smzh

Investment Guide

From TINA to PATY

CIO House View

OCTOBER 2026

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From TINA to PATY

For years, global financial markets have been shaped by a seemingly simple logic: TINA, “There Is No Alternative.” The idea is that, with historically low interest rates and little yield available from safe assets, there appears to be virtually no alternative to equities. Indeed, equity markets have benefited not only from earnings growth, but also from a structurally low discount rate and a lack of attractive alternatives.

With the rise in nominal and real yields, this logic is increasingly being challenged. Bonds once again offer meaningful income and have therefore become a genuine alternative for investors. The question is increasingly whether the era of TINA is coming to an end and whether yield is becoming a competitive factor again. A new guiding principle could emerge in its place: PATY, “Pay Attention to Yields.” Competition for capital is intensifying. At the same time, higher interest rates raise discount rates and, consequently, increase valuation pressure on risk assets.

Yet while financial markets are fond of simple concepts, PATY is not a blanket argument for moving away from equities. The key question remains whether earnings growth and cash flows can justify higher costs of capital. For now, the answer remains broadly yes. The global economy remains resilient, corporate earnings are developing robustly, and structural investment, particularly in digitalization and artificial intelligence, continues to provide important growth momentum.

At the same time, equity markets have delivered a strong performance over the course of the year despite rising yields and the ongoing conflict in Iran. The current seasonally weaker phase of the year adds another element to the equation, as it is typically associated with greater market volatility. Against this backdrop, a period of elevated volatility in October would not be surprising. This would not, however, automatically signal a sustained change in market direction. As long as the macroeconomic backdrop and earnings growth remain intact, periods of weakness may instead create opportunities to establish new equity positions. PATY does not mean fewer equities. It means paying greater attention to yields, valuations, and fundamentals.

Enjoy the read.

Best regards,

Gzim Hasani

Chief Executive Officer
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CIO

Global Economy

- A sustained de-escalation of the Iran conflict is critical to preserving central banks' policy flexibility.
- While central banks maintain a restrictive stance, AI-driven investments continue to support economic growth.
- The SNB keeps its policy rate at zero, preserving monetary policy flexibility for 2027.

Resilient growth despite geopolitical headwinds

Despite geopolitical tensions and energy-driven inflation risks, the global economy continues to demonstrate resilience. In the United States, solid consumer spending, sustained investment in artificial intelligence and a resilient labour market continue to support economic activity. Economic leading indicators in Europe are also showing positive momentum. Eurozone purchasing managers' indices (PMIs) reached their highest level in three years in September. German fiscal stimulus and improving business sentiment are providing additional support to economic activity.

Energy prices add to inflationary pressure

The conflict in the Middle East has pushed Brent crude prices above USD 100 per barrel again, intensifying global inflationary pressures and complicating monetary policy calibration. Inflation in the United States and the eurozone currently stands at 3.4% and 3.2%, respectively. In addition to energy prices, tariffs, strong demand for AI-related semiconductors and further supply shocks are contributing to price pressures. At the same time, wage growth and core inflation remain relatively contained, while market-based inflation expectations remain broadly anchored. However, the risk of persistent second-round effects remains.

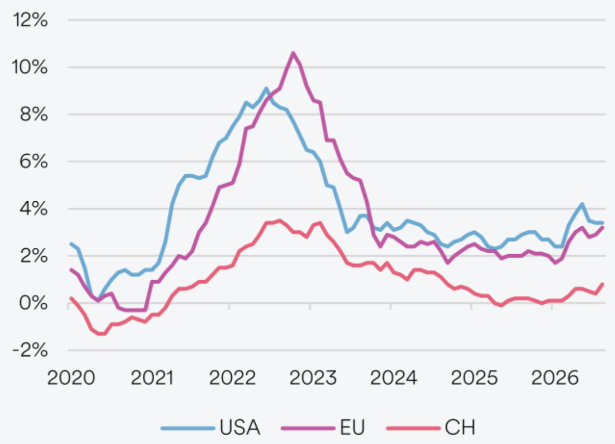
Interest rates remain under pressure

The US Federal Reserve (Fed), the Bank of Japan (BoJ) and the European Central Bank (ECB) continued to raise policy rates in September, while signalling a data-dependent approach to monetary policy. Financial markets currently price in one to two additional rate hikes by year-end for both the Fed and the ECB. The combination of rising energy prices, structurally higher investment requirements and mounting fiscal pressures has led to a significant increase in bond yields. As a result, financial markets have already priced in a substantial portion of the potentially forthcoming rate hikes in current yields. While this limits the potential for further rate hikes to surprise markets, it does not rule out additional increases in yields if inflation proves persistent.

Switzerland remains an outlier

Switzerland remains a monetary policy outlier. As widely expected, the Swiss National Bank (SNB) left its policy rate unchanged at 0% in September. Economic data point to a recovering, but not yet overheated, economy, while inflation remains consistent with price stability despite the weaker Swiss franc. The SNB is therefore under neither easing nor tightening pressure, allowing it to normalise monetary policy at its own pace in 2027. An initial rate increase to 0.25% would represent less a tightening of monetary conditions than a restoration of policy flexibility. Markets are pricing in more than two rate hikes by mid-2027. We agree with the direction, but not with the pace.

Fig. 1: Inflation trend: USA, Eurozone, and Switzerland
Headline inflation year-on-year, 2020–2026



Source: Bloomberg, smzh ag. 31/08/2026

Fig. 2: Swiss economic indicators
The Swiss economy is showing strong momentum

Source: Bloomberg, smzh ag. 31/08/2026

Fixed Income

- Attractive absolute yields and solid corporate balance sheets continue to support high-quality bonds.
- Emerging market bonds maintain their relative strength and continue to offer attractive total return potential.
- Alternative investments with limited sensitivity to economic and financial market cycles provide additional diversification.

Broad-based rise in bond yields

Global bond markets came under significant pressure in September. Rising inflation expectations, higher energy prices, and the prospect of tighter monetary policy from major central banks led to a marked increase in government bond yields. The yield on 10-year US Treasuries rose above 5.2%, while the 30-year yield approached 5.5%, reaching its highest level since 2004. Yields also increased significantly in Europe, with 10-year German Bund yields temporarily reaching 3.5%. By contrast, the Swiss interest rate environment remained considerably more stable by international standards.

Corporate bonds: interest rate risk takes center stage

Corporate bonds also came under pressure in September. Investment-grade bonds recorded a weak performance. Relatively long duration amplified the impact of rising yields, while credit spreads widened only moderately. This suggests that the losses were primarily driven by interest rate risk rather than a deterioration in corporate credit quality. High-yield bonds also posted negative returns but performed slightly better. Shorter duration and higher carry provided some cushion. Given still-tight credit spreads, the focus should remain on income generation rather than capital appreciation.

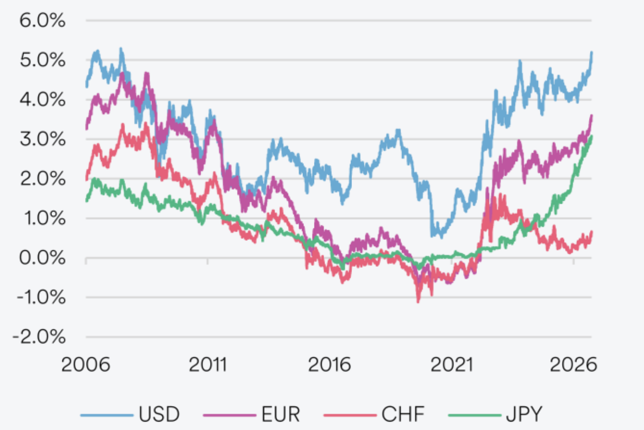
Emerging market bonds remain attractive

Emerging markets bonds proved relatively resilient in September despite rising US Treasury yields. Losses in hard currency bonds were predominantly attributable to higher US government bond yields rather than a widening of credit spreads. Improved external financing positions, early monetary policy tightening and progress in deleveraging are strengthening the resilience of many issuers. Local currency bonds also benefited from attractive valuations, high real yields and ongoing income generation.

Quality, duration and diversification in focus

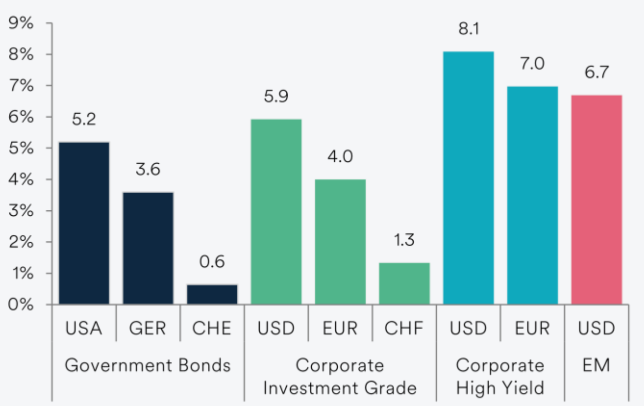
For Swiss investors, a diversified combination of investment-grade bonds, high-quality high-yield bonds and selected emerging market bonds remains attractive. Positioning in the intermediate-duration segment continues to appear most compelling. To mitigate currency risks, CHF-hedged exposure is advisable, despite the associated hedging costs. For investors with a higher tolerance for illiquidity, alternative investments such as catastrophe bonds (Cat Bonds) remain an attractive source of diversification given their limited dependence on traditional economic and financial market cycles.

Fig. 3: Sharp increase in long-term yields
10-Year government bond yields since 2006



Source: Bloomberg, smzh ag. 25/09/2026
Past performance is no reliable indication of future results.

Fig. 4: Current yields in selected bond markets
Yield-to-worst in %



Source: Bloomberg, smzh ag. 25/09/2026
Past performance is no reliable indication of future results.

Equities

- Many equity markets are reaching new highs, supported by AI and continued resilience in corporate earnings.
- AI remains the dominant growth driver, with the US and emerging markets among the main beneficiaries.
- European equities and Swiss dividend stocks offer attractive diversification opportunities.

Between AI euphoria and rising interest rates

Global equity markets entered a consolidation phase in September. However, given the significant rise in bond yields, monetary policy tightening by major central banks, higher energy prices and the seasonally weaker market environment, the consolidation has remained relatively moderate so far. Equity markets continue to benefit from solid corporate earnings growth and ongoing investment in artificial intelligence. Positive earnings revisions have contributed to price-to-earnings (P/E) ratios declining in some cases despite the gains in equity prices. This indicates that equity markets have so far absorbed higher discount rates relatively well.

US Technology and Emerging Markets lead

US equity markets proved resilient by international standards. In particular, the technology-heavy Nasdaq 100 Index continued to benefit from sustained demand for AI infrastructure and temporarily reached new highs in September. European markets also held up, although they remained more exposed to higher energy prices and political uncertainty. Emerging markets equities performed relatively robustly in September, outperforming European equity markets, supported by strong earnings momentum and attractive valuations.

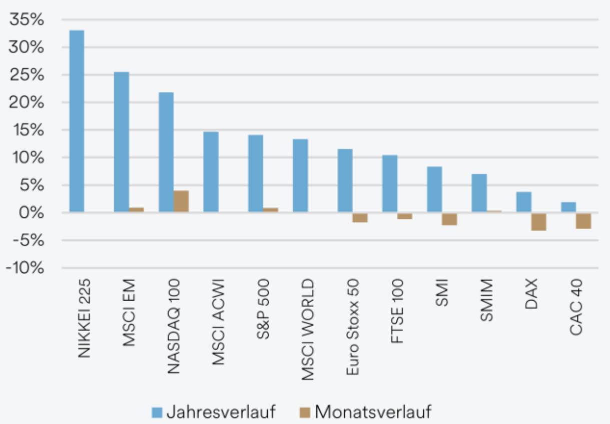
Earnings remain the key driver

Corporate earnings remain the key driver of equity markets. Consensus earnings expectations have continued to be revised upwards across several regions, while valuations have partly retraced to more attractive levels despite the rise in equity prices. At the same time, the debate over the sustainability of the substantial investments made by major technology companies is intensifying. The key question will be whether spending on AI infrastructure can continue to translate into commensurate growth in revenues, margins and earnings. As long as global economic growth remains resilient, equity markets should, in principle, be able to absorb a higher interest rate environment. However, rising energy prices and persistent inflationary pressures, alongside AI-related risks, remain significant threats to earnings growth and equity valuations.

Eurozone remains attractive, Switzerland offers stability

From a regional perspective, Eurozone equities remain attractive alongside emerging markets and the United States. The market benefits from relatively attractive valuations and could receive additional support from a further easing of geopolitical risks and a normalization of energy prices. Swiss dividend stocks offer defensive characteristics and stable cash flows. They should continue to be favored within the Swiss equity market, particularly in the current environment of heightened macroeconomic uncertainty. In balanced portfolios, these exposures can be complemented by an allocation to small- and mid-cap stocks.

Fig. 5: Major equity markets in local currency
Year-to-date total return



Note: sorted in descending order by year-to-date performance.
Source: Bloomberg, smzh ag. 25/09/2026
Past performance is no reliable indication of future results.

Fig. 6: Declining valuations despite equity gains
Forward P/E ratios across selected equity markets

Source: Bloomberg, smzh ag. 31/08/2026
Past performance is no reliable indication of future results.

Currencies and Gold

- US dollar strength and higher US interest rate expectations weigh on the Swiss franc short-term.
- The franc's structural strength remains intact, supported by robust fundamentals and its enduring safe-haven characteristics.
- Despite elevated volatility, gold remains an attractive diversification instrument within portfolios.

Monetary policy divergence as a key driver

Foreign exchange markets were characterized by a stronger US dollar in September. Rising US yields and expectations of continued restrictive monetary policy by the Federal Reserve increased the appeal of dollar-denominated assets. The Swiss franc also weakened against the US dollar, though less markedly than many other major currencies. The franc also depreciated against the euro, continuing the weakening trend observed since spring.

USD/CHF: Path of least resistance points up

While the SNB is keeping its policy rate at 0% and no clear path toward monetary policy tightening is evident in the near term, the Fed and ECB are pursuing more restrictive policy stances. Fair value estimates suggest that the Swiss franc is no longer significantly overvalued against the euro and the US dollar. At the same time, the franc is increasingly being used as a funding currency for carry trades, a role traditionally associated primarily with the Japanese yen.

The USD/CHF exchange rate is biased toward the upside. For EUR/CHF, opposing forces are at play: political risks and weak growth weigh on the euro, while the low interest rate environment weighs on the CHF. Overall, EUR/CHF is likely to trade within a range in the short term, without a clear directional trend emerging.

Gold has lost some of its luster, but not its relevance

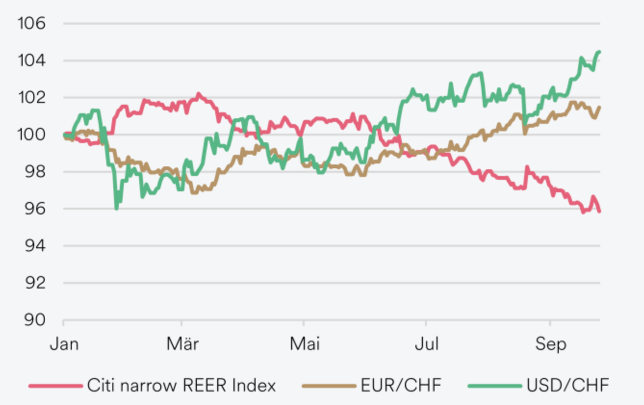
After partially recovering in August from its weak performance earlier in the year, gold came under renewed pressure in September. Higher US real yields, a stronger US dollar and the Federal Reserve's more restrictive stance, including its rate hike in September, weighed on gold prices.

Structural drivers remain intact

The structural factors supporting gold remain broadly intact. Central banks continue to be net buyers, albeit with somewhat lower momentum in some cases. In addition, gold ETFs recorded renewed inflows in July and August following outflows in May and June, according to Bloomberg. Geopolitical uncertainty, concerns surrounding US fiscal policy and the diversification of foreign exchange reserves continue to support strategic demand.

Monetary policy will remain a key influence in the coming months. Persistently high interest rates and a strong US dollar limit gold's short-term upside potential. Over the longer term, however, gold remains relevant as a reserve and diversification asset, particularly amid fiscal risks and geopolitical uncertainty. At the same time, investors should recognize that gold can also experience significant drawdowns in periods of market stress. Nevertheless, gold's role in portfolios remains in focus – and rightly so – given the current market environment.

Fig. 7: CHF performance year-to-date
Indexed to 100 as of 1 January 2026



Source: Bloomberg, smzh ag. 25/09/2026
Note: The real effective exchange rate (REER) measures a currency's value against its major trading partners, adjusted for inflation differentials. The narrow basket comprises 27 economies, primarily covering the euro area, the United States, the United Kingdom and Japan.
Past performance is no reliable indication of future results.

Fig. 8: Rising interest rates weigh on gold prices
Gold price vs. yields on 5-year US Treasury bonds

Source: Bloomberg, smzh ag. 25/09/2026
Past performance is no reliable indication of future results.

Cryptocurrencies

- Even though the US Senate voted to block landmark cryptocurrency regulation and the US Fed hiked rates, Bitcoin posted modest gains in September, reaching its highest level since January.
- Institutional demand via Bitcoin ETFs stays supportive, resulting in the strongest monthly inflows in over a year in August.
- Most major cryptocurrencies still trade well below their all-time highs, even as Bitcoin has staged a notable recovery.

Month of resilience

September provided two significant headwinds in quick succession. On 15 September, the US Senate narrowly blocked the Digital Asset Market Clarity Act, a piece of legislation that would have established a formal regulatory framework for cryptocurrencies. Bitcoin fell sharply on the day, briefly touching around USD 75,000. Combined with the Federal Reserve's rate hike a day later, these developments might ordinarily have weighed heavily on crypto assets. Instead, Bitcoin recovered with notable speed, climbing back above USD 80,000 within days and reaching USD 84,000 by late September, its strongest level since late January.

ETF demand provides structural floor

One of the clearest signals of maturing institutional interest came from the US-listed Bitcoin ETF market. August saw approximately USD 3.5 billion in net inflows, the largest monthly total in over a year, as investors returned to the asset class even as Bitcoin tested the USD 80,000 level. September has continued in a similar direction, with the two largest products attracting the bulk of new capital. This sustained demand from regulated, exchange-listed vehicles points to a structural buyer base that is less reactive to short-term price swings than earlier market participants.

Broader risk-on backdrop

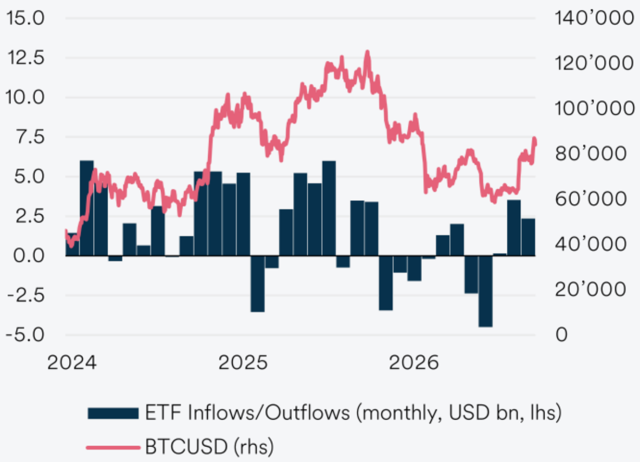
Bitcoin's September rally unfolded against a mixed macroeconomic backdrop. Treasury yields and the US dollar moved higher during the month, while oil prices also firmed, limiting the support from traditional risk factors. More recently, however, broader financial conditions have stabilized, and risk appetite has remained resilient, helping Bitcoin hold on to most of its September gains despite a less favorable macro environment.

Sentiment also improved after the SEC introduced a temporary five-year exemption allowing tokenized versions of US stocks to trade on approved blockchain-based venues. Unlike the broader crypto legislation blocked in the Senate, the measure was a narrower regulatory step aimed specifically at facilitating tokenized securities trading. The move prompted a sharp rally in tokens linked to trading and tokenization.

Looking ahead

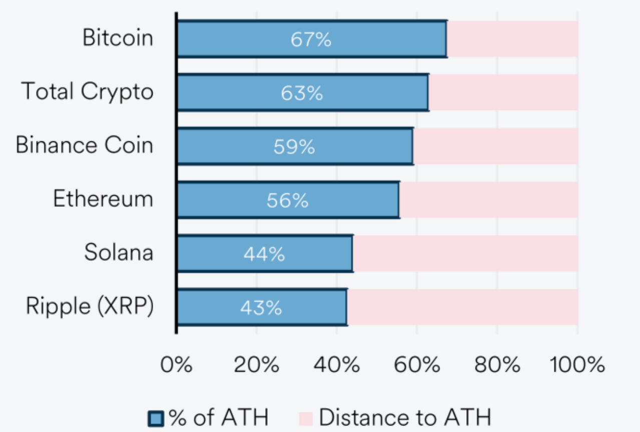
The Federal Reserve's rate path, the trajectory of the US dollar, and the prospect of regulatory progress through agency rulemaking rather than legislation are key variables for the months ahead. ETF flow data will remain an important real-time gauge of institutional conviction. Should Bitcoin sustain its current level, attention will turn to whether it can begin to close the substantial gap to the record highs of last autumn.

Fig. 9: Bitcoin ETF flows have turned supportive again
Monthly net flows into US spot Bitcoin ETFs and BTC price



Source: Bloomberg, smzh ag. 25/09/2026
Past performance is no reliable indication of future results.

Fig. 10: Crypto assets remain well below all-time highs
Current prices relative to all-time highs



Source: Bloomberg, smzh ag. 25/09/2026
Note: "Total Crypto" is defined as the S&P Cryptocurrency Broad Digital Asset Index (SPCBDM Index), a market-cap-weighted benchmark designed by S&P Dow Jones Indices to track a broad investable universe of digital assets that meet minimum liquidity and market-capitalization criteria.

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