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Outlook into the 3rd Quarter 2026

The Equity Markets between Macroeconomics and Geopolitics

The past few months have been no less turbulent for the financial markets than the previous year. Markets have been driven more by geopolitics than by economic data. Taken together, these two forces point to a major trend likely to shape the medium-term future. The key drivers remain the monetary policy of the issuer of the world's reserve currency, the U.S. Federal Reserve, together with demographic developments and the shifting balance of global power. In our view, military dominance is gradually giving way to digital dominance. Asia and Europe are both trying, to put it somewhat bluntly, to resist what could be described as a new form of U.S. digital imperialism. The largely emotion-free flow of capital is already providing part of the answer. Anyone analysing portfolio performance today can see at a glance where most of the gains are coming from: the United States.

The transition from J. Powell to K. Warsh is likely to bring a new communication style to the Federal Reserve—something of a return to the Greenspan era. We are reminded of one of his classic remarks: “If you think you have understood what I said, then I probably wasn't unclear enough.”

Powell's achievement was to steer the global economy out of the high-interest-rate environment without triggering a recession. Those hopes for further rate cuts have now been finally dashed as inflation has started to pick up again. Base rates currently stand at around 3.50 – 3.75% in U.S. dollars, 2.25% in euros and 0% in Swiss francs. Markets are already preparing for an inflationary environment that could persist until 2028, regardless of geopolitical developments. Around half of the Fed Board, including Warsh, is already flirting with the idea of another rate increase in the near future. Since its low in February, the U.S. dollar has recovered by around 4.6%, improving its medium-term stability.

Gold tells an interesting story in this environment. Since reaching its peak, the gold price has largely moved sideways and remains more than 24% below its level at the end of February. Investors may well ask what is going on. Has gold lost its status as a safe haven? Even the escalation surrounding Iran did little to move the price. The answer might be that hedging against ever-rising government deficits no longer works with the Fed's new tone.

The now familiar cycle of excessive optimism followed by abrupt disappointment increasingly reflects the mood coming out of the White House. When diplomacy is conducted with a wrecking ball, everything can change again within 48 hours. The global economy has had to absorb the effects of Trump's tariffs, the Hormuz crisis, and repeated threats of unconventional responses to security issues. The situation in the Arabian Gulf, in particular, provides a blueprint for how other strategically important maritime routes could be blocked. We are thinking here of the Taiwan Strait, the Strait of Malacca near Singapore, and the Bab el-Mandeb, the gateway to the Red Sea between Yemen and Somalia. Looking back at the past 900 years of history, we do not believe the conflict with Iran will find a lasting solution. A peace imposed by force contains the seeds of the next confrontation. The fact that the agreement was signed in Versailles is a curious omen. Few places symbolise capitulation more than Versailles. For investors, the risk remains that global trade can be taken hostage at any time.

Equity valuations remain one of the key considerations for investors. Take Switzerland as an example: despite its strong and resilient economy, several major U.S. investment banks have downgraded the Swiss equity market as relatively unattractive compared with global peers. Since around two-thirds of the equity market capitalisation is held by foreign investors, even mildly negative recommendations can create persistent selling pressure. In fact, a comparison of P/E ratios with comparable U.S. companies reveals no significant differences, particularly once relative growth rates are taken into account. Current valuation multiples remain around their historical mid-range, well below previous peaks. However, once the stronger growth dynamics of the U.S. economy are reflected in forward P/E multiples, the earnings outlook for U.S. companies begins to pull decisively ahead. Today, just half a dozen U.S. companies generate more annual profit than Europe's 500 largest listed companies combined. As a result, Europe finds itself at a disadvantage not only in innovation, research and investment capacity, but also because an ever-expanding burden of regulation and bureaucracy continues to throw sand into the gears of the European economy.

The recent IPO of SpaceX offers an interesting insight into both the risks and the risk perception of investors. Media-driven enthusiasm pushed the company's valuation to extreme levels. Yet the numbers showed that, apart from Starlink, all of SpaceX's other business units are burning huge amounts of cash through to 2029. It was therefore clear to us that this was a "*not must-have*" stock. Within days, the share price had fallen below its issue price. At least Elon Musk was a trillionaire for a few days. The sharp decline also dragged the broader technology sector into a meaningful correction. This IPO not only drained liquidity from the markets but also revealed the conflict of interest of the banks: huge sums are earned in investment banking from IPOs, and their comments about the candidates tend to be rather favorable. Moreover, during periods of high valuations and bull markets, IPO activity tends to accelerate. For now, liquidity still appears to be readily available.

Concerns about an AI bubble continuing to surface. One common argument is that earnings will no longer grow at the same pace once the infrastructure for artificial intelligence has been built.

We take a different view. Given the rapid pace of technological development, AI infrastructure has a remarkably short lifespan and will require continuous replacement and upgrading. These recurring investment cycles should allow earnings to continue growing for years to come. As a megatrend, the AI boom is still in its early stages. Already, around 40% of the global economy is AI-driven, while AI-related companies account for roughly 40% of the global MSCI equity index. So having a comparable share in a global equity portfolio makes sense.

The stocks held in an MPM portfolio are selected primarily on the basis of their medium-term revenue and earnings prospects. Large-cap companies offer a high degree of transparency in this respect. Carefully selected individual stocks therefore have a clear advantage over mutual funds or ETFs. A long-term investment horizon remains one of the most effective ways to protect wealth against the erosion caused by inflation and the gradual loss of purchasing power.

The coming months will reveal risks beneath the surface. We expect considerable market volatility towards the end of the year. On the political front, a tough fight is shaping up for the U.S. midterm elections. The primaries already underway point to a shift towards the Democrats. Trump is expected to lose the absolute majority in Congress. This should also make his influence on economic policy more predictable.

In the past quarter, MPM was able to look back on 43 successful years as an asset manager. Over these years, the firm has weathered seven major market crashes: the 22% drop in the Dow in October 1987, the 1997 crash of the South Asian tiger markets, the LTCM bond crash in 1998 of the leveraged Meriwether fund, the Russian financial crisis in 1998, the bursting of the dotcom bubble in 2000, the stock market crash following the 9/11 terrorist attack in 2001, the CDS/Lehman Bros. crash in 2008, and also the sharp correction during the Covid period.

Against that, the success achieved over those years speaks for itself. In 1983, the Dow Jones Index was around 1,000 points. By mid-2026, it had reached around 52,000—a powerful endorsement of long-term investing. Backed by reliable data, experience and disciplined investing, we look forward to many more successful years.

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