Outlook

H2
2026
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BANQUE
HERITAGE

From Monetary Dominance to Economic Reality

The first half of 2026 confirmed several of the key themes underpinning our investment outlook at the start of the year. Despite a complex geopolitical environment and limited macroeconomic visibility, the US economy once again demonstrated remarkable resilience. While growth has entered a moderation phase, activity continues to be supported by robust domestic demand, sustained investment in artificial intelligence, and accelerating productivity gains that are increasingly translating into stronger corporate earnings.

Against this backdrop, equity markets continued to move higher despite elevated volatility. Performance was supported by solid first-quarter earnings growth and by the continued strength of companies at the centre of the technological innovation cycle. Emerging markets also delivered robust returns, benefiting from stronger economic growth than developed economies, a more advanced monetary easing cycle, and a structurally weaker US dollar. By contrast, Europe has lagged behind, hampered by its energy dependence on the Middle East, fragile consumer confidence, and persistent structural constraints.

Beneath this apparent stability, however, the macroeconomic landscape continues to evolve. For the past two years, investors have largely focused on the challenge facing central banks of bringing inflation back to target following the post-pandemic shock. That narrative now appears increasingly incomplete. Inflation is not disappearing; it is changing in nature.

Recent tensions in the Middle East and renewed disruptions to global supply chains have once again highlighted the vulnerability of developed economies to supply-side shocks, particularly in energy markets. More broadly, geopolitical fragmentation, the rise of industrial policy, insufficient investment in energy infrastructure, and persistently large fiscal deficits are all factors that may contribute to a more structural inflationary environment, driven increasingly by supply constraints rather than excess demand.

This distinction is critical. Demand-driven inflation can generally be addressed through tighter monetary policy. Supply-driven inflation, however, is considerably more difficult to contain, as it forces central banks to navigate a delicate balance between preserving price stability and supporting economic growth.

In this environment, central banks face increasingly complex policy choices. In the United States, the Federal Reserve must deal with inflation that is rising again and remains well above its target, even as economic growth gradually loses momentum. The challenge is compounded by the arrival of the Fed's new Chair, Kevin Warsh, whose policy framework appears less interventionist and places greater emphasis on monetary stability than on systematically supporting economic activity or financial markets.

In Europe, the European Central Bank faces an even more complex challenge. Its sole mandate of price stability has just forced it to raise interest rates for the first time in June and could lead it to maintain a restrictive monetary policy, even as growth remains fragile

and several eurozone economies are already showing signs of running out of steam. In both regions, central banks' room for manoeuvre is shrinking significantly and the risk of monetary policy errors is once again becoming a major factor.This new reality has important implications for portfolio construction. For more than a decade, investors benefited from an exceptional environment characterised by low inflation, historically low interest rates, and a favourable correlation between equities and bonds. That framework can no longer be taken for granted.

Government bonds remain an essential component of diversified portfolios, but their volatility has increased significantly. Equities continue to benefit from innovation and earnings growth, yet the concentration of market performance within a narrow group of companies calls for greater selectivity and discipline. More than ever, diversification must be built upon multiple and independent sources of return rather than a limited number of dominant investment themes.

Our base-case scenario for the second half of the year remains one of moderating global growth without recession, inflation that remains structurally higher than the levels experienced during the post-2008 decade, and a political and geopolitical backdrop that continues to generate elevated market volatility.

Within this environment, we maintain our preference for the United States and emerging markets, remain cautious on Europe, and continue to favour an active, diversified, and disciplined investment approach.

After fifteen years dominated by central banks, investors must relearn how to cope with the constraints of the real economy: energy security, geopolitics, supply-driven inflation, and fiscal discipline. The challenge is no longer simply to anticipate the next policy decision, but to understand how these forces are likely to reshape the investment landscape over the coming decade.

United States

We maintain a constructive outlook on the United States for the second half of 2026, despite an increasingly complex macroeconomic and geopolitical environment. The US economy continues to benefit from growth drivers that few other regions can currently match: resilient consumer spending, a robust labour market, and sustained investment in artificial intelligence. We expect this momentum to continue over the coming quarters, supported by innovation, productivity gains, and ongoing capital expenditure. At this stage, our base-case scenario does not envisage a recession in 2026.

Artificial intelligence remains one of the cornerstones of our investment thesis. Unlike previous speculative cycles, the primary beneficiaries of this technological revolution are already generating substantial revenues, cash flows, and profit margins. Massive investment in digital infrastructure, coupled with the first measurable productivity gains across several industries, should continue to support earnings growth in the years ahead.

The main evolution relative to our outlook at the beginning of the year concerns inflation. Geopolitical tensions, supply-chain constraints, and rising energy prices remind us that inflationary pressures remain present. The Federal Reserve continues to face a delicate balancing act between supporting economic growth and maintaining price stability, increasing the risk of monetary policy missteps.

Adding to these inflationary pressures is another major challenge: the trajectory of US public finances. Despite an economy operating close to full employment, federal debt is now approaching USD 40 trillion, equivalent to more than 120% of GDP, while budget deficits continue to widen. At the same time, annual interest payments on government debt have surpassed the symbolic USD 1 trillion threshold. This situation continues to exert structural pressure on the Treasury market. US Treasuries retain their status as the world's premier safe-haven asset, but their volatility has increased significantly. The risk-free asset remains risk-free from a credit perspective, but it has become materially more volatile.

Within equity markets, we remain constructive but increasingly selective. Large-cap technology companies should continue to benefit from powerful structural tailwinds. However, the concentration of US equity indices has reached historically elevated levels, reinforcing the need for broader diversification of return drivers. In an environment characterised by persistent inflation and structurally higher interest rates, Value strategies and defensive sectors are gradually regaining relevance.

The United States remains the world's leading engine of growth and innovation. Nevertheless, the combination of persistent inflation, record fiscal deficits, and historically concentrated equity markets argues for greater selectivity and diversification in portfolio construction.

Europe

We maintain a cautious stance on Europe for the second half of 2026. The region continues to face persistent structural challenges, including weak productivity growth, energy dependence, political fragmentation, and a lag in the most value-creating technology sectors. Geopolitical tensions in the Middle East have further amplified these vulnerabilities by placing additional pressure on energy costs and business confidence.

Economic growth is therefore likely to remain significantly below that of the United States. Leading indicators continue to point to subdued activity, with France losing momentum and Germany struggling to transform the recent stabilisation of its industrial sector into a meaningful recovery. The euro area finds itself in an uncomfortable environment where slowing growth coincides with a renewed acceleration in inflationary pressures, particularly those linked to energy.

This situation significantly complicates the task of the European Central Bank. Unlike the United States, where growth remains resilient, the ECB must navigate a fragile economy while inflationary pressures are re-emerging. The risk of monetary policy missteps therefore warrants particular attention over the coming quarters.

That said, an exclusively negative view of Europe would appear excessive. Beyond valuations that remain attractive relative to US markets, the region could benefit from an environment that is more supportive of Value, industrial, and financial sectors, which have historically outperformed when inflation and interest rates remain above the levels experienced during the previous decade. This exposure also provides valuable diversification in the face of growing concentration within US equity markets.

Europe is not expected to be our primary source of portfolio returns, but it continues to play a meaningful role within diversified portfolios thanks to attractive valuations, broad sector exposure, and meaningful re-rating potential should the economic environment stabilise.

REGION	2025 GPD GROWTH	2026 GPD GROWTH	2027 GPD GROWTH
United States	2.1%	2.0%	1.8%
Eurozone	0.7%	0.6%	0.8%
Switzerland	~1.3%	~1.5%	~1.6%
World	3.4%	2.8%	3.1%
Emerging Markets	~5.0%	~4.5%	~4.4%

Source: OCDE

Switzerland

Switzerland continues to occupy a unique position within developed markets. The Swiss National Bank benefits from a more favourable environment than most of its peers, supported by well-contained inflation and strong public finances.

The principal challenge facing the Swiss economy remains the strength of the Swiss franc. While the currency continues to fulfil its traditional role as a safe haven amid geopolitical tensions and growing fiscal imbalances across major economies, it also weighs on the competitiveness of certain export-oriented sectors. For investors, however, the strength of the franc remains a particularly attractive source of diversification.

The Swiss equity market presents a significantly different profile from that of the United States. Whereas US indices are dominated by a handful of large technology companies, the Swiss market remains concentrated around global leaders in healthcare, consumer goods, and precision industries. This limited exposure to technology has represented a relative headwind in recent years but today provides a natural counterbalance to the growing concentration of US markets.

We therefore do not view Switzerland as a primary growth engine, but rather as a high-quality allocation within portfolios. In an environment characterised by more persistent inflation, record fiscal deficits, and heightened bond market volatility, Switzerland remains one of the few ways to reduce US concentration risk without compromising asset quality.

Emerging markets

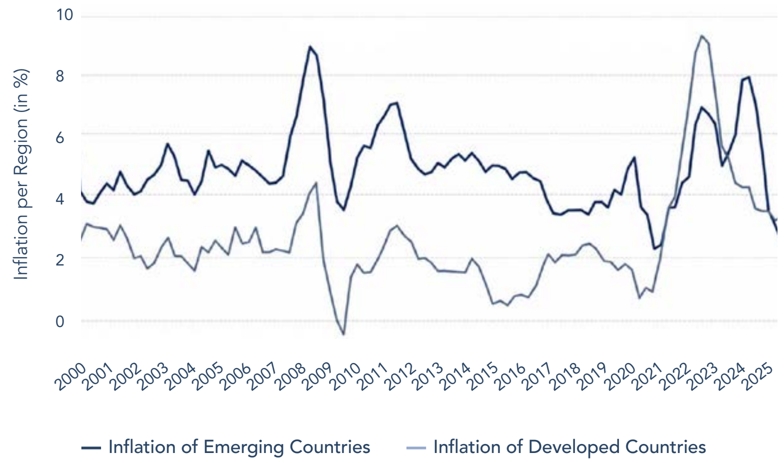
Emerging markets remain one of our highest-conviction investment themes for the second half of 2026. Their macroeconomic fundamentals now appear stronger than those of many developed economies. Average growth is approaching 3%, compared with just above 2% across the G7 economies, while debt levels remain significantly lower, with debt-to-GDP ratios close to 60% versus more than 110% in developed markets.

This improvement has been accompanied by greater monetary discipline. Many emerging-market central banks began tightening monetary policy well before the Federal Reserve or the ECB and now enjoy greater flexibility to support domestic economic activity. More remarkably, average inflation across emerging markets is now lower than in several developed economies, a situation rarely observed over the past two decades.

We remain particularly constructive on Asia and selected Latin American economies. These regions benefit from a combination of robust domestic growth, attractive real interest rates, and increasing exposure to the major structural themes shaping the global economy, including digitalisation, infrastructure development, and artificial intelligence. The gradual stabilisation of China also represents an important source of support for the broader region.

EMERGING COUNTRIES INFLATION

Average inflation in emerging markets has fallen below that of developed markets.



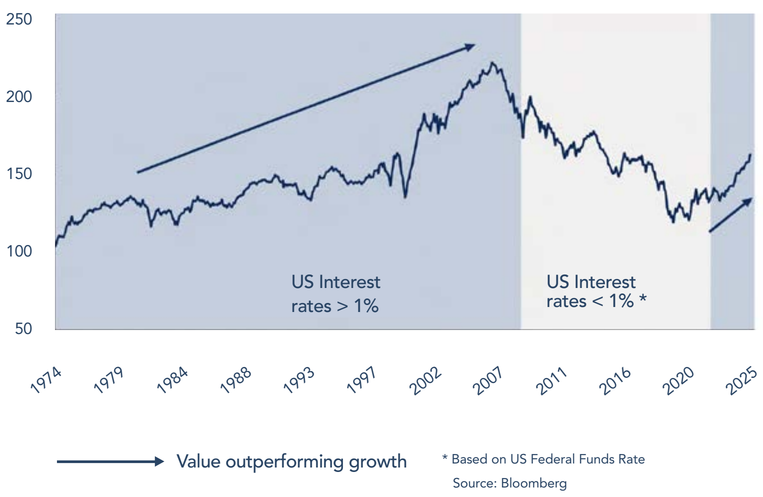
Source: Bloomberg

Our base-case expectation of a gradual weakening of the US dollar provides an additional catalyst. Historically, periods of dollar weakness have been supportive for emerging-market currencies, bonds, and equities. In a world where US valuations remain demanding and developed-market fiscal deficits continue to widen, emerging markets offer a rare combination of structural growth, attractive valuations, and improving macroeconomic fundamentals.

Asset allocation

The second half of 2026 begins in a more complex environment than the one investors experienced throughout most of the past decade. Global growth remains resilient, and recession risks appear limited, but several factors are reshaping the investment landscape: renewed geopolitical tensions, supply chain disruptions, elevated fiscal deficits, and inflation proving more persistent than expected. Recent developments in the Middle East have once again highlighted the vulnerability of global supply chains and energy markets, reigniting concerns around supply-driven inflation.
Central banks now have less room for manoeuvre, while volatility in assets traditionally considered risk-free has gradually increased. Portfolio construction can therefore no longer rely solely on directional exposure to equities or government bonds. Instead, it must be built upon greater diversification of return drivers, active risk management, and rigorous security selection. We continue to favour a balanced allocation centred on quality businesses, visibility of cash flows, and diversified sources of return.

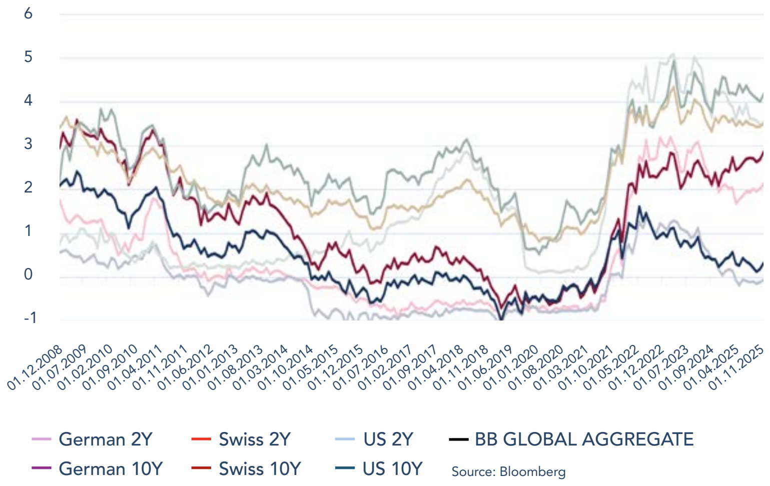
CUMULATIVE EXCESS RETURN OF
MSCI EUROPE VALUE VS. MSCI EUROPE GROWTH



EQUITIES

We maintain an overall neutral allocation to equities for the second half of the year. While recession risks remain limited and global growth remains positive, the environment has become more challenging. Valuations are elevated across several market segments, market performance remains highly concentrated, and uncertainties surrounding inflation, monetary policy, and geopolitics continue to fuel volatility. In this context, we favour a selective approach based on differentiated regional allocations and broader diversification of performance drivers.
Our preference remains focused on the United States and emerging markets. The US economy continues to benefit from powerful structural growth drivers, foremost among them artificial intelligence. Massive investment in digital infrastructure, data centres, and computing capacity continues to support economic activity and corporate earnings. The potential public listings of iconic companies such as SpaceX, OpenAI, and Anthropic could further extend the momentum observed across the broader technology ecosystem.
At the same time, we remain mindful that US technology valuations already reflect a significant portion of these favourable prospects. The historical concentration of market indices around a limited number of stocks and elevated valuation multiples leave little room for disappointment. While we maintain a positive conviction on the artificial intelligence theme, we believe discipline and selectivity are becoming increasingly important at this stage of the cycle.
We remain more cautious on Europe. The region continues to face a more fragile economic environment, characterised by moderate growth, persistent structural constraints, and limited visibility on the inflation outlook. Nevertheless, valuations remain attractive, and the current environment continues to favour Value-oriented segments, which have historically outperformed in periods characterised by higher inflation, structurally higher interest rates, and stronger nominal growth. This exposure also provides valuable diversification against the significant technology concentration within US equity markets.
We maintain a high level of conviction in emerging markets. Macroeconomic fundamentals now appear stronger than in many developed economies, supported by higher growth, more advanced monetary cycles, and still-attractive valuations. Against a backdrop of a weaker US dollar and gradually improving financial conditions, emerging markets appear particularly well positioned to generate relative outperformance.
From a sector perspective, our allocation follows a barbell approach. On one side, we maintain exposure to the primary beneficiaries of the artificial intelligence and digitalisation cycle. On the other, we favour more defensive and attractively valued sectors, including financials, infrastructure, and selected high-quality European companies. This combination allows us to participate in long-term growth drivers while reducing the portfolio's dependence on the US technology theme alone.

A HIGHER-RATE ENVIRONMENT



FIXED INCOME

Bond yields have risen significantly over recent years, restoring the attractiveness of fixed income after a decade characterised by historically low interest rates. This environment offers more attractive carry opportunities but is accompanied by higher volatility than during the post-Covid period. In this context, diversification and the search for differentiated return drivers become increasingly important.

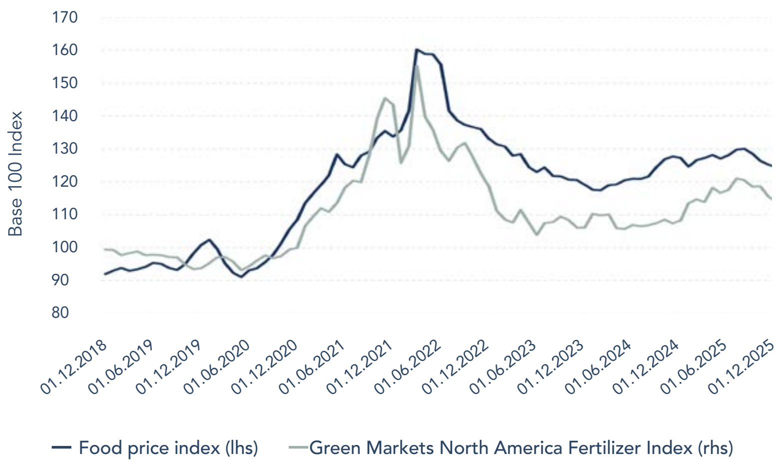
We maintain a neutral stance on both US and European government bonds. They continue to serve as risk-free assets in portfolios, while once again offering attractive yields. They also provide effective protection in the event of a pronounced economic slowdown or a resurgence in risk aversion.
Within Investment Grade credit, we adopt a more cautious stance. Credit spreads remain historically tight and valuations appear relatively rich, limiting the potential for additional performance. We therefore favour a rigorous selection of high-quality issuers with strong balance sheets, controlled leverage, and resilient growth prospects.
Our positioning on High Yield remains neutral. Current yields provide greater compensation for duration risk, while our central scenario does not anticipate a recession in 2026. Default rates also remain historically low. Nevertheless, selectivity remains essential in identifying the most resilient companies.
We continue to favour emerging market debt denominated in local currencies. Falling inflation and declining policy rates across many emerging economies are supporting bond prices and duration-related performance. Real yields remain attractive, and valuations appear more favourable than in developed markets. Furthermore, a gradual weakening of the US dollar could support emerging-market currencies and enhance total returns for international investors.
In what is likely to remain a more volatile environment, we continue to favour selected diversification strategies within fixed income allocations. Catastrophe bonds provide a source of returns largely uncorrelated with traditional financial markets, while convertible bonds offer partial participation in equity market upside while retaining the defensive characteristics inherent to fixed income instruments.

COMMODITIES

Gold remains the cornerstone of our commodity allocation. Despite a more subdued performance during the first half of 2026, following an exceptionally strong year in 2025, and despite a modest rebound in the US dollar, the long-term investment case remains intact. Gold continues to provide effective protection against geopolitical risks, growing fiscal imbalances, and concerns regarding the sustainability of public debt. Central bank reserve diversification, particularly among emerging economies, together with investors' ongoing demand for safe-haven assets, should continue to support its long-term appreciation potential.

We are also increasingly constructive on agricultural commodities. Persistent supply-chain disruptions, heightened climate risks - including the potential emergence of an El Niño episode in the coming months - and ongoing tensions in agricultural input markets such as fertilisers continue to constrain global supply. In this context, agricultural commodities offer an attractive source of diversification and offer the potential to support prices in the medium term.

FOOD PRICES REMAIN LINKED TO AGRICULTURAL PRICES



Source: Bloomberg

Within energy markets, we maintain a neutral stance following the strong rally of recent months. Whilst geopolitical tensions have recently supported oil prices, a gradual slowdown in global economic activity, combined with a normalisation of current conflicts, could facilitate a rebalancing of the market. Under such a scenario, crude oil prices could gradually return to more moderate levels over the next six to twelve months, limiting the upside potential of the asset class.

CURRENCIES

Our currency outlook remains focused on broader diversification of exposures. We maintain a bearish medium-term view on the US dollar relative to the euro. Beyond cyclical fluctuations, the gradual diversification of global reserves away from the dollar and the relative normalisation of growth and interest-rate differentials limit the greenback's appreciation potential. A more restrictive stance from the ECB relative to the Federal Reserve could reinforce this trend.

We also remain constructive on emerging market currencies. Attractive real yields, improving macroeconomic fundamentals across several regions, and a less supportive environment for the US dollar should provide favourable conditions for emerging market currencies, which also offer valuable diversification potential within international portfolios.

Regarding the Swiss franc, we maintain a broadly neutral stance against both the euro and the US dollar. While its safe-haven status continues to support the currency, the Swiss National Bank has demonstrated its willingness to intervene to prevent excessive appreciation that could undermine domestic economic competitiveness. We therefore expect EUR/CHF to remain broadly stable in the coming months, particularly if both the Federal Reserve and the ECB continue their monetary normalisation whilst the SNB faces no immediate need for additional tightening.

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