4.6	4.4
INFLATION	2025³	CURRENT⁴	2026 CONSENSUS	2027 CONSENSUS
Eurozone	2.1	3.2	2.9	2.5
USA	2.7	3.4	3.3	2.4
Switzerland	0.2	0.8	0.6	0.7
KEY INTEREST RATES (IN %)	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR (deposit rate)	2.00	2.50	2.68	2.59
USD (Fed funds rate, upper bound)	3.75	4.00	4.02	3.73
CHF	–	–	–	0.11
GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR (Germany)	2.86	3.50	3.35	3.16
USD	4.17	4.96	4.65	4.42
CHF	0.32	0.56	0.46	0.53
FOREIGN EXCHANGE RATES	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
CHF per EUR	0.93	0.95	0.93	0.94
CHF per USD	0.79	0.83	0.80	0.80
USD per EUR	1.17	1.15	1.17	1.18
COMMODITIES	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
Brent crude oil, USD per barrel	61	103	81	76
Gold, USD per troy ounce	4,319	4,378	4,494	4,825
Copper, USD, per metric ton	12,423	14,492	13,779	13,600

Note: Views are as of September 18, 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

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