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Volatility as the price of longer-term return opportunities

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The first half of 2026 showed that markets remained resilient despite numerous challenges. Many of these themes are likely to continue driving headlines and volatility in the second half of the year. Investors are advised not to react too strongly to such turbulence. Volatility is often the price investors pay for longer-term return opportunities.

The first half of the year is behind us. What is notable is not that there was turbulence, but how resilient markets remained. Since many themes are likely to remain relevant in the second half of the year, now is a good time for a brief look back—and ahead.

Geopolitical tensions have also shaped markets this year. The reactions were sharp, but as is so often the case, they were not lasting. Investors who ignored events in the Middle East, for example, are unlikely to regret it in retrospect. Market volatility is also likely to remain a theme in the second half of the year: The fragile peace process in the Middle East, new tariffs, or the US midterm elections could be potential triggers. However, they are unlikely to have a lasting impact on markets.

Second, it is striking how well the economy has withstood the energy price shock so far. Part of this was fortunate timing: Labor markets are currently less tight than they were in 2022. At the same time, supply chains have become more flexible, and consumers and companies are better at managing price fluctuations and disruptions. Governments and companies have invested in energy security, infrastructure, inventories, and regional diversification—and not only in the energy sector. Access to semiconductors, medicines, critical raw materials, technology, and sales markets has become a strategic priority

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for many governments. This trend is likely to extend well beyond the second half of the year and offer further investment opportunities.

Third, 2026 has again confirmed that central banks remain perhaps the most important pace-setters for markets. Inflation risks have not disappeared, but we are confident that the market is currently overestimating rather than underestimating these risks—and with them, the probability of higher interest rates. Lower interest rates could therefore become a positive driver for many asset classes in the second half of the year.

Alongside central banks, AI has also shaped market sentiment. Markets are now assessing opportunities and risks more critically than in recent years. On the one hand, the large US technology companies have reaffirmed through their investments how willing and able they are to advance the expansion of this key technology. Over the long term, this is likely to be profitable for many of them. However, declining free cash flow and reduced funds for share buybacks have recently weighed on these companies' share prices. On the other hand, the companies providing the necessary infrastructure benefited significantly. Such diverging performance trends could continue to determine success and failure in equity markets in the coming quarters—and thus continue to ensure that active investment strategies have better prospects for success than passive investments.

Last but not least, the first half of the year was also marked by initial public offerings (IPOs), capital increases, and share buybacks. Such activity is also read as a warning signal; a strong issuance market points to euphoria. At the same time, IPO volume appears less extreme when viewed relative to today's market size. And even if some technology companies are currently foregoing share buybacks, many other companies are continuing to pursue such strategies. Additional capital supply also often emerges where companies are investing, growing, and building capacity. For the second half of the year, the key question is therefore likely to be whether markets view these investments as worthwhile. If they improve the outlook for revenue and earnings, the capital required should also be mobilized.

Our conclusion? The first half of the year showed that markets can absorb bad news when earnings, growth, and monetary policy provide enough support. This thesis is likely to be tested again in the second half. US midterm elections, geopolitical tensions, and the next phase of the AI investment boom point to more volatility. But volatility is often the price investors pay for long-term opportunities. We believe the most important lesson is therefore this: Investors do not need to avoid every storm, but they do need to navigate with foresight.

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