FISCH Asset Management
Bellerive 241 | P.O. Box
CH-8034 Zurich
info@fam.ch | www.fam.ch
T +41 44 284 24 24

FischView Special
Asset Class Outlook 2026

December 2025

Dr. Torsten von Bartenwerffer
CEO

Foreword

Dear readers

2025 once again showed how quickly markets adapt to new headlines. Tariffs caused a brief stir, but the overall pace remained strong.

Convertible bonds were among the standout areas. They benefited from dynamic business models and attractive valuations, and after a few quieter years the asset class made a powerful comeback in 2025. Their potential remains intact for 2026 as well: Growth opportunities beyond the well-known US tech names look especially appealing. The bond floor helps contain setbacks during more volatile phases, while high issuance volumes create a broad and diverse universe of opportunities.

Investment grade bonds continue to impress with solid balance sheets and stable carry. High yield offers returns close to historical equity levels, but with lower volatility. And emerging markets stand out with stronger growth, a supportive commodity cycle, and robust local demand. In short, there is no shortage of opportunity in fixed income.

Our portfolio managers are entering the new year with a clear focus. Strong fundamental analysis, clear selection and active management remain at the core of what we do.

We’ve also expanded our team – including in Frankfurt – to be even closer to you.

Thank you for your trust. We look forward to a strong 2026 at your side!

Dr. Torsten von Bartenwerffer
CEO

Beat Thoma
Chief Investment Officer

Krishna Tewari
Investment Strategist

Global liquidity is approaching a cyclical peak

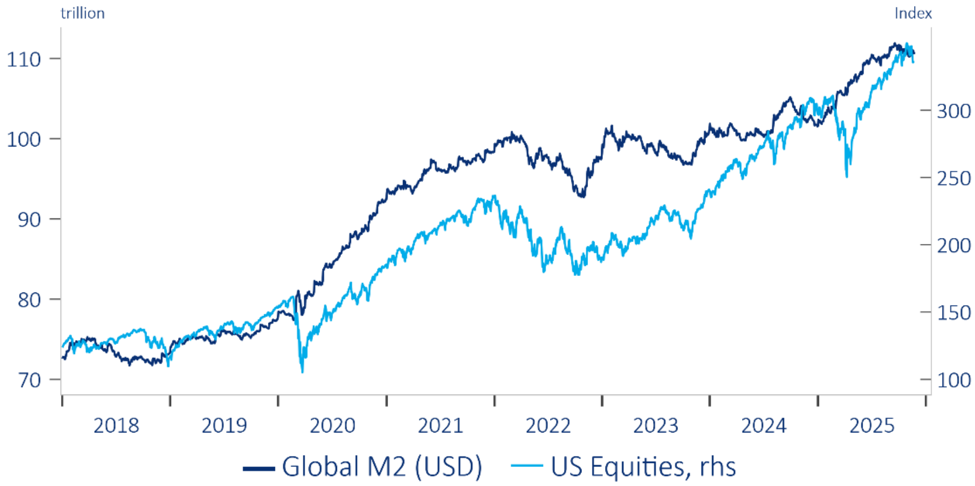
- Global liquidity continues to rise due to strong money creation in the banking system as well as very high liquidity injections by the Chinese central bank (PBoC). Since liquidity developments lead financial markets by roughly three months, this remains a supportive force for the time being.
- However, rising liquidity also supports economic activity and fuels inflation. This creates upward pressure on government bond yields, which is further reinforced by rapidly increasing government debt, particularly in the US.
- The rising gold price is a clear warning signal. The risk is increasing that markets will lose confidence in monetary stability and in the soundness of government finances.
- Overall, these developments and the erosion of confidence in the sustainability of monetary and fiscal policy are not yet severe enough to significantly disrupt the upward trend in equity and credit markets. For now, rising global liquidity still dominates the balance of forces. However, the global liquidity cycle is approaching its peak, which could cause issues in financial markets over the course of the coming year.

Recent developments: US bank reserves are falling into a critical range

- Global liquidity is still rising at present and is therefore providing tailwinds for equity and credit markets. Nevertheless, the Fed has been reducing bank reserves in the US banking system for some time. In doing so, it aims to partially offset the monetary expansionary effect of the recent rate cuts and to mitigate potential inflation risks.
- In the past, an excessive drop in bank reserves has led – after a delay of one to three months – to temporary stress in US money and equity markets. Weaker Bitcoin prices and increasingly frequent spikes in the spreads between SOFR money market rates and Fed funds rates are early warning signals.
- The Fed has recognised these warning signs and announced an end to the quantitative tightening (QT) programme, as well as an increase in the SOMA account by 200 to 350 billion dollars. This amounts to a “mini quantitative easing” and thus a monetary easing, which would counteract the decline in bank reserves. However, these measures are unlikely to be sufficient in the coming months to fully resolve the reserve shortage in the US banking system.
- At the same time, the massive issuance of T-bills by the US Treasury, which has been evident for some time, is also increasing liquidity in the US financial system. Unlike T-bonds, T-bills are “money-like” and are purchased by banks on the market using loans from the Fed. Overall, this channels substantial new money from the central bank, via commercial banks, into the financial system – sometimes referred to as “Treasury quantitative easing.”

– Finally, the Chinese central bank (PBoC) has also been increasing liquidity provision for some time, which indirectly flows into global markets. Overall, global liquidity is therefore likely to continue to rise and to support financial markets in the medium term. But in the short term, developments in the US dominate, which could temporarily lead to significantly higher volatility.

Chart: Global liquidity continues to rise, but loses momentum



Sources: Macrobond, Fisch Asset Management

Macro outlook for 2026: Debt-financed government spending is still supporting economic activity for the time being.

– Global liquidity developments are the leading main driver not only for equity and credit markets, but also for economic activity, inflation and therefore long-term interest rates. For this reason, analysing global liquidity flows provides a fundamental basis for assessing financial markets in the coming months and for the entire year 2026.

» Only a decline in liquidity lasting at least two to three months signals danger.

– As noted, liquidity is still increasing and will continue to provide solid structural support for equity and credit markets as well as for the global economy. Since liquidity leads markets, greater risks only arise once liquidity flows decrease significantly for at least two to three months.

– However, the liquidity cycle could reach its peak in the first half of 2026 and then turn downward. The reasons for this include a relatively regular cyclical pattern of five to six years. This rhythm results from corporate borrowing via bonds with maturities in this range. The last cyclical peak occurred in the pandemic year of 2020. At that time, many corporate bonds were issued due to low interest costs, and these now need to be refinanced. This refinancing requires temporary liquidity as a catalyst from markets. The upcoming refinancing wave is therefore referred to as the "debt maturity wall" and could represent some risks for equity markets as well.

– The coming refinancing wave also includes US government bonds, as around USD 10 trillion (mainly in T-bills) will mature over the next 12 months. It is therefore likely that the Fed will intervene in the event of an acute liquidity shortage in order to prevent the worst.

– Thus, the global liquidity environment will remain supportive for risky assets well into next year. Nevertheless, the sharply declining bank reserves (i.e., decreasing Fed liquidity) in the US could still cause temporary disruptions in equity markets over the coming weeks.

– Moreover, liquidity generated through T-bill issuance provides limited help, because these funds flow directly into the real economy through government spending and not into financial markets. The same applies to liquidity from China. As a result, while a solid global economic environment can be expected, there is only limited short-term upside potential in equity and credit markets until the Fed fully opens its liquidity taps again.

» Lower equity markets could be in the interest of the US administration, as this would enable the Fed to intervene.

– It is even being suggested that US Treasury Secretary Scott Bessent and the recently nominated Fed Governor Steven Miran might not be opposed to temporarily weaker equity markets, as this could encourage a shift of capital from the stock market into the real economy and enable the Fed to implement substantial rate cuts and liquidity injections. This, in turn, would stabilise equity and credit markets again.

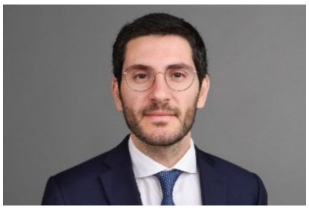
- Due to a continued solid – or at least stable – global economic environment, combined with high government spending and rising liquidity, there is generally upward pressure on inflation and on long-term government bond yields, both in the US and in Europe. The sharp increase in gold and Bitcoin prices year-to-date is an initial warning signal in this regard. After the current consolidation phase, a continuation of the upward trend is therefore likely. However, this would also signal that inflation will become the dominant problem over the course of 2026.
- A potentially weaker US dollar remains a meaningful indicator of a possible outflow of capital from the US, and thus the unwinding of the "yen carry trade". The latter would further reduce global liquidity (and redirect it to Japan) and could pose a potential risk for equity and credit markets.

Ivan Nikolov
Head Convertible Bonds

Alexandre Fade
Senior Portfolio Manager

Ute Heyward
Senior Portfolio Manager

Stefan Meyer
Senior Portfolio Manager



Glen Borg
Portfolio Manager

Outlook 2026: Convertible Bonds

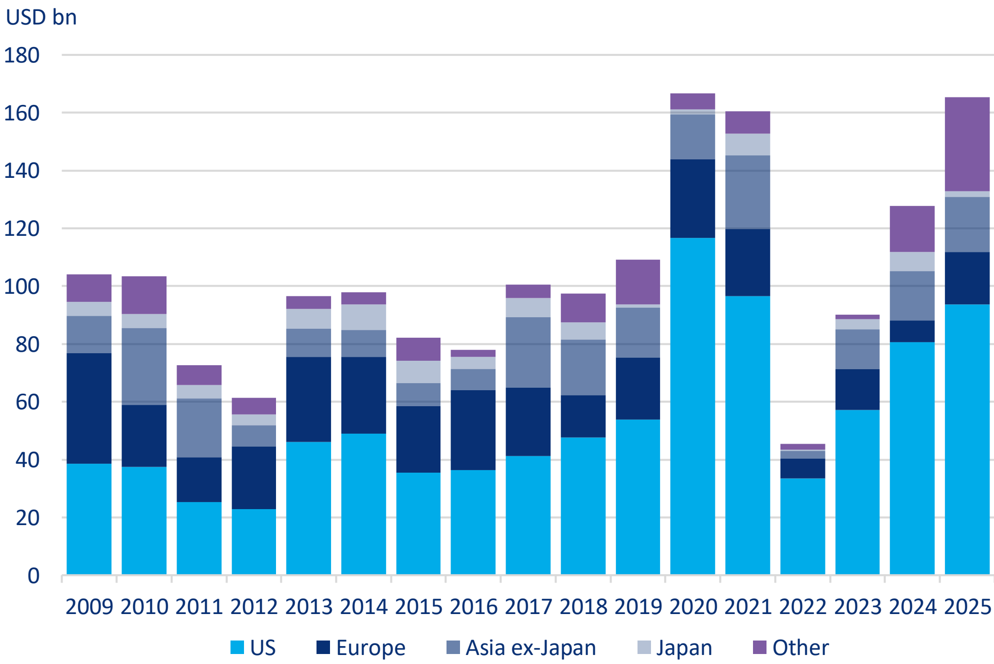
Growth at a discount, a renewed opportunity set, and convexity when it matters

— Convertible bonds (CBs) enter 2026 from a position of strength, having regained the spotlight after delivering double-digit returns and outperforming stocks with lower volatility. This performance was driven by the stock prices of issuers with higher earnings growth and exposure to themes like artificial intelligence (AI). At the same time the fixed-income component helped to limit drawdowns in volatile periods. Against this backdrop, several factors continue to support a constructive view for CBs in 2026.

— **Growth at a more reasonable price – still catching up**: Despite significant gains, the earnings growth potential of CB issuers remains undervalued relative to the broader stock market. As of October, the average expected three-year EPS growth for CB issuers stands at 13.2%, still 50% above the average for the global stock market. Yet, valuations have not kept pace and the average price/earnings-to-growth (PEG) ratio shows a 25% discount. Our Price of Growth Discount signal is expected to trigger again for 2026, a signal that points to strong relative CB performance ahead.

— **A renewing opportunity set driven by healthy issuance**: The primary market, the lifeblood of convertible bonds, continued and even accelerated its strong positive trend from last year. With around USD 140 billion issued by October, 2025 already ranks among the strongest years on record (see chart). Importantly, the opportunity set is mostly renewing rather than diluting as meaningful redemptions have prevented indigestion.

Chart: New issue volumes close to record levels in 2025



Source: LSEG

» **The equity component gives convertible bonds an advantage in an environment of rising inflation and a weak dollar.**

- CBs remain an attractive source of growth financing for companies. We continue to expect issuance momentum to continue in 2026, driven by refinancing needs and high overall credit interest costs, as well as increasing mergers and acquisitions. Investors benefit as a healthy deal flow broadens the investment universe, provides access to existing and emerging thematic drivers of growth and creates fresh opportunities.
- **Staying exposed to structural themes, with less bubble risk:** The new issues continue to provide exposure to existing and emerging thematic drivers of growth, including the AI value chain and the revaluation of the Chinese and Asian stock markets. Currently more than 25% of the equity exposure of the FTSE Global Convertible Vanilla index is to AI-related businesses, while more than 15% is to some of the most established Asian technology stocks, including 7 of the “Terrific 10” largest Chinese firms.
- The spectacular AI rally to date and the brisk revaluation of some of the Asian stocks are raising doubts among investors about bubbles forming. The positive trend is strongly supported by expectations for an accelerating economy, powered by huge productivity gains and capital expenditure alongside “triple easing” in the US – easy fiscal policy, easing monetary policy, and easing regulation. However, there is plenty of uncertainty, and higher valuations are clearly less supportive in times of stress. We are likely to see higher volatility with deeper corrections and wider dispersion between different stocks, underscoring the importance of company and security selection, and focus on asymmetric payoff profiles. As always, CBs can be ideal for participating in the continuing rally, while limiting drawdowns in case of significant corrections.
- **CBs vs inflation and weaker dollar:** If the rise in inflation in the US continues, convertible bonds with their equity component have an advantage over other fixed income assets. Companies can typically pass on rising prices to their customers and thus increase their nominal profits and stock valuations, respectively. According to an analysis of past periods with similar conditions, convertible bonds usually keep up with stock market returns, especially if the US dollar depreciates at the same time.
- **Conclusion:** After strong performance, uncertainty is on the rise with AI bubble concerns and rising inflation added to the usual geopolitical and trade-related fears. CBs continue to offer a compelling middle ground for investors seeking higher growth exposure with a buffer against volatility. In a volatile market with large valuation and performance differences, a selective approach is even more important for successful results.

Oliver Reinhard
Head Developed Markets

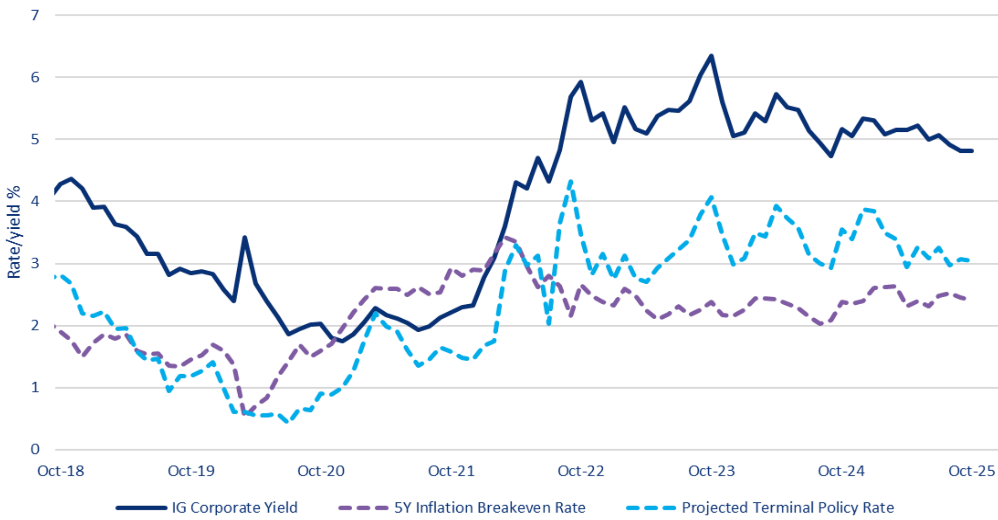
Matthias Busuttil
Portfolio Manager

Outlook 2026: Investment Grade Corporate Bonds

Fundamental strength meets attractive yield environment

- **Economic environment supports IG bonds:** Global growth remains solid: inflation expectations are declining, while leading indicators are improving, such as the global composite PMI, which is clearly in expansionary territory.
- At the same time, risks persist due to weaker US consumer sentiment and rising unemployment among young adults, which could weigh on consumption. Overall, however, positive macroeconomic factors dominate, including favourable financing conditions that form a solid foundation for investment-grade credit markets.
- **Return expectations:** Yields on global IG corporate bonds are currently around 5% (USD, hedged), a level that appears very attractive by historical standards. At the same time, pricing of the US terminal rate has fallen further over the course of the year and is now in the area of 3%. In the second half of 2025, interest-rate volatility has also eased noticeably – an environment that typically supports demand for high-quality corporate bonds.

Chart: Significant premium on IG yields vs. expected inflation and terminal rate



Source: Bloomberg, Fisch Asset Management

- **Technical environment:** Against this backdrop, the real yields of IG corporates are currently at historically high levels and, in a ten-year comparison, are in the area of the 70th percentile. At the same time, the yield curve between two-year and ten-year government bonds (2s10s) has become steeper again, both in the US and in Europe. This trend, combined with declining volatility, further improves the technical environment for high-quality corporate bonds.
- **Fair valuations:** Traditionally, the valuation of corporate bonds is assessed via the yield spread over government bonds – an approach that currently creates the impression that credit spreads are trading at expensive levels. However, in 2025 government bond swap spreads widened significantly, making government bonds more expensive relative to corporate bonds and partially explaining the visually tight spreads in IG credit.

» Visually expensive spreads look more reasonable when compared with swap markets.

» **Strong demand for new issuance is likely to persist.**

- It is therefore sensible to analyse valuations relative to the swap markets as well, since these have clearly decoupled from government bond valuations over the past two years. Such an assessment provides a more balanced picture and currently indicates a fair level of compensation for corporate bond risk.
- **Fundamental data:** Spreads remain tight in historical comparison, but they reflect solid fundamentals: high profitability, stable margins, strong interest-coverage ratios, and overall stable to declining net leverage. Continued disciplined capital allocation – so far controlled capex, restrained M&A activity, and higher liquidity buffers – also contributes to improved balance-sheet quality.
- Rating dynamics remain supportive: The risk of fallen angels has indeed increased, but it is concentrated among a limited number of issuers and is largely offset by more rising stars.
- **Rising new-issuance volume:** Attractive yields have led to consistently high demand for new issues in 2025, which were regularly heavily oversubscribed. The issuance volume to date is already above 2024 levels and is expected to increase noticeably again in 2026.
- The background to the expected issuance boom is the massive global expansion of data centres and AI infrastructure, which is generating exceptionally high financing needs and increasingly drawing on all parts of the capital markets.
- **Challenging market technicals in the AI segment:** For the investment-grade segment, around USD 1.5 trillion in AI-related new issuance is expected over the next five years, which could bring these sectors to account for more than 20% of the market by 2030. Historically, such strong sector-driven issuance growth – for example in pharma or telecom – has led to moderate underperformance of the respective sectors (around 15–20 bps).
- **Conclusion:** Given a constructive interest-rate and inflation outlook, total returns on investment-grade bonds remain attractive, while credit quality continues to be robust thanks to high profitability and moderate leverage.
- Although fallen-angel risk has increased, it remains clearly concentrated among a limited number of issuers. At the same time, ongoing positive rating migration among rising stars provides some relief.
- For 2026, a higher issuance volume is expected, but this will meet stable demand. As a result, the asset class as a whole offers compelling total-return prospects with low to moderate volatility.

Outlook 2026: High Yield Corporate Bonds

Axel Potthof
Senior Portfolio Manager

Gerrit Bahlo
Senior Portfolio Manager

Stable fundamentals and balanced technicals at a still attractive yield levels

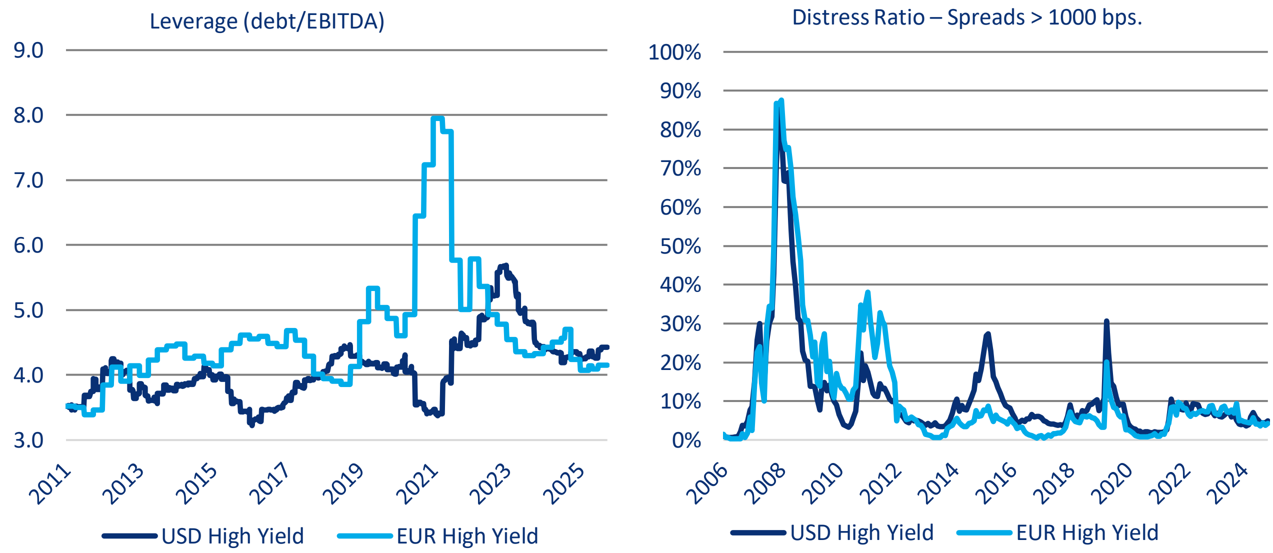
- **Strong recent performance:** The global high yield bond market is on track for another strong year in 2025, with USD hedged performance of around 7.7% through end of November. Barring a sharp year-end reversal, high yield bonds will have delivered positive returns in 23 of the past 29 years. Additionally, they will have had no negative returns in two consecutive years, underscoring the resilience of the asset class.
- **Positive macro backdrop:** Underpinned by continued robust growth, especially in the US, on balance supportive central banks, and strong corporate fundamentals, we believe that a globally diversified portfolio of high yield bonds will again offer attractive returns in 2026.
- **Attractive yields:** The average issuer has a strong balance sheet, and in the absence of any major economic shock, we expect this to remain the case. Therefore, we believe the current yield-to-worst of just below 7% (USD hedged) and spreads of around 300 bps as of 30/11/2025 (as measured by spread to worst over government bonds)[1] offer attractive return potential for 2026. We estimate that like this year a total return of 6-8% is achievable.
- **Stable fundamentals:** Issuer fundamentals remain in good shape. Leverage ratios (debt/EBITDA) of major companies in Europe and the US have remained broadly stable at around 4x. Interest coverage (EBITDA/interest expenses) has slightly declined in the US but improved in Europe, leaving ratios globally largely unchanged at roughly 4.5x.[2]
- **Low default risk:** Default rates of only 1.1% in USD HY and 2.9% in EUR HY over the last 12 months[2] reflect the healthy fundamentals. Forecasts for the next year remain below the long-term average of 4%, with estimated defaults of 1.75% in USD HY and 3.75% in EUR HY[3]. A reliable early indicator is the amount of bonds trading at “distressed” levels, with spreads of at least 1000 bps above the comparable government bond. Currently the amount of distressed bonds in the global index remains low at less than 5%.[2]
- **Balanced technical backdrop:** While technicals are less supportive than a year ago, we see supply and demand as broadly balanced. The global high yield market grew slightly last year, and is set to expand further this year after contracting in 2022 and 2023. A more balanced ratio of Rising Stars and Fallen Angels drove this growth, as acquisition financing and LBO activity remained subdued. On the other hand, fund flows into the asset class, an estimate for allocators’ interest in the asset class, continued to be positive, reflecting persistent demand for High Yield.
- **Fair valuations:** Valuations, measured by spreads over government bonds, have fluctuated throughout the year, mainly driven by tariff rhetoric from the US administration. However, the market has largely shrugged off any major concerns, apart from a short sell-off after “liberation day”. Current valuations

[1] ICE BofA Global High Yield Index
[2] Bank of America
[3] JP Morgan

largely reflect sound fundamentals and supportive technical factors. They are not cheap, but also not overly expensive, and we do not see a catalyst for substantially wider spreads in the short term. Additionally, valuations are equally demanding in equities and other fixed income areas.

— **Improved quality:** Several factors suggest that spreads in a historical context may not be as tight as they appear. For instance, market quality has improved: The portion of the highest rating category (BB) is roughly 60% today versus just 40% in 2007, while the riskiest CCC-rated segment has halved from around 16% to 8% over the same time. Duration also shortened significantly over recent years to around three years compared to more than four years pre-pandemic. Given spread curves are usually upward sloped, lower spread levels today are somewhat justified by this shorter duration. Adjusted for shorter duration, spreads are in a similar context where they have been for long periods in recent years. Overall, we view current spread levels as fair and a reflection of robust fundamentals.

Chart: Solid fundamentals reflect low default probability



Source: Bank of America

— **Summary:** We expect 2026 returns to be similar to the current market yield of around 7%. This is based on our view that the global economy will not fall off a cliff, and that still relatively high interest rates allow central banks to support economies globally - provided inflation does not accelerate. Higher-quality high yield should perform well even in a mild recession. One concern is that still elevated interest levels compared to recent history might make it difficult for some lower-quality companies to refinance their debt. Consequently, we remain slightly defensively positioned and prefer higher quality bonds. We do currently not have a specific preference between EUR- and USD-denominated bonds, as valuation differences after hedging costs have largely evened out.

Thomas Fischli Rutz
Head Emerging Markets

Tanja Kusterer
Portfolio Manager

Dorothea Fröhlich
Senior Portfolio Manager

Yannick Höfler
Portfolio Management Assistant

Outlook 2026: Emerging Market Corporate Bonds

A new era for emerging markets

— **The end of eternal US superiority:** EM corporate bonds outperformed global bonds again in 2025. This was beyond a simple temporary recovery, but a reflection of a global trend: The shift away from 'US exceptionalism'. EM issuers are among the clear winners in the current market environment and show impressive resilience amid various global disruptions.

— **Macro environment:** The International Monetary Fund expects emerging markets will grow at 4.0% in 2026, significantly outpacing developed nations, which are expected to grow by 1.6%. With a current share of 60% of global GDP and further growth anticipated, there is effectively no way around emerging markets as part of a truly diversified portfolio.

— A weaker US dollar provides strong tailwinds for emerging markets, attracts investments outside the US, dampens inflation, and allows central banks room to cut interest rates. The global rate cut cycle is expected to continue globally in 2026. Given moderate inflation and a softer labour market, we expect the Fed to continue lowering rates.

— **Geopolitics:** The technology competition between China and the US is enhancing the position of many emerging markets. These countries are gaining influence and benefiting from increased exports of commodities and technology. Additionally, they are utilising their own resources to develop competitive technological capabilities.

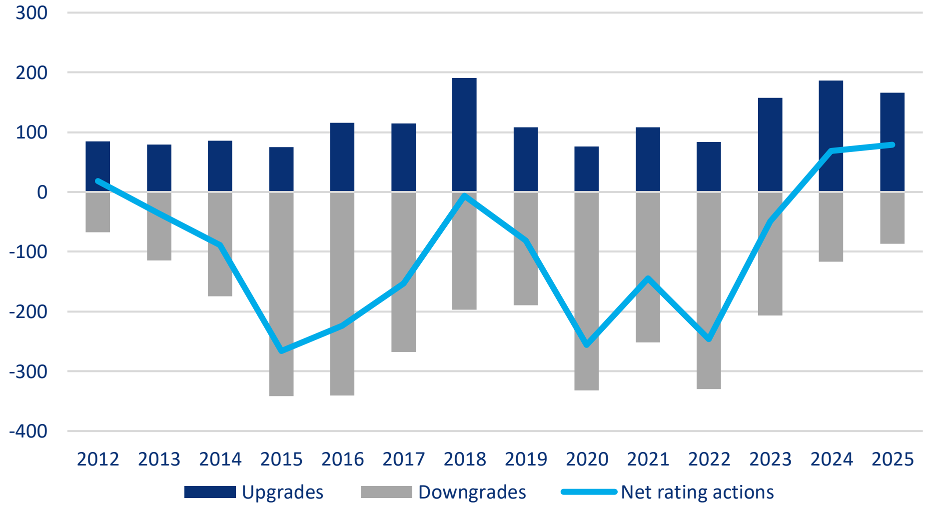
— **Commodities:** High commodity prices continue to be a growth driver for emerging markets. Gold prices are likely to continue to rise further due to strong demand from central banks, including China, as well as diversification by private investors. Additionally, investments in artificial intelligence (AI) and growth in electric vehicles (EV) are contributing to stable prices for base metals like copper and aluminium. Regarding oil prices, we anticipate that increased production will be balanced out by higher demand and geopolitical risks.

— **Company fundamentals:** Companies from emerging markets continue to demonstrate robust fundamentals, experiencing growth in both revenue and profits. They exhibit better credit metrics across all rating categories, with significantly lower net debt compared to their US counterparts. The strength of their balance sheets is also reflected in the positive rating trend (see chart): For the first time since 2019, the number of rising stars exceeds that of fallen angels. As a result, we expect a below-average default rate of 3.0% for the universe in the coming year, which fosters confidence in the stability of these investments.

» Ongoing US dollar weakness should support demand for EM bonds – including from retail investors.

— **Technicals:** Demand for USD bonds among local institutional investors in Asia and the Gulf states remains steady and high. There is growing interest in issuers outside the US. Since President Trump's Liberation Day, retail inflows into the asset class have returned to positive levels. A further depreciation of the USD is expected to support this trend. On the supply side, research firms anticipate that net new issuance will remain negative in 2026, marking the fifth consecutive year of decline. Favourable liquidity conditions in local financial markets provide issuers with alternatives to the USD bond market.

Chart: Rating actions (in USD bn)



Source: JP Morgan, Fisch Asset Management, October 2025

» **Important elections are coming up in Latin America. Results are likely to turn out market friendly.**

— **Valuations:** We are currently observing historically low valuations across many regions and sectors. In the government bond segment, the risk premium for USD-denominated Chinese government bonds is even negative. We anticipate that countries such as South Korea, Hong Kong and Qatar, along with state-affiliated companies and issuers with the highest credit ratings, will follow this trend and outperform their US counterparts in both the government and corporate sectors.

— **Latin America:** The region continues to experience robust growth, although disparities exist among different countries. Peru and Chile are expected to benefit from high commodity prices, particularly for precious metals and copper. In Mexico, we expect an acceleration in growth, driven by stronger industrial production in the US and globally. Conversely, Brazil is likely to experience a further slowdown in growth due to persistently higher interest rates. However, as it is an election year, we foresee potential for increased growth due to the usual rise in fiscal spending.

— Key elections are scheduled for 2026 across the region. While Chile's presidential elections will take place at the end of 2025, new presidents will be elected in Peru, Colombia and Brazil in 2026. This could lead to volatility in the respective markets, but overall, we expect market-friendly developments. In Mexico, the USMCA trade agreement with the US is also due for renegotiation. Both parties are likely to be interested in maintaining the agreement largely intact.

— We maintain an overweight position in Latin America within our portfolios. The region provides a broad range of high-quality issuers. Additionally, we anticipate positive surprises from commodity exporters and companies that cater to local consumption. The diverse political and economic developments also create good opportunities for active management.

— **CEEMEA:** The region is heterogeneous and presents opportunities for diversification. Eastern Europe is expected to benefit from the economic recovery in Germany, and will receive significant subsidies from the European SAFE Fund in 2026. We expect attractive issuance in euros and maintain our overweight. In the Middle East, particularly in the Gulf states, there is strong momentum towards diversification of economic sectors. Central Asian governments are continuing to implement economic reforms, resulting in a diverse market. In Turkey, we anticipate that markets will be more volatile due to the ongoing political situation. Therefore, we prefer to remain underweight and focus on established companies in defensive sectors that have been present in the capital market for an extended period.

» China is the winner in the trade war – but faces major domestic challenges.

- **China:** Contrary to many expectations, China appears to have gained the advantage in the trade war with the US. In November, the two countries reached an agreement that effectively returned tariffs to their levels before Trump's escalation. Domestically, China faces the structural challenge of a deflationary environment. Ongoing reforms include an anti-involution programme aimed at reducing supply capacity in deficit sectors. On the demand side, there are pilot programmes in childcare and elderly care that could be expanded nationwide if successful. The government is therefore prioritising high-quality growth.
- Given the historically narrow credit spreads, we consider China a defensive long position within the investment-grade segment. The negative risk premium for USD-denominated Chinese government bonds helps to anchor corporate bond spreads. We remain underweight in the high-yield segment, because smaller private companies often exhibit weak corporate governance, leading to low visibility and transparency.
- **Asia ex-China:** Asian economies can be categorised into two groups. On one side, we have the export-oriented countries of South Korea, Taiwan, Singapore and Thailand. Despite tariffs, the export cycle continues to trend upwards, primarily driven by significant AI investments in the US, the Middle East, and Asia. On the other side are those countries with robust domestic economies, like India, Indonesia and the Philippines, which are still expected to achieve high growth. However, this positive market momentum is reflected in elevated valuations, prompting us to adopt a selective investment approach.
- **Return expectations:** We expect positive returns in the mid-to-high single-digit range. However, the pace and depth of the US interest rate reduction cycle could result in even higher performance. Nominal yields and carry remain stable at high levels, while capital gains must be achieved through careful security selection and focusing on idiosyncratic situations. Different regional and sector-specific developments will provide ample opportunities for alpha generation.

Outlook 2026: Swiss Franc Bonds

Reto Baumgartner
Head Multi Asset

Patryk Jessen
Senior Portfolio Manager

Philippe Gehrig
Portfolio Manager

Robin Bender
Portfolio Manager

Swiss bonds: Stability in uncertain times

— **Muted momentum with proven supports:** The Swiss economy will continue to be affected by global headwinds in 2026. SECO, KOF and the SNB expect growth between 0.9% and 1.3%. Weak export demand and persistent geopolitical uncertainties are dampening economic momentum, while the robust domestic market provides stability. The pharmaceutical sector remains one of the most important pillars of the economy and continues to contribute disproportionately to growth. Due to tariff exemptions in US trade, the sector remains largely immune to the new protectionism. Key risks remain weakening consumer demand in the eurozone as well as erratic US trade policy. Although US tariffs have now been reduced to 15%, bringing them in line with the level applied to the EU, further adjustments cannot be ruled out.

— **Deflationary tendencies:** Inflation remains low by international standards. The main component of price pressures in 2026 is again expected to come from “housing & energy”. While lower reference interest rates – reduced from 1.75% to 1.25% over the year – exert a dampening effect on rents, this is offset by rising property prices driven by lower taxes following the abolition of the imputed rental value. Imported inflation also remains subdued, as the franc tends to stay firm and foreign price pressures continue to ease. Overall, we therefore see an increased risk of deflationary developments. Geopolitical tensions associated with rising commodity or transport costs could provide temporary upward pressure on prices. However, a franc appreciation – a typical reaction to such uncertainties – would largely offset this.

— **SNB aims to avoid negative policy rates:** In line with consensus, we also continue to assume in our base scenario that negative rates will not return in 2026. The SNB policy rate currently stands at 0%. The hurdle for a return to negative rates remains high, as SNB President Schlegel emphasised. However, if a weaker economic environment with persistent deflationary pressure and further upward pressure on the franc were to materialise, the SNB could be forced to reintroduce negative rates. Already in the second quarter of 2025, the central bank attempted to curb the excessive franc strength through large-scale FX purchases, despite the risk of being labelled a currency manipulator by the US. As long as deflationary pressure persists, the SNB is likely to continue this balancing act with interventions in the FX market in order to avoid cutting rates.

» For maturities of three to twelve years, the roll-down effect offers the best total return profile.

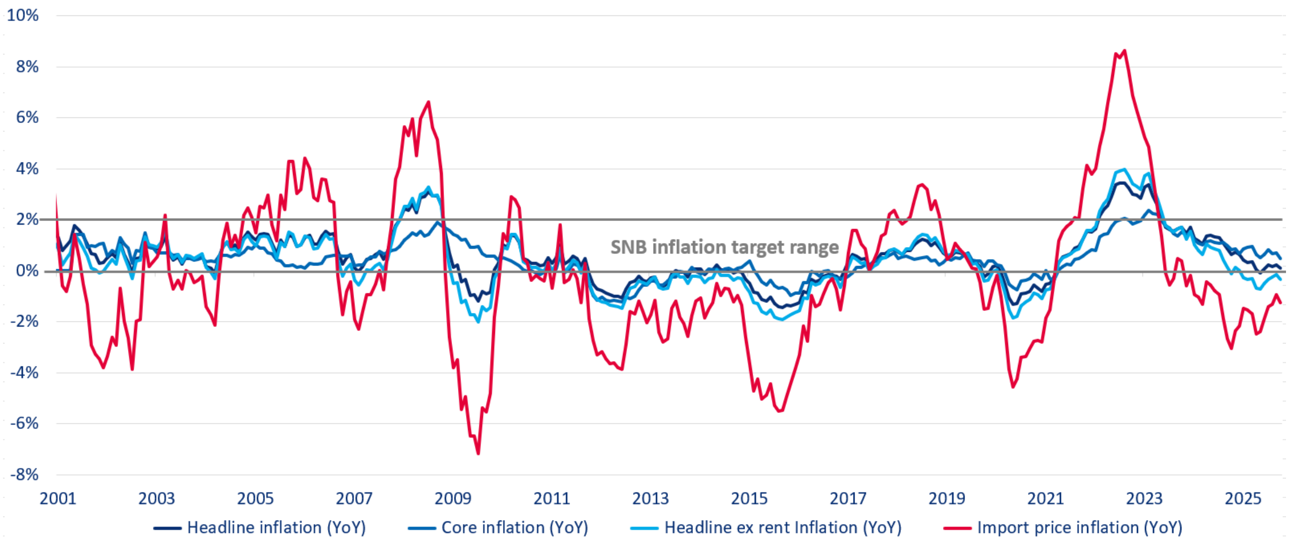
— **Anchor of stability with selective opportunities:** CHF bonds will maintain their role in 2026 as a high-quality anchor of stability in an uncertain environment. This applies in particular to investors with franc-denominated liabilities. As no further rate cuts are expected in the base scenario and yields at the short end are already slightly negative again, the risk/return profile at the front end appears unattractive. Maturities of three to 12 years look more appealing, as the roll-down effect provides the best total-return profile. We regard the long end (20–50 years) as unattractive. The yield curve is inverted in this segment, and liquidity in outstanding issues is low.

- **Quality over yield-chasing:** The return profile of CHF corporate bonds remains fundamentally more attractive than that of covered bonds (Pfandbriefe) or government bonds, despite relatively tight spreads. With spreads of 30–100 basis points, an allocation is only worthwhile if one has confidence in a soft economic landing. Accordingly, we consider selective positioning in short- to medium-term corporate bonds to be attractive. Covered bonds, on the other hand, remain a preferred anchor of stability in the strategic portfolio and continue to offer an appealing excess return over Swiss government bonds.
- **Sectoral accents and risk assessment:** Defensive sectors such as pharmaceuticals, consumer staples and utilities should continue to be favoured. They benefit from global uncertainty and resilient demand. Export-oriented industries, such as machinery, electrical engineering and watches, by contrast, remain vulnerable to trade tariffs and a strong franc. Should the negative interest rate scenario materialise, financials could come under pressure as margins decline and earnings capacity weakens.

» The Swiss market remains attractive for issuers thanks to the stable Swiss franc and high demand.

- **Primary market with record volume:** 2025 was characterised by a record-high volume of new issuance in the Swiss market. By October, the previous year's volume had already been surpassed, broadly distributed across financials, corporates and SSA issuers (sovereigns, supranationals and agencies). We also expect a high level of issuance in 2026. The Swiss market remains attractive for domestic and foreign issuers, not least thanks to the stability of the franc and the continued demand for high-quality CHF instruments.
- **Conclusion:** Stability as a success factor: In global comparison, Switzerland remains an outlier – marked by a stable currency, low inflation and defensive growth. For CHF investors, this means that stability forms a solid foundation for sustainable wealth building. For 2026, we expect returns roughly in line with current yield levels. Additional returns will therefore depend primarily on active management along the yield curve, selective security selection and sector allocation, as well as disciplined duration management, all of which become even more valuable in a low-yield environment to generate added value.

Chart: Swiss inflation remains at the lower end of the SNB's target range



Source: Fisch Asset Management, Macrobond, data as at 31/10/2025

Disclaimer