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Will we reach escape velocity in 2026?

CIO Essentials

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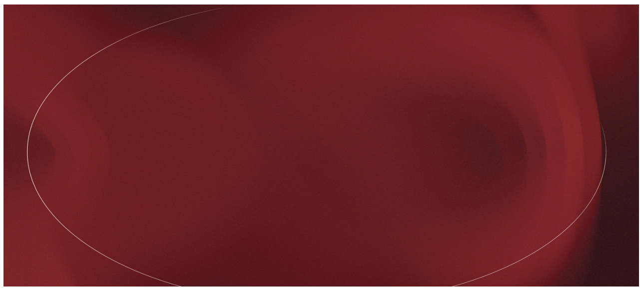
- Rising government debt, political uncertainty, and high US inflation in 2026 are contrasted by advances in artificial intelligence and expansive monetary and fiscal policies.
- We expect the positive forces to prevail and see upside potential for the equity market in 2026. For investors, this means investing—or staying invested—next year.
- However, the risks should not be neglected, so diversification is essential. And the longer the investment horizon, the higher the equity allocation can be—despite the risks.



Source: UBS

Two weeks ago, Switzerland and the US announced that they had agreed on the key points of a tariff deal. The reactions were mixed: On the one hand, there was relief that the 39 percent tariff rate could be lowered. On the other hand, the "deal" still represents a higher tariff rate than before "Liberation Day."

Thus, we approach 2026 with mixed feelings. While a tariff agreement lowers the risk of recession in Switzerland, we still anticipate below-average growth of just 1 percent next year. Our cautious outlook extends not only to the Swiss economy, but also to the global economy and financial markets.

Last week, we published the Year Ahead, our outlook for the economy and financial markets in 2026. The publication is titled *Escape velocity?*, which at first glance seems to have little to do with the economy and financial markets.

On closer inspection, some parallels can be drawn between physics and the economy and financial markets. In 2026, various "forces" could weigh on financial markets, including rising government debt, ongoing political developments, and relatively high inflation in the US.

From a Swiss perspective, these issues may seem somewhat remote. Switzerland continues to benefit from low government debt, modest inflation, and a stable political environment. Nevertheless, external risks can still have an impact, albeit in different ways. Rising debt and higher inflation abroad could contribute to further appreciation of the Swiss franc. Developments in US politics may also be felt here through changes in tariffs, although the recent tariff agreement could help mitigate the most adverse outcomes. At the same time, we also see factors that support the economy and financial markets and enable them to overcome these negative forces. These include advances in artificial intelligence (AI) and expansive monetary and fiscal policies. The US Federal Reserve is likely to continue lowering its key interest rates, and large fiscal packages are being launched in Germany and the US.

Ultimately, we expect that the global economy will succeed in overcoming the gravity of the negative forces thanks to the positive ones: We see upside potential for the equity market in 2026. However, we are also aware of the risk that things could turn out differently—and the downward forces could prevail and push prices lower.

What does this mean for investors?

First, invest or stay invested: AI and expansive monetary and fiscal policies promise potential in the equity markets in 2026. Given zero interest rates in Switzerland, this is all the more important. Second, be diversified: With a diversified portfolio, investors can cushion a setback in the markets if the global economy does not overcome "gravity" after all. Third, the longer the investment horizon, the better investors can cope with existing short-term risks and the higher the equity allocation in a portfolio can be. Investors can benefit from this in the long term. We are convinced that AI will fundamentally change society and the economy, and that the equity market will benefit from these innovations.

Appendix

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