

OUTLOOK 2026

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...cutting through the political fog to uncover real potential.

Beyond the build-out of infrastructure for artificial intelligence, the major themes of the year ahead include data security and a more accommodative monetary stance under a new Fed leadership. Inflation and consumer purchasing power remain persistent focal points, alongside infrastructure investment and expanding defence spending which continue to command investor attention. Commodity and energy supply chains continue to sit at the centre of trade flows and tariff debates. A recession in Europe or North America appears unlikely. With few exceptions, North America and Europe therefore remain our preferred investment universe for the year ahead.

Review of 2025

The past investment year rewarded long-term-oriented investors with stable overall returns. Extreme market volatility had to be absorbed in April, during the peak of tariff-related rhetoric. As rarely before, markets were driven by political developments. Concerns about overvaluation and the search for an AI bubble led some short sellers into large losses. These dynamics—and the accompanying erratic price movements—are likely to persist into 2026. Notably, stocks with the strongest annual performance came under selling pressure towards year-end despite excellent results, largely due to profit-taking. In our 2025 Outlook, we projected a year-end level of 6840 points for the S&P 500, achieving a near-perfect forecast. The New York equity market closes 2025 with a positive gain of 6845 points.

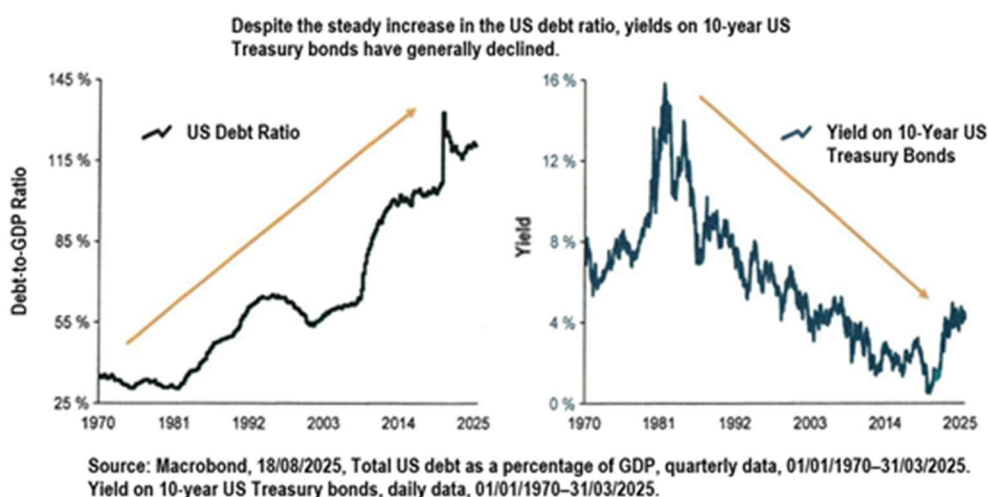
US monetary policy, as defined by the world's reserve currency, is expected to become a central global theme, particularly in the second quarter of 2026. A new Federal Reserve chair in May could introduce a more accommodative stance, potentially influenced by political considerations. One leading candidate is Kevin Hassett, a well-regarded economist who could shape future monetary policy in a manner reminiscent of "Greenspan 2.0." For equity investors, this could signal a favourable period, while significant turbulence may emerge in bond markets.

Despite rising levels of debt, long-term bond yields have remained largely unimpressive over the past 50 years: ten-year yields have trended steadily lower. An overly accommodative monetary policy, however, tends to fuel inflationary pressures. Even today, inflation is proving stubborn at around 3%, while a meaningful rebound in consumption has yet to materialise. For this reason, labour-market data and consumer sentiment remain under continuous observation.

Tariffs add further to the weigh on consumers, but at the same time they reduce the US trade deficit by an estimated USD 600 billion per year, providing a stabilising factor for the US dollar. We assume that the effects of US monetary policy are largely priced in. As an initial counterreaction to tariff policies, new trade flows are beginning to form, which may ultimately support global trade.

Severe indebtedness is a global concern. That said, the picture is more nuanced than headlines suggest: the United States is not in a materially weaker position than countries such as France, the UK, or Italy. For 2026, US government debt is expected to exceed 140% of GDP. The key issue across all economies is whether debt servicing can be sustained by underlying economic output. A sad and troubling development is already visible: more than one-third of industrialised countries now spend more on interest payments than on education.

Ratio of US Debt to GDP and Yield on 10-Year US Treasury Bonds Since 1970



The U.S. government budget will therefore remain a topic well into 2026. Over the course of the year, we expect the risk of another extended government shutdown to resurface. In addition, midterm elections will be held in November, and the governing party may lose its absolute majority in Congress. Even so, election years have historically been good years for the markets.

Growth stocks are also expected to continue outperforming traditional value stocks in the coming years. US equities are generally valued at a premium compared with their European counterparts. One key reason is profitability: the average operating margin of US-listed companies stands at close to 14%, compared with approximately 9.5% for European companies. Within the broad equity index, the S&P 500, only a small number of leading stocks account for roughly 40% of annual performance. The IT and AI sectors already contribute around 40% to global economic growth, which explains the corresponding weighting of such companies in a well-diversified portfolio. As a result, valuation

multiples for technology stocks—measured by enterprise value to EBITDA—are approximately twice as high as those of the broader market. In light of the sector’s dynamic growth and rising corporate earnings, we consider this valuation premium to be justified.

The strongest growth momentum continues to be observed in communications equipment and semiconductor segments. One area of risk, however, lies in IPO activity among start-up companies. In addition, the increasing interconnectivity and cooperation among major IT players remain technically vulnerable and could, under certain conditions, trigger chain reactions. The build-out of the AI ecosystem is still at an early stage. Annual investments of approximately USD 0.3 trillion in cloud infrastructure currently correspond to around 1% of global GDP and are expected to double over the next two years. Capacity constraints in the construction of data centres stand in contrast to the media narrative of an imminent AI bubble. Calls for such a bubble are often driven by doubts about return expectations. When individual participants fail to meet overly ambitious quarterly profit forecasts, sentiment is likely to shift repeatedly in 2026—a gradual bull market, so to speak. In particular, we expect strong earnings growth in the second and third quarters from the so-called “Magnificent Seven.”

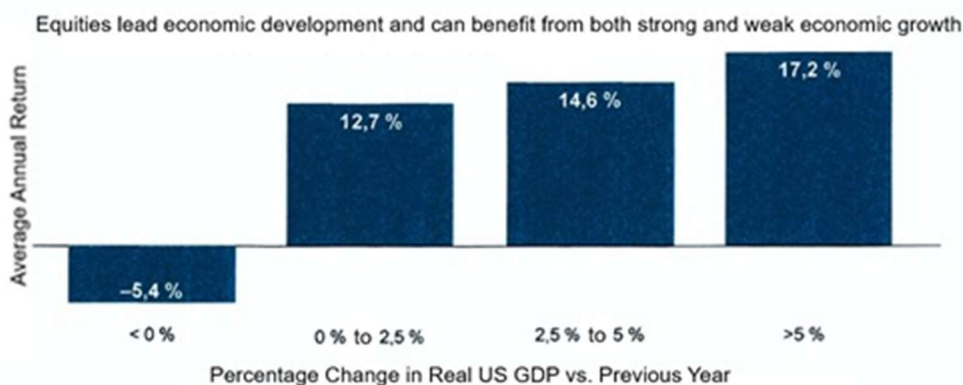
The growing need for cybersecurity as a critical asset represents a stable investment theme, as global damage caused by cybercrime is estimated at approximately USD 10 billion per year. A broader view of the global economy also supports continued allocations to infrastructure as well as to select areas of the luxury consumer sector.

We maintain a neutral positioning in financial stocks and insurance companies. Looking ahead, the previously neglected commodities sector is likely to move increasingly into focus. Energy has long since become a political asset, and dependence on China for rare earths poses a risk of disrupting entire industrial sectors. At the same time, several African regimes—often with the backing of China and Russia—are becoming increasingly aware of the strategic leverage inherent in their natural resources. Against this backdrop, we remain deliberately cautious toward highly politicised investments. We have also consistently taken a sceptical stance toward state-subsidised investment programmes.

In response to the slow pace of reform in Europe and the emergence of a potentially new global order, we favour a calm focus on substance, underpinned by a solid and disciplined investment strategy. Large corporates are the primary beneficiaries of ongoing deregulation and reductions in bureaucracy, as evidenced by the shelved EU Supply Chain Act and weakened environmental regulations. We remain traditionally sceptical of financial side-themes, which often exhibit an unfavourable risk-return profile.

For 2026, stable growth in the global economy is expected. The consensus forecasts an increase of 3.1%, which is slightly above the average of the past 10 years. Any economic growth is positive for equities: the average performance over the past 50 years clearly underscores the benefits of a long-term investment strategy.

Average US Equity Returns, Broken Down by Subsequent US GDP Growth



Source: FactSet, Finance Inc., As of 04/02/2025.

Average annual returns of the S&P 500 Total Return Index, categorised by annual percentage changes in real US GDP, 1970–2024.

Exchange rate fluctuations between the US dollar and the euro can lead to higher or lower investment returns.

Geostrategic discussions are currently taking up a great deal of attention. Similar to 1945 or the collapse of the Soviet Union in 1989, we may be facing the emergence of a new world order. Whether—and how—such a shift will affect a global portfolio remains unclear at this stage. Aware that no order is ever set in stone, we continue to monitor this development in a measured and responsible manner.

Looking at the long-term economic cycle, Europe—led by Germany—and the United States appear to be in an excellent position at the base of a multi-year economic upswing. Early indicators are cautiously mixed, which we view as a sign of a healthy market rather than a cause for concern. This assessment is further supported by investors’ relatively moderate appetite for risk.

Our moderately positive outlook for 2026 is thematically focused primarily on MPM’s preferred portfolio structure, with a clear emphasis on equities. Asset allocation broadly reflects the global market structure, with approximately two-thirds allocated to the United States and one-third to Europe, complemented by a selective exposure to Asia.

Our moderately positive outlook for 2026 is thematically focused above all on MPM’s preferred portfolio structure, with a clear emphasis on equities. The asset allocation broadly mirrors the global structure, with around two-thirds in the United States and one-third in Europe, complemented by a selective exposure to Asia. As we enter the new investment year, credible data leave us cautiously optimistic. On this basis, we project an S&P 500 year-end level of between 7,800 and 8,000 points for 2026. During turbulent phases, we respond to facts under the magnifying glass rather than to market noise. In 2026, zero inflation in Switzerland coincides with continued investor demand for hard currency.

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