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Good news, bad news

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We expect falling policy rates to help keep market sentiment positive next year as well, despite—or precisely because of—ongoing concerns about weak growth and inflation. In our view, investing in stocks and real assets remains a key strategy for medium-term wealth building, while careful diversification and liquidity planning can help absorb market volatility.

Monetary policy decisions have played a central role for investors for years. This is unlikely to change in 2026, even though markets this year have been increasingly focused on topics such as artificial intelligence, digitalization, electrification, as well as political and geopolitical risks. From a Swiss perspective, the Swiss National Bank (SNB) and the European Central Bank play an important role, not least because their monetary policy decisions have a strong impact on exchange rates, interest rates, and the local economy and export industry. Central bank decisions—such as those by the Federal Reserve and the SNB this week—are therefore likely to move markets again next year.

Looking at the US, equities have historically tended to rise when the Fed cuts policy rates. Lower rates make valuations appear more attractive, as the bond market offers less yield and waiting for future profits comes with lower opportunity costs. In addition, rate cuts generally stimulate growth, although the effect tends to materialize only months or even quarters later.

The prospect of further rate cuts has therefore had a positive impact on markets in recent months, despite ongoing concerns about the resilience of the US economy. It is quite possible that markets will remain torn next year between fears of further slowing growth and optimism that weaker growth could lead to more rate cuts.

From an investor's perspective, three conclusions are key: First, another downturn is certainly possible, but fundamentally there is little to suggest a major crisis. In the event of bad news, the euphoria over further rate cuts should, in the medium term, outweigh fears of slowing growth, meaning financial markets are likely to continue treating bad news as good news. Second, we have increasingly observed that several central banks have eased policy rates even when inflation was above their target. This reduces inflation-adjusted returns on bonds and thus their attractiveness. Instead, equities and investments in real assets—infrastructure, real estate, or commodities—offer a better way to preserve and grow purchasing power. Third, careful liquidity planning and good diversification are important to be as well prepared as possible for potential market setbacks. In the event of a crisis, major central banks would likely cut rates quickly and significantly, which should lead to a recovery in the medium term, but we would rather be safe than sorry.

With regard to Switzerland, the Swiss National Bank kept its policy rate at 0% in December, like in September. We expect that the threshold for a return to negative policy rates will remain high next year. Low, but not negative, inflation expectations and slightly improved growth prospects suggest that the SNB will leave policy rates unchanged for the foreseeable future.

With the expected recovery in Europe, the euro could moderately appreciate against the Swiss franc in our base scenario. Regarding the US dollar, we think the USDCHF exchange rate could settle around the 0.80 mark. Further rate cuts by the Fed are likely to weigh on the dollar in the coming months, but we anticipate that demand for perceived "safe-haven" currencies will ease in 2026, which should reduce the attractiveness of the franc.

At the same time, the SNB is likely nowhere near to raising rates. As long as inflation stays at the lower end of its target range, a return to more restrictive monetary policy would be unexpected. In addition, risks to the global economic outlook are skewed more to the downside than the upside, and political surprises or geopolitical tensions can trigger further appreciation of the franc at any time. Investors should therefore be prepared for a possible strengthening of the franc in the coming year as well. In our risk scenario, EURCHF could fall to 0.88-0.92 and USDCHF to 0.68-0.72, accompanied by declining rates in Switzerland. With regard to currency risks, while partial hedging may incur costs next year, it can also help reduce risks.

In summary, investors can likely continue to count on monetary policy support from central banks in 2026, especially from the Fed. Investments in equities and real assets such as real estate, commodities, or infrastructure remain key for preserving and increasing purchasing power over the medium term, in our view. At the same time, good diversification and careful liquidity planning could help protect against negative surprises.

Appendix

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
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- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- **Private Credit:** There are risks specifically associated with investing in private credit. This could include losses stemming from defaults on loans, which in significant adverse circumstances could result in a substantial loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

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