Quarterly Report
2nd quarter 2026

Bad mood in the real economy and euphoria on the financial markets

A contradiction that lasts?

Economic forecasters around the world began the new year with high hopes. The global economy recovered remarkably quickly from the extraordinary shocks of the past half-decade. Inflation figures were also on track to meet the two per cent target. Capital market participants were betting on falling central bank interest rates.

This optimistic outlook was sorely dashed by the coordinated attack on Iran by the US and Israel. The so-called 'blitzkrieg' ended in a veritable global energy crisis. The attackers simply overlooked the fact that, with the Strait of Hormuz, Iran holds a strategic position that cannot be easily overcome, even by the world's strongest army. The closure of this strait has led to a renewed global supply shock, making it necessary to revise global inflation and GDP growth rates. The extent of the change, however, depends heavily on the duration of the strait's closure. But it is already clear that the loss of purchasing power for American consumers is so great that the government is expecting to suffer considerable losses in the November elections. Trump therefore has a strong incentive to call off the 'Iran exercise' as quickly as possible. Only a treaty that could be interpreted as an obvious act of capitulation is likely to prompt him to escalate the war. We consider this rather unlikely, as he is adept at portraying defeats as victories.

The situation is different on the stock markets. Following a brief slump after the start of the war, they have once again reached new record highs. Various factors have contributed to this. First and foremost is artificial intelligence (AI). Investors are euphoric about the potential of this new technology. This is also reflected in the valuations of AI companies going public. SpaceX, for instance, achieved a market capitalisation of over 2 trillion dollars, despite projected 2025 turnover of one hundredth of that figure (20 billion dollars) and a projected loss of around 5 billion dollars. However, it is not only the high expectations for AI's future that are having a positive knock-on effect on other companies. Above all, it is the high levels of capital expenditure that AI companies are already incurring today on energy- and chip-intensive data centres. The investment volume of the five largest AI companies is estimated at around one trillion dollars for 2025/26. This investment surge has largely offset the negative consequences of the US government's tariff and military policies. Furthermore, investors expect AI applications not only to deliver higher output but also higher margins, as they tend to be able to replace labour. This applies even more markedly to generative AI, which promises, at a later stage, to be able to substitute even human creative and innovative output. This could further improve the potential returns on capital. The outlook is likely to be more challenging for labour as a factor of production. It is unlikely to be able to maintain its share of GDP.

There is another distinctive feature of AI innovations that is worth noting. They are extremely capital-intensive. This stands in contrast to the innovations of the last 30 years, which were based primarily on knowledge. For instance, the evolution of computers, the internet, social networks and platforms required a great deal of investment in software but little capital investment. From an economic perspective, AI investments are much more comparable to the inventions of the steam engine, the railway and electricity. The latter brought enormous gains in economic prosperity, but also inflicted heavy losses on investors. Capital-intensive innovations are usually characterised by economies of scale, meaning that a phase of over-investment is followed by a long-term process of competitive selection that claims many victims, leaving only a few – or perhaps just one – standing in the end. This theory also appears to be driving AI investors. They are raising so much capital via the stock market, the capital markets and the rapidly growing private markets that they can secure a leading position as soon as possible. This is why the question of the sustainability of these investment sums is already being raised today. Should doubts arise, the corrections on the stock markets – given their high valuations – would be massive. We are not there yet, but the risk must be kept in mind.

Moreover, the threat does not come solely from the supply side. Demand, too, could prove to be a stumbling block for investors. To the extent that AI can replace human labour, wage growth will lag behind output growth. This would lead to a general decline in aggregate demand and a fall in returns on investment. Should these risks materialise at a later date, considerable damage to the economy and public finances would be expected.

Another factor supporting share prices is linked to deregulation in the US. The US Supreme Court's ruling of 30 June 2026, granting the President the power to dismiss heads of government agencies without giving reasons, represents a break with a century-old tradition. Such high-profile figures, whose agencies are bound to step on the toes of many citizens and businesses, enjoy special protection in most Western democracies, regardless of their political affiliation. One need only think of the agencies responsible for environmental protection, competition, health and safety, and so on. With the replacement of these strategic posts, the scope for business activity is likely to expand, if only because many unpopular regulatory requirements will be less actively monitored and enforced. This measure is likely to gradually undo the decades-long efforts of those regulatory policymakers who sought to integrate external costs into the market economy.

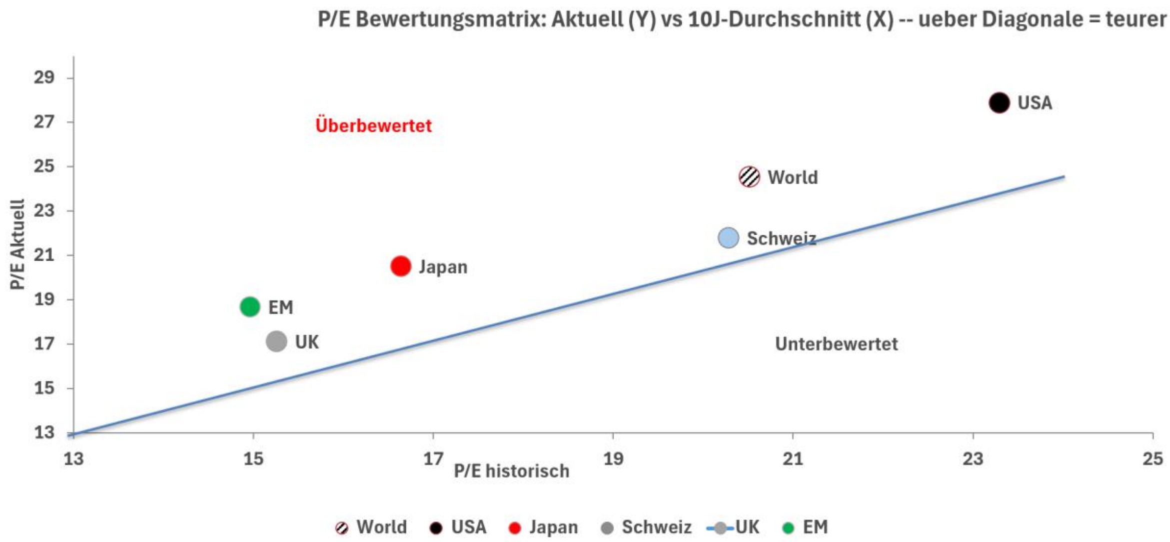
If we further assume that the US President has every interest in preventing the conflict with Iran from escalating and in keeping the Strait of Hormuz open, whatever the cost, the risk of inflation becoming entrenched also diminishes. Interest rates can therefore be expected to fall again by early 2027 at the latest.

With the war in Iran, the dollar has also regained some of its value. However, anyone hoping for a lasting turnaround is likely to be disappointed again before long. This is because the structural factors weighing on the dollar have changed only marginally. Tariffs on imported goods do not resolve the fundamental problem of the imbalance between saving and investment. The high budget deficit of around 5 per cent of GDP is further exacerbating this imbalance. As a result, the US's external debt continues to grow. It is therefore only a matter of time before doubts resurface as to whether the US is actually willing to honour its obligations. In the medium term, economic and monetary developments do not bode well for the dollar either.

Europe and Asia have been particularly hard hit by the blockade of the Strait of Hormuz. They have greater potential for recovery than the US. This is likely to lead to a narrowing of the interest rate differential between the US and Europe, with Europe likely to move away from the neutral level for short-term interest rates in the short term as a precautionary measure, whilst the US remains on a significantly more restrictive stance.

However, the situation regarding public finances remains tense, as there is little scope for the necessary consolidation. On the contrary: there is no way around an increase in military spending – particularly in Europe – during the current decade. The scope for monetary policy therefore remains limited. Any interest rate rises would further worsen the fiscal situation and expose governments to pressure. Fears that the new head of the Fed, Kevin Warsh, might bow to pressure from Trump to cut interest rates have not been borne out so far. On the contrary, he has indicated that he intends to have his views on monetary policy examined by teams of analysts. This will take time. We therefore do not expect any policy changes before the end of the year.

Overall, the trend originating in the US towards companies passing on their costs to the general public is bolstering corporate valuations. Innovations in the field of AI are also promising. They are likely to raise global economic growth rates to a higher level or even – in the case of generative AI – cause them to rise exponentially. Capital will be the big winner here. Its share of GDP is likely to increase significantly. However, these high expectations are already factored into the current extreme valuations of AI companies.



Even minor revisions to expectations could quickly lead to major corrections. Furthermore, new shocks to the global economy or an escalation of ongoing conflicts – leading to supply bottlenecks and a fresh wave of inflation – would trigger a slump in the stock markets as central banks are forced to tighten monetary policy. We are not there yet. However, heightened vigilance is warranted. There is, however, no urgent need to change our long-term strategy. After all, overvaluations can persist for a long time.

So much for the broad.

With kind regards,

Prof. Dr. Josef Marbacher

Investment Strategy 3rd Quater 2026

Meeting of the investment advisory commitee 17.06.2026

		Investment strategy							
	Asset class	**Income**	+/-	**Balanced**	+/-	**Growth**	+/-	**Capital gain**	+/-
Defensiv	Liquidity	8%	0%	7%	0%	5%	0%	5%	0%
Defensiv	Fixed income Incl. Bond Funds	60%	0%	35%	0%	15%	0%	0%	0%
Offensiv	Stocks Incl. Stock Funds + ETF	25%	0%	50%	0%	70%	0%	85%	0%
Offensiv	Others Real Estates, Commodities, Gold, Structure Products, Alternatives	7%	0%	8%	0%	10%	0%	10%	0%
		100%		100%		100%		100%	

Additional parameters

Reference currency CHF

Currency allocation

CHF	min.	50 %
EUR	max.	20 %
USD	max.	20 %
GBP	max.	15 %
Other	max.	20 %
		(max 10 % per currency)

Variations +/- 5 % are possible for the various investment categories.

The negative economic impact of the Iran conflict and disruptions to energy trade has, somewhat surprisingly, remained limited in Q2-26. Investment in defence, supply chains and the booming expansion of AI infrastructure will continue to drive growth and sustained demand for capital in the second half of the year. The U-turn in monetary policy currently offers no hope of interest rate cuts.

At present, we see no reason to reduce our equity allocations. Strict diversification remains advisable. Thanks to attractive valuations and falling energy prices, European and Asian stocks are regarded as promising ‘laggards’. Value stocks, rather than pure growth shares, are once again coming slightly more to the fore.

The strength of the US dollar is unlikely to be sustainable and should be viewed with caution.

“Anyone who rigidly exits the stock market in the summer misses out on the ongoing momentum”.