

# BRUELLAN PANORAMA

## H2/2026



BIANNUAL OUTLOOK — SECOND HALF 2026

THE ENGINE AND THE SPARK

### MARKET REVIEW

A SINGLE-ENGINE MARKET

### TAIL RISK: MID-TERM ELECTIONS

COULD THE US MID-TERM ELECTIONS  
CHANGE THE MARKET TRAJECTORY?

### TAIL RISK: PRIVATE CREDIT

EVERGREEN, NEVER LIQUID



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## EDITORIAL

# THE ENGINE AND THE SPARK

MALEK DAHMANI / CHIEF INVESTMENT OFFICER

An event befitting the first half of the year was needed, and it came in the form of a rocket. By completing its IPO at a valuation of ca. USD 1,800 billion, SpaceX has carried out – in nominal terms – the largest transaction in market history. Whilst the figure in itself is fascinating, it actually speaks more about the times we are now living. For behind this spark lies the sole force that, since January, has been powering equity indices: artificial intelligence (AI) and the physical infrastructure required for its deployment. All else – and in particular a geopolitical landscape that has effectively tried its best to unsettle the markets, from the blockade of the Strait of Hormuz to the 14 June agreement between Washington and Tehran – has been nothing more than background noise to a rally whose mechanics were at play elsewhere.

This engine is running at full throttle – and set to continue. According to McKinsey, global capital spending on AI data centres could reach a cumulative total of USD 5,200 billion by 2030, with an annual rate close to USD 1,000 billion by the end of the period. Goldman Sachs, meanwhile, anticipates a 165% increase in electricity demand from data centres by 2030 vs. 2023. It is the sheer scale of this outlook that is supporting the entire sector, from chip designers to data centre operators, and sustaining earnings expectations – explaining why stock prices are holding up despite a more challenging macroeconomic environment. The energy sector, by mirror effect, has been the other major winner of the first half: the surge in crude oil prices pertaining to the situation in the Strait of Hormuz, followed by the prospect of structurally stronger electricity demand to power these facilities, has fuelled a marked acceleration in expected earnings within the sector. The flip side of this strength is its concentration: market participation is increasingly narrow, with a handful of stocks driving most of the rally whilst a large proportion of the market stagnates. The SpaceX IPO is thus not an isolated event: it forms part of an ongoing AI phenomenon whose limits are difficult to gauge.

### The spark: what to make of the SpaceX IPO

Proceeds of USD 75 billion: the largest IPO ever, almost three times larger than Aramco's prior USD 30 billion record. However spectacular, this figure masks the bigger picture. When adding also the IPOs planned for the second half of the year – notably those of Anthropic and OpenAI – the cumulative amount of fund raising in 2026 is expected to reach USD 200 billion. This far exceeds the previous record year, 2021, which saw IPO proceeds of USD 135 billion. When measured relative to US market capitalisation, the 2026 pipeline stands at only ca. 0.26% – exactly the same

level as in 2021. And when compared to year 2000, the ratio is even lower: total US IPOs had then accounted for 0.4% of market capitalisation. Size is thus probably not the issue.

The causes for concern lie elsewhere: in the valuation and in the signal sent. SpaceX's price-to-revenue multiple is very high, at over 60x vs. less than 10x for listed hyperscalers. Most importantly, history shows that a wave of IPOs generally goes with a robust economic cycle and growth margins that remain intact – but that it often precedes a slowdown in performance and in multiple expansion. The real risk for investors exposed to the technology sector lies more in a potential rotation of capital from mega-caps towards newly listed stocks.

### The allocation committee's view: stay the course

Faced with this disconnect between solid markets and a very uncertain backdrop, our allocation committee has maintained a neutral stance regarding risk, with balanced exposure across the major asset classes. This decision is not a matter of "wait and see": it is about remaining fully invested without overspending the risk budget, in a market where the risk premium no longer, in our view, offers sufficient returns to warrant taking on additional risk. Moreover, the monetary landscape has changed: whilst major central banks were signalling further rate cuts at the onset of the year, the resurgence of inflation has reshuffled the deck. The Fed, which has upped its 2026 inflation forecast and adopted a more hawkish tone, no longer rules out a rise in its policy rate this year – a complete reversal of expectations in the space of a few months, which the markets are beginning to price in. The agreement signed on 14 June has shifted some of our allocation committee's votes towards a more aggressive stance, but the message remains: stick to the plan, do not implement a "risk-on" shift at this stage, and keep a close eye on Iran and inflation.

It is within equities that our only deviations lie. We maintain a preference for the US, powered by earnings momentum and technological leadership, and for Switzerland, where the industrial recovery is gaining momentum and offers a welcome alternative to the AI cycle. Conversely, we remain cautious on Europe, where sluggish growth is compounded by the risk of unwelcome monetary tightening. Emerging markets, scaled back to a neutral allocation, remain dependent on their position in the semiconductor supply chain and on China's trajectory. These regional views, alongside our take on bond markets, are detailed in the following pages.

### Gold: from safe haven to market asset

Still held at a neutral level in our allocation, gold continues to be supported by two powerful structural forces: persistent central bank purchases and a trend towards de-dollarisation, which is driving reserve managers to seek alternatives to the greenback. In this respect, gold's negative correlation with the dollar remains intact, which – in a US currency cycle whose fundamental underpinnings we view as crumbling – constitutes a lasting source of support.

One caveat, however, justifies our shorter term caution. Since the start of the year, the correlation between gold and the S&P 500 has turned positive. In other words, the metal is temporarily behaving like a risky asset rather than the safe haven it is typically expected to be. This reality hit hard in the spring, when gold, after peaking at over USD 5,000 an ounce, lost more than 15% in a matter of days – as leveraged investors offloaded their most liquid positions to meet margin calls. Gold thus remains a key strategic stabiliser in the face of systemic risks, the value of which would become fully apparent in the event of a recession, but its role as a short-term diversifier has, for the time being, faded. It is this dual perspective – fundamental conviction, tactical vigilance – that justifies maintaining a neutral stance rather than adding to the position.

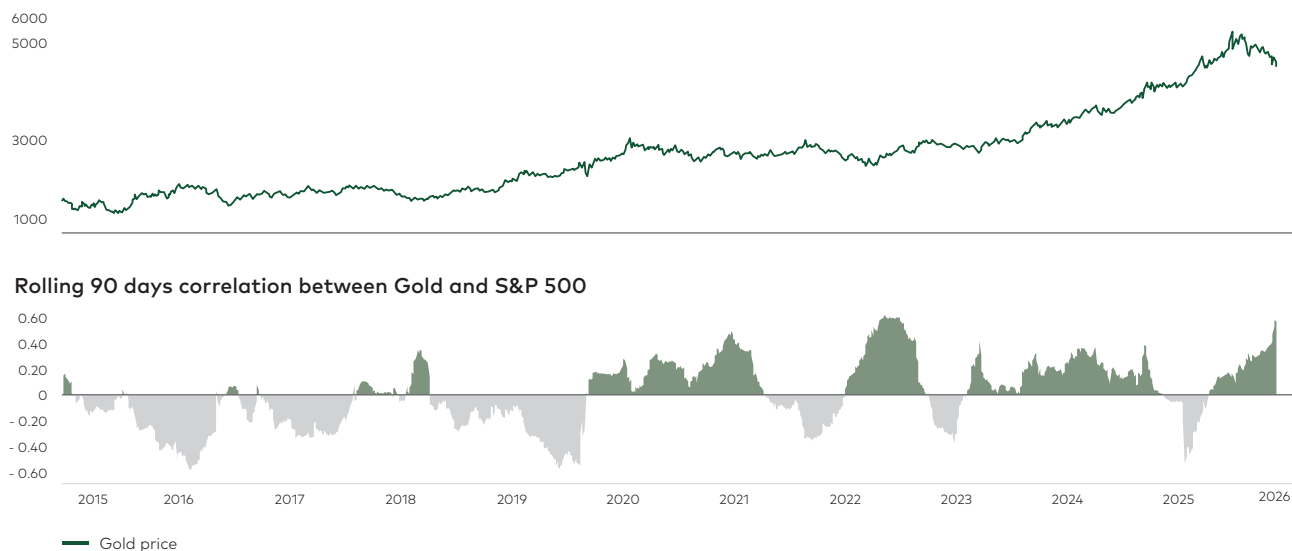
### Two underlying risks for the second half of the year

Two major events, which we discuss at large in this edition of the Panorama, will dominate the second half of 2026. First, US mid-term elections, the anticipated outcome of which is not the most favourable for the market. History suggests, however, that the significance of these elections should not be overstated. Inflation, growth and earnings, far more

than the composition of Congress, are what command the stock market's trajectory. Second, tensions surrounding private credit, where the recent spate of "gates" on some evergreen funds has reignited fears of systemic risk – a situation which we view, at this stage, more as a symptom of a market correction than the prelude to a crisis.

The engine is thus still running, as evidenced by the spark provided by SpaceX's IPO. But relying on a single engine demands discipline: staying invested, diversifying portfolios and resisting the temptation to add risk where the premium is no longer sufficient. In short, sticking to the plan – until a genuine catalyst, rather than mere geopolitical relief, justifies a change in stance.

### Correlation between Gold and S&P 500 has turned positive since the beginning of the year

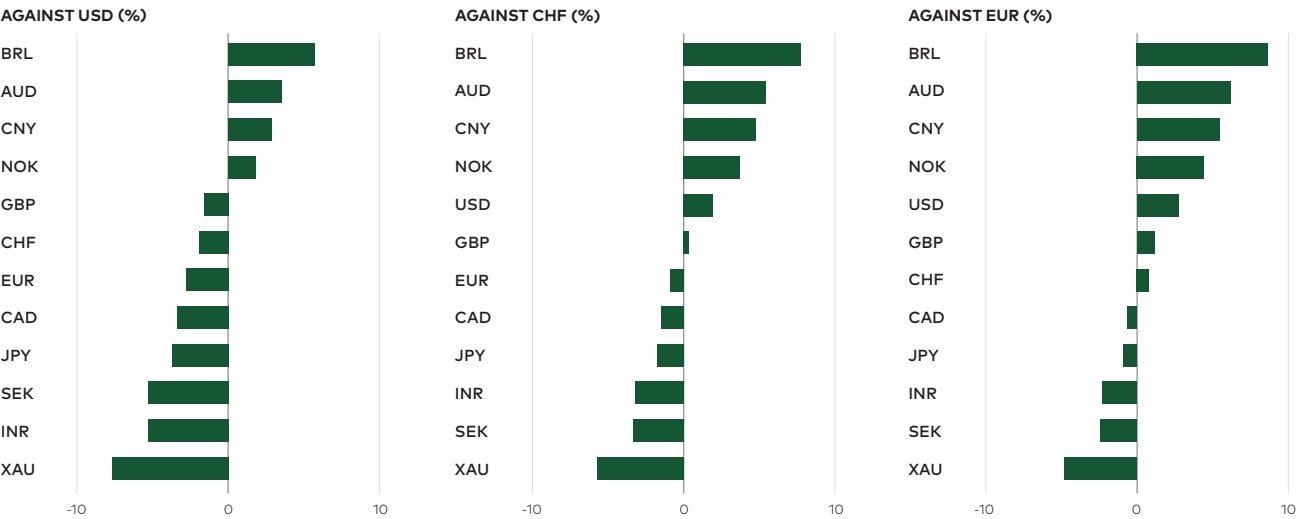


6 MARKETS PERFORMANCE

Economic Indicators

|               | Real GDP % |      | Inflation % |      | PMI     | Gov. deficit % GDP | Unemployment % | Interest rates |          | Equity Risk Premium |
|---------------|------------|------|-------------|------|---------|--------------------|----------------|----------------|----------|---------------------|
|               | 2025       | 2026 | 2025        | 2026 | Current | Current            | Current        | 3 Months       | 10 Years | Current             |
| USA           | 2,1        | 2,1  | 2,7         | 3,4  | 55,7    | -6,0               | 4,3            | 3,8            | 4,5      | 0,1                 |
| Euro Area     | 1,4        | 0,6  | 2,1         | 2,9  | 51,4    | -2,9               | 6,3            | 2,2            | 2,9      | 3,4                 |
| Switzerland   | 1,4        | 1,1  | 0,2         | 0,6  | 54,3    | 0,0                | 3,0            | -0,2           | 0,3      | 4,7                 |
| UK            | 1,3        | 1,0  | 3,4         | 3,2  | 52,5    | -4,2               | 5,0            | 3,8            | 4,8      | 2,9                 |
| Asia ex Japan | 5,1        | 5,0  | 1,0         | 2,0  | -       | -                  | 5,2            | -              | -        | -                   |
| Japan         | 1,1        | 0,6  | 3,2         | 2,0  | 54,8    | -2,9               | 2,5            | 0,9            | 2,7      | 1,4                 |
| China         | 5,0        | 4,6  | 0,0         | 1,2  | 51,7    | -5,1               | 4,0            | 1,0            | 1,7      | 4,5                 |
| India         | 7,1        | 7,5  | 4,6         | 2,0  | 54,2    | -4,4               | 5,5            | 5,2            | 6,8      | -2,1                |
| World         | 3,2        | 2,9  | 3,4         | 4,3  | 52,6    | -                  | 4,8            | -              | -        | -                   |

Market Performance (from 31.12.2025 to 30.06.2026)  
Exchange-Rates



## Stock Markets / Total Return & Valuation

(leading PE vs PE Median 20Yrs) (from 31.12.2025 to 30.06.2026)

|                    | USD   | EUR   | CHF   | GPB   | Leading PE |            |
|--------------------|-------|-------|-------|-------|------------|------------|
|                    |       |       |       |       | Current    | LT Median* |
| S&P 500            | 10,2% | 13,3% | 12,3% | 11,9% | 21,9       | 20%        |
| Euro Stoxx 50      | 8,1%  | 11,1% | 10,1% | 9,7%  | 16,2       | 13%        |
| Swiss Perf. Index  | 7,5%  | 10,7% | 9,9%  | 9,3%  | 20,0       | 3%         |
| FTSE 100           | 6,0%  | 9,0%  | 8,0%  | 7,6%  | 13,1       | -7%        |
| MSCI Asia Ex-Japan | 23,9% | 27,4% | 26,3% | 25,8% | 13,7       | -10%       |
| Nikkei 225         | 34,9% | 38,9% | 37,9% | 37,1% | 24,3       | 20%        |
| China CSI 300      | 11,7% | 14,9% | 13,9% | 13,4% | 16,0       | 3%         |
| Brazil Bovespa     | 13,3% | 16,7% | 15,8% | 15,2% | 8,5        | -42%       |
| MSCI India         | -9,6% | -7,0% | -7,8% | -8,2% | 21,4       | -3%        |
| MSCI World         | 9,7%  | 12,8% | 11,8% | 11,4% | 20,3       | 14%        |

## Bond Market

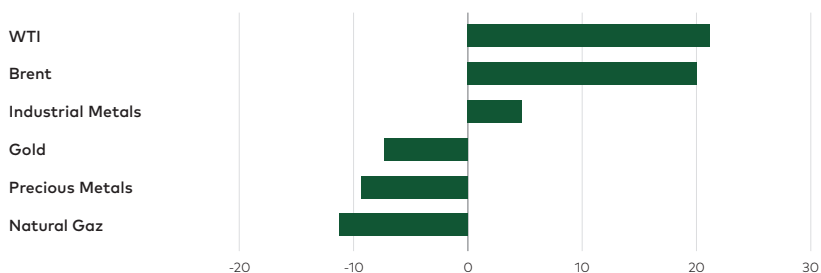


## Sectors / Returns & Valuation (leading PE vs PE Median 20Yrs)

|               | USA | Europe | World | USA     |               | Europe  |               | World   |               |
|---------------|-----|--------|-------|---------|---------------|---------|---------------|---------|---------------|
|               |     |        |       | Current | 20Yrs Median* | Current | 20Yrs Median* | Current | 20Yrs Median* |
| Cons. discr.  | -1% | -10%   | -3%   | 26,0    | 20%           | 16,5    | 13%           | 23,6    | 25%           |
| Cons. Staples | 8%  | 5%     | 6%    | 22,9    | 15%           | 16,5    | -9%           | 20,6    | 5%            |
| Financials    | -2% | 12%    | 4%    | 15,5    | 6%            | 11,8    | 6%            | 14,4    | 6%            |
| Energy        | 20% | 20%    | 19%   | 12,5    | -16%          | 7,5     | -32%          | 11,1    | -19%          |
| Industrials   | 21% | 12%    | 15%   | 28,7    | 55%           | 23,8    | 26%           | 25,5    | 39%           |
| Technology    | 20% | 49%    | 22%   | 26,3    | 15%           | 37,0    | 38%           | 26,9    | 15%           |
| Materials     | 12% | 13%    | 10%   | 18,1    | 0%            | 16,2    | 5%            | 16,3    | -2%           |
| Utilities     | 7%  | 19%    | 9%    | 19,3    | 13%           | 16,7    | 21%           | 18,3    | 8%            |
| Health Care   | 3%  | 4%     | 2%    | 20,9    | 4%            | 16,7    | -15%          | 19,7    | -3%           |
| Telecom       | 1%  | -3%    | 0%    | 19,3    | 5%            | 16,6    | 7%            | 18,8    | 4%            |
| Real Estate   | 10% | 7%     | 4%    | 37,0    | -16%          | 28,0    | -2%           | 14,6    | -25%          |

\* A positive figure means that the sector is trading at a higher price than its median; a negative figure means that the sector is trading at a discount to its median

## Commodities



## 8 ALLOCATION GRIDS

### Global Asset Classes

|          | Underweight | Marketweight | Overweight | Key drivers                                                                                                                                | Risks                                                                                                                                                                   |
|----------|-------------|--------------|------------|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equities |             | ●            |            | Strong earnings growth potential expected, especially in AI-related sectors, limited by valuations.                                        | High market concentration; higher for longer inflation scenario.                                                                                                        |
| Bonds    |             | ●            |            | Attractive all-in yield against a backdrop of resilient global growth, with fairly tight yield spreads and central banks on the defensive. | On one side, the risk of a cyclical contraction; on the other, upside surprises on inflation.                                                                           |
| Cash     |             | ●            |            | Short-term correlation with risk assets; structural bullish support from dedollarization driving central bank purchases.                   | «Decline if real rates rise sharply. Upside on a severe entrenchment of geopolitical tensions, or continued positive correlation with risk assets in this bull market.» |

### Equities-Regions

|              | Underweight | Marketweight | Overweight | Key drivers                                                                                                                                                                | Risks                                                                                                                                                                                               |
|--------------|-------------|--------------|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| US           |             | → ●          |            | Strong expected earnings growth, mainly in the technology sector, coupled with a resilient economy, with room for improvement if the conflict in Iran is finally resolved. | «Decline if inflation resurges because the oil price fails to stabilize, eroding further consumer confidence. Upside if the AI impact continues to accelerate in terms of productivity and profit.» |
| Europe       | ●           |              |            | Caution ahead, ECB tightening may erode upside, at a time when GDP output is not reaccelerating, and limited AI exposure.                                                  | Possible rebound if rapid geopolitical de-escalation or a positive macro surprise.                                                                                                                  |
| Switzerland  |             | → ●          |            | The manufacturing recovery finally appears to be materializing. An easing geopolitical situation should further enhance the appeal of an outward-oriented economy.         | An overly strong Swiss franc remains the main headwind, along with a further tightening of tariffs.                                                                                                 |
| Asia Pacific |             | ●            |            | Solid earnings growth coupled with attractive valuations, however Chinese exports at risk in a more fragmented world.                                                      | Strong dollar or liquidity withdrawal; hinges on a Chinese / Indian recovery.                                                                                                                       |

## Bonds

|                      | Underweight | Marketweight | Overweight | Key drivers                                                                                                                                                                                                                                                | Risks                                                                                                                                                              |
|----------------------|-------------|--------------|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Developed Sovereigns |             | ●            |            | The current backdrop supports a neutral duration stance, as late-cycle inflation pressures keep central banks cautious. Current valuations offer an attractive entry point, with government bonds providing positive real yields above expected inflation. | Large fiscal deficits continue to warrant caution as markets absorb elevated government debt issuance. Second-round inflation risks also require close monitoring. |
| Corporates (IG)      |             | ●            |            | While spreads remain historically tight, all-in yields are attractive, supported by solid credit fundamentals and a limited risk of recession.                                                                                                             | Key risks stem from tight monetary conditions, potential spillover effects from the private credit market, and elevated AI-related debt issuance by hyperscalers.  |
| High-Yield           |             | ●            |            | High yield spreads remain tight but are justified by very low default rates, resilient credit fundamentals, and attractive all-in yields.                                                                                                                  | Main risk coming from a reversal in sentiment and rising signs of cyclical downturns.                                                                              |
| Emerging             |             | ●            |            | Emerging debt spread are also relatively tight but sovereign fundamentals remain very solid overall.                                                                                                                                                       | Main risks coming from tightening global liquidity and a rising USD that could dampen risk-appetite for emerging assets.                                           |

## Foreign Exchange

|            | Underweight | Marketweight | Overweight | Key drivers                                                                                                                             | Risks                                                                                                                                                            |
|------------|-------------|--------------|------------|-----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| USD vs CHF | ●           |              |            | USD fundamentals remain broadly negative, reflecting record fiscal and current account deficits alongside rich valuations.              | Tighter global monetary conditions, particularly through higher Fed policy rates, or renewed supply-side disruptions could provide support for the US dollar.    |
| USD vs EUR | ●           |              |            | USD fundamentals remain broadly negative, reflecting record fiscal and current account deficits alongside rich valuations.              | Tighter global monetary conditions, particularly through higher Fed policy rates, or renewed supply-side disruptions could provide support for the US dollar.    |
| EUR vs CHF | ●           |              |            | Although the interest rate differential continues to weigh on the CHF, its fundamentals remain solid, and structurally better than EUR. | EUR/CHF upside if the SNB eases (rate cuts or FX intervention) to curb the franc, the ECB-SNB rate differential narrows, or safe-haven demand for the CHF fades. |

## MARKET REVIEW

### A SINGLE-ENGINE MARKET

LOUNA SEFERDJELI / INTERN

Equity indices are heading into the summer of 2026 near record highs, which is precisely what is striking. For weeks now, a series of particularly worrying factors should have caused them to falter. The blockade of the Strait of Hormuz drove the oil price up to nearly USD 126 per barrel, reigniting inflationary pressures on both sides of the Atlantic and pushing US long-term interest rates up to 5% – a level not seen since 2008. Still, equity indices continued to rise. The agreement reached on 14 June between Washington and Tehran has since brought oil prices back down to around USD 80 and helped ease yields, without altering the fundamental reality: stock markets have remained largely unaffected by geopolitical developments, whether for the better or for the worse.

This disconnect boils down to a single factor: investments in AI and the physical infrastructure that makes it possible. Major technology groups expect to spend close to USD 700 billion in 2026, up more than 60% year-on-year. This acceleration is powering the entire sector, from chip designers to data centre operators and energy infrastructure providers. Semiconductors are the primary beneficiaries: their weight in the MSCI World index has almost doubled over the past five years, now approaching 14% – roughly half the weight of the technology sector as a whole. Such momentum is fuelling earnings growth expectations and largely explains the resilience of equity markets in the face of a macroeconomic environment that has become, in fact, more challenging.

This apparent strength does, however, mask increasing performance concentration, meaning that a diminishing number of stocks are powering the indices. Even though the S&P 500 is setting record after record, only 60% of stocks remain above their 200-day moving average, and barely 30% are outperforming the index over a 50-day period. Put differently, a large part of the market is languishing whilst a handful of stocks are driving the rally. And this phenomenon is not limited to the US: in Europe, AI and energy account for ca. 20% of the Stoxx 600 but are responsible for almost all of its gains. The question, thus, is no longer whether markets are benefiting from this revolution, but to what degree each is exposed.

#### US: AT THE HEART OF THE INVESTMENT CYCLE

##### Overweight stance

The US market remains investors' favourite – and ours too. Such confidence is based primarily on earnings, which continue to post strong, technology-led, growth. AI is a key factor in this respect, fuelling an acceleration in profits and productivity gains, the initial effects of which are beginning to spread beyond just large-caps names. Nvidia's results constitute a proof in point, with quarterly revenues of USD 82 billion (+85%), of which USD 75 billion from data centres – a sign that demand is showing no signs of slowdown. Earnings expectations reflect this optimism: since March end, S&P 500 earnings growth projections for 2026 have moved up from ca. 17% to over 23%. This

US CPI: American inflation is picking up again, undermining the disinflation scenario



upward trend in earnings revisions is supporting share prices but also raising the bar. With valuations that are already stretched, the US index has little room for further multiple expansion, and its progress will largely depend on companies' ability to deliver expected results. Better-than-forecast economic resilience is adding to the positive dynamic, with the outlook liable to brighten further should the international situation – particularly the conflict with Iran – continue to stabilise in the wake of the agreement signed on 14 June. That said, this resilience is not without limits. The resurgence of inflation, which rose to 4.2% in May, is weighing on consumer confidence and maintaining long-term interest rates under pressure, in an environment where consumption – the pillar of the US economy – is relying on an increasingly narrow foundation. Affluent households account for the bulk of spending, whilst those on modest incomes are seeing their purchasing power eroded by rising prices. The concentration evident in equity indices is thus also reflected in consumption, with the same risk: growth that hinges on a small number of contributors. It is also on this front that the November mid-term elections will play out, with inflation and purchasing power emerging as the central issues. The anticipated outcome not being the most favourable for the market.

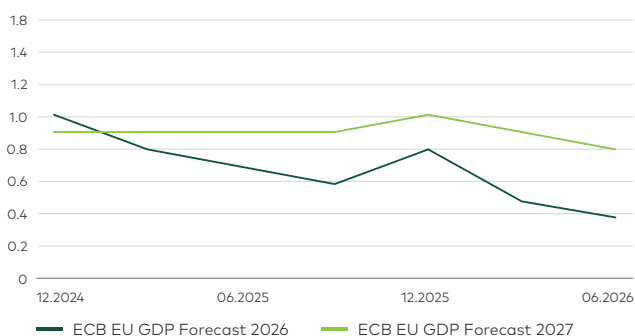
## EUROPE, WAITING FOR A BREAKTHROUGH

### Underweight stance

On the European front, we note the same dynamics as in the US: both the market and earnings are driven by a short list of sectors, primarily financials and energy. However, the lack of European AI leaders deprives the region of the powerful growth engine provided by massive associated spending, which is currently underpinning corporate earnings and economic activity in the US. This sluggish European growth is also occurring in the face of renewed inflationary pressures. For the European Central Bank, whose mandate focuses on price stability, the risk is that policy rates may need to be hiked more sharply than the weak activity warrants, at the risk of further weighing on the European economy. This delicate situation explains our cautious stance on European equities.

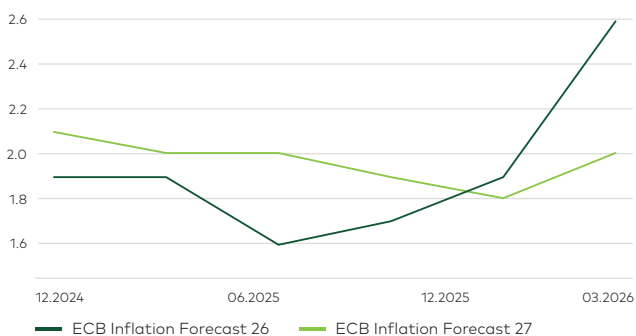
### The ECB and markets keep cutting their euro-area growth forecasts quarter after quarter

#### ECB GDP forecasts



### At the same time, both are raising their inflation forecasts

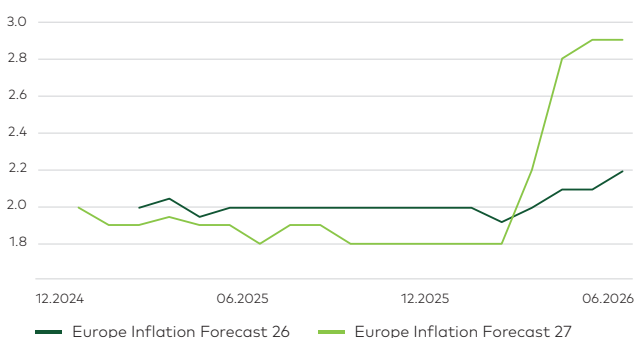
#### ECB forecasts for euro-area inflation



#### Market GDP forecasts



#### Market forecasts for euro-area inflation

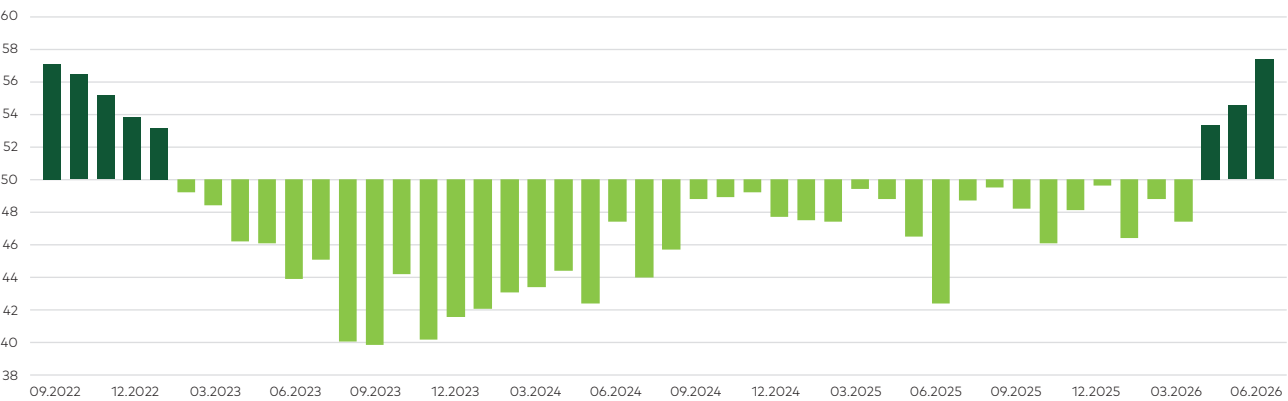


**SWITZERLAND: THE INDUSTRIAL POWERHOUSE**  
**Overweight stance**

The Swiss market currently seems an attractive alternative for two reasons. First, its economic cycle is picking up gradually. The Swiss manufacturing PMI reached 57.3 in May, its highest level in over three years, buttressing the industrial recovery and supporting the rebound in cyclical stocks as well as small- and mid-caps. The Swiss National Bank confirmed this resilience during its review on 18 June, highlighting the solid growth performance despite the Middle East conflict (clear GDP growth in the first quarter), whilst keeping its policy rate at zero. Being an export-oriented economy, Switzerland would also benefit from falling oil prices and an easing of geopolitical tensions.

Secondly, the Swiss market offers an alternative to the AI cycle. The SPI is up only ca. 4% year-to-date, partly because Switzerland has few major direct beneficiaries of the massive AI expenditures. Whilst this characteristic has proved a handicap in a market dominated by technology stocks, it could become an asset in the event of a sector rotation.

Swiss PMI has known 38 straight months in contraction before rebounding into positive territory



## EMERGING MARKETS, UNEVEN MOMENTUM

### Neutral stance

Emerging markets present a special case within this cycle. They are not moving in unison, with the countries' position in the semiconductor manufacturing chain determining which are growing and which are stagnating. Taiwan is the clearest example: its foundries, which produce chips designed by major US firms, have made it the largest component of the MSCI Emerging Markets index, pushing technology up to ca. 45% of the index. South Korea, driven by its memory and component manufacturers, is following a similar trend, meaning that emerging Asia has been buoyed since January by the very same forces as those

underpinning developed market indices. One caveat, however, needs mentioning: apart from semiconductors, this rally owes more to a share price appreciation than to actual earnings growth, making for less solid foundations than it would appear. China, for its part, is clearly lagging, with the Hang Seng Index still in negative territory year-to-date. What happens next will thus depend on two distinct variables: on the one hand, China's still uncertain ability to stem this decline; on the other, an external environment involving a persistently strong dollar or tighter global financial conditions could weigh on the region as a whole.

### Emerging Asia: Index and earnings expectations supported solely by semiconductors



## COULD THE US MID-TERM ELECTIONS CHANGE THE MARKET TRAJECTORY?

ANICK BAUD / SENIOR FUND MANAGER

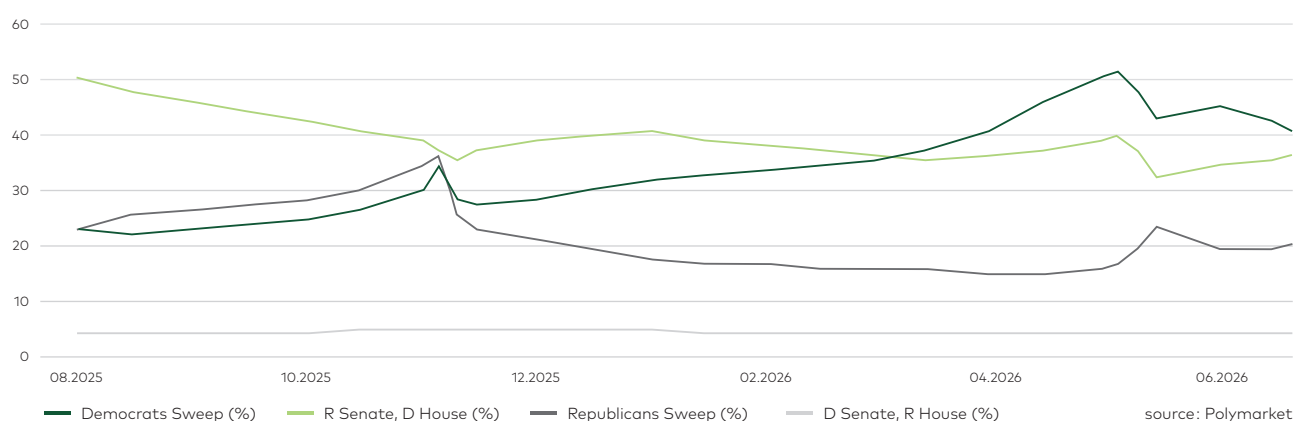
With four months to go until the mid-term elections, a political risk that had been largely put on the backburner is gradually resurfacing. Even as investors remain primarily focused on artificial intelligence, interest rate changes and tensions in the Middle East, another factor is rapidly being priced into equity markets: the likelihood of a majority change in Washington.

Although a divided Congress – with the Democrats gaining a majority in the House of Representatives and a Republican-controlled Senate – remains the base case for many observers, prediction markets are now assigning an increasing probability to a victory of the Democrats in both chambers (chart 1). Such improvement of the opposition's prospects in the election forecasts is primarily due to the deteriorating economic climate. The fact that US inflation hit 4.2% in early June, fuelled in part by tensions around the Strait of Hormuz, is beginning to weigh on household purchasing power. Historically, **mid-term elections are, above all, a referendum on the incumbent president, with the economic situation serving as main determinant of the vote.** As the election approaches, purchasing power concerns thus tend to move centre stage. In several key states, rising energy costs are currently compounding the effects of new tariffs on a number of goods and services, further heightening the election's sensitivity to these issues.

The political context also plays a role. Since returning to the White House, Donald Trump has continued to reshape the Republican Party by actively supporting candidates most aligned with his political positioning. Although this strategy does strengthen the party's ideological cohesion, it might also limit its ability to appeal to independent voters, often decisive in the most hotly contested states. The 2022 elections already showed that some strongly ideologically driven candidates could win their primaries only to underperform in the general election. This dynamic is, in fact, beginning to be reflected in several key races. In Texas, for instance, the primary victory of highly controversial Ken Paxton has transformed a seat long considered a Republican certainty into one of the most closely watched Senate races in the country.

From a historical perspective, however, several factors do point towards a change in majority. Since the Second World War, the party holding the White House has almost invariably lost the House of Representatives in mid-term elections, exceptions being far and few between. The Senate is traditionally more difficult to flip, although the 2026 cycle presents several unusual characteristics that might favour such a shift: a relatively narrow Republican majority, a president facing high disapproval ratings, and a gradually deteriorating economic environment.

Prediction markets are now assigning an increasing probability to a victory of the Democrats in both chambers



Still, a degree of caution is warranted. The Democrats do not enjoy particularly strong support. Their popularity remains low by historical standards, and their improvement in the polls seems to reflect rejection of the other camp rather than genuine enthusiasm for their programme. Put differently, the **current momentum rests more on Republican weakness than on Democrat strength**.

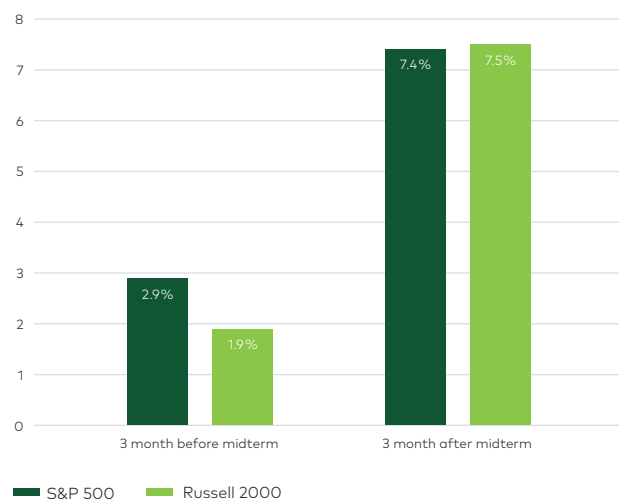
**At first glance, this growing likelihood of a Democrat-led scenario could be seen as a cause for market concern.** Their gaining of a majority in both chambers would indeed reignite debates on corporate taxation, capital gains tax and the regulatory framework for major technology platforms. In a market that has been driven for several years by US mega-caps, such prospects might seem unfavourable for risk assets.

Investors would, however, be wrong to conclude too hastily that a Democrat victory would necessarily be negative for the markets. History shows, on the contrary, that mid-term elections have generally been followed by US equity gains. **Since 1950, the S&P 500 has moved up by ca. 7.4% on average during the three months following the election**, vs. a rise of ca. 3% in the preceding three months. More remarkably even, **the market closed this period higher in more than eight out of ten cases**. The picture is similar, even slightly more favourable, for US small- and mid-cap names. Since 1982, the Russell 2000 has gained an average of 7.5% in the three months following mid-term elections, with a near-90% success rate. This trend can be partly explained by the reduction in political uncertainty following the vote, but also by the fact that mid-term elections often take place late in the presidential cycle, a period historically more favourable to risk assets.

Caution must, however, be exerted when interpreting this statistic, since the average performance masks considerable disparities. Some elections were followed by rallies of over 14%, whilst others led to index losses. Markets rarely react to the election result alone; **inflation, growth, corporate earnings and monetary policy remain far more powerful determinants**.

Which is precisely what makes this 2026 election unique. As in 2002 or 2006, the current cycle is dominated by a major geopolitical shock. Tensions surrounding Iran and the Strait of Hormuz have already caused significant volatility in energy markets. And although oil prices have eased recently, their effects on inflation could continue to feed through to the US economy for several quarters, thus influence the outcome of the election. Donald Trump knows that a sustained rise in energy prices and an erosion of household purchasing power would pose an electoral risk, reinforcing the case for swift de-escalation.

**Average performance of the S&P 500 and Russell 2000 during the three months before and the three months after the elections (1950-2022)**



One final last risk warrants mention, even if still difficult to quantify. More than the result in itself, the potential contestation of the result could prove the real surprise of this election cycle. The likelihood of such a scenario remains low, but it cannot be entirely ruled out in a particularly polarised political environment. Legal challenges or delays in certification would probably create greater uncertainty for the markets than a clear-cut result. The experience of 2000 highlights just how much a prolonged period of electoral uncertainty can weigh on risky assets.

At this stage, we see **three scenarios that merit particular investor attention**. The first, currently regarded by many observers as the most likely, would see the House turn Democrat whilst the Senate remains Republican. Such a situation of institutional deadlock would limit major legislative changes and amount to a return to the political status quo. Historically, this type of outcome has been fairly well received by the markets, with US equities rising in nearly nine out of ten cases during the three months following the mid-term elections.

A Democrat win in both the House and the Senate would constitute a second scenario. Historically, similar outcomes have not been the most favourable for US equities. That said, this effect could be partially offset should a change in majority lead to a softening of US trade policy and a reduction in tariff-related uncertainties – factors likely to underpin business confidence and international trade.

Finally, the third risk – more difficult to quantify and not part of our base case scenario – pertains to Donald Trump's behaviour during the weeks leading up to the election. Particularly inflammatory statements or premature challenges to the electoral process might fuel temporary volatility and weigh on investor sentiment. This risk would call for a degree of caution with regards to risk assets.

To conclude, markets are undoubtedly right to be keeping a close eye on the November elections, although **history suggests that the composition of the next Congress will probably matter less than developments on the inflation, growth and corporate earnings fronts.** That said, the truly key variable will likely remain the same as at the onset of the year: the evolution of the energy shock and its consequences for the US economy. This is what stands to largely determine the outcome of the election and, to a certain extent, the markets' reaction.

# TAIL RISK: PRIVATE CREDIT EVERGREEN, NEVER LIQUID

LUCAS MATTI / PORTFOLIO MANAGER

September 2025 marked a turning point for the private credit market, with the near simultaneous bankruptcies of Tricolor and First Brands. Within a few weeks, these two companies went from being considered sound borrowers to falling into bankruptcy. This raised questions regarding the quality of the due diligence processes carried out by lenders, which failed to detect both the alleged fraud at Tricolor and some governance/financial structure issues at First Brands. The losses incurred by several major financial institutions, including JPMorgan and Barclays, were instrumental in drawing investor attention to the sector's potential vulnerabilities.

Two factors subsequently served to heighten these concerns. The first was a statement by JPMorgan CEO Jamie Dimon, indicating that further similar situations were to be expected. The second involves private credit's significant exposure to the software sector. While such stocks were hugely popular during recent years, the rise of artificial intelligence has shifted market perceptions. Some investors now believe that certain software business models could be called into question, potentially weighing on company growth rates and debt repayment ability.

The impact of these developments became visible in evergreen funds as of the end of Q1 2026. This type of vehicle was developed by the private market industry to broaden its investor base, particularly amongst retail clients. Such funds generally offer quarterly liquidity in an asset class that is inherently illiquid. That said, retail investors tend to be more sensitive to market volatility and thus inclined to reduce exposure when conditions deteriorate. Which proved sufficient to trigger a wave of redemption requests. Compounding the concerns regarding private credit came the geopolitical tensions linked to the US-Iran conflict, which heightened risk aversion and increased investor willingness to reduce exposure to the riskiest assets. At the same time, AI-related assets rose sharply, likely prompting some retail investors – traditionally sensitive to market trends – to reallocate capital towards this segment.

This wave of redemptions had direct implications for private credit funds. Indeed, the liquidity offered by these vehicles is subject to certain conditions, the most important being that the total amount of redemption requests must not exceed 5% of the fund's net asset value (NAV) per liquidity period. When this threshold is reached, a "gate" mechanism is triggered: investors are then redeemed on a pro rata

basis, up to a limit of 5% of the NAV. This mechanism aims to protect remaining investors by preventing forced sales of assets in unfavourable market conditions. The activation of such restrictions is, however, likely to trigger a domino effect. When a fund implements a "gate", investors in other funds may fear similar constraints and thus decide to accelerate their own redemption requests. This type of behaviour fuels further liquidity pressures, leading other funds to implement similar measures. The phenomenon thus gradually spread beyond private credit, with some evergreen private equity funds also impacted due to comparable liquidity structures.

The most likely consequence will be a slowdown in financing activity within private credit. Amid increased investor cautiousness and slowing inflows, fund managers have less capital to deploy and could be forced to reduce the pace of their new investments. This dynamic may also affect the private equity market, where transactions are frequently financed by private credit.

Notwithstanding these pressures, risks remain relatively contained. Today, 10 funds only seem concerned by such a "gate" system. And they account for just 20% of the overall private credit market, the majority of assets being held in closed-end vehicles that are not subject to the same liquidity constraints. Furthermore, both the Financial Stability Board and the European Central Bank consider banks' direct exposure to private credit as still relatively limited: 2.3% of loans in Europe, and just under 5% in the US. Although these institutions highlight the existence of vulnerabilities linked to the growing interconnections between banks, insurers and private equity funds, they believe that the main financial players' balance sheets are sufficiently robust to absorb additional stress without causing major disruption to the real economy.

As such, while caution remains warranted with regard to this asset class, the current tensions appear to be more of a market adjustment than the prelude to a systemic crisis.

## 18 FIXED INCOME

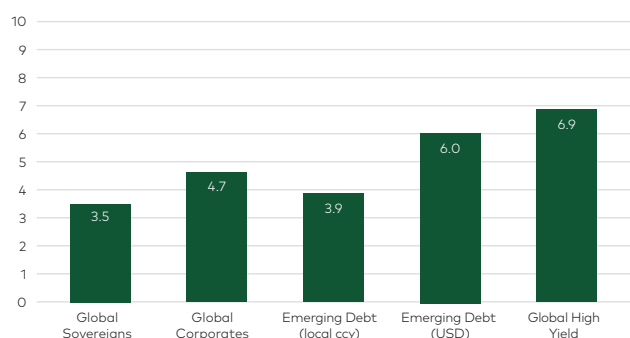
MANUEL STREIFF / ADVISOR

*The second half of 2026 begins with a complex, albeit still resilient, global backdrop. The oil supply shock has pushed inflation higher and forced central banks to become more cautious. The US economy's ability to absorb the shock has proved better than expected, thanks to consumption and the ongoing artificial intelligence (AI) capital expenditure cycle. Europe is more exposed to higher energy costs and weaker external demand.*

The Federal Reserve (Fed) has entered a new phase under Chair Kevin Warsh. By reducing forward guidance, the Fed is giving markets fewer signals regarding the rate trajectory. While this should make policy more data-dependent, it also raises the risk of higher volatility. With inflation still above target, the Fed will likely remain hawkish, even if growth slows moderately.

For investors, this argues for balance. Our stance on duration remains neutral. The front end of yield curves should be supported by eventual policy easing, while longer maturities face pressure from inflation risk, fiscal deficits and heavy supply. We expect yield curves to flatten as markets price in more durably restrictive central banks.

**Yield to maturity per fixed income segments:**  
Sovereigns, Corporates, Emerging debt in local currencies, Emerging debt in USD and High Yield



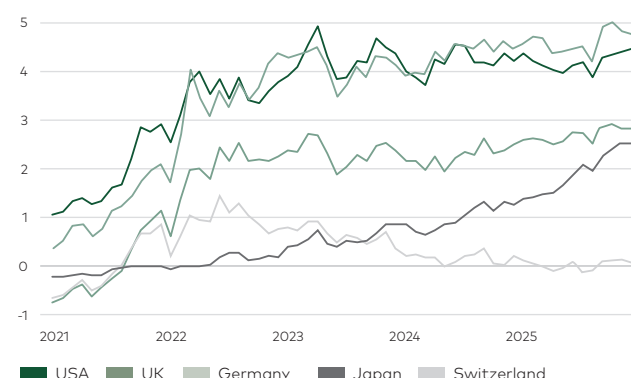
**Key central banks target rates**



## DEVELOPED MARKET SOVEREIGNS

In the US, Treasury valuations are more attractive following the rise in yields, but supply remains a concern. Large fiscal deficits and heavy issuance should continue to weigh on the long end. We thus continue to underweight US duration. Inflation-linked bonds remain attractive as a portfolio diversifier. TIPS offer protection in the event that oil prices or tariffs keep inflation above target.

**Sovereign yield to maturity (10Y benchmarks)**



In Europe, sovereign bonds face a difficult balance. Growth is weaker than in the US, but inflation risks have increased due to higher energy costs. We expect European yields to remain range bound.

## DEVELOPED MARKET CORPORATES

Corporate credit spreads are tight, leaving limited room for further compression. That said, the asset class remains supported by strong demand, healthy balance sheets and investor search for yield. Technical factors are still positive, but the market must absorb large issuance from US technology and hyperscaler companies financing AI infrastructure.

We remain selective in credit, favouring quality issuers, shorter maturities and stable cash flows.

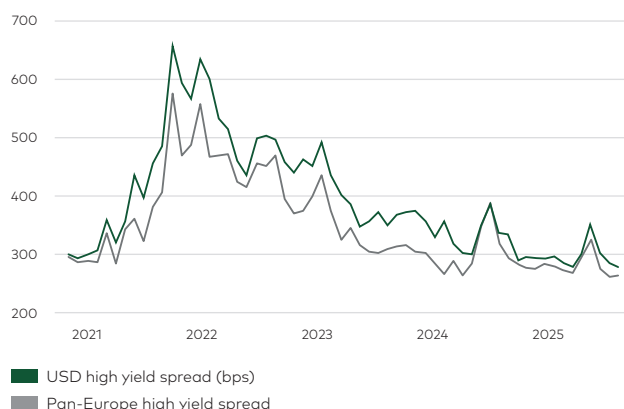
## HARD CURRENCY EMERGING MARKET DEBT

EM hard currency debt has performed steadily, supported by contained spread volatility and a broadly stable US dollar. However, the asset class offers limited valuation upside at current spread levels. Country selection remains paramount, commodity exporters and economies with current account surpluses being in a better position to absorb external shocks.

### US and European Corporate Spreads (Investment Grade)



### US High Yield spreads and probability of recession, as derived from the yield curve



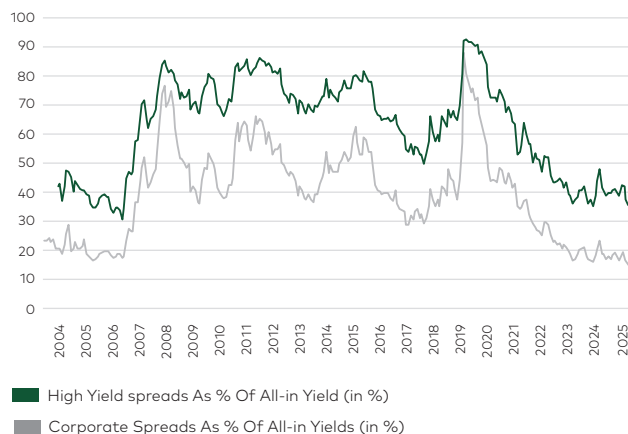
### Emerging Spreads (corporate and sovereign) and emerging currencies index (vs. USD, inverted)



## LOCAL CURRENCY EMERGING MARKET DEBT

Local currency EM debt remains one of the more attractive areas in fixed income. Real yields are still high in many markets, while several EM central banks have greater room to ease monetary policy than their developed market peers. A less predictable Fed and higher oil prices may create periods of volatility, but the starting yield cushion remains compelling.

Credit Spreads as % of all-in Yields



## FIXED INCOME PROJECTION

| Segments                         | Yield (%) |      |       | Return View (12m horizon) |
|----------------------------------|-----------|------|-------|---------------------------|
|                                  | USD       | EUR  | CHF   |                           |
| Cash                             | 3,64      | 2,09 | -0,08 | →                         |
| Short-Term High-Yielding         | 4,76      | 3,14 | 0,48  | ↗                         |
| 10y Government Bonds             | 4,45      | 2,99 | 0,37  | →                         |
| 10y Government Inflation-Linkers | 2,18      | 0,89 | n.a.  | ↗                         |

| Segments                     | Spread over Sovereigns (bps) | Return View (12m horizon) |
|------------------------------|------------------------------|---------------------------|
|                              |                              |                           |
| Developed Corporates         | 77                           | ↗                         |
| Corporate Hybrids            | 136                          | →                         |
| Developed High Yield         | 275                          | →                         |
| Emerging Sovereigns          | 161                          | →                         |
| Emerging Corporates          | 200                          | →                         |
| Emerging Local-Currency Debt | n.s.                         | ↗                         |

Source: Bloomberg indices hedged in the respective currency



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