



Market Commentary

2nd Quarter 2026

Business Activity and Global Economy

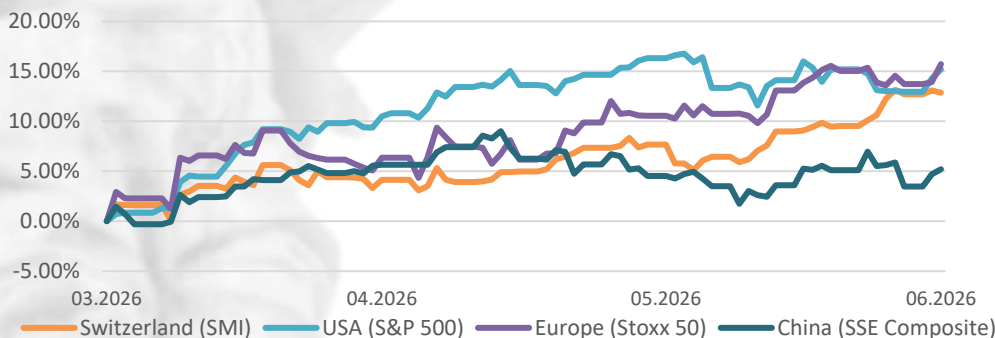
The second quarter of 2026 followed on from an environment already marked by geopolitical uncertainty, but the focus shifted more clearly to the conflict between the US, Israel and Iran/Hezbollah, as well as the blockade of the Strait of Hormuz, a key chokepoint for global energy trade. Repeated ceasefires, renewed threats and intermittent attacks created a volatile environment. It was only towards the end of the quarter that some signs of easing emerged with the memorandum of understanding between the US and Iran, although key issues such as the handling of Iran's nuclear program and the sustained reopening of the Strait of Hormuz remain unresolved.

In the US, the economy remained broadly resilient, although growth became less broad-based. Annualized GDP growth in the first quarter stood at 2.1%, supported by investment, exports and government spending, while private consumption weakened noticeably. The labor market presented a mixed picture: non-farm payrolls increased by 172'000 jobs in May, while the figures for April and March were revised upwards, and the unemployment rate remained stable at 4.3%. At the same time, declining hiring activity and fewer resignations pointed to a still cautious hiring environment.

In Europe, economic momentum remained weak. Eurozone GDP declined by 0.2% quarter-on-quarter in the first quarter, while employment increased only slightly. Higher energy prices, rising interest-rate expectations and subdued consumer demand weighed on economic activity. The picture was different in Switzerland, where GDP rose by 0.4% in the first quarter, following growth of 0.2% in the previous quarter. This positive development was mainly supported by a robust industrial sector and higher government spending. The UK also recorded growth of 0.6% in the first quarter. However, political uncertainty in the country intensified following the resignation of Prime Minister Starmer.

China grew by 1.3% quarter-on-quarter in the first quarter and therefore remained on a solid footing. In particular, Chinese exports continued to show stable growth, rising by almost 20% year-on-year in May. Japan also recorded a robust performance in the first months of the year, with quarterly growth of around 0.5%.

Figure 1: Stock Indices in Local Currency in the second quarter



Key Takeaways

- Our mandates were able to further expand the positive returns from the first quarter by the middle of the year.
- In the second quarter, geopolitical developments in the Middle East were clearly in focus. Despite repeated escalations around the Iran conflict, equity markets performed very strongly overall. Technology stocks and semiconductor companies were particularly in demand, benefiting from the continued enthusiasm around AI.
- In bond markets, rising inflation concerns and higher interest rate expectations led to an increase in yields, particularly at the longer end of the curve. Toward the end of the quarter, however, progress in negotiations between the U.S. and Iran provided some relief.
- In commodities, oil remained particularly volatile due to the uncertain situation in the Strait of Hormuz.
- Gold initially benefited from the uncertainty, but later weakened as the stronger U.S. dollar weighed on prices. The yen, meanwhile, remained under pressure.

Source: LSEG Workspace as of 01.07.2025

Monetary Policy

Monetary policy in the second quarter was shaped by a sharp rise in inflation following higher energy prices in the wake of the partial closure of the Strait of Hormuz. While central banks largely adopted a wait-and-see approach at the beginning of the quarter, market expectations increasingly shifted toward higher policy rates as the quarter progressed. Higher energy prices, supply chain disruptions, and more robust labor market data led markets to price in rate hikes more strongly again, although central banks responded differently to these developments.

In the U.S., inflation rose to 4.2% year-over-year in May, after already moving above the 3% mark in March. Inflation therefore remains clearly above the Federal Reserve's target. Even core inflation, which excludes energy and food prices, stood at 2.9% in May. The Fed has so far left interest rates unchanged and also refrained from raising rates in June. Under the new Fed Chair Kevin Warsh, the central bank has also largely avoided signaling future monetary policy intentions through forward guidance. As a result, markets are more dependent on incoming data and less guided by the central bank's communication. In the U.S., markets currently expect one rate hike by the end of the year, although this expectation is already being questioned by market participants in light of the recently weaker U.S. labor market data.

In June, the ECB made a monetary policy shift and raised its policy rates by 25 basis points to 2.25%. The key driver was the renewed acceleration in eurozone inflation to 3.2% in May, after it had already stood at 3.0% in April. Although energy, with an increase of almost 11% year-over-year, made the largest contribution to inflation, price pressure also increased in other areas. Services prices rose noticeably compared with the previous year, pushing core inflation up to 2.6%. The ECB once again raised its inflation forecasts and now expects inflation of 3.0% in 2026, 2.3% in 2027, and 2.0% in 2028.

Outside the eurozone, the Swiss National Bank left its policy rate unchanged at 0%, pointing to still low inflation in Switzerland. The stronger franc, lower energy dependence in electricity generation, and weaker domestic inflation limited the need for monetary policy action. At 0.6%, inflation remained significantly lower than in other currency areas. The Bank of England recently kept its policy rate unchanged at 3.75% by a vote of 7 to 2, as it expects inflation to rise due to higher energy prices but considered an immediate tightening premature. Investors nevertheless expect rates to be raised by the end of the year.

The Bank of Japan raised its policy rate in June from 0.75% to 1.0%, bringing it to its highest level since 1995. The main reason was increasing inflation risks due to higher energy prices, the weaker yen, and Japan's high dependence on energy imports.



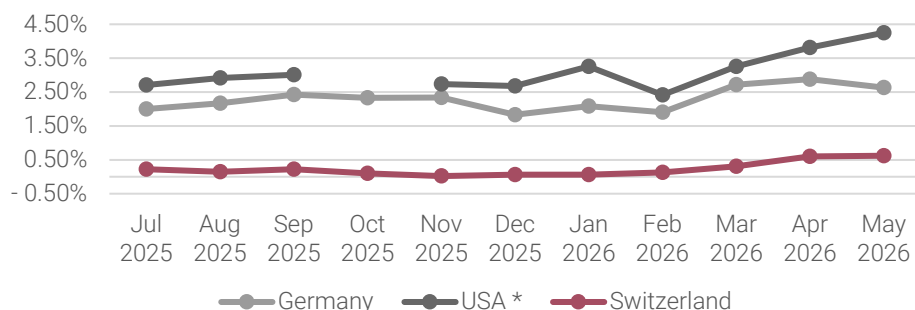
Market Data

Equity Markets Perf.	2026
SPI	9.86%
DAX	2.06%
Euro Stoxx 50	11.69%
S&P 500	10.21%
Nasdaq Composite	12.79%
Yield to Maturity of Government Bonds	in %
10Y Swiss Federal Bond	0.27%
10Y German Federal Bond	2.97%
10Y U.S. Treasury	4.44%
Gold (oz.) Perf.	2026
in CHF	-4.98%
in EUR	-4.13%
in USD	-6.67%
Commodities Perf.	2026
Oil Brent	24.68%

Performance in local currency, data as of June 30, 2026 retrieved on July 1, 2026

Source: LSEG Workspace

Figure 2: Inflation Rates Over Time (Annualized Rates)



* No data available in October due to the government shutdown

Source: LSEG Workspace as of 01.07.2026

Financial and Capital Markets

In the second quarter, geopolitical developments dominated financial markets. While an early ceasefire at the beginning of the quarter raised hopes for a swift end to the war in Iran, the following weeks saw a confusing back and forth of repeated setbacks and escalations, as well as announced progress in negotiations and the prospect of a reopening of the Strait of Hormuz. Overall, the market environment remained volatile, with markets shaped not only by geopolitical tensions but also by inflation concerns and the growth of AI-related companies.

Equity markets posted an overall positive quarter, mainly supported by positive news from the Middle East and enthusiasm around the investment wave in AI and data centers. Broad indices in Europe, Switzerland, and the U.S. each recorded double-digit gains. However, momentum was particularly strong in Asia. South Korea's KOSPI rose by 30% in April, its strongest monthly increase on record, and ended the quarter up more than 80%. This development was driven in particular by major companies in the semiconductor sector. One example is SK Hynix, a leading South Korean manufacturer of memory chips, which was able to increase its first-quarter profit fivefold compared with the previous year. As a result, its share price rose by more than 200% in the second quarter. Taiwan and Japan also benefited from the AI investment wave and recorded exceptional gains.

In bond markets, renewed price pressures and the shift in interest rate expectations led to rising yields, particularly at the long end of the curve. The yield on 30-year U.S. Treasuries briefly rose above 5.2% at the end of May for the first time since 2007, weighing on both financing costs and equity market valuations. Yields on 30-year bonds in the UK also reached their highest levels since 1998, while in Japan they even climbed to new all-time highs. With the memorandum of understanding between Iran and the U.S. and the prospect of lower energy prices, yields eased somewhat again toward the end of the quarter.

In commodities, oil remained in focus and reacted strongly to developments in the Strait of Hormuz. Despite renewed military attacks from both sides, Brent at times fell back close to pre-war levels. Gold initially gained somewhat at the beginning of the quarter due to geopolitical uncertainty, but later came under pressure from higher interest rate expectations and the stronger U.S. dollar. Copper, by contrast, benefited from structural demand driven by investments in AI infrastructure, the increasing electrification of transportation, and the expansion of renewable energy.

In foreign exchange markets, the U.S. dollar appreciated over the course of the quarter, supported by higher interest rate expectations. The Swiss franc remained in demand as a safe haven, although gains were limited by the SNB's unchanged policy stance and its continued willingness to intervene. The yen continued to depreciate against the U.S. dollar despite the rate hike. The Bank of Japan attempted to support the yen with a record intervention, but this only led to a short-lived recovery. As a result, the yen weakened further and now stands at a 40-year low against the U.S. dollar.

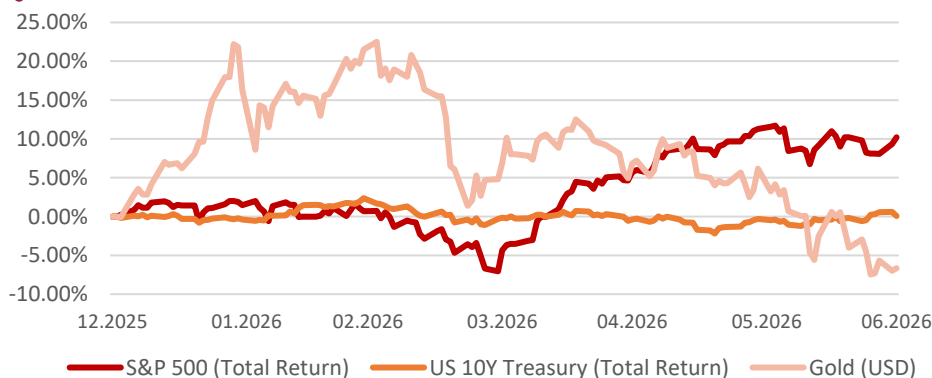


Asset Allocation

Asset Class	Positioning
Cash	Overweight
Fixed Income	Underweight
Equity	Small Underweight
Gold	Moderate Overweight

- In the second quarter, we maintained a balanced portfolio positioning and selectively optimized the asset allocation with a view to the remainder of the year.
- In fixed income, the focus remained on short maturities and solid credit quality. This helped limit larger fluctuations resulting from rising yields.
- The equity allocation made a positive contribution to performance. In particular, our selection in the U.S. as well as positions in emerging markets and Japan performed very well.
- The tactical overweight in gold was moderately reduced over the course of the quarter. The rebalancing measures already implemented in the first quarter proved sensible and further strengthened portfolio risk management.

Figure 3: Total Return of the S&P 500, 10Y Treasuries and Gold for the Year 2026



Source: LSEG Workspace as of 01.07.2026

Current Asset Allocation

Our portfolios were well positioned to navigate this challenging market phase. Nevertheless, we made selective adjustments to the asset allocation in order to make the portfolios even more robust for the remainder of the year. On the one hand, we moderately reduced the previously very pronounced tactical overweight in gold. On the other hand, we used the strong price gains in selected equity positions to realize profits and selectively reallocate capital into existing as well as newly selected investments. This allowed us to partially lock in the positive performance achieved so far while continuing to manage risks within the portfolio.

We were able to further extend the positive returns from the first quarter by mid-year. A key contribution came in particular from our equity selection in the U.S. Exposure to emerging markets and Japan also contributed significantly to the strong performance. In addition, the rebalancing measures already implemented in gold during the first quarter proved appropriate.

In the second quarter, geopolitical risks once again moved more clearly into focus and led to a challenging market environment. The repeated tensions surrounding the Iran conflict, the blocked Strait of Hormuz, and the related swings in energy prices were not enough to sustainably derail the overall very strong development of equity markets. At the same time, inflationary pressure increased again, causing interest rate expectations to shift higher. In this environment, we are maintaining a cautious positioning. In equities, we have not increased the allocation and continue to favor broad diversification. In fixed income, we remain focused on shorter maturities and solid credit quality, which helped protect the portfolios from larger fluctuations during the reporting quarter. In gold, we continue to hold an overweight position, although it is much less pronounced than at the beginning of the year. Over the long term, we remain convinced of gold's role as an important building block of our portfolio strategy.

The remainder of the year will likely depend largely on whether the easing of tensions in the Middle East are sustainable and whether higher energy and transportation costs become more firmly reflected in inflation data. Accordingly, the risk of restrictive monetary policy by central banks remains. At the same time, solid corporate earnings, the ongoing investment cycle around artificial intelligence, and hopes for a sustained easing of the geopolitical situation continue to provide support. After the strong price gains across various market segments and regions, however, the remainder of the market year is likely to remain prone to volatility. For the portfolios, disciplined risk management with a focus on quality, liquidity, and balanced diversification therefore remains central.



Contact

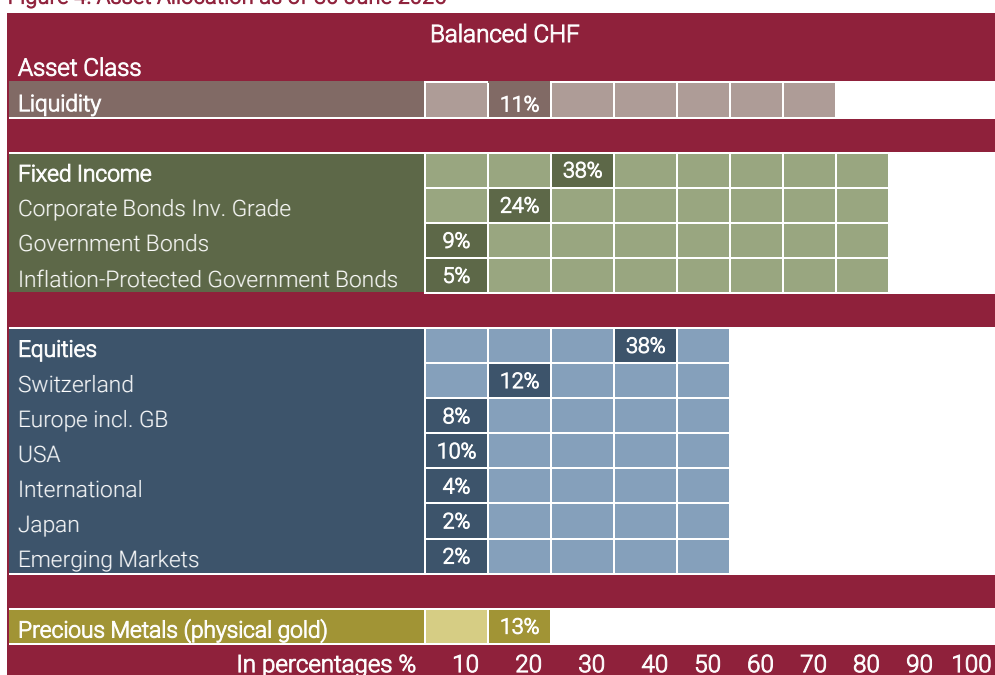
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Figure 4: Asset Allocation as of 30 June 2026



This report was created on the 6th of July 2026.