Zuger Kantonalbank

Review & outlook

January 2026

Review of 2025

Global realignment and a tumultuous start

The investment year began amid growing turmoil and significant geopolitical changes. Once again, it was Washington that set the pace. The new US administration under President Donald Trump was vigorous in implementing its "America First" agenda. Tariffs, cuts to the federal workforce, plus a more tightly focused security and foreign policy, were the order of the day. The emphasis was clearly on a geopolitical weakening of China and strengthening of the US position within Nato. In Germany, meanwhile, the extensive fiscal package agreed following the country's general election will enable Europe to play a more active geopolitical role going forward.

"A geopolitically turbulent investment year is drawing to a close. Equity markets have held up well in the face of high tariffs, wars and plenty of uncertainty. Companies have played to their strengths and in most cases delivered a solid earnings performance."

Alex Müller, Chief Investment Officer

Liberation Day as a turning point

The new battery of tariffs announced by the US administration on 2 April 2025 marked the first turning point of the investment year. The uncertainty that was unleashed had a direct impact on global equity markets. While US shares fell back sharply, gold and Swiss real estate proved to be solid safe havens. Bonds, meanwhile, came under pressure as doubts about the sustainability of US government finances sparked a rise in yields. Although the subsequently announced 90-day pause on tariffs did bring about a rapid and significant recovery on equity markets, it failed to solve the fundamental challenges. Historically high tariffs and the increasingly confrontational climate remained in place.

Growth loses momentum

At the same time, the US economy slowed visibly as the year progressed. The service sector lost momentum, while manufacturing industry likewise experienced a setback. The pulling forward of imports in light of tariff threats made it difficult to precisely diagnose the negative impact on economic growth. Having long been steady as a rock, the labour market began to soften towards the end of the first half as employment growth weakened and initial claims for unemployment benefit climbed. All in all, the picture was one of waning economic momentum.

Tariff hammer hits Switzerland

The second half of the year was no less turbulent: Another stress test came on Swiss National Day as the US announced import tariffs averaging 39% on certain Swiss products. Export-led sectors came under distinct pressure and in addition had to contend with a strengthening Swiss franc. Initially, pharmaceuticals were the only sector to be exempted. It was not until mid-November that the situation eased, when it was announced that tariffs would be reduced to 15%. Relief finally came two weeks before Christmas, when the Federal Department of Economic Affairs confirmed that the reduction in tariffs had been retroactively implemented.

The shutdown – and its ending

The government shutdown that began at the start of October became the longest in US history. Hundreds of thousands of government employees were either on unpaid leave or working without pay, while numerous government offices were closed. In the meantime the economic damage was considerable. Following each previous shutdown, the lost economic output has quickly been recovered. The shutdown came to an end in November, when Congress agreed a transitional funding bill and government offices were able to return to work.

Rate cut despite gaps in data

Despite an incomplete dataset due to the shutdown, the Federal Reserve (Fed) reduced its benchmark rate by a further 25 basis points to a target range of 3.75–4.00% at the end of October. The Fed made another cut in December, lowering interest rates for third time this year. Such a move had been expected by the markets. Flagging momentum on the labour market prompted the Fed to take this action. Inflation looked mildly positive as the year drew to a close: Despite the raft of new tariffs, the pressure on prices was more limited than expected, mainly because services – which include housing costs – showed a decline.

Europe bucking the headwind

Europe's economy appeared resilient in 2025 though at a low base. Robust consumer spending and an expected fiscal boost – particularly in Germany – are underpinning sentiment and economic activity. At the same time, burgeoning government deficits led to an increase in capital market interest rates and consequently to valuation pressure on European bonds. Inflation was headed towards the 2% level, while the ECB continued its rate-cutting cycle and reduced its benchmark rate four times to 2.0%.

Switzerland treading water for now

The SNB likewise lowered its benchmark interest rate with a return to the 0% level in June. This followed a significant dampening of inflation on the back of a strong Swiss franc and falling import prices. Given the combination of interest rate cuts and persistently stable domestic economic activity, Switzerland remains on a modest growth trajectory. Even so, US tariffs and weaker manufacturing indicators took their toll. Strong pull-forward effects on exports – particularly from the pharmaceutical sector – temporarily distorted the picture in the first two quarters. A significant slowdown then occurred in the July–September period.

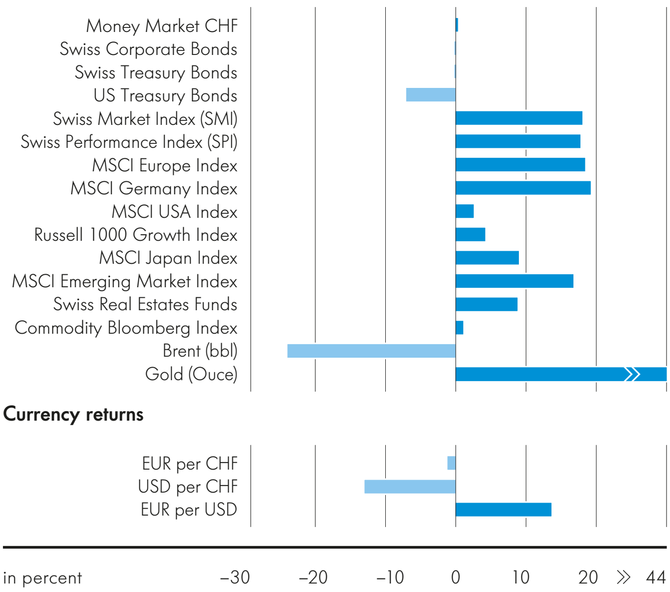
US companies in solid position

US companies proved remarkably robust despite geopolitical uncertainties, tariffs and concerns around regional banks. Sales and earnings numbers surpassed expectations, while the US equity market reached new highs. Intact earnings growth justified the high valuations. US equities were therefore a crucial component of portfolios.

Search for safe havens – real estate and gold in demand

Swiss real estate made significant gains in 2025, benefiting from structural scarcity and attractive dividend yields. Gold once again confirmed its role as a safe haven. Geopolitical tensions, a fragmented global situation and hefty purchasing by central banks ensured rising prices. Amid great uncertainty, gold remained a crucial building block for risk hedging.

Asset class returns (in CHF) Since start of year (per 31.12.2025)



Source: Zuger Kantonalbank, Bloomberg Finance L.P., MSCI Inc., SIX Index AG, Frank Russell Company

Outlook for 2026

Financial market outlook 2026

Financial markets head into a year likely to be shaped by geopolitical easing, fiscal growth stimuli and new geopolitical dynamics. Persistent uncertainty underscores the need for a cautious investment approach. There is much to suggest that 2026 could be a year of recovery and attractive investment returns, provided investors ensure they are widely diversified, stay calm, and seize the opportunities afforded by market volatility.

> "Tensions are unlikely to be in short supply in 2026 either: The consequences of the tariffs are becoming clear, and it remains to be seen how consumers and companies will react to them. "Driving on sight" will continue to be important in the new year. Positive stimuli thanks to supportive monetary policy, economic programmes in the US and Europe, together with solid corporate profits, will be competing against political uncertainty and – in some cases – high investor expectations."
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> Alex Müller, Chief Investment Officer

US growth: stabilising at a low level

In a historical comparison, US growth weakened over the course of 2025. Consumer spending lost momentum, while inflation slowly inched its way down. The growth of the US economy is primarily being driven by largely non-cyclical expansion in the artificial intelligence (AI) sector. Economic and monetary policy factors will take centre stage in the new investment year: Given expectations of more benign monetary policy on the part of the US Federal Reserve, we could see the creation of more constructive overall conditions again in 2026. In addition, Jerome Powell will probably no longer be running the Fed; his shoes are likely to be filled by a more dovish chair, who could shift monetary policy further in the direction of an easing. Thanks to implementation of the One Big Beautiful Bill Act (OBBBA), growth is likely to be supported by fiscal tailwinds.

Fiscal stimulus for Europe

We think Europe, too, will be on a slightly more solid footing thanks to the combination of modest inflation, fiscal support and stable business activity at a low base. The Swiss economy starts 2026 with subdued momentum; indeed, economic forecasts paint a picture of lukewarm, sub-trend growth. This is down to a variety of factors: The global economy is cooling, investment activity remains weak, and US tariffs as well as the strong Swiss franc are putting distinct pressure on exports and manufacturing.

Equity markets: AI momentum goes global

Artificial intelligence remains the no. 1 economic driver in the US. Investment, productivity gains and structural change support our positive stance on the US. The crucial question for 2026 will be whether the strong market concentration among big tech companies unwinds and other sectors of the economy are able to benefit from the AI boom. At the same time, international markets are coming under the spotlight again. Europe and the emerging markets offer attractive valuations and solid fundamentals. Swiss equities likewise remain in the spotlight. Rather than fearing market setbacks, investors should see them as a good time to buy. While volatility is inherent in any investment strategy, it also creates opportunities.

Currencies and interest rates: tailwind for diversification

The US dollar is likely to remain under selling pressure in the new year. The combination of more moderate US growth, a less restrictive US Federal Reserve and internationally diversifying investors indicates a further weakening of the dollar. This situation continues to point to a hedging of currency risks on bonds and in some cases equities, too. Hedging costs are likely to go on falling during the new investment year.

Bonds and real estate: The comeback continues

The picture on interest rates is more benign: The fact that benchmark interest rates are falling around the world, coupled with the end of extreme monetary policy divergence and a flattening yield curve, creates attractive opportunities for bond investors. Bonds will remain an important pillar of portfolios in 2026. Our focus is on corporate bonds in all rating categories. Despite low risk premiums, the sector remains attractive, thanks to the combination of attractive coupons and potential price gains. The same essentially applies to Swiss franc-denominated bonds. Government bonds should continue to be accorded minimal weight in portfolios in our view, as unreasonable fiscal policy could keep capital market interest rates high in 2026, too. Swiss real estate offers security with no currency risks –

at a time when disinflation and modest growth are creating an increasingly calculable backdrop.

Alternative investments: Gold remains a beacon

Gold retains its role as a safe haven, underpinned by geopolitical uncertainties, extensive central bank purchasing and an increasingly weak US currency. The selective addition of private market investments likewise makes sense again in 2026. These investments are suitable for investors who feel comfortable with the illiquidity associated with these investments. Infrastructure and private equity investments are likely to benefit from lower interest rates in 2026 as falling discount rates support the valuation of future cash flows and therefore the performance of private market portfolios.

Regional allocation: more breadth, more resilience

There is much to be said for a broad, globally balanced allocation in 2026. With the strong Swiss franc, a stable domestic market, together with its resilient real estate and bond markets, Switzerland remains a dependable core for portfolios. Europe is becoming more attractive, with the region benefiting from falling inflation, a supportive ECB and more stable overall political conditions. At the same time, many European stocks remain attractively valued. The US continues to be an indispensable element of global portfolios and is benefiting from structural trends – although its role is changing. Extreme market concentration and the economic slowdown make it necessary to invest on a broader basis.

Outlook for 2026: optimism coupled with sound judgement

Even though there are gaps in the latest economic data due to the US shutdown, an encouraging scenario is already emerging for the 2026 investment year. While a degree of caution remains advisable, overall conditions increasingly favour a stabilisation and even a tailwind in the medium term. Unofficial labour market data for the US do not yet show any signs of a worrying slowdown. At the same time, falling inflation rates in the service sector indicate a distinct easing in price pressures. This therefore creates new scope for the Federal Reserve in 2026: We continue to expect an easing of monetary policy over the coming months, especially as the new Fed chair will undoubtedly want to head in a more pro-growth direction. All in all, therefore, we are optimistic about the 2026 investment year.

The world remains a complicated place, but investors who stay put, diversify widely and do not read too much into short-term market volatility are likely to benefit from the opportunities available in the coming year. Stay invested!