



Market Commentary

3rd Quarter 2026

Business Activity and Global Economy

In the third quarter, the conflict in the Middle East remained a major headwind for the global economy. In July, the US announced that the memorandum of understanding with Iran was no longer in effect. The resulting rise in energy prices and continued uncertainty weighed on businesses and households. Nevertheless, the global economy remained broadly resilient, although developments varied across regions.

In the US, GDP grew at an annualized rate of 2.2% in the second quarter according to revised data, down from 2.5% in the first quarter. Private consumption and business investment supported economic activity, while net trade was a drag due to sharply higher imports. Job growth slowed to 29,000 in September from a revised 133,000 in August. The unemployment rate edged up from 4.1% to 4.2%.

The euro area economy proved more resilient than expected despite higher energy costs. GDP expanded by 0.6% following a weak first quarter and was 1.2% higher than a year earlier. Public spending on infrastructure and defense supported industry, while services recovered on the back of improved consumer sentiment. The labor market remained robust. Growth in Switzerland was also strong in the second quarter. The chemicals and pharmaceuticals sector made an unusually large contribution following weak and partly negative previous quarters. Domestic demand also strengthened. For the full year, the Swiss National Bank (SNB) now expects growth of 1.5–2.0%.

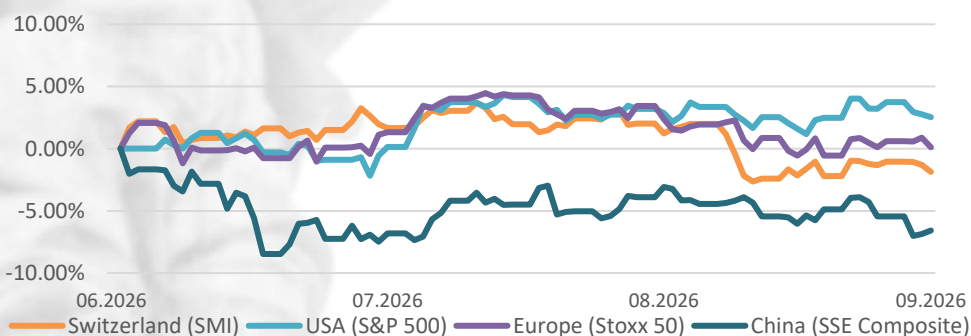
China, by contrast, continued to be characterized by weak domestic demand. Year-on-year GDP growth slowed to 4.3% in the second quarter, its lowest level in more than three years. Despite strong exports, the prolonged property downturn, declining investment and subdued consumption continued to weigh on economic activity. The extension of the tariff truce between China and the US at the end of the quarter, together with agreed tariff reductions on selected products, should support Chinese exports. However, with the truce extended by only two months, the risk of renewed escalation remains. At the same time, China's economy remains heavily dependent on exports.



Key Takeaways

- Our mandates again delivered positive returns in the third quarter.
- Equity markets remained resilient despite the ongoing conflict in the Middle East and rising interest rates.
- The sharp rise in yields weighed on bond markets in Europe and the US. Longer-dated bonds were particularly affected due to their greater interest-rate sensitivity.
- The conflict in the Middle East kept oil prices elevated and increased inflation risks.
- Gold returned to a positive performance following a weaker previous quarter.

Figure 1: Stock Indices in Local Currency in the Third Quarter



Source: LSEG Workspace as of 5 October 2026

Monetary Policy

Monetary policy in the third quarter was increasingly shaped by renewed tightening. Persistently high energy prices kept the risk of inflation remaining above target for longer elevated. While second-round effects on wages and other prices remained limited in many economies, central banks became increasingly willing to raise rates pre-emptively. This was supported by generally solid economic activity and robust labor markets.

Following the sharp rise to above 4% in the second quarter, US inflation stabilized at 3.4% during the third quarter. Gasoline prices were more than 25% higher than a year earlier, while core inflation edged down to 2.4%. With the US economy remaining resilient, the Federal Reserve had scope to pursue a more restrictive monetary policy. Under Kevin Warsh, it therefore raised the policy rate by 25 basis points in September to 3.75–4.00%, its first increase in more than three years. By quarter-end, a further rate hike by December was largely priced in.

After its rate hike in June, the European Central Bank (ECB) initially left rates unchanged in July before raising the deposit rate by a further 25 basis points to 2.50% in September. The main driver was the energy-related acceleration in euro area inflation to 3.2% in August. At the same time, services inflation remained elevated at around 3%, while core inflation declined to 2.4%. The ECB now expects average inflation of 3.0% for the full year and 2.5% in 2027. By quarter-end, markets were pricing in another rate hike before the end of the year, while the ECB itself remained unwilling to commit to a predetermined rate path.

The SNB in Switzerland kept its policy rate unchanged at 0%. Inflation was very low at 0.4% at the beginning of the quarter but rose unexpectedly to 0.8% in August. Higher petrol prices were the main driver, while the weaker Swiss franc also contributed to the increase. Nevertheless, pressure on the SNB to act remained limited, as inflation stayed below 1% and the central bank expects inflation rates of less than 1% through 2028. At the same time, the SNB removed its earlier reference to a “heightened willingness” to intervene in the foreign exchange market, while retaining the option to act if necessary.

The Bank of England also kept its policy rate unchanged at 3.75%. It argued that a weaker labor market and still limited second-round effects allowed it to remain on hold. At the same time, inflation remained well above the 2% target at 3.1% in August. The decision was therefore not unanimous, with three of the nine members already voting for a rate hike in September.

The Bank of Japan raised its policy rate by 25 basis points to 1.25%, its highest level since 1995. Rising wages, higher energy prices and a weak yen, which increases import costs, kept inflationary pressure high. At the same time, expectations from Washington increased for Japan to counter yen weakness more forcefully through higher interest rates. Despite reaching its highest level in around 30 years, Japan’s policy rate remains low by international standards.

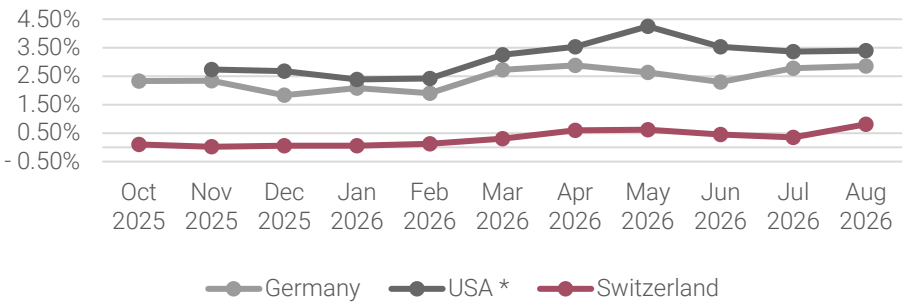


Market Data

Equity Markets	2026
SPI	7.64%
DAX	2.89%
Euro Stoxx 50	11.00%
S&P 500	12.75%
Nasdaq Composite	15.57%
Yield to Maturity of Government Bonds	in %
10Y Swiss Federal Bond	0.56%
10Y German Federal Bond	2.97%
10Y U.S. Treasury	5.29%
Gold (oz.)	2026
in CHF	1.48%
in EUR	-0.44%
in USD	-3.72%
Commodities Perf.	2026
Oil Brent	85.75%

Performance in local currency, data as of September 30, 2026 retrieved on October 5, 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 5 October 2026

Financial and Capital Markets

Financial markets in the third quarter were marked by sharply rising yields and substantial losses in bond markets, particularly among long-dated government bonds. Energy prices also rose strongly again, adding to inflationary and interest-rate pressures. Despite the more challenging rate environment, equity markets remained broadly resilient, supported in part by continued high expectations for AI-related companies and investment.

In the US, both the technology-heavy Nasdaq and the S&P 500 ended the quarter slightly higher. However, index performance is becoming increasingly concentrated among a small number of heavyweight stocks. Nvidia and Apple together account for around 15% of the S&P 500. Both gained slightly more than 13% during the quarter and made a significant contribution to the index's positive performance. In Europe, the broad Stoxx 600 and the Swiss SMI ended the quarter slightly below their end-June levels. In Switzerland, disappointing margin expectations at Nestlé and setbacks in clinical studies at Novartis weighed on two major index constituents. Performance across Asia was mixed: equities in Taiwan and Japan gained slightly, while South Korea's Kospi fell around 20% from an interim high at the end of June. The AI boom remained an important driver of equity markets overall. At the same time, equities – and highly valued technology stocks in particular – remain vulnerable to corrections as interest rates rise.

Bond markets saw significant repricing during the third quarter. Ten-year US Treasury yields ended the quarter above 5.3%, their highest level since 2002. Expanded bond buybacks by the US Treasury provided only temporary relief. With long-term inflation expectations rising only modestly, market observers attributed the increase in yields less to higher inflation expectations than to growing concerns about high government debt and future funding requirements. Persistently high capital needs for the expansion of AI infrastructure added further financing pressure in capital markets. Government bonds also came under pressure in Europe. In France, yields ended the quarter above those of Italy and Greece amid concerns over the fiscal situation, while political uncertainty added to pressure in Germany. In Japan, ten-year government bond yields rose above 3% as inflation increased, reaching their highest level in almost 30 years.

In commodities, Brent crude rose back above USD 100 per barrel following the renewed strikes in the Middle East. Gold initially reacted strongly to the announced US bond buybacks and posted significant gains in August. Later in the quarter, however, rising interest rates and a stronger US dollar put renewed pressure on gold, although it still ended the quarter slightly higher overall.

The Swiss franc lost around 3% against the US dollar during the third quarter, while the euro ended the quarter broadly unchanged from previous quarter-end levels despite some fluctuations. The yen initially fell to its weakest level against the US dollar in almost 40 years in late July before Japan and the US jointly intervened in the foreign exchange market. The Japanese currency subsequently recovered amid considerable volatility. However, given the still wide interest rate differential with the US, it remains unclear how sustainable this stabilization will be. At quarter-end, the yen was trading roughly at its level at the start of the year.

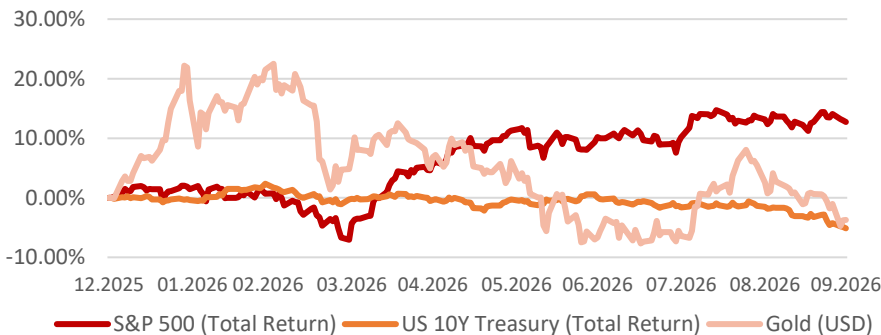


Asset Allocation

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

- We maintained our defensive positioning. Through selective profit-taking, reallocations and replacements, we made targeted improvements to the portfolios.
- The sharp rise in yields resulted in a negative performance contribution from bonds. Our focus on shorter maturities significantly limited price losses. We continue to favor high-quality corporate bonds over government bonds.
- Equities again made the largest positive contribution to overall performance. We took profits in selected positions and reallocated the proceeds.
- Our gold position made a positive contribution to portfolio performance again after a weaker previous quarter. The still significant gold allocation provides diversification against equities and bonds.

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



Source: LSEG Workspace as of 5 October 2026

Current Asset Allocation

Despite challenging markets in the third quarter, no fundamental adjustments to our portfolios were required. In such market environments, disciplined implementation of our investment principles and strategic asset allocation, together with stringent risk management, remains essential. Ongoing position reviews and targeted replacements allowed us to further refine the portfolios. As in previous quarters, we reduced individual stock positions that had performed particularly strongly and selectively reallocated the proceeds.

Our discretionary portfolios again generated positive returns in the third quarter. The sharp rise in interest rates weighed on bonds and resulted in a negative performance contribution during the reporting period. However, our focus on shorter maturities helped limit price losses significantly. Equities continued to make the largest positive contribution to overall performance. Gold also contributed positively again following a weaker previous quarter.

The market environment in the beginning of the second half of the year was shaped by the ongoing conflict in the Middle East, elevated energy prices and sharply rising interest rates. While equity markets remained broadly resilient, longer-dated bonds in particular came under pressure. Against this backdrop, we maintain our cautious positioning. Our focus on shorter maturities has again proved beneficial in this environment. With public finances under pressure in many countries, we continue to favor high-quality corporate bonds over government bonds. In equities, we are sticking to our existing strategy and made further selective adjustments during the quarter. This positioning is complemented by a continued significant allocation to gold, which provides diversification particularly to equities.

The fourth quarter should provide a clearer indication of how well companies and households can absorb the higher level of interest rates. A swift end to the conflict in the Middle East appears increasingly unlikely. The risk therefore remains that elevated energy prices intensify inflationary pressures and lead to further rate increases. Solid corporate earnings remain an important support for equity markets, although highly valued market segments leave little room for disappointment. At the same time, high government debt could keep long-term yields elevated even as inflation eases. We therefore remain defensively positioned while maintaining a balanced investment strategy.

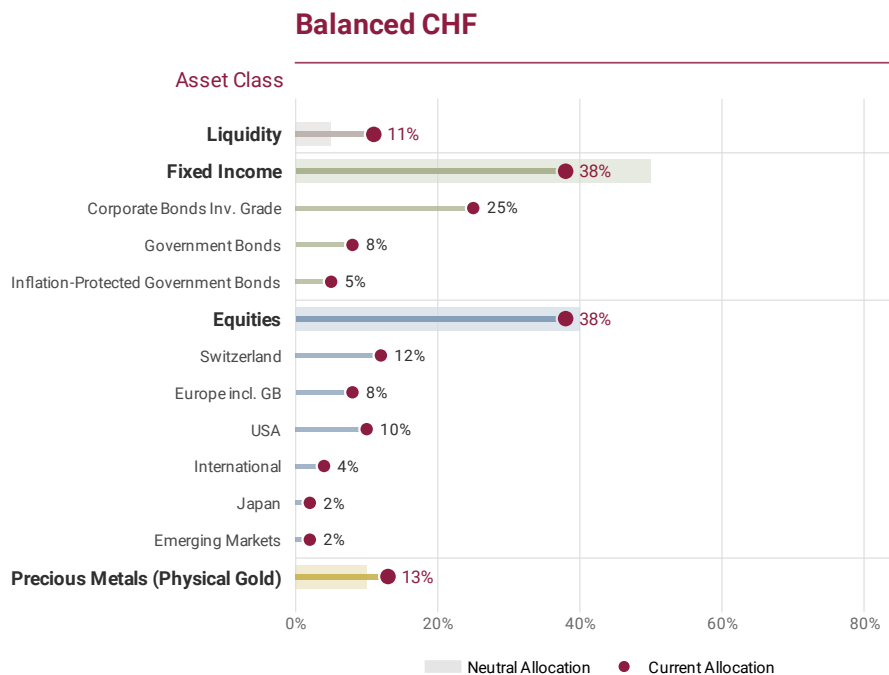


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Figure 4: Asset Allocation as of 30 September 2026



The chart shows the "Balanced CHF" strategy. Allocations differ for other strategies and currencies.

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