

Trick or Treat

On the evening of 31 October, children in costumes go from door to door asking, “Trick or treat?” Whoever opens the door decides what follows: a small, sweet treat or a trick. In financial markets, too, treats and tricks are currently close together. What looks sweet today may well taste sour tomorrow.

The economy provides the first treat. Corporate earnings growth is particularly encouraging, and an important driver is the investment cycle around artificial intelligence. Strong demand for AI infrastructure is creating new revenue and earnings potential and is thus supporting equity markets.

Yet AI itself is increasingly becoming a source of tricks. The market has high hopes that heavy investment will generate not only revenues, but also sustainably rising margins and earnings. This has contributed to valuations falling for months despite rising share prices as earnings expectations have risen even faster than prices. The seemingly low forward P/E ratios are therefore tied to demanding conditions. In semiconductors in particular, current valuations assume exceptionally strong earnings growth. If these expectations are not met, valuation ratios can change quickly.

The macro side also has a few tricks up its sleeve. High energy prices are adding to inflationary pressure, making it harder for central banks to steer monetary policy. At the same time, large government deficits and rising term premiums are pushing up long-term bond yields. Higher yields are attractive for bond investors, but they also raise the cost of capital and put pressure on risk assets.

October showed that markets are sensitive to these tensions. However, this does not signal a lasting trend reversal. As long as the economy and earnings remain intact, the treats outweigh the tricks from today's perspective. Expectations are high, however, and so is the potential risk of a retreat.

Enjoy the read.

Best regards,



Gzim Hasani
Chief Executive Officer
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Global Economy

- Rising energy prices are pushing inflation in the US and the eurozone to 3.7% and 3.8%, respectively.
- The Fed paused in October as widely expected, but persistent inflation keeps the bias tilted towards higher rates.
- The Swiss economy is gaining momentum without putting the SNB under pressure to hike.

Resilient growth despite renewed headwinds

The global economy is proving resilient despite geopolitical tensions and disruptions in energy markets. In the US, robust domestic demand, heavy investment in artificial intelligence and a solid labor market are supporting growth. The October data confirm this picture. The US composite PMI remained clearly in expansion territory despite a moderate slowdown. The picture in Europe is more mixed. Economic activity in the eurozone weakened in October. The composite PMI fell from 53.1 in September to 51.9 but remains in expansion territory. France remains a drag, while fiscal stimulus in Germany offsets some of the headwinds.

Energy prices add to inflationary pressure

Disruptions in the Strait of Hormuz and Ukrainian attacks on Russian refineries have put further strain on supply and are driving energy prices higher. European natural gas prices have also risen but remain well below the record levels of 2022. US inflation rose to 3.7% in September, and in the eurozone it accelerated from 3.2% to 3.8%. Core inflation, at 2.6% in the US and 2.3% in the eurozone, remains much more moderate, however, which indicates that the current surge in inflation is still driven by energy. At the same time, persistent supply bottlenecks, AI investment and rising input costs increase the risk of broader second-round effects.

Long-term rates remain under upward pressure

Higher energy prices, robust US growth, large government deficits and structurally rising investment are putting upward pressure on long-term bond yields. As expected, the Fed left its policy rate unchanged, without abandoning its restrictive stance. Persistent inflation and high energy prices therefore make further rate hikes likely. For investors, however, the main risk does not lie in higher policy rates alone. Rising term premiums and fiscal risks are likely to keep long-term yields elevated even after the end of the hiking cycle. Persistently and structurally stronger nominal growth also argues for higher long-term yields.

Switzerland remains an outlier

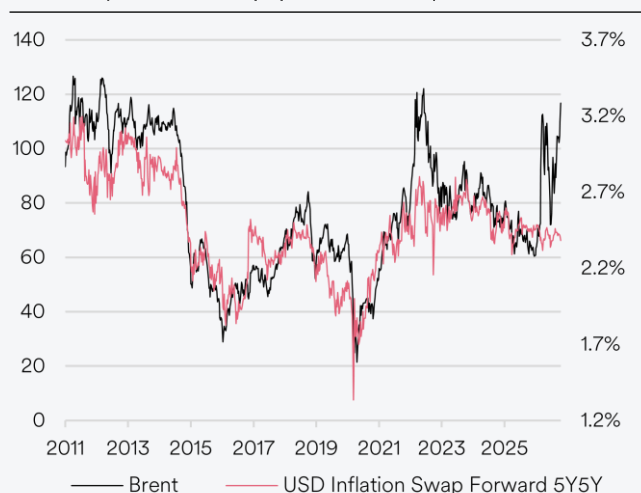
Switzerland continues to stand apart from the global inflation and interest rate cycle. Swiss inflation was 1.0% in September and thus still clearly within the SNB's definition of price stability. Accordingly, the SNB is currently under no immediate pressure to act. Financial markets currently put the probability of a rate hike in December below 20%. For 2027, a gradual rise in the policy rate is priced in, with two rate hikes by September 2027. We share the direction of market expectations but given the benign domestic inflation environment we still consider their pace to be too ambitious.

Fig. 1: Natural gas well below 2022 highs
Brent oil price and European natural gas price (TTF)



Source: Bloomberg, smzh ag. 27/10/2026

Fig. 2: Inflation expectations remain anchored
Brent oil price vs. US 5y5y inflation swap



Note: The US 5y5y forward inflation swap measures the average US inflation priced in by the market for the five-year period starting in five years. It is regarded as an important indicator of medium- to long-term inflation expectations.

Source: Bloomberg, smzh ag. 23/10/2026

Fixed Income

- Robust nominal growth and large deficits keep long-term yields structurally elevated.
- Attractive income and solid corporate balance sheets continue to argue for high-quality bonds.
- Investment grade, high yield and emerging market bonds continue to offer attractive income.

Bond yields keep rising, but context is key

Global bond markets came under renewed pressure in early October but stabilized markedly over the course of the month. The yield on 10-year US Treasuries rose to more than 5.3% at times, while the 30-year yield reached its highest level since 2002 at almost 5.7%. Long-end yields also rose significantly in Europe, while Switzerland continues to play a special role. Yields rose there as well, but much more moderately by international comparison. Besides higher inflation, deteriorating public finances and rising issuance also weighed on global bond markets.

A frequently underestimated factor behind the current level of US yields is the strength of nominal economic growth. Nominal US GDP grew at an annualized 5.8% in the first quarter of 2026 and accelerated to 8.5% in the second quarter. On average, nominal growth thus exceeded 7% in the first half of the year. At a yield of just under 5%, the 10-year US Treasury is therefore not decoupled from fundamentals. Rather, it reflects an economy with robust nominal income growth. Together with higher inflation expectations, rising term premiums and fiscal risks, strong nominal growth argues for keeping the long-term level of yields structurally higher. The relationship between nominal yields and nominal GDP has so far received comparatively little attention in market commentary. In our view, however, it is relevant for assessing whether the current level of yields reflects fundamental stress or a rational repricing.

Credit spreads remain tight despite widening

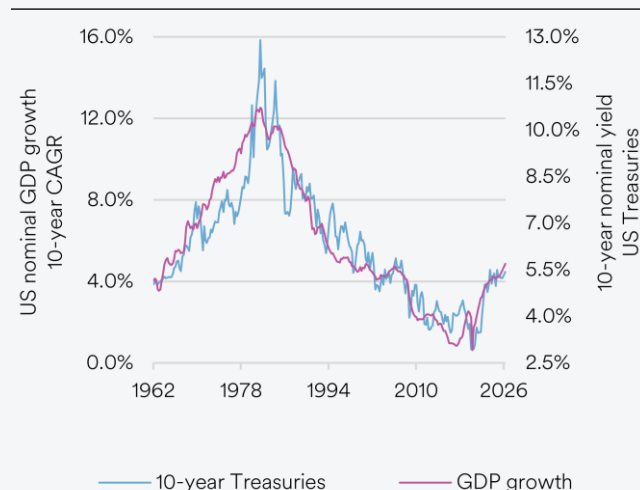
Corporate bonds have also come under pressure so far this year. Investment grade and high yield spreads have recently widened slightly but remain low by historical standards. The rise in yields and the associated price losses were driven primarily by higher risk-free rates rather than by a deterioration in corporate credit quality. Corporate fundamentals remain solid overall, although the widening of spreads is noticeable among weaker high yield issuers in particular. Emerging market bonds proved comparatively robust and benefited from continued solid fundamentals. For investors, the focus is therefore on income rather than on the prospect of further capital gains.

Focus on quality, duration and diversification

For Swiss investors, a diversified combination of investment grade bonds, high-quality high yield bonds and selected emerging market bonds remains attractive. Positioning in the intermediate maturity segment continues to appear most attractive.

Fig. 3: Higher yields, stronger fundamentals

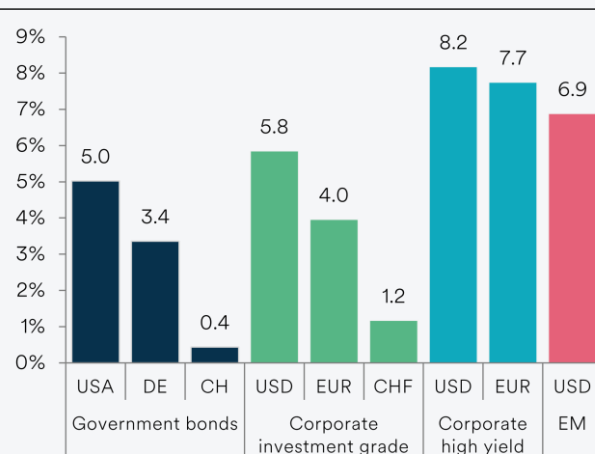
Higher yields in line with nominal US growth



Note: Nominal US economic growth as an annualized growth rate over a rolling ten-year period. The 10-year US Treasury yield is the respective quarter-end value.
Source: Bloomberg, smzh ag. 30/06/2026

Fig. 4: Current yields in selected bond markets

Yields to maturity in %



Source: Bloomberg, smzh ag. 27/10/2026
Past performance is not a reliable indicator of future results.

Equities

- October was marked by volatility, with clear regional divergence and Swiss strength.
- Low P/E ratios make valuations look attractive, but their appeal depends on high earnings estimates being met.
- Pullbacks continue to offer opportunities, and Swiss dividend equities remain attractive.

Equity markets remain robust despite volatility

As expected, October was marked by elevated volatility. The S&P 500 reached a new all-time high in early October before rising rates and profit-taking, particularly in technology stocks, weighed on equity markets. As bond markets stabilized, however, equity markets recovered quickly, although performance varied by region. While the Nasdaq 100 and the Nikkei 225 lost around 4-6% at times during the month, the SMI gained almost 5% in October and proved to be an anchor of stability thanks to its defensive qualities.

Earnings season with tailwinds, but a high bar

The third-quarter reporting season has so far painted a mixed picture. Around a quarter of S&P 500 companies have reported to date, and 83% of them beat earnings expectations. At an average of just over 2%, however, positive surprises were much smaller than in the past. At the same time, expected earnings growth remains exceptionally strong at more than 29%, with a large share coming from companies that benefit from the AI investment cycle. As a result, critical voices are growing louder, as market breadth is as narrow as it was around the turn of the millennium and part of the reported earnings comes from book gains on stakes in unlisted AI companies. The key question is therefore whether the heavy investment can continue to be translated into rising revenues and margins.

Valuations depend heavily on earnings estimates

Valuations look much more moderate on the basis of expected earnings than on the basis of the past twelve months. The S&P 500 currently trades at around 26x trailing twelve-month earnings, but at around 21x and 18x on 2026 and 2027 earnings estimates, respectively. High earnings expectations have caused P/E ratios to decline for several months despite rising share prices. After the consolidation in September and October, valuations have in some cases fallen significantly again. In Europe, they are also much lower. Valuations thus depend crucially on whether earnings estimates can be achieved. For the main regions, however, the expected earnings paths appear plausible in principle. In individual segments, particularly semiconductors, the 2027 forward P/E of 15.7x compared with the current P/E of 37x implies earnings growth of around 135%. If these expected earnings fail to materialize, today's seemingly low valuations will look considerably less attractive.

Quality and diversification remain key

As long as the economy and earnings remain intact, however, pullbacks can be used to build positions gradually. Regionally, Europe and emerging markets remain attractive alongside the US. Swiss dividend stocks offer defensive qualities and stable cash flows and should continue to be favored within the Swiss equity market.

Fig. 5: Japan leads for the year, the SMI in October

Total returns in local currency, in %



Note: Sorted in descending order by year-to-date performance.
Source: Bloomberg, smzh ag. 27/10/2026
Past performance is not a reliable indicator of future results.

Fig. 6: Falling valuations despite price gains

Consensus earnings expectations and valuations



Source: Bloomberg, smzh ag. 27/10/2026
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Currencies and Gold

- The franc recovered somewhat against the euro and the US dollar in October.
- The franc remains a preferred funding currency for carry trades and thus tends to stay under depreciation pressure.
- Despite recent weakness, gold remains an important building block for diversification.

Search for safe havens supports the franc

After depreciating significantly over the summer, the Swiss franc recovered slightly in October, gaining around 2% against the euro and around 1% against the USD since the end of September. Growing uncertainty in bond markets, geopolitical tensions and concerns about French public finances have increased demand for safe havens and thus supported the franc. Since the start of the year, however, the CHF is still more than 4% lower versus the USD.

USD/CHF: further tailwind in the short term

The USD has recently benefited from robust US economic data, higher Treasury yields and a repricing of expectations for the Fed. At the same time, market positioning is increasingly geared toward further dollar appreciation, which makes further gains harder to achieve. France's fiscal problems are weighing on the euro, although a viable agreement on the French budget could restore confidence in the single currency.

CHF remains an important funding currency

Due to the low interest rate environment in Switzerland, the franc remains an important funding currency for carry trades, a role that has so far been played mainly by the Japanese yen. Against the US dollar, the franc is therefore likely to remain under pressure, while opposing forces are at work in EUR/CHF, so the exchange rate is likely to continue to move within a range.

Gold between rate pressure and central bank buying

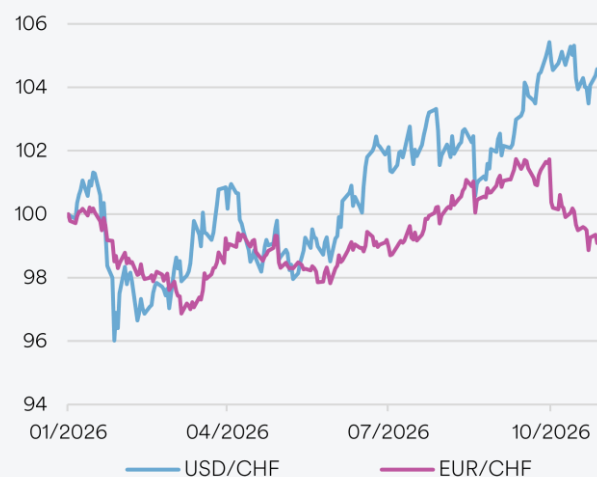
The gold price came under renewed pressure in October and fell below USD 4,000 per ounce, more than 27% below its January high. High US nominal and real yields and a strong US dollar weigh on the non-yielding precious metal. Gold ETF flows remain volatile and react sensitively to interest rate and currency movements, while structural central bank demand remains intact, even though the pace of their purchases has been slowing.

The strategic role remains intact

The structural drivers of gold remain intact, however. Geopolitical uncertainty, high government deficits and the diversification of currency reserves support central bank demand. At the same time, investors should bear in mind that gold is not a perfect hedge against inflation. When inflation rises, central banks often respond with higher interest rates, which increases the opportunity cost of the non-yielding precious metal and can put pressure on the gold price. Historically, the direct relationship between inflation and gold has therefore been less pronounced than is often assumed. Since the outbreak of the Iran war, gold has at times moved sharply in the opposite direction to oil. Monetary policy will remain a key driver in the coming months. A persistently high level of interest rates and a strong US dollar limit the short-term upside. In the longer term, however, gold remains relevant as a reserve and diversification asset, particularly in view of fiscal risks and geopolitical uncertainty.

Fig. 7: Franc weaker against the US dollar

USD/CHF and EUR/CHF, indexed 01/01/2026 = 100



Source: Bloomberg, smzh ag. 27/10/2026

Past performance is not a reliable indicator of future results.

Fig. 8: Strong US dollar weighs on the gold price

US dollar index vs. gold price in USD



Source: Bloomberg, smzh ag. 27/10/2026

Past performance is not a reliable indicator of future results.

Cryptocurrencies

- Bitcoin had a weak October, although October has historically been one of its strongest months.
- Persistent US inflation and weakness in the technology equity sector weighed on risk appetite across markets.
- Sentiment cooled without turning to panic, keeping the longer-term bull case alive, provided inflation and rates ease.

An unusually weak October

Bitcoin experienced a volatile October, trading as low as USD 79,000 during the month after trading above USD 86,000 in the first week of October. This runs counter to the seasonal pattern: October has historically been one of Bitcoin's stronger months. Bitcoin also remains more than a third below its October 2025 record high, although it has recovered close to 40% from its early-summer low. Flows into US Bitcoin funds were mixed, as several funds saw outflows, while the largest continued to attract new money.

Rate fears return to the foreground

The main headwind appears to have come from US monetary policy. Persistently high inflation, partly driven by rising energy prices, revived concerns that the Federal Reserve would keep interest rates higher for longer. Higher rates tend to reduce the appeal of assets that pay no income, such as Bitcoin, and investors appeared reluctant to add exposure.

Weaker risk appetite across markets

Bitcoin's decline coincided with a broader retreat in risk assets. US technology stocks suffered their weakest session since June in late October amid growing doubts about the returns on heavy artificial intelligence spending, while Bitcoin appeared to move in step with technology equities. Gold also eased further, suggesting that the pressure was driven more by rising interest rate expectations than by crypto-specific concerns. The broader crypto market performed worse, with Ethereum falling as much as 15% during October, meaning that Bitcoin held up comparatively well.

Is the bull case still intact?

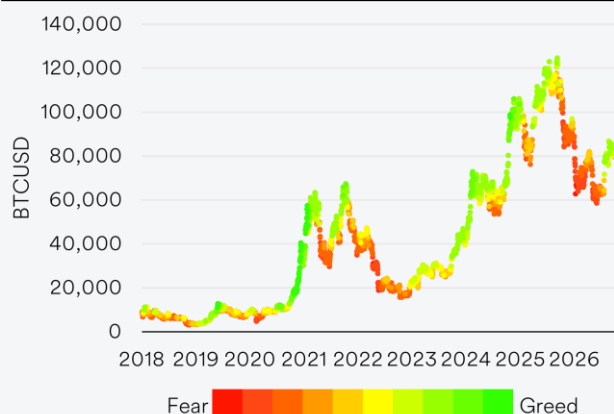
Bitcoin's prolonged correction may be approaching an end, with the strong rebound from its early-summer low providing some evidence of renewed demand. Its resilience amid renewed inflation concerns and broader market weakness is encouraging. On-chain data and market activity also point to continued accumulation by long-term investors. Nevertheless, uncertainty remains over Bitcoin's role in institutional portfolios, particularly whether it should be viewed primarily as an inflation hedge, store of value or risk asset. This ambiguity reflects an investment that continues to undergo price discovery and institutional maturation rather than a structural weakness in the investment case. Increasing regulatory clarity and broader investor participation should support this process. Overall, the investment case remains constructive, although confirmation of a sustained bull market is still pending.

Outlook

For investors, three signals are worth watching: the trajectory of US inflation and the Federal Reserve's next steps, whether flows into US Bitcoin funds stabilize, and whether Bitcoin can maintain its current price level. Given its volatility, Bitcoin remains better suited to modest allocations with a long-term horizon than to attempts to time short-term moves.

Fig. 9: Sentiment normalizes after September highs

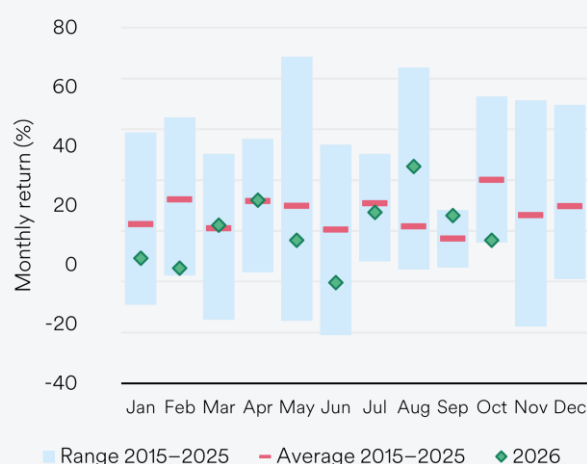
Crypto Fear & Greed Index



Note: The Crypto Fear & Greed Index is based on six indicators, including volatility, market momentum, social media activity, Google search trends and survey data.
Source: Bitbo, smzh ag. 27/10/2026
Past performance is not a reliable indicator of future results.

Fig. 10: October 2026 below its historical average

BTC's monthly return: historical range and average vs. 2026



Source: Bloomberg, smzh ag. 27/10/2026
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