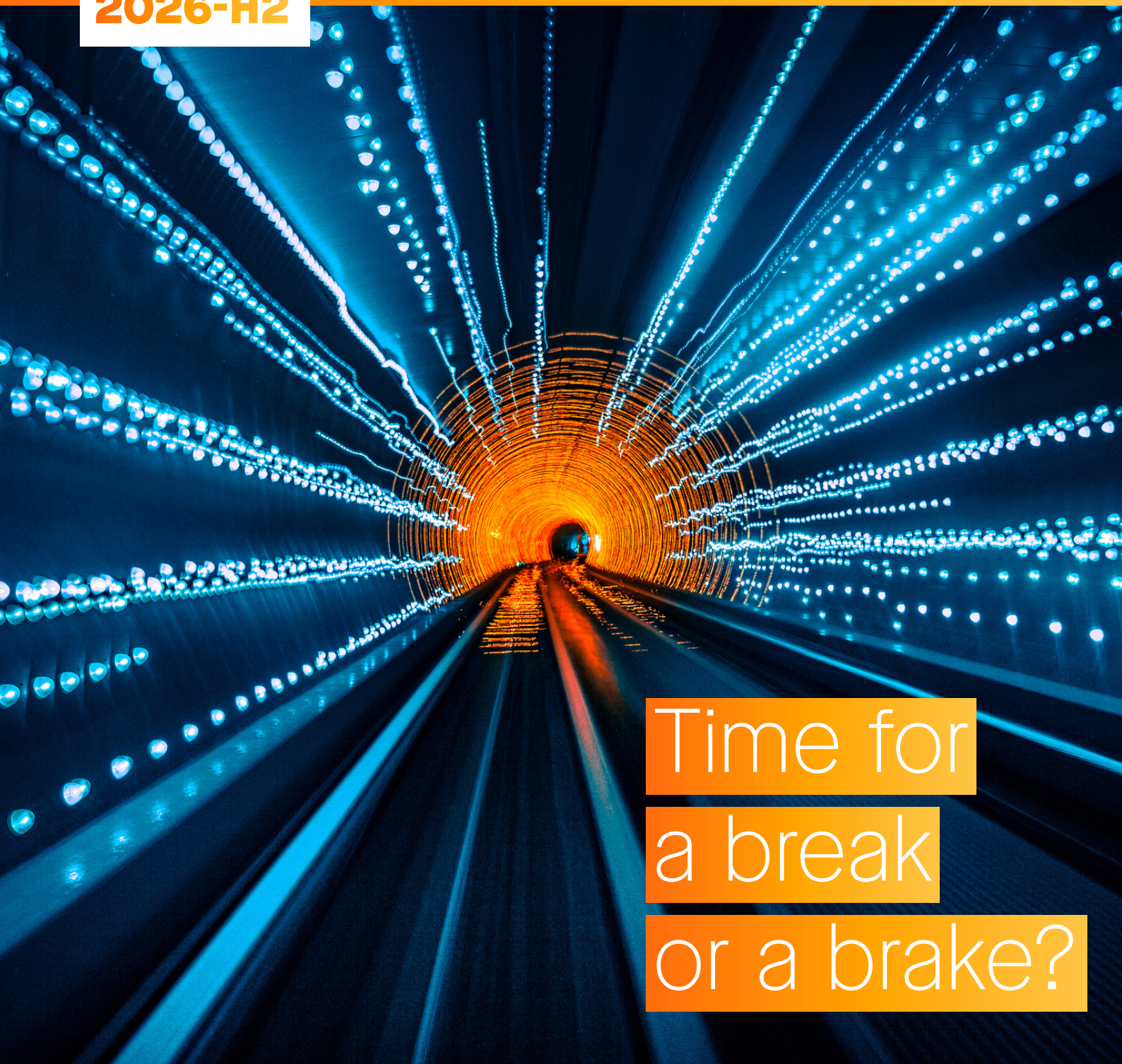




30TH
ANNIVERSARY
1994 - 2024

Market OUTLOOK

2026-H2



Time for
a break
or a brake?



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Foreword

Halfway through the year, and despite almost every headline, global equity markets are higher.

Consider what the first six months delivered: a war involving Iran, oil prices grinding higher, and inflation expectations on the rise. On paper, the ingredients for a difficult market. And yet equities advanced. It is a timely reminder that, over any meaningful horizon, markets do not trade on headlines. They trade on earnings.

Earnings were the defining story of the first half. The strength of global earnings growth more than offset the geopolitical headwinds, driven above all by the artificial-intelligence capital-expenditure supercycle. This is no longer a US phenomenon: the AI-driven investment boom is now lifting earnings revisions across emerging markets. The economies that build, supply, and power this build-out are increasingly on the right side of it.

Beyond technology, reflationary assets performed well: small- and mid-cap equities and commodities both outperformed. Government bonds, gold, and bitcoin were left behind.

The lesson of the first half is straightforward. In a world of elevated uncertainty, staying invested was the rewarding strategy. Waiting for the headlines to clear would have carried a real cost.

Our base case

Our core view is that the major secular trends remain firmly in place: geopolitical tension, fiscal dominance, the AI capex supercycle, and elevated nominal growth. These forces continue to favour equities and real assets over fixed income. That remains our compass for the second half.

The risks we are watching

We are, however, watching the road carefully.

First, the earnings bar has been set high. When expectations are demanding, disappointments are punished.

Second, the flow of oil through the Strait of Hormuz. Transits collapsed from roughly 150 a day to near zero almost overnight; a return to normal takes months, not days. Should oil prices remain elevated, inflation could surprise to the upside. That is the scenario that concerns us most, as it risks markets pricing in stagflation.

Third, the Federal Reserve has a new Chair. Against a backdrop of rising inflation expectations and elevated deficits, markets may test him. How that credibility is established will matter for every asset class.

Our message into the second half

Stay invested, but stay disciplined. The AI revolution is creating winners and losers alike. This is not a market to own passively. It calls for selectivity and active positioning.

Trust the fundamentals, not the noise.

On behalf of the entire investment team, I wish you a restful summer and a successful second half.



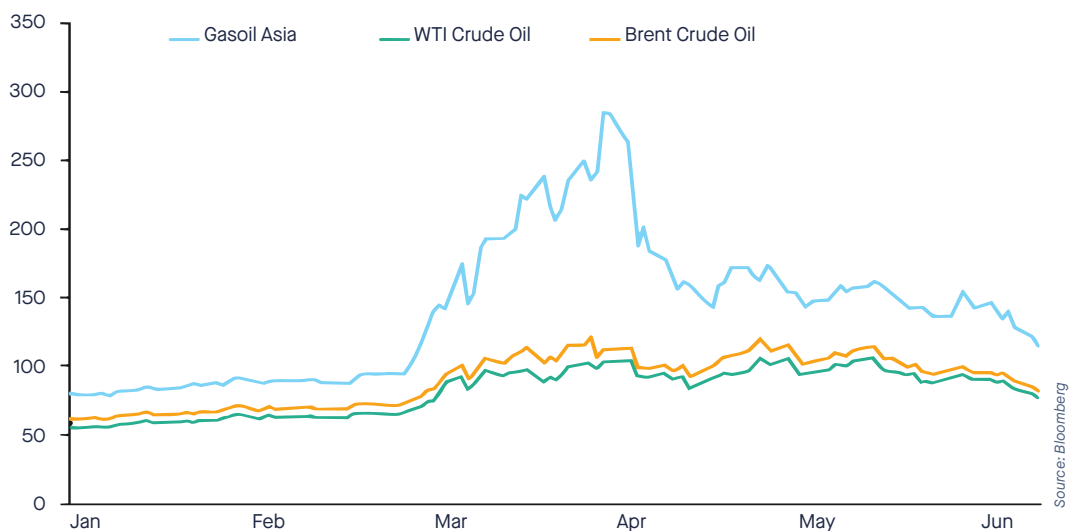
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H1 2026 market review: 10 charts to remember

H1 2026 tested investors' patience repeatedly. A historic oil shock, escalating conflict in the Middle East, sticky inflation, rising bond yields, and renewed concerns over global growth all threatened to derail risk assets. Yet markets continued to advance. Corporate earnings remained strong, AI investment accelerated, and global liquidity continued to support risk-taking.

1 Oil shock dominated the narrative

The rise and fall of oil prices



Oil was the defining market story of H1 2026. Tension built in stages, but the real shock came in late February when the US/Israel-Iran conflict escalated sharply. In early March, Iran closed the Strait of Hormuz, triggering what the IEA called one of the largest supply disruptions in oil market history. Brent surged from the low \$60s to a peak of \$110-115 in March, holding around \$100-110 through April and into mid-May. Asia felt it most acutely, with China, India, Japan, and South Korea all facing shortages and higher import bills.

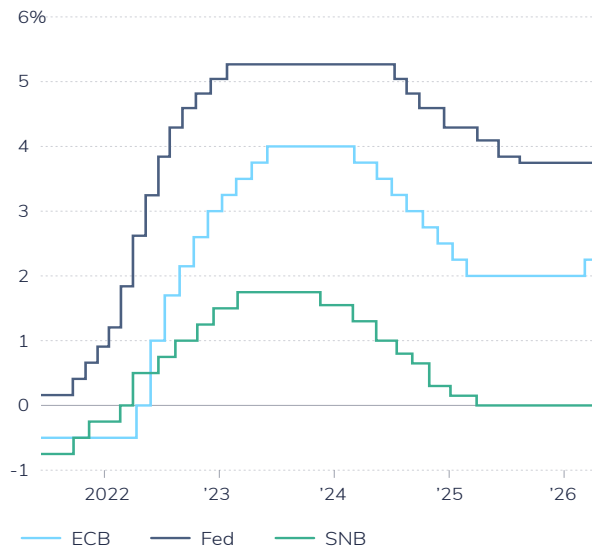
On 14-15 June, the US and Iran announced a framework peace deal, under which Tehran would reopen the strait within 30 days. The war premium quickly priced out, Brent falling roughly 5% to \$78. However, the deal priced out the war, not the damage left behind. Brent remains up around 40% YTD. Full normalisation will take time.

*The market is a device for transferring money
from the impatient to the patient.*

Warren Buffett

2 Central banks caught in the crossfire

Central bank policy rates

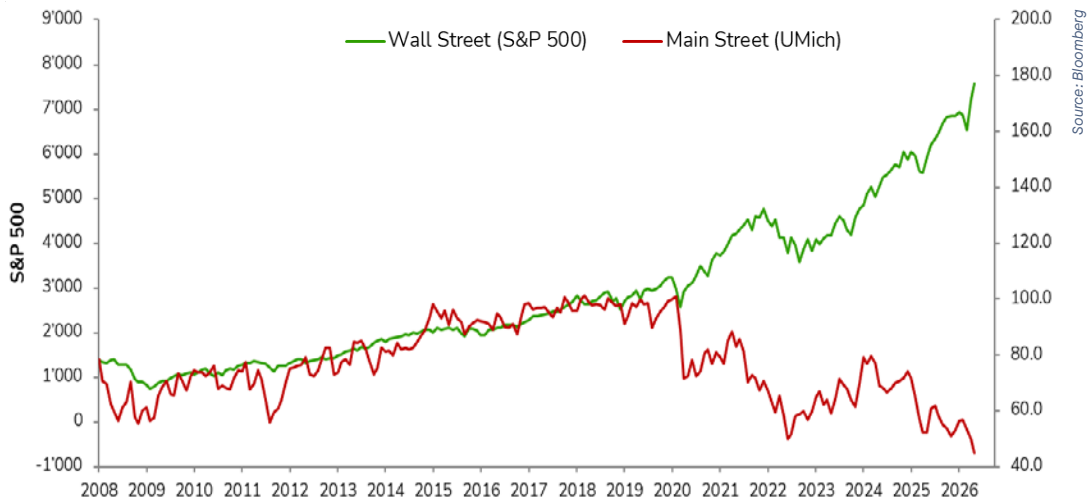


Sources: ECB, Federal Reserve & SNB

Central banks remained largely on hold, waiting for clearer signals before restarting any easing cycle. The oil shock complicated matters, pushing inflation risks higher and forcing policymakers to delay rate cuts. The Fed kept rates between 3.50-3.75%, with PCE inflation at 3.8% and CPI rising to 4.2% in May, leaving little room to manoeuvre. The ECB raised all three key rates by 25bp in June as higher energy costs pushed inflation projections higher, while the SNB held at 0%.

3 An economy growing at two speeds

A K-shaped economy



Source: Bloomberg

The global economy proved more resilient than feared, with PMIs holding above 50 and trade volumes remaining stronger than expected. The main change was inflation: the global CPI downtrend reversed in April, driven by energy and renewed pressure in core and services prices.

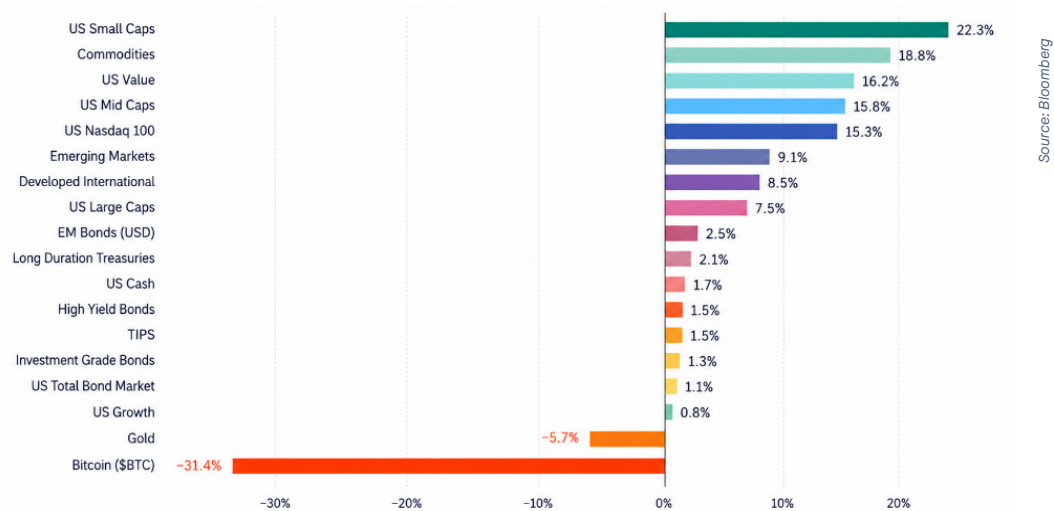
The US remained the most resilient major economy, with unemployment at 4.3% and its status as a net energy exporter providing a natural buffer. Consumer confidence fell to 70-year lows but card spending remained positive into May, with lower-income households seeing wage gains largely eroded by higher fuel costs.

The Eurozone was in a more uncomfortable position, with consumer confidence falling sharply while headline inflation rose on the back of energy. Fiscal responses remained modest at around €11bn, versus roughly €700bn in 2022. Emerging markets were more uneven: business activity outperformed, led by India, but consumer confidence weakened across several economies.

4 US earnings kept surprising

2026 Asset class total return (USD)

Year-to-date performance



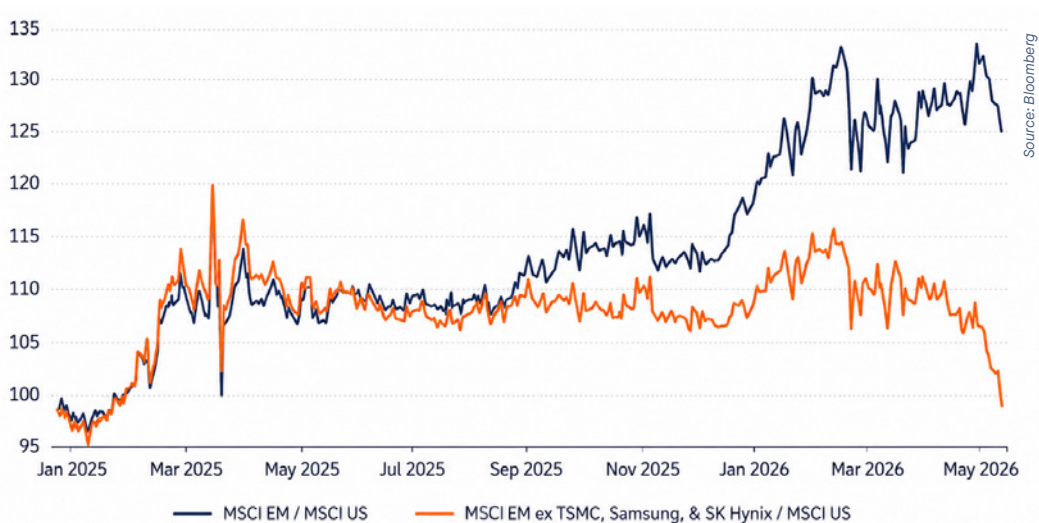
Despite geopolitical tensions, tariff uncertainty, rising yields, and a Federal Reserve leadership transition, equities proved resilient. By mid-June, the S&P 500 was up around 10% YTD, the Nasdaq 100 above 20%, and the Russell 2000 around 18%. Earnings did most of the heavy lifting: approximately 84% of S&P 500 companies beat expectations in Q1, with earnings growth coming in close to 27% year on year.

This strength was not confined to the usual mega-cap leaders. US Small Caps and US Value led the field, up 22.3% and 16.2% year-to-date respectively, ahead of Mid-Caps (15.8%) and even the Nasdaq 100 (15.3%), while US Large Caps lagged the group at 7.5%.

5 The EM rally has an AI engine

Relative performance of MSCI emerging markets to US market

Index (01/01/2025 = 100)

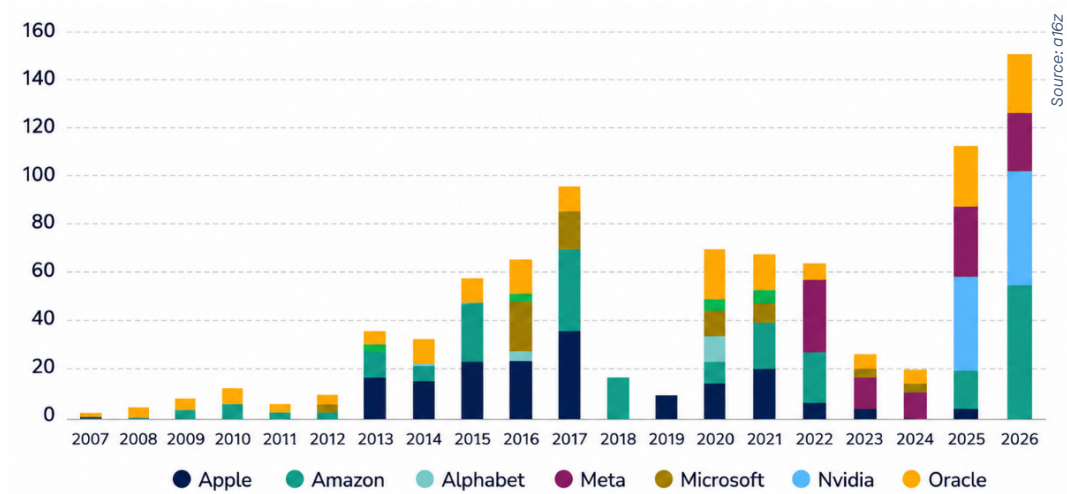


Emerging markets are becoming essential to the global AI boom, supplying semiconductors and advanced manufacturing. The MSCI Emerging Markets Index rose 24%, with South Korea and Taiwan generating nearly 75% of EM equity returns, driven by chip leaders such as TSMC, SK Hynix, and Samsung. Unlike previous EM cycles driven by commodities, this rally is powered by AI-related capex and sustained chip demand.

6 The AI infrastructure arms race

Record-breaking hyperscaler bond issuance trends

Yearly issuance volumes, \$bn 2026 is year-to-date to 11 May 2026



The Hyperscalers (Amazon, Microsoft, Google, and Meta) are expected to spend up to \$725bn in capex in 2026, the largest concentrated technology infrastructure buildout in history. This is also changing how the AI boom is financed, with Hyperscalers increasingly tapping debt markets: Meta raised \$25bn in April, Amazon around \$54bn in March, and Alphabet roughly \$20bn.

7 From safe haven to source of dollars

Indexed performance: gold, silver & Brent crude oil

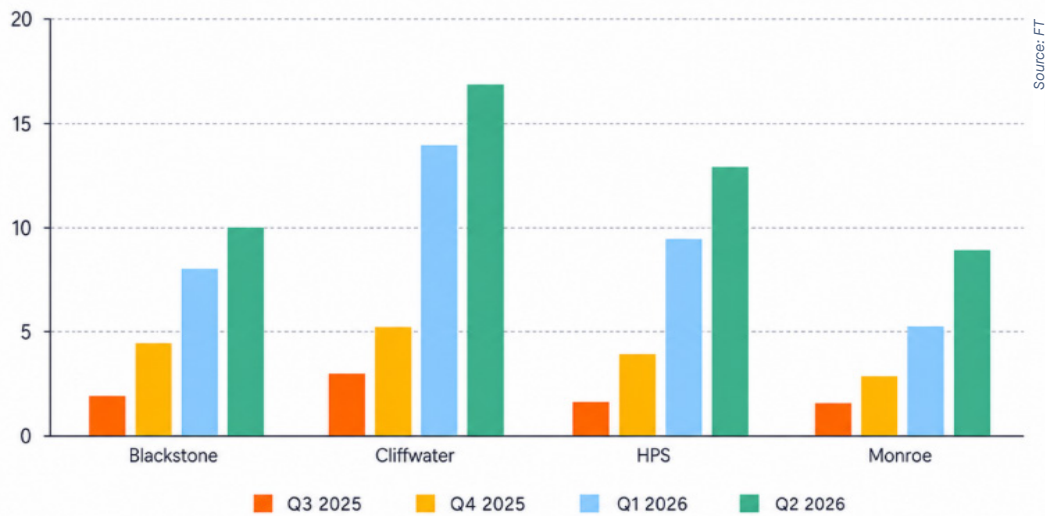


Gold broke above \$5,000/oz in January, peaking near \$5,400/oz, before falling more than 20% to around \$4,340/oz by mid-June. Silver corrected even more sharply, dropping over 40%. The trigger was the oil-gold relationship: when the Hormuz shock sent oil higher, net importers like Turkey, China, and India faced larger dollar shortfalls and sold gold reserves to raise them. Both metals end H1 with only modest gains. The long-term thesis remains intact, but H1 was a reminder that gold and silver trade with liquidity and the oil cycle, not just geopolitical fear.

8 The private credit reality check

Private credit funds see rising redemption requests

Quarterly withdrawal requests (% of net asset value)

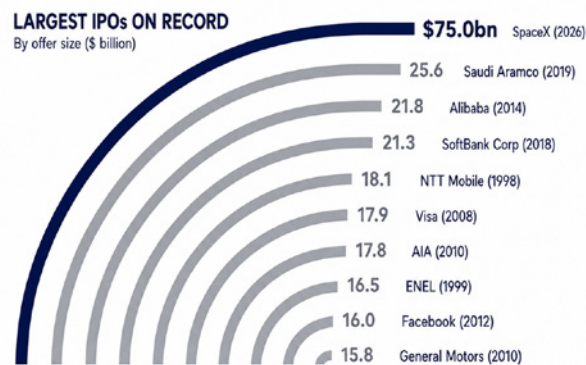


Private credit entered 2026 with signs of localised stress, concentrated in software-linked loans. Around \$400bn is estimated to be under stress within a \$2.5tn universe, as public software valuations reset lower. Funds exposed to 2020-2021 vintages have seen 15-20-point mark-to-market losses, and redemption requests climbed across several funds in Q2. The stress appears contained, but the episode highlights three key risks going forward: refinancing walls, valuation opacity, and the need for tighter underwriting.

9 Markets welcome the IPO window

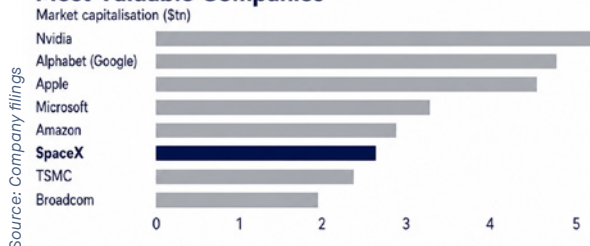
SpaceX breaks the IPO record

\$75bn IPO sets a new benchmark for the largest offerings in history



After five subdued years, the IPO market is reaccelerating sharply. US IPO proceeds are expected to reach around \$160bn in 2026, roughly four times 2025 levels. The standout was SpaceX, whose 12 June debut raised roughly \$75bn at a \$1.75tn valuation, the largest listing in history, with the stock jumping around 20% on its first day. Beyond SpaceX, the pipeline remains strong, with Cerebras Systems having priced in May and potential listings from OpenAI and Anthropic keeping investor attention high.

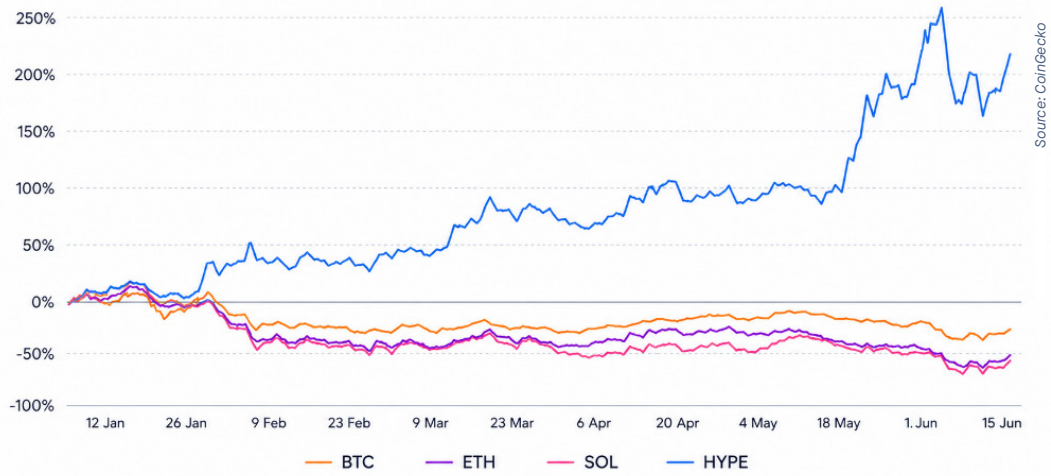
Most Valuable Companies



10 Another crypto winter

HYPE outperforms major crypto assets

Price performance (USD)



Crypto began 2026 with optimism before turning into a sharp correction as macro uncertainty and geopolitical tensions weighed on the asset class. By mid-June, Bitcoin was trading around \$66,000, down from highs near \$97,000, with spot Bitcoin ETF funds recording a 13-day outflow streak from mid-May to early June. Ethereum and Solana also underperformed. The exception was Hyperliquid, whose native token HYPE rose over 170% YTD, supported by strong fee buybacks and continued trader interest even amid broader altcoin weakness.





Looking ahead: the big picture

Four secular forces reshaping markets in the second half of the decade

Markets spend most of their energy on the next data point: CPI, payrolls, the latest FOMC statement. Those signals matter for tactical portfolio management. But they are noise relative to the deeper currents that determine where wealth is created and where it is quietly eroded over a full cycle. Our job in the CIO Office is to step back and ask a simpler question: what is the big picture?

Our answer rests on four secular trends. Individually, each is powerful. Taken together, they point in a remarkably consistent direction: toward higher nominal growth, persistent fiscal expansion, abundant liquidity, and a generational capital-investment cycle built around artificial intelligence and national security.

A new geopolitical and economic order

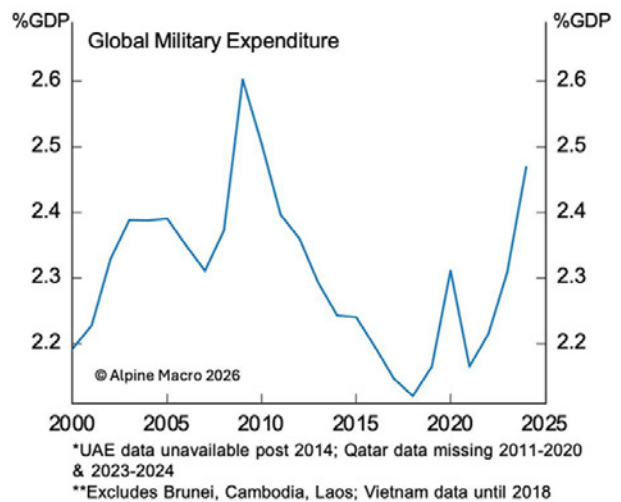
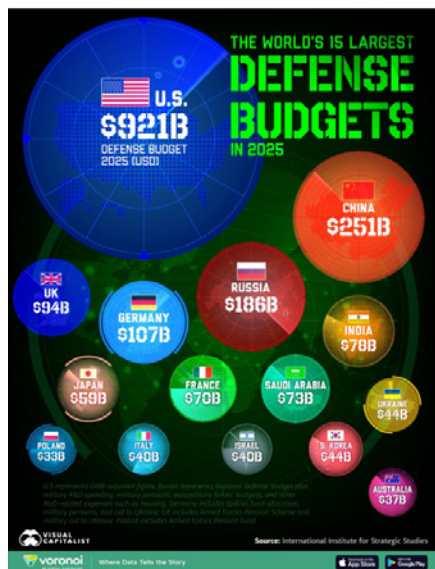
The defining contest of this decade is the strategic rivalry between the United States and China, organised around three priorities both powers now treat as existential: artificial intelligence, defence, and electric power. These have converged into a single question of national power, and that convergence is rewiring the global economy.

The consequences flow logically: reshoring of strategically sensitive supply chains; new geostrategic alliances; national security at the centre of economic policy; and a global race to stockpile energy and critical materials.



This explains why the United States is simultaneously subsidising domestic semiconductor capacity, expanding its critical minerals list to sixty entries, embracing a drill-baby-drill energy posture, and exploring federal equity stakes in strategic technology companies. Industrial policy is back, and it is bipartisan in spirit.

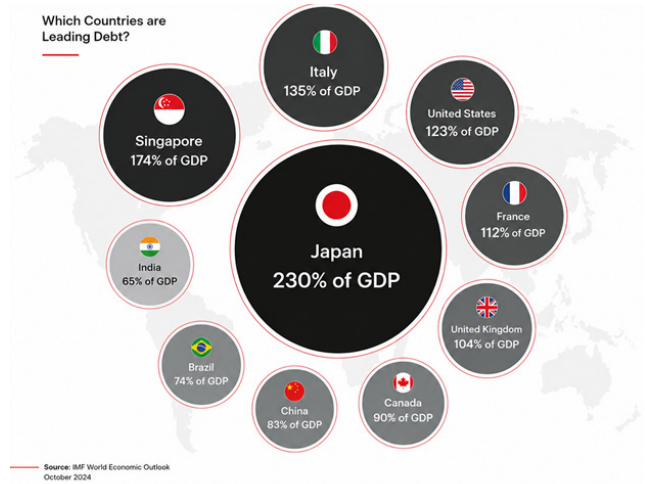
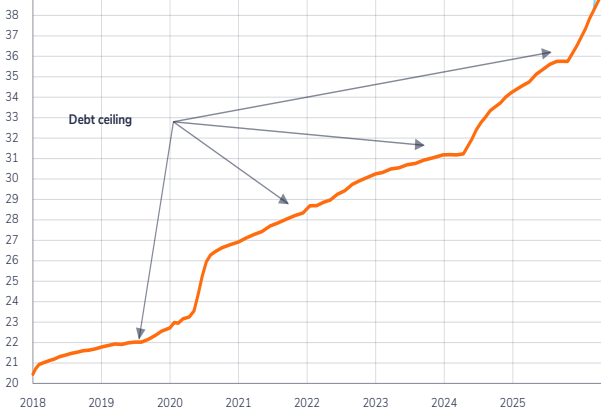
Running in parallel is a global rearmament super-cycle. Defence budgets are rising across virtually every major economy, with the US alone budgeting roughly USD 921bn for 2025. For investors, the message is clear: defence, critical materials, and energy security are no longer cyclical trades. They are structural beneficiaries of a world that has decided self-sufficiency is worth paying for.



"Whoever owns the chips, critical minerals, and energy, wins the AI war."

Set aside the comforting narrative of fiscal discipline. The reindustrialisation and rearmament described above carry an enormous price tag, and that bill will be paid with deficits. We have entered an era of fiscal dominance, in which the financing needs of the state increasingly shape monetary policy rather than the other way around.

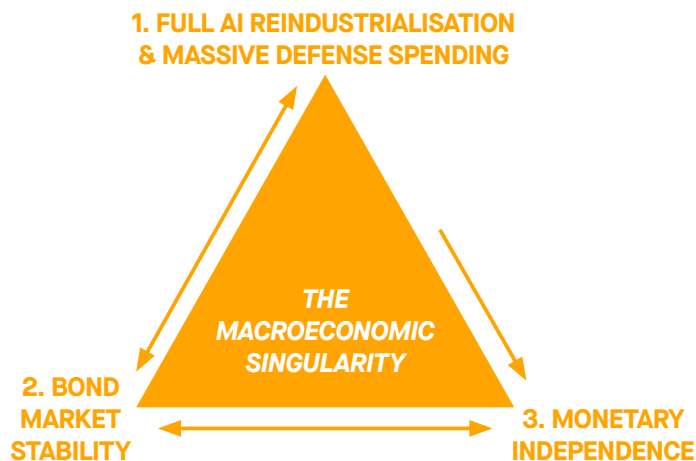
US National Debt: \$39 Trillion



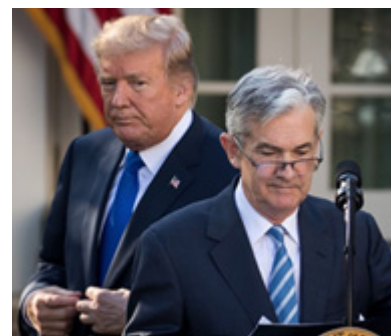
The bind facing policymakers is best understood as America's strategic trilemma. Three objectives are simultaneously in play: full AI reindustrialisation alongside massive defence spending; a stable bond market; and genuine monetary independence. The uncomfortable truth is that these are mutually exclusive.

Three objectives. All critical. Mutually exclusive. Pick two — you cannot have all three.

The path of least resistance is well established: support the bond market, compromise on monetary



independence, and maintain easy financial conditions with an expanding central-bank balance sheet. The evidence is already visible. Equity indices are at all-time highs. US inflation has averaged over 4% per year since 2019, and yet the Fed recently expanded its balance sheet by USD 193bn off the cycle low. Global M2 has historically led the S&P 500 by roughly eleven weeks, and that relationship holds. Surging liquidity remains the single most important tailwind for risk assets, and we expect it to persist.



The AI capex super-cycle

Artificial intelligence is the investment theme of the decade, and the opportunity is widening well beyond a handful of mega-cap names. We think of it as four layers of exposure:

- ▶ **Build it** — the semiconductor supply chain, from design to fabrication to advanced packaging.
- ▶ **Use it** — the cloud and data-centre infrastructure on which AI workloads actually run.
- ▶ **Protect it** — cybersecurity, as the attack surface expands in lockstep with deployment.
- ▶ **Power it** — power generation, grid and the broader energy infrastructure required to feed the machines.

Four layers of AI exposure for semi-conductors to the power-generation



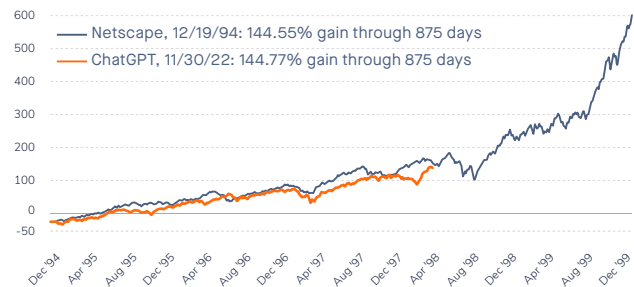
That fourth layer deserves emphasis. The binding constraint on AI is increasingly not chips, but electricity. Compute and the power that drives it are becoming an asset class in their own right.

The natural objection is that this looks like a bubble. We take the comparison seriously. Measured from the launch of ChatGPT, the Nasdaq has tracked its post-Netscape trajectory with almost eerie precision, each up roughly 145% over the same number of trading days. But the lesson of that analogy is the opposite of the one usually drawn: the dot-com boom had years and several hundred percent left to run from that point. We may still be in the early innings.



Nasdaq % change after release of Netscape to Dot Com high (3/10/00) vs. release of ChatGPT

The capital flooding in supports that reading. AI-related companies raised USD 242bn of venture funding in Q1 2026 alone, the largest venture quarter on record. Bubbles tend to end in euphoria and indiscriminate capital allocation. We are seeing the capital. We are not yet seeing the euphoria.

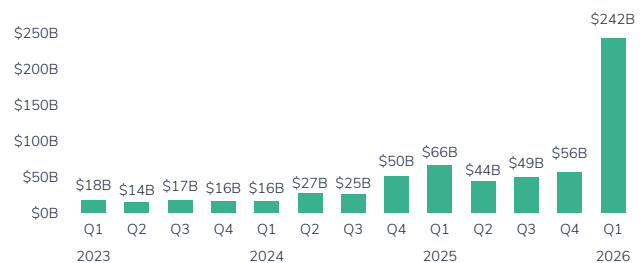


Past performance is no guarantee of future results.



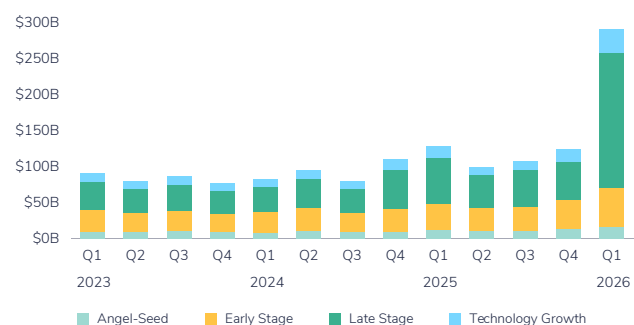
Capital in Q1 2026

Global funding to AI by quarter



Q1 2026 was the largest venture quarter ever, by a lot

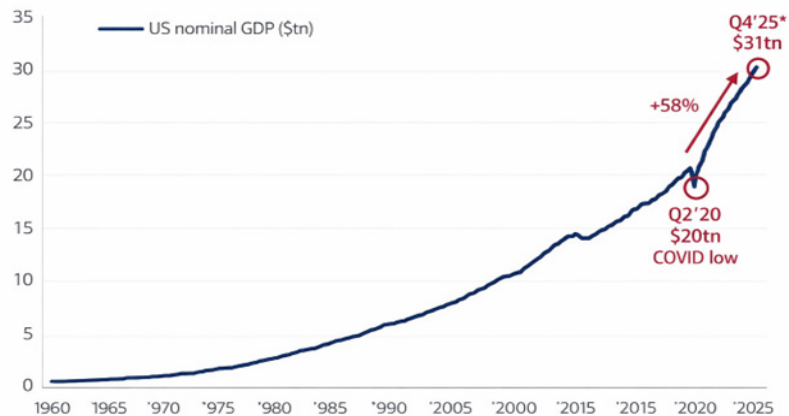
Global venture dollar volume by stage quarterly



The return of nominal growth

The fourth trend ties the first three together. The post-Covid economy has shifted to a structurally higher plateau of nominal growth. Through the 2010s, US nominal GDP grew at an average of 3.9% per year. Since 2022, that average has stepped up to roughly 6.5%, a regime change hiding in plain sight.

60% in 6 years... no wonder no one wants bonds

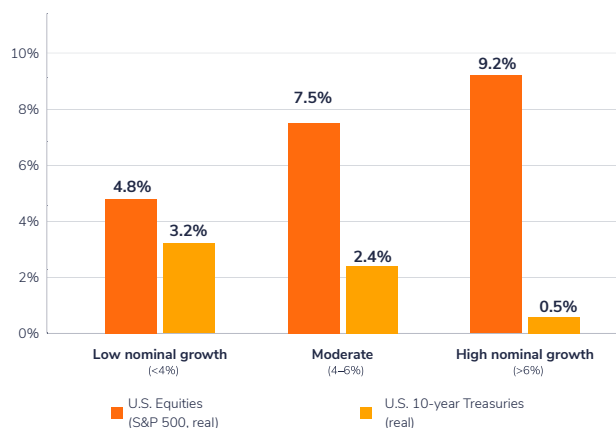
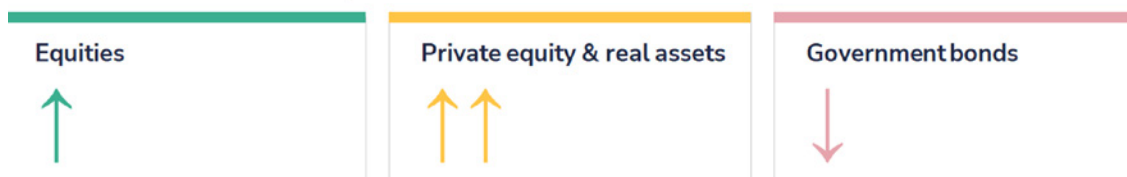


This matters enormously. Revenues, earnings, and cash flows are nominal quantities. When nominal growth runs hot, the numerator of every equity valuation is lifted year after year, while real interest rates rise by considerably less. The arithmetic quietly favours owners of productive assets over owners of fixed nominal claims.

The historical record is unambiguous. Since 1950, the equity risk premium over Treasuries scales directly with the nominal growth regime: roughly +1.6% in low-growth periods, +5.1% in moderate regimes, and +8.7% in high-growth regimes above 6%, precisely where we now find ourselves. In a higher-nominal world, equities and real assets are rewarded; long-duration government bonds are structurally disadvantaged.

Why nominal growth matters for asset classes

Revenues and cash flows are nominal quantities. Higher nominal growth lifts the numerator of equity valuation, while real rates rise by less.



EQUITY PREMIUM
real annualised, US since 1950

- Low growth (<4%)**: +1.6%
- Moderate (4-6%)**: +5.1%
- High growth (>6%)**: 8.7%

From the big picture to the portfolio

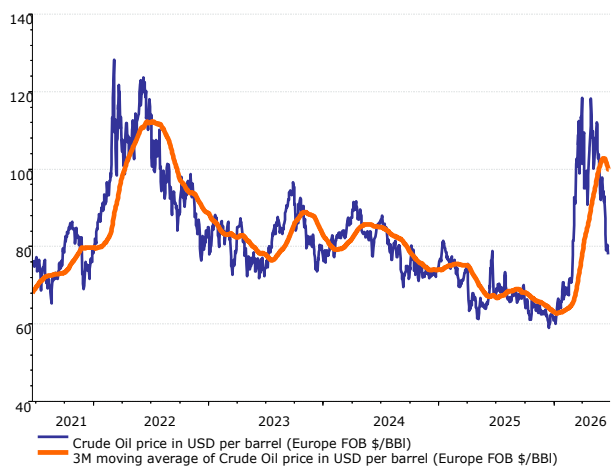
Four trends, one direction of travel. The investment conclusions follow naturally.

- ▶ **Equities** benefit from rising nominal cash flows and supportive liquidity — we remain structurally constructive.
- ▶ **Private equity and real assets** benefit doubly, capturing both nominal growth and an inflation hedge.
- ▶ **Long-duration government bonds** are the structural laggard in this regime, and we treat them as a tactical instrument rather than a strategic anchor.

In practice, that means a strong weighting to US equities including a meaningful foothold in technology; a substantial allocation to alternatives and hedge funds as genuine diversifiers; a well-balanced fixed-income bucket that earns carry without betting on duration; and partial currency hedging to manage the volatility a fiscally dominant world inevitably produces.

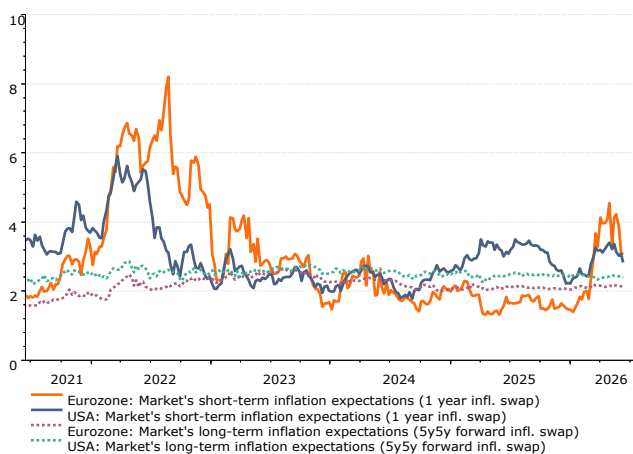
"The Strategic Asset Allocation sets the compass; tactical positioning trims the sails. The big picture tells us which way the wind is blowing."

When the global investment cycle outshines the geopolitical heatwave



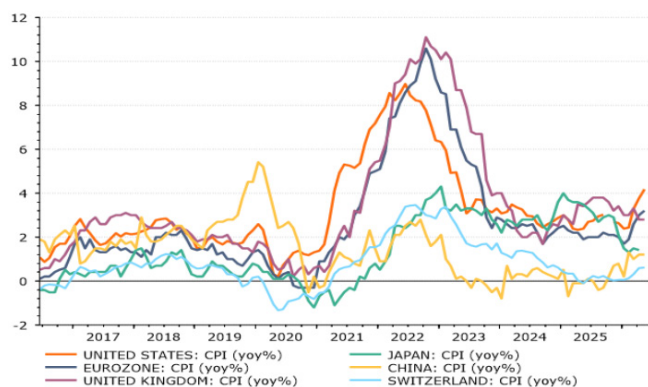
The energy shock hit the global economy like a summer storm. When the military campaign against Iran began in March and Tehran closed the Strait of Hormuz, energy markets reacted sharply. The strait carries around 20% of global oil and natural gas shipments, and traffic collapsed from roughly 80-130 vessels a day to almost zero. In our scenario framework, this was an inflation “heatwave”.

Yet global manufacturing held up surprisingly well. The global manufacturing cycle proved resilient, withstanding the jump in energy prices and overall input costs. Cost pressures were milder in the service sector, where energy is a smaller cost item. Both sectors’ business activity remained in expansionary territory even during the height of the crisis. Consumer sentiment weakened on higher gasoline and transportation costs.



Unsurprisingly, the energy price rise pushed up short-term inflation and rate-hike expectations. Longer-term inflation expectations stayed stable, however, reassuring central banks and reducing pressure for aggressive hikes.

This differed from the 2022 energy crisis, where short- and long-term expectations surged much more. At the peak of Iran tensions, markets priced in one Fed hike and up to three ECB hikes in 2026, reflecting the Eurozone’s greater energy-import dependence relative to the US, a net energy exporter since the 2020s.

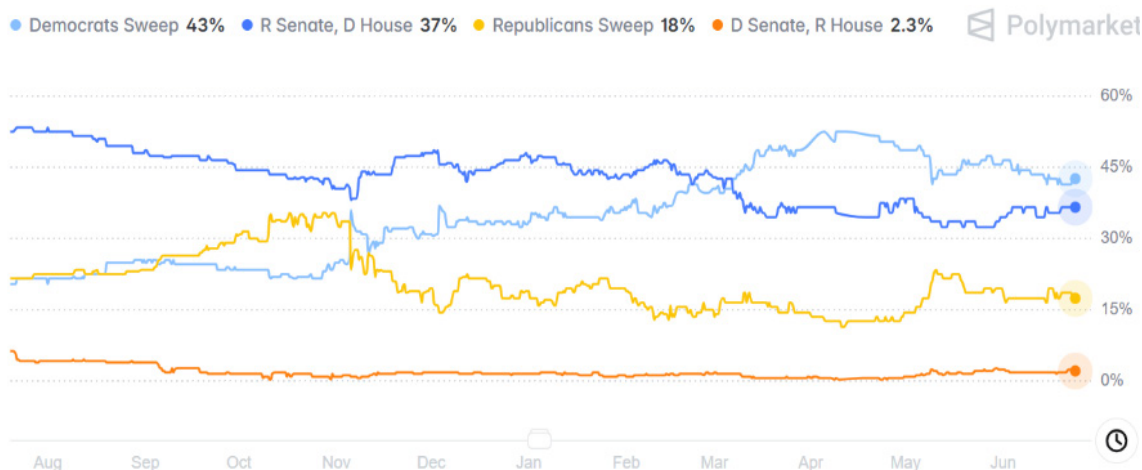


The longer energy prices stay elevated, the greater the risk that inflation spreads beyond energy through higher wage demands, particularly in services. Recent developments around the ceasefire and peace plan have brought energy prices down significantly, reducing second-round risks in H2. Nevertheless, first round effects from the energy spike were clearly visible in many of the latest inflation readings.

A second surprise was the resilience of several emerging markets. South Korea and Taiwan, normally vulnerable as net energy importers, held up well: strong global capex supported technology exports, and the investment cycle outweighed the inflationary shock.

Thinking in scenarios: is the “Indian summer” still our baseline for H2 2026?

Our baseline assumption that Middle East tensions would ease within roughly three months proved broadly correct so far. This view was driven mainly by strong US incentives: the Trump administration faced pressure to lower energy prices, with gasoline above \$4 per gallon weighing on approval ratings already at multi-year lows. Republicans also risk losing their Senate majority in the November mid-terms, with Democrats likely to take the House anyway, resulting in a split Congress that would constrain key policy initiatives of the current US government. Iran’s leadership, meanwhile, faced rising costs from instability and disruption. Both sides had clear incentives to de-escalate.



The peace deal has so far confirmed our view. We expect the ceasefire to hold and the Strait of Hormuz to remain open for the rest of 2026. In our baseline, global growth should regain momentum after absorbing the summer energy shock. Real growth should remain attractive in the US in H2, while Europe is set to recover after a weaker second quarter. China and strong tech-exporting emerging markets should continue to outperform, while India should benefit from lower energy prices. Nominal growth is again set to outpace real growth in the second half of the year, supported by the continuing high price level.

Indian summer remains our baseline scenario for H2 2026 – probability: 50%

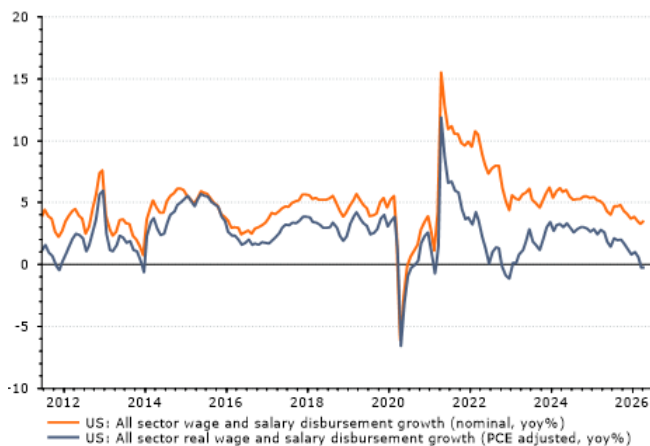
Our baseline assumption:
the ceasefire between US, Israel and Iran holds in H2
and keeps energy prices low (on average)

Growth:

- ▶ Global growth to recover from the energy price shock and trade system ruptures, investments (AI capex cycle) and fiscal spending will help.
- ▶ US economy keeps growing well thanks to strong fiscal stimulus, re-leveraging & AI productivity gains
- ▶ Eurozone gets back to the growth path after having digested the H1 energy price shock
- ▶ China and EM will enjoy a growth recovery thanks to lower energy prices, trade ruptures & global capex cycle that looks set to help in H2

Inflation:

- ▶ Globally, inflation will still be driven by the energy price shock into H2 but set to calm down over time as the shock abates and the elevated prices from H1 dampen demand
- ▶ US, Eurozone and UK will experience above central bank target inflation in H2, followed by Japan with still elevated price pressures
- ▶ China and Switzerland are forecast to face weaker, below target inflation

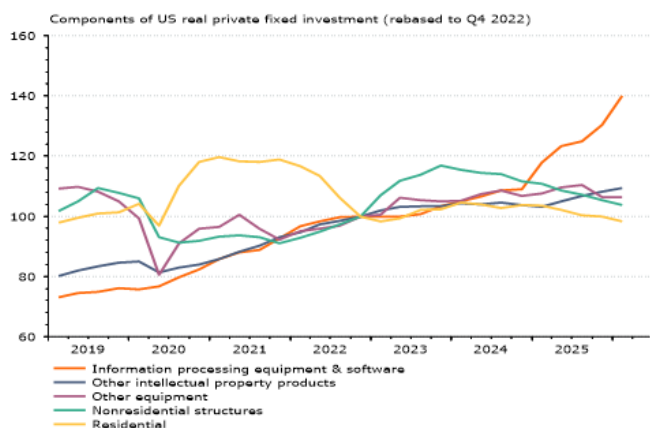


What about the US in our baseline scenario?

In the US, ongoing AI-related investment and fiscal spending should first keep supporting demand. Nevertheless, headwinds from weaker consumption are likely, as higher price levels have made it difficult for wages to keep pace, leading to negative real income growth recently.

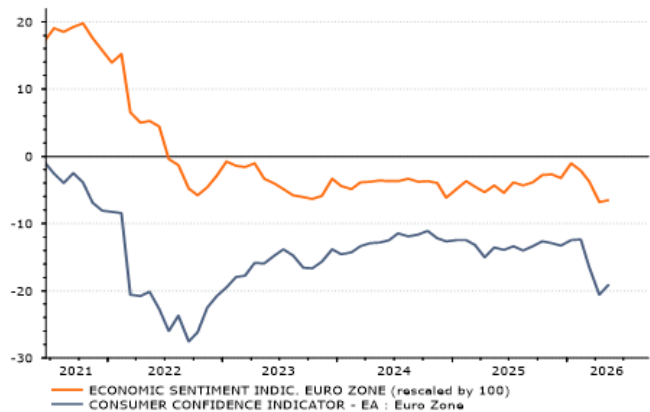
AI investment, while strong, will likely show some signs of exhaustion in H2 and gradually plateau, while investment outside AI-related sectors has been flat or weakening.

Together with energy price relief, softer demand should reduce inflationary pressures. US inflation is set to remain above target but decline towards year-end, allowing the Fed to keep rates unchanged despite hawkish rhetoric from new Chair Kevin Warsh.



What about the Eurozone?

In the Eurozone, economies are still absorbing the energy price surge. We expect recovery in H2 after a volatile summer, supported by ample fiscal stimulus, particularly in Germany. A rebound in German growth will be key to avoiding weak regional performance and political uncertainty ahead of France's 2027 election. Headline inflation should ease relatively quickly in H2, with core inflation following towards year-end. We expect the ECB to keep rates unchanged, while retaining some risk of a summer hike before energy price relief fully feeds through.



What about Switzerland & the UK?

In Switzerland, we forecast the SNB to hold its policy rate at zero. Swiss inflation should remain in the 0-1% range in H2, helped by a different energy mix, lower energy intensity, and more administrated prices. The Swiss economy should benefit from Eurozone recovery and continued global capex strength. For the Bank of England, we anticipate one rate cut in H2 as inflation pressures and weak wage growth weigh on domestic demand.

What about China and Japan?

In China, Q2 growth data were mixed, reflecting the energy shock and weaker fiscal spending. From Q3, lower energy prices and additional fiscal stimulus should support growth through improved sentiment and stronger domestic consumption. In Japan, fiscal measures softened the energy shock but household spending remains tepid. We expect improvement as energy prices normalise, with the Bank of Japan forecast to deliver one further rate hike in H2.

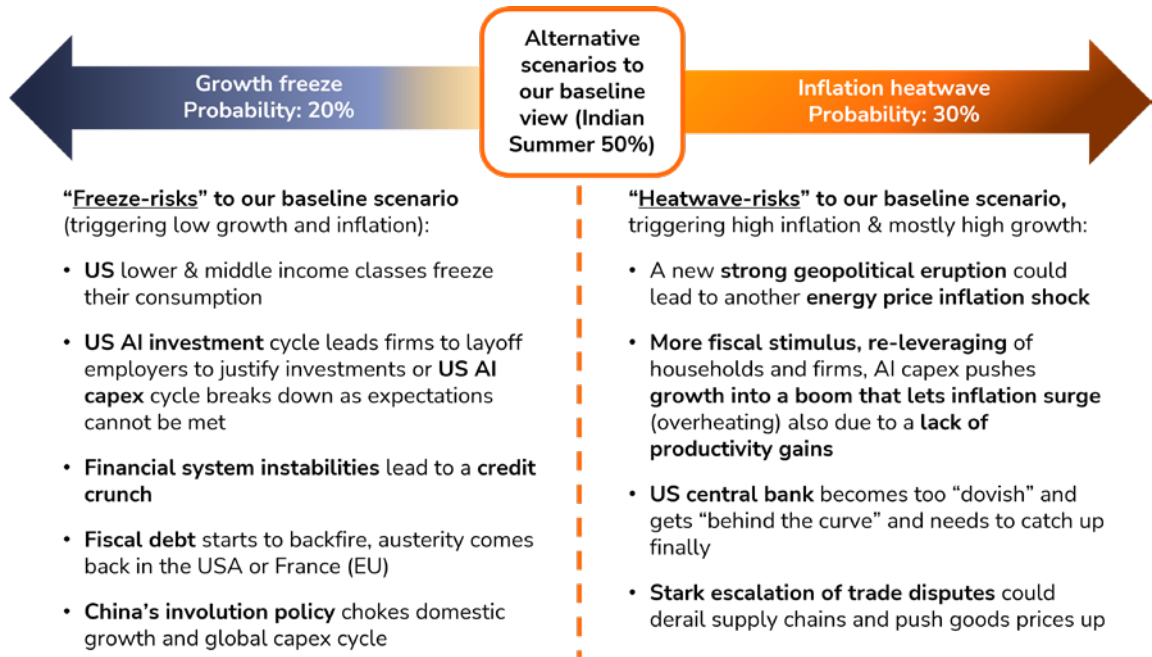
Our Central bank key rates expectations for H2 2026 in the Indian summer (baseline scenario)

| FED | ECB | SNB | BoE | BoJ |
|---|---|--|---|--|
| 3.50-3.75 % | 3.25 % | 0.00 % | 3.50 % | 1.25 % |
| We expect the Fed to keep its policy rates stable due to lower energy prices and weakening demand and investments | We see the ECB not to hike key rates further as lower energy prices and still fragile recovery will likely keep inflation tamed | Since the start of the year we expect the SNB to keep rates at zero as inflation pressures remain low and the lower bound sticky | The BoE will likely cut its key rate once in our view as weaker real income and labor markets will lower inflationary pressures | The Bank of Japan said that it till sees inflationary pressures forming and we think this leads to another rate hike in H2 |

The inflation heatwave still lingers: what could challenge our baseline?

The year began with an “Indian summer” scenario of balanced growth and easing inflation, before the Middle East conflict created an inflation “heatwave”. De-escalation has eased near-term pressure, but several forces could challenge our baseline.

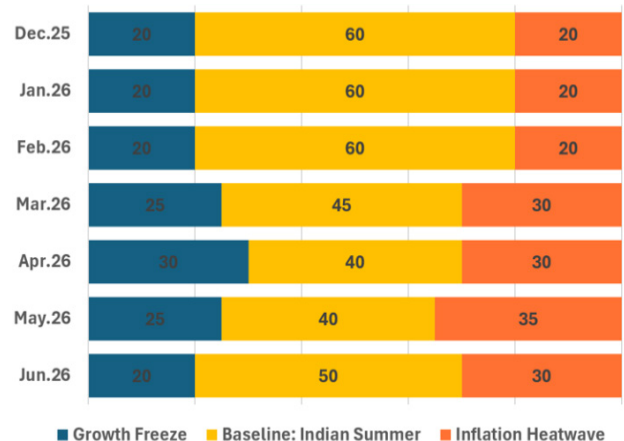
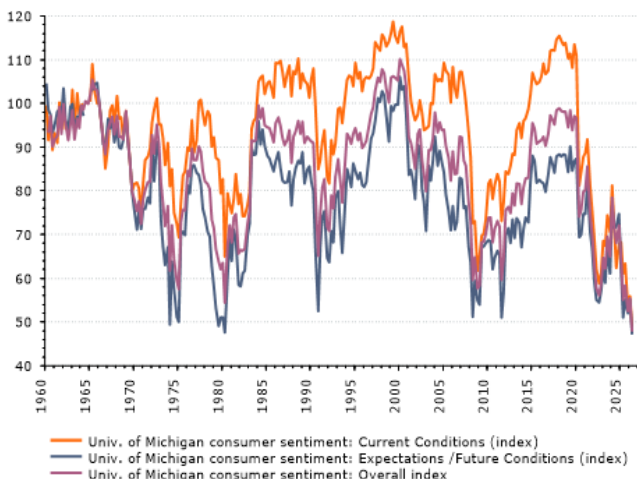
Major triggers for a renewed inflation “heatwave” include: AI optimism fuelling leverage and consumption while tight labour markets push wages higher; monetary policy error if the Fed remains too expansive or its independence is questioned; trade policy escalation with China or the EU; and renewed geopolitical conflict triggering another energy price shock.



On the other side, our baseline could drift into a growth “freeze” scenario. US consumer sentiment is at an all-time low, with lower-income households hit hardest by higher energy prices.

Key downside risks include: sharp slowdown in US consumption as debt-servicing costs rise; AI productivity disappointment prompting companies to reassess investment plans; AI-related layoffs weakening employment and sentiment; credit losses at smaller US regional banks triggering a credit crunch; fiscal austerity in the US or France; and an overly aggressive “anti-involution” campaign in China.

For the remainder of 2026, we assign a 50% probability to our “Indian summer” base case, 30% to the “inflation heatwave” scenario, and 20% to the growth “freeze” scenario.




Looking ahead, the US midterm elections stand out as the key event of H2. Republicans are likely to use all available tools to support growth, potentially including a renewed US-China trade truce and targeted relief for lower-income households. A split Congress, however, would make additional fiscal stimulus harder in 2027 and 2028.

While the path ahead remains uncertain, our scenario framework allows us to monitor developments in a disciplined way and adapt our macro views accordingly. For now, we continue to position for a genuine “Indian summer” in H2 2026.

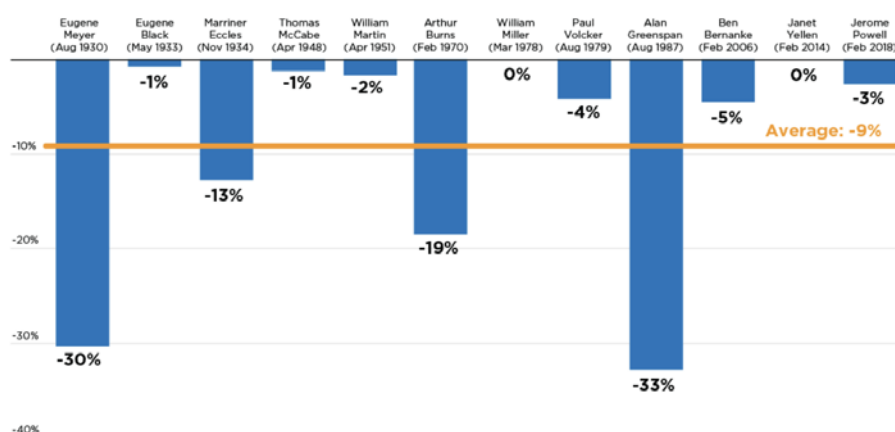


Markets are used to testing the new Fed Chair – will history repeat itself?

The short answer is yes. Kevin Warsh has already been tested. At his inaugural press conference, he cut the monetary policy statement by more than half, abandoned forward guidance, and announced a broad institutional review of the Federal Reserve. Five new working groups will reassess communication, the balance sheet, data sources, productivity and employment, and the inflation framework, signalling a significant rethink of how the Fed analyses and conducts policy. Markets reacted swiftly: US equities fell more than 1.5% in the five days that followed.

 Markets usually “test” a new Fed Chair, mostly to the downside: Warsh seems to be no exception with US stock market down by more than 1.5% at the time of writing

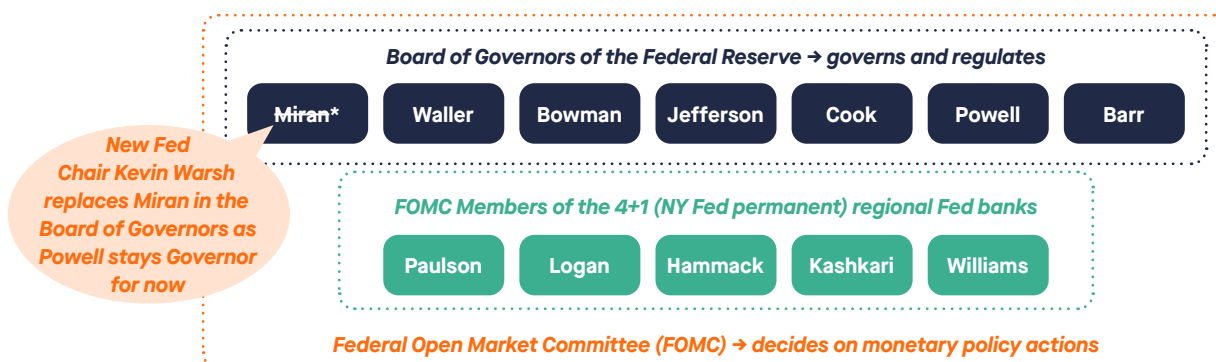
Source: Bloomberg, Nationwide Investment Research



Markets are likely to continue testing the new Chair as attention shifts to the scope of the planned task forces. Given their focus on core policy areas, investors will closely scrutinise each initiative, including the composition of the groups and any perceived political undertones.

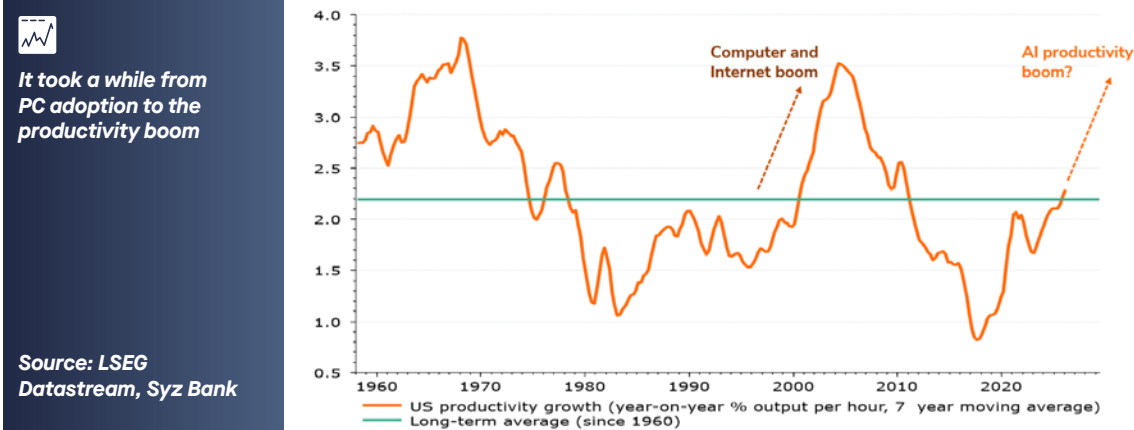
Institutional setting matters

To assess the potential policy shift, it is useful to distinguish between the Fed’s two key bodies. The Board of Governors oversees the institution and regulates the US financial system, while the FOMC sets interest rates. The Chair can shape the agenda, but policy decisions require a majority vote. So far, Jerome Powell remains on the Board of Governors, meaning any meaningful changes in supervision or the Fed’s operating framework would require a majority among the seven Board members.



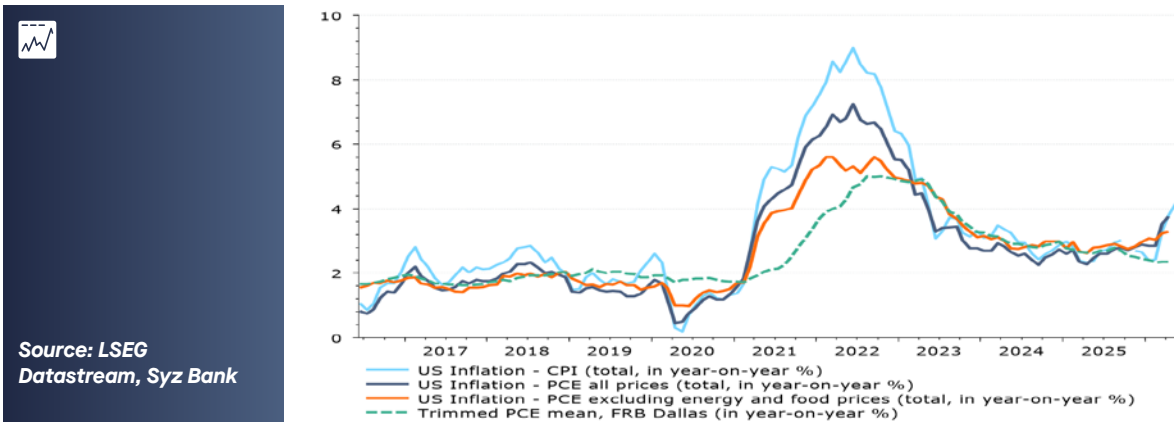
Will the new Chair “put the key rate where his mouth is”?

Markets will closely watch whether Warsh aligns policy with his rhetoric, particularly against a political backdrop where the Trump administration generally favours lower rates. One argument for a more accommodative stance is the potential for AI-driven productivity gains to ease inflation pressures. However, history suggests these effects take time to materialise: the rise of personal computing in the 1980s only translated into sustained productivity acceleration years later, when it joined forces with the internet revolution. Monetary policy should therefore be cautious in assuming near-term disinflation from innovation.



Inflation measures: a possible change in emphasis

Another area to watch is the Fed’s choice of inflation indicators. Warsh has shown interest in trimmed-mean measures, such as the Dallas Fed trimmed mean, which strip out extreme price moves to capture underlying trends. While useful, these measures have limitations: in periods of rapidly rising inflation, they can lag more timely indicators like core PCE. Overreliance on slower-moving measures risks keeping policy too loose for too long and unsettling inflation expectations.



Interest rates: unchanged policy as a form of easing?

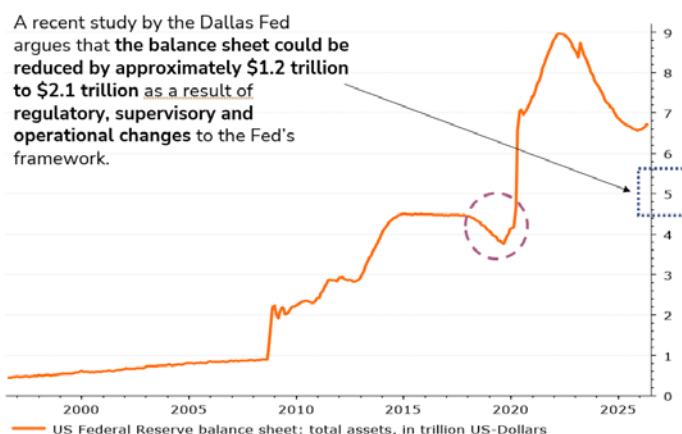
For the near term, the most likely outcome is unchanged rates. Even so, this could still be framed as relatively supportive because markets had priced in further tightening. Lower oil prices should also ease inflation pressure. If energy prices remain contained, the Fed should be able to hold rates unchanged for longer without reigniting inflation concerns, allowing Warsh to avoid both an overly dovish shift that could undermine credibility and a hawkish stance that could trigger market turmoil.

Communication: forward guidance and the dot plot

The Fed's communication strategy is another potential area of change. Some investors expect Warsh to scrap all forward guidance, including the dot plot. Removing it would likely increase volatility by reducing visibility on the Fed's reaction function. Communication has already become less explicit, with the Fed cancelling its tightening bias and producing a statement less than half its former length. While this increases flexibility, it shifts greater focus onto internal FOMC dynamics. Warsh may encourage internal debate while keeping external messaging tightly controlled.

The balance sheet is the most complex issue

The most delicate policy question is the Fed's balance sheet, which expanded significantly after the global financial crisis and again after the pandemic. Balance-sheet reduction differs from rate changes: while rates primarily affect the short end of the curve, balance-sheet policy influences longer maturities. The two tools operate through different transmission channels, and rate cuts do not automatically offset quantitative tightening.



The 2019 episode is a useful reminder. As the Fed reduced its balance sheet, liquidity strains emerged in money markets, and three rate cuts were not sufficient to stabilise conditions. The Fed ultimately had to resume securities purchases, highlighting that balance-sheet reduction can create market stress if reserves become too scarce.

A larger reduction would also require adjustments to the regulatory framework for banks. This is where the Board of Governors becomes critical: as long as Powell remains and a clear majority is not aligned with deregulation, major changes are unlikely to proceed quickly. Investors should instead watch comments on bank regulation, liquidity rules, and the Fed's operating framework.

What to watch

We still expect policy rates to remain unchanged in H2, particularly if lower energy prices continue to ease inflation pressures and demand moderates. Any meaningful balance-sheet reduction is unlikely before H1 2027 and will depend on the broader regulatory debate. Key areas for investors to monitor include inflation data interpretation, productivity assumptions, forward guidance tone, and the possible link between balance-sheet reduction and deregulation.

Volatility is likely to remain elevated as markets adapt to the new framework. As long as Powell remains on the Board (he is permitted until early 2028), the early phase under Warsh is likely to be defined more by signalling and credibility-building than by decisive policy shifts.

Can we see a repeat of the Q1 earnings season?

The bar to clear is the highest in a decade

Q1 was one of the strongest earnings seasons on record. S&P 500 earnings per share grew approximately 25% year-on-year, with more than 80% of companies beating consensus expectations and an aggregate earnings surprise of nearly 19%, roughly four times the historical average. Critically, this was not a low-expectation story: estimates had already been revised higher ahead of reporting season, yet companies still delivered substantial upside. Excluding the Magnificent Seven, EPS growth reached 14%, while the median S&P 500 constituent delivered around 12% earnings growth, one of the strongest broad-based quarters of the past decade.

This broadening of earnings participation is a healthy sign for equity markets. It also means the bar is now considerably higher, making disappointments more costly for investors.

Why a literal repeat is unlikely — and why that is not the right question

A repeat of Q1's nearly 19% aggregate earnings surprise appears unlikely. Expectations entering Q2 are already much higher, with consensus forecasting roughly 20% earnings growth versus 13% ahead of Q1. When expectations are elevated, the scope for positive surprises naturally narrows.

That said, current forecasts remain credible. AI-related capital expenditure continues to accelerate, economic activity remains resilient, and management teams remain broadly constructive. The key question is therefore not whether companies can match Q1's extraordinary surprises, but whether earnings revisions remain positive. Historically, revisions have been a far more important driver of equity returns than the size of quarterly beats.


Chart 1:
Consensus
Quarterly EPS
Growth for the
S&P 500



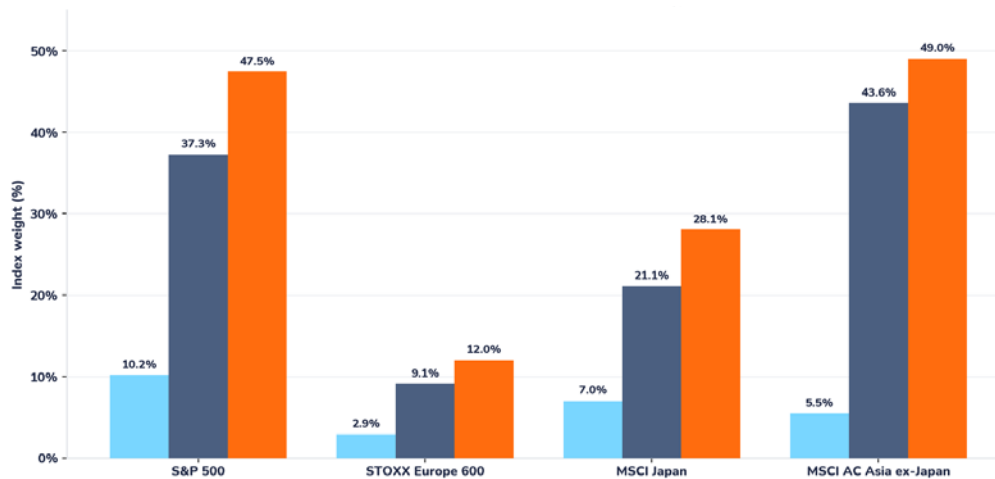
Consensus expectations for the coming quarters have been revised materially higher since the start of the year, reflecting continued confidence in corporate profitability and AI-related investment spending.

Earnings growth remains strong across regions

The strong earnings backdrop is not limited to the United States. Europe and Japan continue to benefit from improving guidance and upward revisions, while MSCI Asia ex-Japan has experienced one of its strongest earnings recoveries in years. Technology remains an important differentiator: Technology and Communication Services account for more than 45% of the S&P 500 and MSCI Asia ex-Japan, compared with roughly 28% in Japan and 12% in Europe. As AI infrastructure spending accelerates, regions with greater technology exposure are likely to maintain a structural earnings advantage.

Chart 2:
IT & Communication Services Weight in Global Equity Benchmarks

Source: Syz Bank / Bloomberg



Earnings growth and market performance are increasingly influenced by the large weight of IT and Communication Services sectors.

For full-year 2026, earnings are expected to grow by 24.4% for the S&P 500, 17.0% for the STOXX Europe 600, 15.4% for MSCI Japan, and more than 50% for MSCI Asia ex-Japan. While technology remains the largest contributor, the improvement is increasingly broad-based, with all major sectors expected to contribute positively and small- and mid-cap companies once again delivering double-digit earnings growth across most regions.

Chart 3:
2026 consensus EPS growth has been revised upward across all major regions (2026 estimated EPS growth, year-on-year)

Sources: Syz Bank, Bloomberg

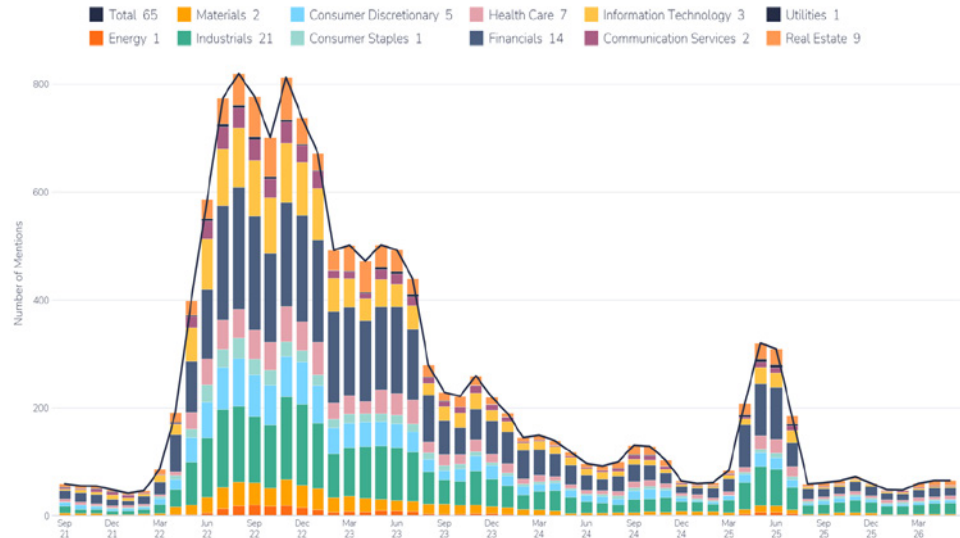


Corporate America signals resilience

Despite heightened geopolitical tensions and concerns about energy prices, corporate management teams remain broadly constructive. Using our AI-powered transcript analysis tool to review more than 3,000 Russell 3000 earnings call transcripts, we find that references to an “economic slowdown” appeared only 65 times in May, well below the levels observed during “Liberation Day” or the 2022 inflation shock. Meanwhile, AI-related mentions approached 2,000 during the quarter, increasingly spreading beyond Technology into Financials, Industrials, and Healthcare. The message from corporate America is clear: management teams remain focused on growth opportunities rather than downside risks.

Chart 4:
AI-Powered
Transcript Analysis
– Understanding
CEO Positioning

Source: Syz Bank /
Bloomberg



References to an “economic slowdown” appeared only 65 times across Russell 3000 earnings call transcripts, highlighting the resilience of corporate sentiment despite an uncertain macroeconomic backdrop.

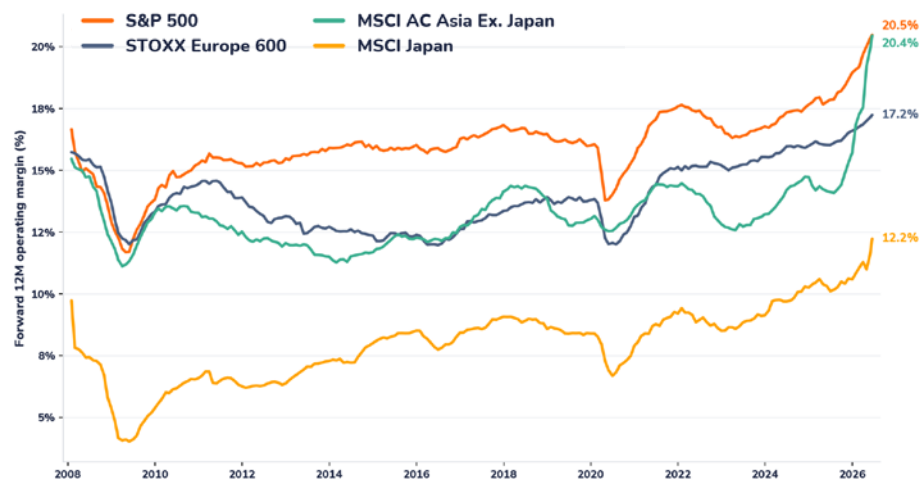
Margins are the quiet engine — and the key swing factor

One of the most underappreciated features of Q1 was the resilience of corporate margins despite higher energy prices, tariffs, and supply-chain frictions. Forward operating margins are currently at record highs across all major regions: 20.1% for the S&P 500, 17.1% for the STOXX Europe 600, 11.1% for MSCI Japan, and 19.5% for MSCI Asia ex-Japan. In the United States, nine of eleven sectors are experiencing margin expansion, with six reaching new 15-year highs.

The breadth of this trend suggests structural forces remain at work, including pricing power, AI monetisation, and corporate governance reforms in Japan. Even if revenue growth moderates, margin expansion should continue to support earnings. Margins remain the key swing factor for equities: as long as they hold, earnings forecasts and valuations should remain supported.

Broad-based profitability expansion across regions provides a powerful tailwind for earnings growth.

Chart 5:
Record Margins
Support Equity
Valuations



AI Capex remains the key earnings driver

The AI infrastructure investment cycle remains the primary driver of earnings growth. Hyperscalers continue to report record backlogs, with combined Google Cloud and AWS backlog reaching roughly \$832bn in Q1, more than double the \$358bn of six months earlier. Consensus expects hyperscaler capex of around \$760bn in 2026, rising further to approximately \$920bn in 2027, a figure many on the sell side view as conservative given the persistent supply-demand imbalance.

Importantly, the benefits are no longer confined to Technology. The AI spending boom is increasingly supporting Industrials, Electrical Equipment, Power Infrastructure, and Materials companies through rising orders and improved earnings visibility. This broadening of beneficiaries is one of the key reasons earnings growth should remain resilient in H2.

The key risk: rising earnings, lower returns

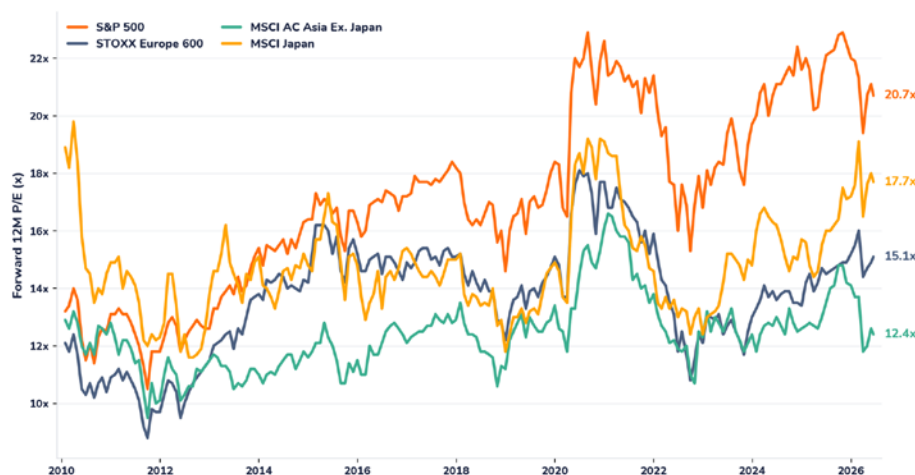
The main risk is that earnings growth comes at the cost of higher capital intensity. Massive AI investments are driving higher depreciation and reducing capital efficiency among the large technology platforms funding the buildout. Earnings can continue to rise while returns on capital gradually decline. The key question is not whether AI spending will continue, but how quickly these investments translate into productivity gains.

Valuations remain supported by earnings growth

Despite strong market performance, valuations have not become materially more stretched. Forward earnings estimates have risen faster than share prices, leading to a modest decline in multiples from their early-year peaks. The S&P 500 trades at 20.7x forward earnings, but its equal-weighted version trades at just 16.0x. Valuations remain lower in Japan (17.7x), Europe (15.1x), and MSCI Asia ex-Japan (12.4x).

This remains an earnings-led rather than a valuation-led bull market, in sharp contrast to the late-1990s technology bubble. The main risk to valuations is higher real interest rates, which would increase the required rate of return and put downward pressure on multiples. For now, stable real rates and rising earnings continue to provide support.

Chart 6:
Forward Price-to-Earnings Ratios Across Major Equity Regions



Rising earnings continue to outpace share price gains, keeping valuation multiples broadly stable.

The earnings cycle remains intact

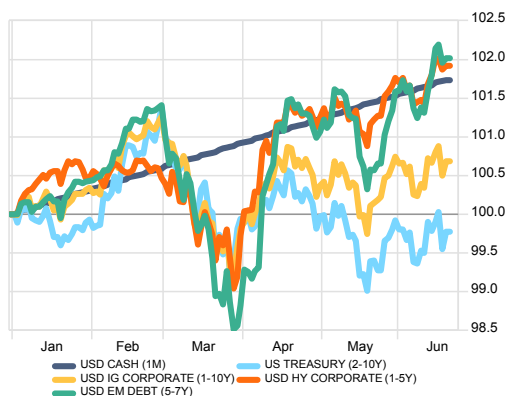
We do not expect a repeat of Q1's exceptional earnings surprise. Expectations are higher, the comparison base is more demanding, and the scope for large positive surprises has naturally diminished.

However, the most important question is not the size of future earnings beats, but the direction of revisions. On that front, the picture remains encouraging. Earnings expectations continue to move higher across all major regions, participation is broadening, margins remain near record highs, and management teams continue to signal confidence in the outlook. The earnings cycle is intact, broadening, and increasingly global, providing continued support for equity markets.

Fixed Income

H2 2026 outlook

Performance of selected USD Fixed Income segments in 2026 (as of 18/06/26)



Coming from a volatile H1 for rates

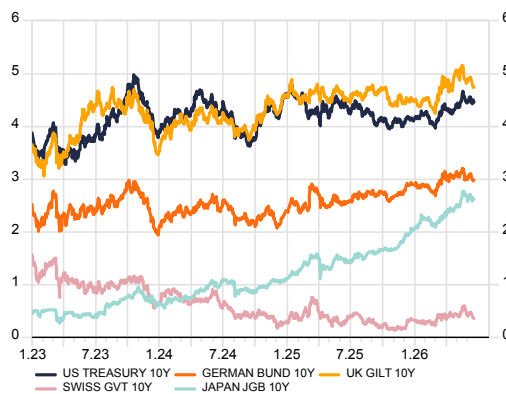
The first half of 2026 was highly volatile, and the volatility came overwhelmingly from rates rather than spreads. Earlier in the year, fears of a growth and inflation slowdown pushed yields lower and lifted rate-cut expectations. That picture was upended in March, when the Middle East conflict triggered a sharp rise in oil prices and an interest-rate shock: inflation fears returned, central-bank expectations shifted from cuts towards holds and even hikes, and yields jumped across every curve and maturity. Remarkably, credit and emerging-market spreads widened only marginally, with stress confined to areas directly exposed to the conflict and the oil spike.

From April, a ceasefire and the prospect of a deal allowed rates to stabilise. Upside data surprises

in the US kept upward pressure on US yields, while softer European data weighed on long-term rates there. All developed central banks, including the Fed under new Chair Kevin Warsh, signalled a bias toward tightening in case of persisting inflationary pressures.

So far this year, rising yields have left government bonds broadly flat, with carry offsetting price losses, while credit and emerging-market debt delivered positive returns thanks to their higher carry. Our preferred segments performed well: short- and medium-duration investment grade and high yield returned positively with lower volatility than government bonds, and the resilience of EM spreads through the conflict validated our thesis of structurally improving EM fundamentals.

10-year sovereign yields currently are in line with nominal growth rates across developed economies

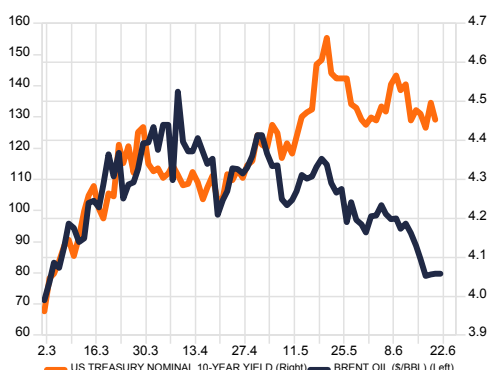


Rates to stay rangebound, with risks still tilted to the upside

Central banks have effectively returned to their core mission of fighting inflation. The combination of resilient growth and more persistent inflation creates a clear asymmetry: the main risk is no longer excessive weakness in activity but the persistence of price pressures. Our core scenario is therefore for range-bound medium- and long-term rates for as long as real and nominal growth hold up with inflation above target. The US 10-year yield, anchored around 4.5%, already reflects expectations of sustained solid nominal growth and has notably decoupled from oil prices since May.

We see the risks around this view as tilted to the upside for yields: a scenario in which markets grow wary of public-debt dynamics, real growth accelerates on AI-driven productivity gains, or inflation proves stickier than expected. The opposite scenario, in which markedly slower growth drives rates significantly lower, appears less likely for H2. One offsetting force is oil: a price decline is already under way as supply rises into softening demand, which would ease headline inflation. Still, rates may be less sensitive to falling oil than they were to the March spike if growth remains resilient.

10-year rates have remained anchored after the initial March shock, even as oil prices have fallen back toward pre-conflict levels

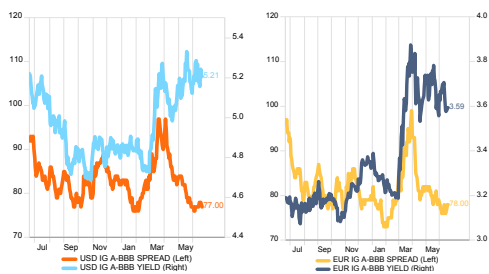


Public debt sustainability: gradually, then suddenly

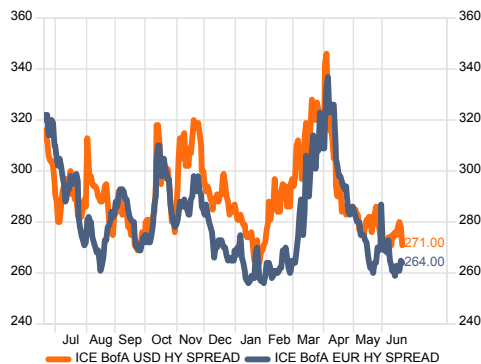
The post-2022 rate shock has rewritten the arithmetic of sovereign debt. The key relationship between real rates and real growth has turned hostile: real rates are no longer reliably below growth, interest bills are compounding, and the primary balances needed to stabilise debt are far from current policy. G7 debt now exceeds 100% of GDP, the US sits near 125%, Japan above 250%, and US federal interest costs have crossed one trillion dollars a year.

This is not a solvency problem today, but a credibility problem with a long fuse. The most probable resolution is not default, but a prolonged period of financial repression and above-target inflation, potentially aided by AI-driven productivity gains. For investors, the implication is to differentiate between sovereigns and remain cautious of duration exposure in the most exposed markets, particularly the UK and the long end of the US curve.

Tight credit spreads but appealing yields in USD and EUR Investment Grade



High Yield spreads offer limited cushion and warrant selectivity



EM corporate spreads have been very resilient to the Middle East conflict (+30bp in March, rapidly reversed), while yields are compelling given credit fundamentals



Credit as a reliable source of yield

Credit carry remains a reliable mainstay. Spreads are tight, but absolute yields stay appealing thanks to the rate component, and fundamentals are solid. Pension funds and insurers increasingly view investment-grade yields as more competitive than private assets on a risk-adjusted basis.

Investment Grade: tight spreads reflect investor confidence, while higher all-in yields continue to support the asset class. With less room for disappointment, issuers with strong pricing power and disciplined cost management should be favoured.

High Yield: tight spreads provide limited cushion to a potential deterioration of the environment, even if a major default cycle is not in sight. Dispersion is likely to persist, warranting focus on the more resilient segment of the market (BB and B ratings). Short-duration strategies offer meaningful value with contained downside risk.

Emerging market debt is a must have

Hard-currency emerging-market debt offers favourable prospects for H2. Fundamentals are improving structurally, several political hurdles have cleared, and yields are compelling relative to comparable developed-market credit quality.

The resilience of EM spreads through the Middle East conflict reinforced our constructive thesis. Many EM sovereigns

and corporates benefit from strong access to local-currency debt markets, and commodity exporters have rebuilt fiscal buffers, though frontier refinancing risk warrants monitoring given sizeable external debt maturities extending into 2026-27. Local-currency debt remains the wild card: should the US dollar soften, it could deliver particularly attractive yields and returns.

Favour EM and credit carry over duration exposure for H2 2026

Solid nominal GDP growth argues for a cautious approach to duration. Duration today introduces portfolio volatility with little additional carry over short-to-medium maturities, a low probability of capital gains, and meaningful risk of capital losses if rates move higher. Equally important, government bonds are no longer a reliable diversifier for equities: the bond-equity correlation has

historically been negative only when inflation sits below 2%, and inflation will likely remain above that level in both the US and Europe through 2026.

Fixed income portfolios should therefore enter H2 with the following positioning: keep harvesting carry as the most attractive source of return, with diversified exposures to hard-currency

EM debt and short-to-medium investment grade and high yield credit; favour strategies with low sensitivity to interest-rate movements, including those with no rate sensitivity such as cat bonds; and be ready to reallocate part of the short-duration high-yield and EM exposure into more neutral-duration positions if the balance of risks shifts to the downside.

Tech and the impact of AI-capex bond issuance

The technology sector faces two distinct pressures in H2.

1

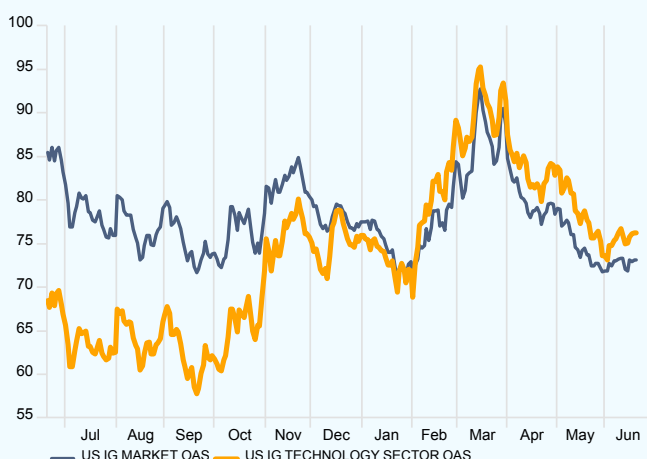
First, a wave of investment-grade supply: estimates point to around \$300bn of AI-related IG issuance in 2026, with hyperscaler net supply rising towards \$130-150bn. This issuance is long-dated, potentially adding both duration and supply overhang to portfolios. The fundamental story remains constructive, with post-issuance leverage at just 0.4-0.7x versus the roughly 3x IG average, so the pressure is supply-driven rather than a solvency concern.

2

Second, AI poses a credit headwind for leveraged software. Software exposure is relatively limited in US high yield bonds at around 3-5% of the index, but rises to roughly 15-16% in syndicated loans and around 20-25% in private credit direct lending. AI threatens recurring revenue, undermines the per-seat model, and tempts cash-light SaaS issuers into costly over-investment. Selectivity is essential: avoid the most exposed software issuers.



The US tech sector now trades on wider average spreads than the markets, heavy supply in H2 might amplify the relative spread widening of the sector



Investing into scarcity

From the aftermath of the Global Financial Crisis until the war in Ukraine in 2022, asset prices were supported by low discount rates, abundant liquidity, and a global production system organised around efficiency. That environment rewarded duration, leverage, and business models built on the assumption that capital would remain inexpensive. After 2022, in a geopolitically fractured world where strategic competition increasingly shapes capital allocation, the backdrop is different: the cost of capital is structurally higher, supply chains are more fragmented, and governments are increasingly directing capital toward strategic sectors.

Scarcity changes both valuation and leadership. When financing becomes more selective and physical capacity harder to expand, ownership of assets that are difficult to replicate commands a higher premium. In practice, this favours shorter-duration cash flows, stronger balance sheets, and exposure to systems that economies cannot easily do without.

Scarcity operates through at least three channels that are highly relevant for portfolios.

The first channel is capital scarcity

When funding is no longer abundant, the market places greater value on financial resilience, internal funding capacity, and disciplined capital allocation. Companies that require repeated access to external capital may find themselves at a disadvantage relative to firms with strong free cash flow, modest leverage, and assets that can self-finance their own expansion.

This is why our portfolios have remained selective on companies whose aggressive AI-related investment has been financed through consistently rising indebtedness. In a world where capital is more expensive, we prefer businesses that can fund growth with durable free cash flow rather than escalating leverage.

The recent AI financing cycle also illustrates capital scarcity in practice. For several years, public investors had limited direct access to the frontier of AI, which

helped concentrate capital in listed enablers such as semiconductors, cloud infrastructure, and power-related assets. As major AI-related IPOs and capital raises arrive in a tighter window, the scarce input is no longer access to the theme but the market's capacity to absorb new issuance. Even a powerful secular story can become a source of crowding out, as investors may fund the next wave of AI supply by trimming existing winners.

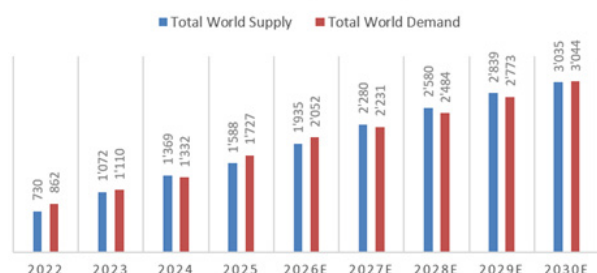
Our recent decision to trim our semiconductor ETF allocation and rotate part of the capital into the broad S&P 500 reflects a transition from early-cycle scarcity to later-cycle absorption. Semiconductors remain central to AI, but much of the scarcity premium has already been realised. Broadening exposure improves diversification, lowers concentration risk, and preserves participation in equities without overcommitting to the most crowded part of the AI complex.

The second channel is resource scarcity

In a world undergoing the AI revolution, key materials central to electrification, grid expansion, and industrial resilience face supply constraints that are difficult to solve quickly. Critical minerals are the clearest expression of this scarcity. Copper and lithium sit at the intersection of electrification, battery manufacturing, and grid expansion, yet new supply takes years to permit, finance, and build.

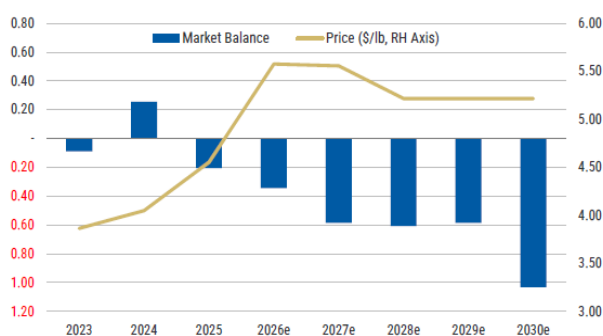
This creates a distinction between cyclical commodity exposure and structural scarcity exposure. The former depends on short-term growth and inventory cycles; the latter reflects multi-year underinvestment, permitting delays, declining ore quality, and rising geopolitical frictions around supply. Selected commodity and mining exposures may therefore warrant being viewed not simply as inflation hedges, but as strategic assets linked to the functioning of the future economy. The satellite commodity exposure we built in our portfolios at the beginning of this year aims precisely to capture this trend.

LITHIUM GLOBAL SUPPLY-DEMAND MODEL (KT LCE)



LCE = Lithium Carbonate Equivalent
Data expressed in kiloton (kt)

Source: Wood Mackenzie, CRU, Morgan Stanley Research



Copper balance –left hand side, expressed in Megaton (Mt)– and price outlook

Source: Bloomberg, Morgan Stanley Research estimates

The third channel is strategic scarcity

Energy systems, grids, transport corridors, water networks, and digital infrastructure are increasingly recognised as national security assets rather than neutral background utilities. Bottlenecks in transmission, storage, processing, and logistics can become sources of pricing power when demand is firm but expansion is slow. In a scarcity regime, the owners of critical systems can benefit even when the underlying commodity itself is volatile. Defence spending belongs here too, increasingly reflecting industrial policy, supply-chain security, and geopolitical risk rather than purely cyclical budget dynamics. Our recent decision to introduce a small exposure to a defence fund reflects a long-term infrastructural view of the sector.

Water scarcity adds another dimension, directly affecting agriculture, industry, utilities, and urban resilience. With approximately \$84bn of expected US irrigation investment between 2026 and 2031, scarcity is already translating into tangible capital expenditure opportunities. Treatment, efficiency, reuse, and irrigation modernisation may become more central portfolio themes.

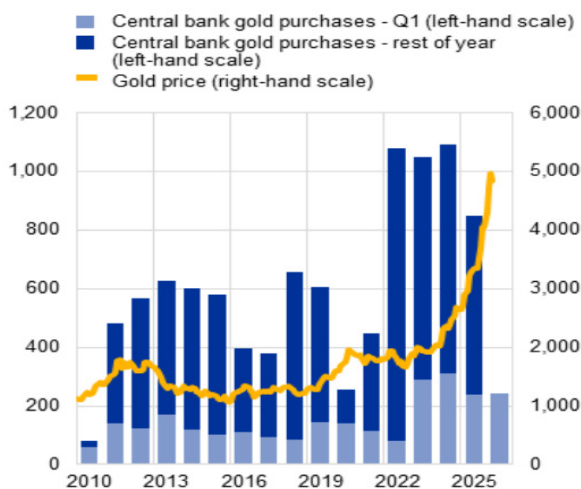
Gold occupies a slightly different role. Its scarcity is physical, but its investment appeal also rests on monetary and geopolitical considerations. Central-bank buying remained historically elevated in 2025, and official-sector demand is expected to stay strong into 2026. That makes gold relevant not only as an inflation hedge, but as a reflection of reserve diversification and a growing scarcity of trust in fiat currency anchors.

Cryptocurrencies such as Bitcoin and Ethereum fit a related but distinct part of the scarcity framework. Their appeal lies in digital monetary scarcity and in the possibility that decentralised assets become more valuable in a world where confidence in fiat systems is less assured. They are not substitutes for gold, but parallel expressions of the same desire to own assets with constrained supply and no issuer risk. At the beginning of the year, we allocated a small quota of our portfolios to a strategy investing in precious metals and cryptocurrencies, with the aim of playing the theme of fiat-currency debasement and de-dollarisation.

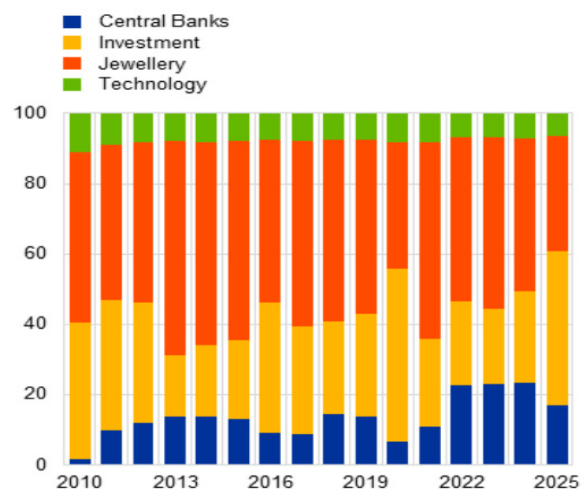
A scarcity framework does not imply abandoning diversification. It implies redefining it. Traditional diversification spread portfolios across sectors, regions, and styles; scarcity-era diversification also asks which assets can respond differently to financial tightening, physical constraints, and strategic shocks. Real assets, select infrastructure, precious metals, digital stores of value, semiconductors, defence, and parts of the resources complex may serve not only as return sources but as regime diversifiers.

Scarcity can create powerful narratives, but not every scarce asset is investable at every price. The right approach is multi-thematic, with exposures spread across different scarcity themes and adjusted over time as a function of valuations, policy conditions, and market timing.

 **Central bank gold purchases and price of gold**
(tonnes, US dollars per troy ounce)



 **Gold demand by sector**
(percentages)



Sources: IMF, World Gold Council and ECB staff calculations

When the oil flows positioning portfolios for a US–Iran peace deal

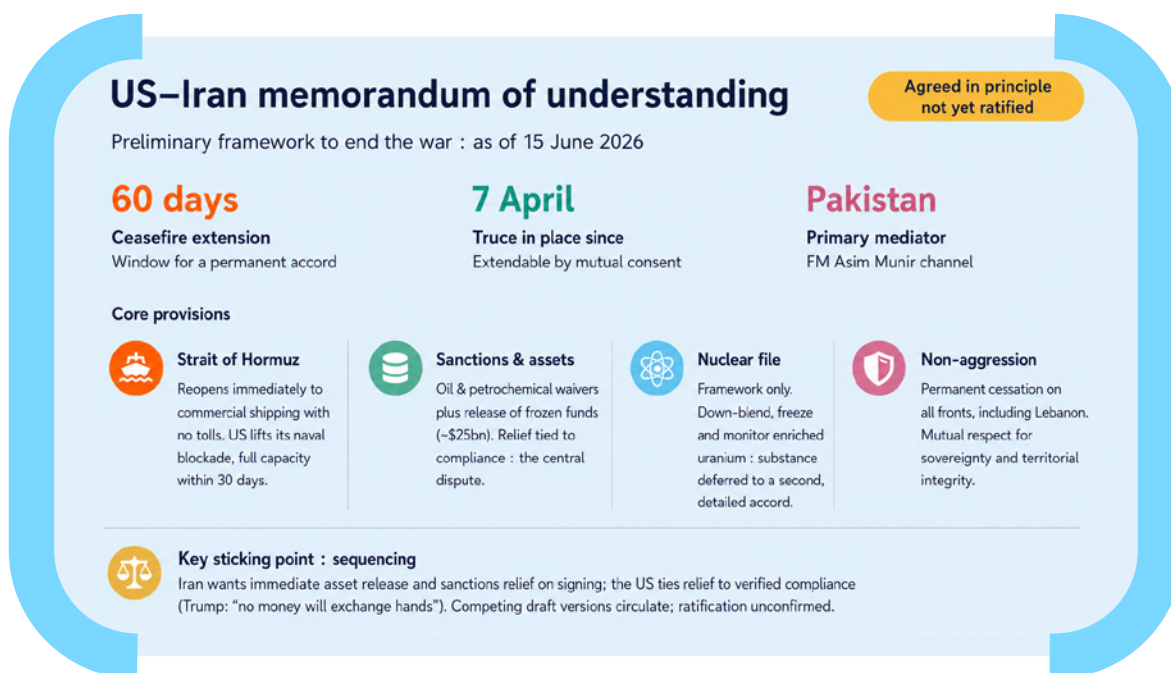
After more than three months of war and a global energy shock, the United States and Iran have reached a peace deal. For markets, the immediate reflex has been textbook: oil plummets, bond yields drop, and risk assets soar.

The harder question is what comes next, and how to position portfolios for a world in which the single largest tail risk of 2026 is being removed rather than realised.



1. The deal: the facts and what's next

After roughly 107 days of conflict triggered by US and Israeli strikes on Iran in late February and the subsequent closure of the Strait of Hormuz in early March, Washington and Tehran announced a peace deal. Pakistan's prime minister, who together with Qatar mediated the talks, confirmed the immediate and permanent termination of military operations on all fronts, including Lebanon. President Trump called the deal "complete" and authorised the toll-free reopening of the Strait of Hormuz. The agreement is structured as a memorandum of understanding, to be signed in Switzerland on 19 June. Tehran has said it will not begin implementation until the signing, and negotiations on a final agreement are deferred to a 60-day window that begins only once the US has fulfilled its initial obligations. The nuclear file has been pushed into that second-stage negotiation.



Why both sides want it to work. The incentives are unusually aligned. For the US administration, approval ratings sit near all-time lows and an energy shock pushing headline CPI to 4.2% is a direct political threat; bringing oil prices down and claiming a diplomatic victory is precisely the win needed ahead of the midterms. For Iran, the naval blockade has been strangling oil exports and the wider economy; sanctions relief and an end to the blockade are existential priorities. With Pakistan, Qatar, Saudi Arabia, and Turkey heavily invested as mediators, the path of least resistance points toward de-escalation.

What could still derail it. We would not treat the deal as done until it is signed and implemented. The most acute near-term threat is the Israel wildcard: Israel is not a signatory, and reports of strikes in Lebanon are already testing an agreement that explicitly covers all fronts. Beyond that, the sequencing structure creates ample room for disputed compliance during the 60-day window. Domestic hardliners on both sides have reason to obstruct, and the genuinely difficult questions around enrichment and verification have been deferred, not solved.

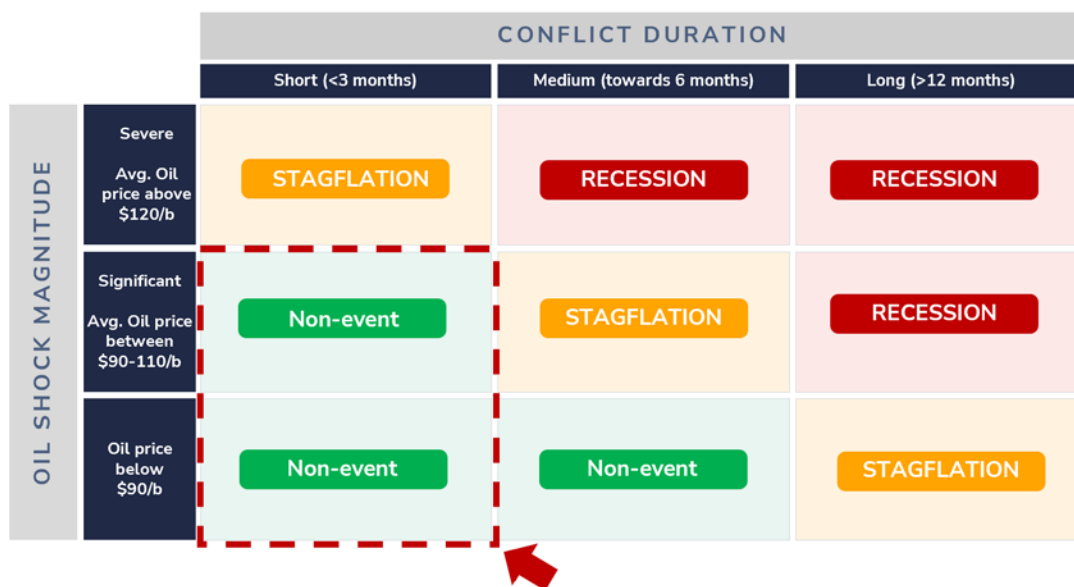
2. The market backdrop: cooling, not breaking

The deal comes against the backdrop of a market already in good health. Throughout the conflict, our base case was that neither stagflation nor recession would materialise, with the duration of the war, rather than its mere existence, being the key variable for equities. A durable de-escalation resolves that uncertainty in a favourable direction.

The bull market is intact and broadening. The secular uptrend in US equities remains in force, and leadership is widening in a healthy way. Small- and mid-caps are leading: the S&P SmallCap 600 is up 18.7% year to date, the Russell

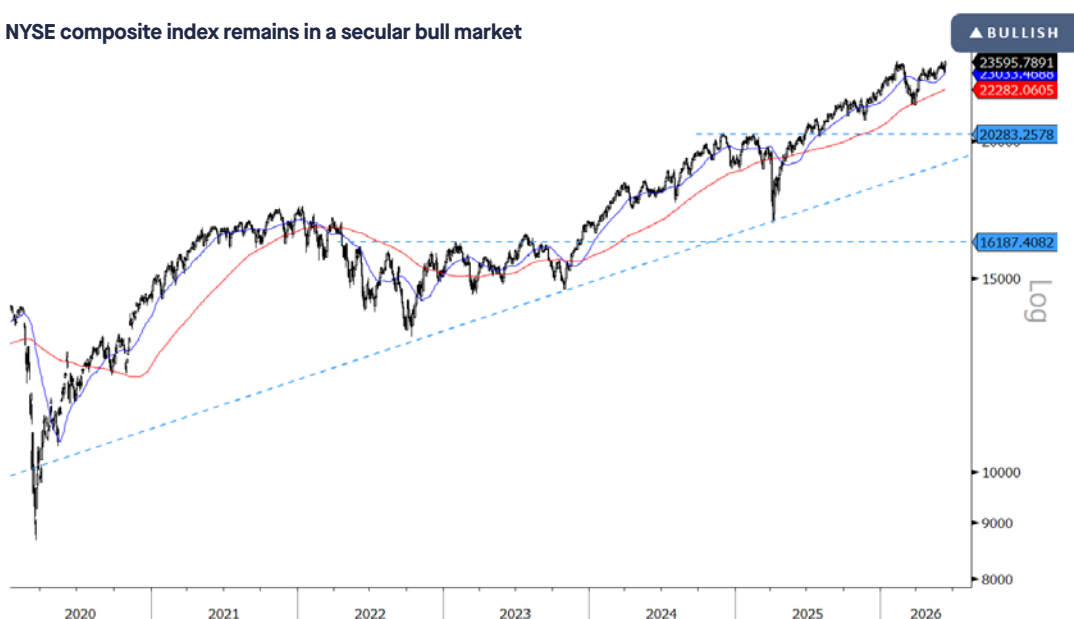
Macro damage $\approx \Delta\text{Oil} \times T^2$

The market is focused on the size of the shock. The real risk is its persistence.



2000 up 18.4%, and the S&P MidCap 400 up 14.7%, all well ahead of the S&P 500 at 8.6%. Breadth is robust, with roughly two-thirds of constituents above their 200-day average. This is the signature of a maturing, not exhausted, bull market.

NYSE composite index remains in a secular bull market



Source: Bloomberg

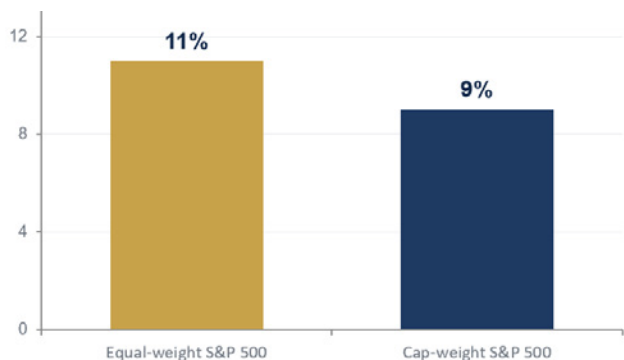
Tech is taking a breather, not turning. Semiconductors pulled back around 12% after a near-parabolic run before partially recovering, reflecting profit-taking rather than any deterioration in fundamentals. Hyperscaler capex continues to ramp, the AI adoption trend remains intact, and the equal-weight S&P 500 is outperforming, underscoring the rotation into the average stock.

IPO fever is the live test of risk appetite. The SpaceX debut raised roughly \$75bn, the largest offering ever, and drew record single-day retail buying. It likely leads a mega-IPO wave, with OpenAI and Anthropic potentially to follow. Historical experience offers some reassurance: issuance waves typically occur during periods of market strength, with median returns of around 8% over three months and 20% over twelve months following such episodes.

The Fed has room to be patient. Headline CPI at 4.2% is largely energy-driven; core at 2.9% came in slightly soft, goods prices fell for the first time in a year, and services show no meaningful reacceleration. A prolonged pause is the most likely path. The swing factor is oil: if the ceasefire holds and crude falls, CPI cools and hikes are postponed; if oil spikes toward 4.5% headline, hikes come back into play.

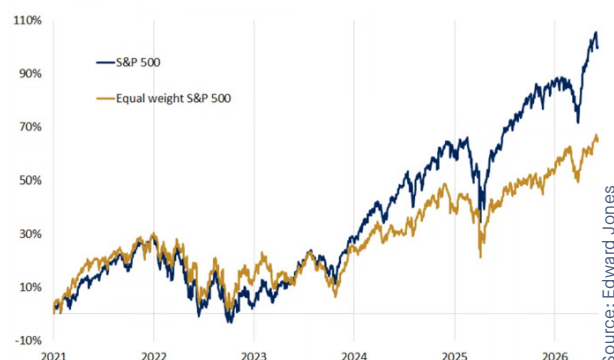
A peace deal pushes this dynamic decisively toward the benign outcome.

Equal-weight S&P 500 is outperforming YTD



Source: Edward Jones

The "average" stock has catch-up potential vs. mega-caps



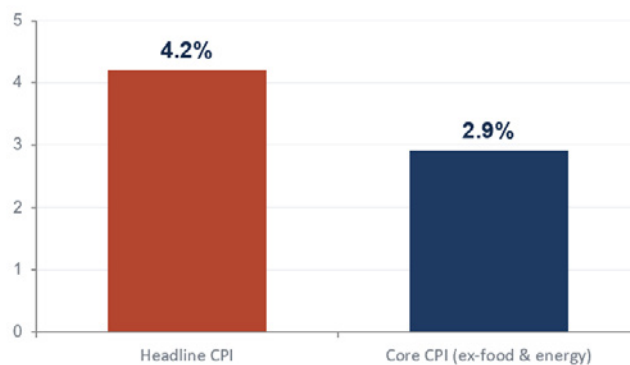
Source: Edward Jones

Equity market returns are typically very strong before and during an issuance wave



Source: Bloomberg

May CPI - headline vs. core (% yoy)

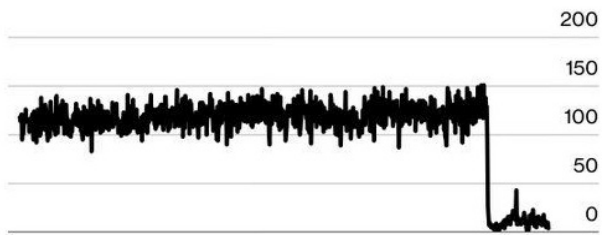




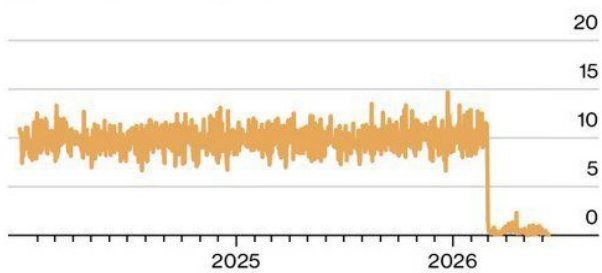
Hormuz traffic

Transits have plummeted from pre-war levels

Number of transits



Millions of deadweight tons



Source: Clarkson Research Services Ltd, Bloomberg

Why it may be too soon for the oil shorts to celebrate

Before calling the oil crisis over, two uncomfortable questions deserve attention.

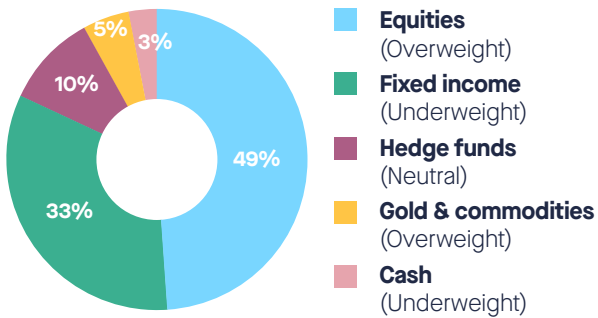
First, there is no deal yet. An agreement is still a work in progress, not a signature on paper. The market is pricing in an outcome that has not been delivered. Until something is signed and holds, every transit through Hormuz happens on borrowed confidence.

Second, even a signed deal does not flip the switch back to normal. Those 300 ships finally free to move represent barely two days of pre-war traffic, and another 500 are still waiting to dock and load. Transits collapsed from roughly 150 a day to near zero almost overnight. Getting back to normal takes months, not days. Reopening is an event; recovery is a process. We are, at best, at the start of that process.

The margin for error is also thinner than appreciated. Global oil reserves are drifting toward their lowest level in half a century, a cushion that has been eroded just as markets are being asked to trust that the worst is behind us. And Iran has demonstrated that it can bring the global economy to its knees by closing a single strait. That leverage is now permanent, even if the blockade is not.

3. How we are positioned and the short-term winners of a deal

 **Portfolio allocation (tactical)**



Our Strategic Asset Allocation remains an all-weather framework built on a strong US equity weight, a meaningful technology foothold, a substantial alternatives allocation anchored by hedge funds, a well-balanced fixed income bucket, and partial hedging of currency risk. That long-term compass is unchanged by the news flow.

Tactically, since 21 May 2026, we have been slightly overweight equities with all regions neutral and the US weight nudged up by drift. We are underweight fixed income overall, with government bonds trimmed. In alternatives we are overweight gold and commodities and neutral hedge funds. In FX we are neutral the dollar against all currencies.



Tech is cooling, not breaking

The semiconductor pullback reflects profit-taking after a too-far, too-fast rally. Improving breadth points to a healthier backdrop.



IPO demand tests risk appetite

The SpaceX debut is a real-time gauge of investor willingness to fund high-growth, capital-intensive businesses at elevated valuations.



The Fed remains on hold

Elevated headline inflation is largely energy-driven, while underlying pressures stay contained, giving policymakers room to be patient.



Stay invested through volatility

Leadership is broadening and volatility normalising. We expect pullbacks to be corrective rather than trend-ending.

Where a deal helps most. A successful agreement removes the conflict-duration tail risk and reinforces our transition thesis. The short-term winners cluster around the oil channel and the risk-premium unwind. International developed value is the cleanest beneficiary: a reopened Strait of Hormuz and easing crude relieve the energy import bill for Europe and Japan, where value and cyclical exposure is concentrated. Cyclical, US mid-caps, and equal-weight exposure should be carried further by a risk-on, lower-oil backdrop. Duration and rate-sensitive equities gain a tailwind as lower oil cools headline CPI and reinforces a patient Fed. Pro-cyclical and EM currencies tend to outperform in a risk-on, softer-dollar setting.

The honest tension in our own book. A deal cuts against two of our active overweights. Lower oil and a deflating geopolitical risk premium are a near-term headwind to our overweight commodities, and a risk-on environment is typically unfriendly to our overweight gold. We do not view this as a reason to exit those positions. Both remain structural, all-weather holdings. Instead, the deal points to a rotation in the marginal opportunity set, away from the oil-and-fear trade and toward international developed-market value and cyclical equities.

Bottom line. We remain constructive on equities and would use the deal as confirmation, not as a signal to chase. The tactical tilt is to add to broadening leadership and international developed value on any volatility, to let the commodity and gold overweights work as ballast rather than as the lead, and to judge the mega-IPO wave on fundamentals rather than headlines. The largest risk to this view is not the market; it is the deal itself failing to survive contact with implementation. We will trade the milestones accordingly.



Our big ideas for H2 2026

#1



Global robotics and automation: AI advances are making automation a global strategic priority

Robotics and automation remain one of the strongest long-term growth themes in global equities, underpinned by persistent labour shortages, rising wages, and rapid advances in AI. The best way to capture the theme is through diversified exposure across the value chain, spanning industrial robotics, logistics, surgical systems, sensing technologies, and intelligent software. Falling AI costs, combined with government backing across the US, Europe, and China, are accelerating adoption into higher-margin applications. US and European manufacturing PMIs have moved back above 50 after three years in contraction, reviving the capex cycle that drives automation demand. Principal risks include geopolitical tensions disrupting US-China supply chains, semiconductor shortages, and longer-than-expected timelines for AI commercialisation in robotics.

#2



Space: a long-term theme gaining momentum

The space economy is projected to triple to USD 1.8tn over the next decade, driven by growing commercial use of satellite infrastructure and emerging opportunities in space-based data centres as an alternative to earth-based AI infrastructure. Commercial operators are becoming increasingly cost-efficient: SpaceX has reduced launch costs through reusable rockets, lowering refurbishment costs to approximately USD 10mn versus USD 100mn for new rockets. The SpaceX mega-IPO is expected to reinforce broader investor interest in the sector. Key risks include significant concentration risk given dependence on a small number of dominant players, regulatory hurdles, launch failures, and higher-than-expected refurbishment costs.

#3



Digital infrastructure: AI is driving a multi-year buildout of critical digital infrastructure

Digital infrastructure has become the backbone of the AI economy. Surging demand for compute capacity, combined with power and grid constraints, is creating a multi-year buildout cycle supported by accelerating hyperscale capex expected to grow materially through 2030. High barriers to entry, strong occupancy, and long-term leasing provide significant pricing power, while governments prioritising sovereign AI infrastructure add further tailwinds. With US interconnection queues now running four to seven years, incumbents holding powered sites own capacity that new entrants cannot replicate. Principal risks lie in higher interest rates pressuring data centre REIT valuations, and advances in computing architecture or a shift toward edge computing reducing demand for traditional large-scale facilities.

As we look toward the second half of 2026, powerful structural forces are reshaping the investment landscape. Artificial intelligence is driving real-world demand across robotics, digital infrastructure, and power systems, while shifting geopolitics, the energy transition, and renewed government investment are creating durable, multi-year opportunities. This publication brings together our highest-conviction thematic ideas for H2 2026, each presented with its core investment rationale and the key risks to consider.

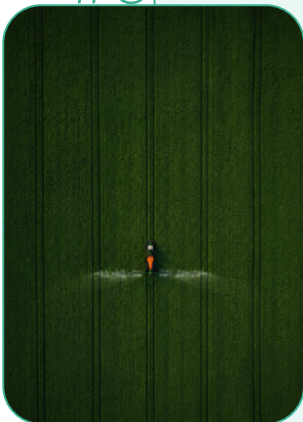
#4



Chinese innovation: a national strategy to lead in future industries

China's 15th Five-Year Plan commits around USD 2tn to key strategic industries. Strong investment is expected across semiconductors and AI, advanced manufacturing and automation including humanoid robotics, green technology, healthcare and drug development, and urban air mobility, all underpinned by large domestic market scale, strong policy support, and a focus on innovation. Principal risks are US export controls on semiconductors, regulatory unpredictability, overcapacity risk from state-led investment, and weak domestic consumer confidence.

#5



Agriculture commodities: structural scarcity in agriculture

Agricultural commodities are worth close attention in 2026. Disruptions across the Middle East are constraining fertiliser shipments through the Strait of Hormuz, elevated gas prices are pushing production costs higher, and farmers are scaling back application rates in response. As fertiliser costs climb and supply tightens, yields come under pressure across corn, wheat, soybeans, coffee, and cotton. Climate stress, shrinking arable land, and water shortages point to a structural rather than temporary squeeze. Within a portfolio, agricultural commodities offer inflation protection, low correlation to stocks and bonds, and a valuation that appears underpriced relative to the constraints at play.

#6



The new age of energy: strategic materials in the electrification era

Electrification is set to transform energy and materials demand over the next several decades. US data centres alone are expected to triple electricity consumption by 2030, from around 220 to 600 TWh. Against this backdrop, nuclear emerges as the only viable means of keeping the grid reliable and low-carbon at scale. Copper faces already tight supply, and rare earths represent a strategic constraint without which advanced technology cannot be built. Governments are treating these materials as national security issues, managing access through export controls and strategic stockpiles, creating a demand floor that responds far less to price than in the past. Risks include gains in computing efficiency tempering power demand, new mine supply weakening the scarcity narrative, and nuclear and grid projects stalling amid permitting delays.

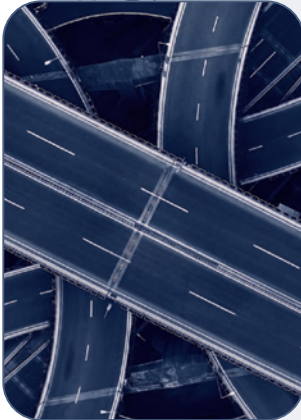
#7



Biotechnology: real innovation meets big pharma desperation

Biotech is carrying real momentum. Innovation is materialising across oncology, genetic diseases, psychiatry, and obesity treatments, generating revenue and expanding margins today. AI is reshaping the fundamental economics of the sector: drug discovery could be compressed from years to months, success rates are improving, and R&D costs per asset are falling. This matters at a moment when big pharma faces a USD 300bn patent cliff between 2025 and 2030, driving aggressive acquisition of smaller biotech companies. The political backdrop has also turned more favourable, with drug pricing pressure easing and the FDA accelerating approvals. Risks include renewed pressure on drug pricing, the return of tariffs, or disruption at the FDA undermining revenue visibility.

#8



HALO: owning the assets AI cannot replace

HALO offers a way to think about companies that AI is unlikely to render obsolete. Their value resides in physical assets and infrastructure that cannot be replicated by software, spanning energy, utilities, transportation networks, industrial facilities, and natural-resource assets. These businesses are defined by long asset lives, enormous replacement costs, and demand that does not disappear. They can deploy AI to operate more efficiently while retaining ownership of the critical real-world infrastructure that constitutes barriers to entry algorithms cannot overcome. Within a portfolio, HALO assets offer a competitive advantage that rests not on owning the best software, but on owning the asset and executing well operationally. Risks include regulatory changes squeezing utility returns and higher interest rates compressing infrastructure valuations.

#9



European mid-cap equities: Europe's overlooked engine of growth

European mid-cap equities are strongly exposed to the domestic economy and should benefit from EU fiscal stimulus, a recovery in manufacturing activity, and improving credit growth. Germany's infrastructure and defence spending programmes provide additional support, and mid-caps tend to have stronger sensitivity to an economic upturn than large caps. Their higher share of domestic revenues also offers some protection from US tariffs. Valuations support the argument: European mid-caps trade at around 15 times forward earnings with expected earnings growth of around 15% compared with 12% for large caps, meaning investors can access higher growth without paying a premium. Main risks are sustained energy price increases and a stronger euro reducing export competitiveness.

#10



US small and mid-cap dividend growers: where earnings growth meets reliable income

US small and mid-cap dividend growers offer exposure to high-quality domestic companies well positioned to benefit from a broadening of US earnings growth. Steady dividend growth acts as a signal of quality, reflecting strong cash generation, solid balance sheets, and sustained earnings momentum. SMID-cap dividend growers still trade at a meaningful discount to large caps despite similar growth prospects, creating potential for a valuation re-rating. The main risk is an earnings downturn or slowdown in US growth weakening corporate cash flows and putting pressure on dividend sustainability.

#11



Short-duration high yield: a defensive way to earn carry

Short-duration high yield targets sub-investment grade corporate bonds with maturities of one to five years, allowing investors to capture attractive credit carry while keeping interest rate sensitivity limited. The income appeal is supported by persistently elevated yield levels, still high relative to historical norms. Default expectations remain contained, and a large share of the market is rated BB, suggesting stronger average credit quality than is often assumed. The short duration profile further improves the risk-reward balance by reducing exposure to interest rate volatility. Main risks are widening credit spreads, rising defaults in a weaker growth environment, and refinancing pressure if market conditions tighten.

#12



Cat bonds: uncorrelated income by design

Cat bonds are insurance-linked securities that transfer extreme natural disaster risk to capital markets, providing investors with a floating return combining an insurance risk premium and a collateral yield. Their relatively short maturities and active secondary market make them a scalable and transparent source of returns largely uncorrelated with traditional financial assets. The investment case is supported by a global insurance protection gap sustaining strong demand for risk transfer, attractive risk-adjusted spreads, and a return profile in which drawdowns are driven by discrete events that can be repriced over time rather than resulting in permanent capital loss. Main risks include catastrophe clustering leading to simultaneous losses, model risk in catastrophe pricing, liquidity stress following major events, and lower interest rates reducing collateral yield.

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