AquilaMonitor

Independent, disciplined, transparent. And a touch more personal.

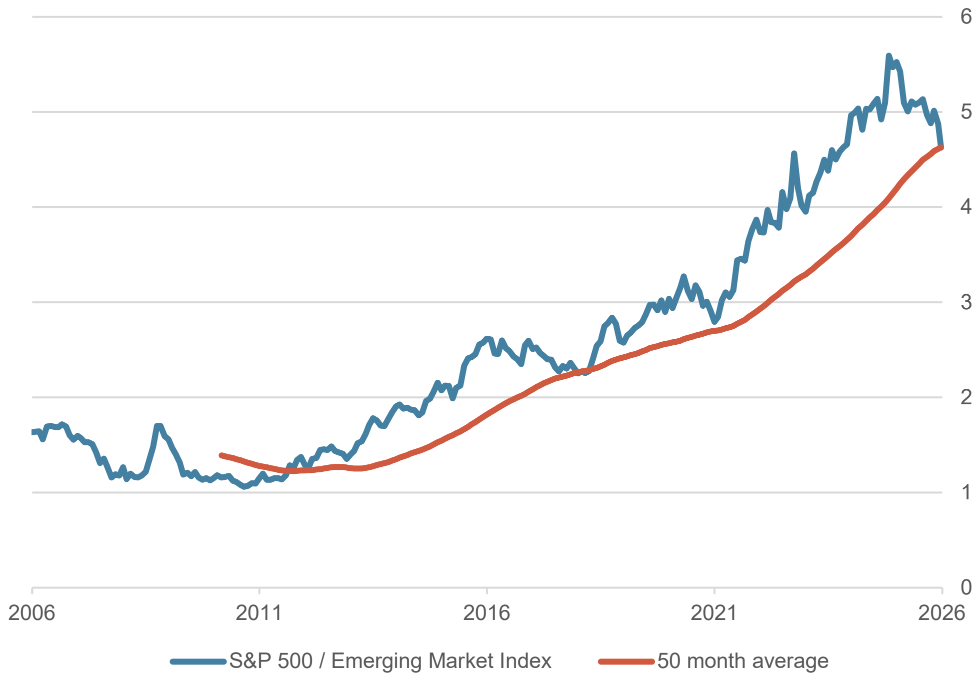
February 2026

Contents:

Executive Summary

- The service sector continues to be the mainstay of the economy, but manufacturing should recover thanks to improved sentiment data.
- Political uncertainties, trade barriers, and geopolitical tensions are weighing on the market, while fiscal stimulus is having a stabilizing effect.
- Expectations for interest rate cuts vary widely and will be strongly influenced by the appointment of a new Fed chair, which could also affect independence.
- In Europe and Switzerland, inflation rates are on target and monetary policy is on hold.
- Further interest rate hikes are expected in Japan.
- Bond markets have been trending sideways for some time. Geopolitical uncertainties are boosting Swiss bonds and weighing on Treasuries.
- US stock indices are increasingly being assessed on a selective basis. In Europe, the economic outlook is brightening and supporting the stock markets.
- After sharp depreciation in the first quarter of 2025, the dollar has stabilized within narrow limits. Political pressure and falling key interest rates could cause the dollar to remain weak. We do not expect erratic movements.
- Geopolitics, de-dollarization, rising government debt, and high demand from central banks, institutional and private investors are driving the gold price to new highs.

S&P 500 relative to the MSCI Emerging Markets Index (last 20 years)



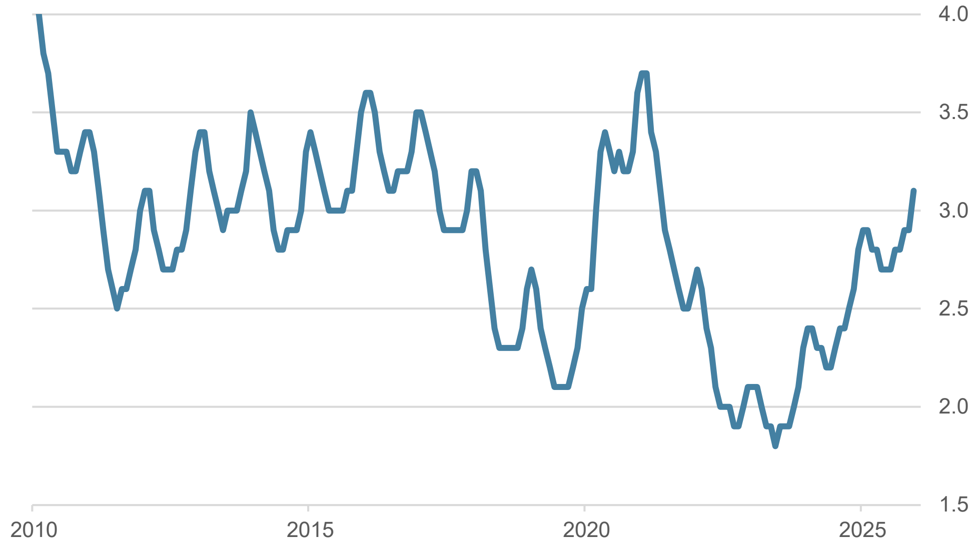
Source: Bloomberg Finance L.P.

Emerging market stock indices pick up speed

- The line in the chart shows how the US stock market (S&P 500) is performing compared to emerging market stocks (MSCI Emerging Markets). When it rises, the US market is performing better; when it falls, emerging markets are performing better.
- At the end of 2024, a very long period of American dominance came to an end, and since then, emerging market equities have enjoyed significantly stronger performance.
- A key trigger is the increasing political pressure on the US Federal Reserve, particularly from Donald Trump to lower interest rates. The financial markets are anticipating this development and are already expecting a looser monetary policy. As a result, a weaker US dollar is expected which will benefit emerging markets in several ways.
- It facilitates international trade and, in combination with lower interest rates, ensures significantly more attractive financing conditions in the global currency. As a result, more capital is flowing from the US into emerging markets. In addition, the US stock market is relatively highly valued, which is leading to further capital shifts.
- Emerging markets are also benefiting from the ongoing commodity rally. As many of these markets are heavily influenced by mining and commodity companies, this boom is having a direct positive effect on the relevant stock indices.
- Against this backdrop, we expect the current momentum to continue thanks to favorable valuations, capital inflows, and the macroeconomic environment.

Economy

Switzerland: Unemployment rate (since 2010)



Global: Purchasing managers' indices for the service sector

	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Global	52.2	51.5	52.7	50.8	52.0	51.8	53.5	53.3	52.9	53.5	53.2	52.4	52.4
Developed Markets	52.2	50.9	52.5	50.3	51.9	51.8	53.9	53.3	52.9	53.8	53.3	52.1	52.1
Emerging Markets	52.0	52.6	53.0	52.1	52.3	51.9	53.0	53.9	53.0	53.0	53.3	53.0	53.0
Eurozone	51.3	50.6	51.0	50.1	49.7	50.5	51.0	50.5	51.3	53.0	53.6	52.4	52.4
Germany	52.5	51.1	50.9	49.0	47.1	49.7	50.6	49.3	51.5	54.6	53.1	52.7	52.7
France	48.2	45.3	47.9	47.3	48.9	49.6	48.5	49.8	48.5	48.0	51.4	50.1	50.1
Italy	50.4	53.0	52.0	52.9	53.2	52.1	52.3	51.5	52.5	54.0	55.0	51.5	51.5
Spain	54.9	56.2	54.7	53.4	51.3	51.9	55.1	53.2	54.3	56.6	55.6	57.1	57.1
Switzerland	57.2	56.8	50.6	52.4	56.3	48.5	41.8	43.9	51.3	47.8	45.3	52.1	52.1
UK	50.8	51.0	52.5	49.0	50.9	52.8	51.8	54.2	50.8	52.3	51.3	51.4	51.4
USA	52.9	51.0	54.4	50.8	53.7	52.9	55.7	54.5	54.2	54.8	54.1	52.5	52.5
Japan	53.0	53.7	50.0	52.4	51.0	51.7	53.6	53.1	53.3	53.1	53.2	51.6	51.6
Brazil	47.6	50.6	52.5	48.9	49.6	49.3	46.3	49.3	46.3	47.7	50.1	53.7	53.7
China	51.0	51.4	51.9	50.7	51.1	50.6	52.6	53.0	52.9	52.6	52.1	52.0	52.0
India	56.5	59.1	58.5	58.7	58.8	60.4	60.5	62.9	60.9	58.9	59.8	58.0	58.0

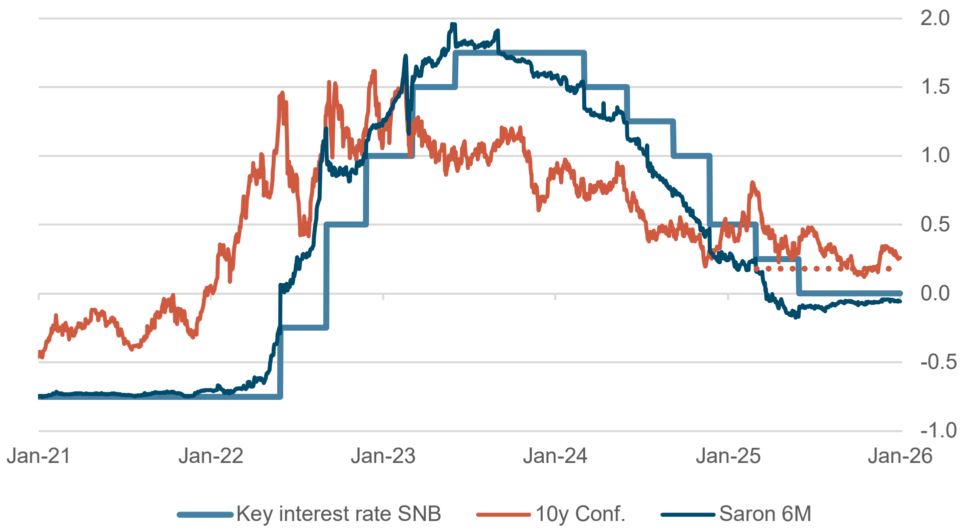
Source: Bloomberg Finance L.P.

Strong growth in the service sector

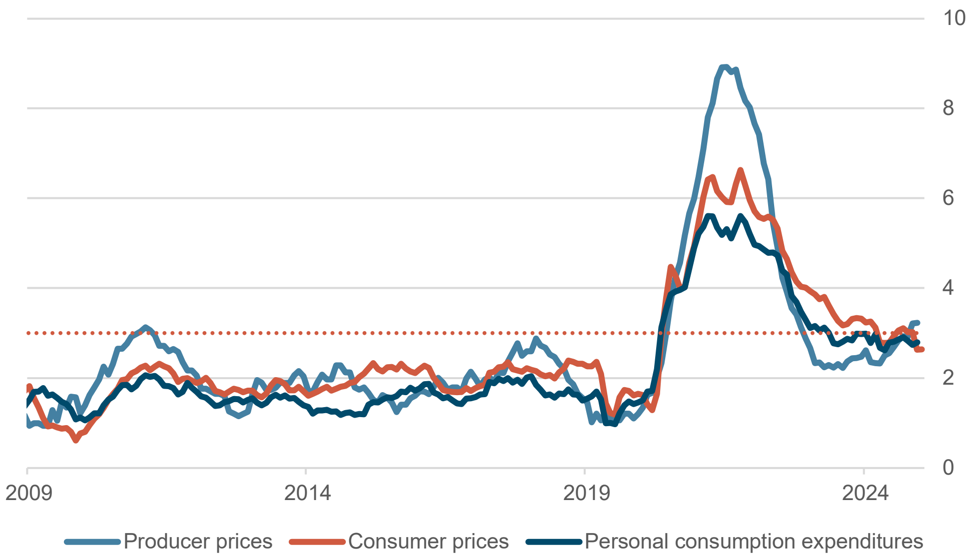
- The purchasing managers' indices for the manufacturing sector were weaker across the board in December compared with the previous month. The exceptions in Europe with better data were France and the UK, which, together with the US, were in the growth zone with values above 50 points in the indices compiled by S&P Global.
- By contrast, the indices for the manufacturing sector in the US compiled by the Institute of Supply Management (ISM) were disappointing. At 47.9 points, the overall index fell short of expectations. The order situation (47.7) and the labor market (44.9) weighed on the index, as did unabated price pressure at 58.5 points, which was even more burdensome in the service sector. However, an improvement in new orders is expected, as inventory reduction will once again be a concern for orders.
- By contrast, the purchasing managers' indices for the service sector remain above the important 50-point mark globally and are contributing to a surprisingly robust economic situation.
- The US budget was only approved in November 2025 with a temporary transitional credit until the end of January. This means that government operations could come to a partial standstill (shutdown) again as early as February. In view of the midterm elections coming up in November, negotiations are likely to be tougher this time around.
- While US tariff policy is already having a significant impact on global growth and the flow of goods, the dispute over Greenland is also weighing heavily. However, the EU has now set limits on President Trump's excessive demands and threatened cross-sector countermeasures, including retaliatory tariffs and market restrictions. This is the first time the EU has credibly signaled its willingness to respond to economic pressure with tangible countermeasures.
- Germany, the eurozone's largest economy, reported economic growth of 0.2% for the third quarter of 2025. For the 2025 calendar year, modest growth of 0.3% is expected for the first time since 2022. The government's spending offensive is also believed to continue to provide positive impetus for the industrial upturn.
- In December, unemployment in Switzerland rose to 3.1%, the highest level since 2021, and stands at 3.0% seasonally adjusted. The trend of rising unemployment that has been in place since 2023 is thus continuing – even with short-time working. The increase in December was seasonally impacted by the construction industry.
- We expect the following GDP growth rates for 2026: global 3%, US 2%, China 4.5%, EU and Switzerland 1.2%, UK and Japan 1%.

Monetary policy

SNB key interest rate, 6m Saron and 10y Swiss government bond yield (last 3 years)



USA: selected inflation rates (since 2010)



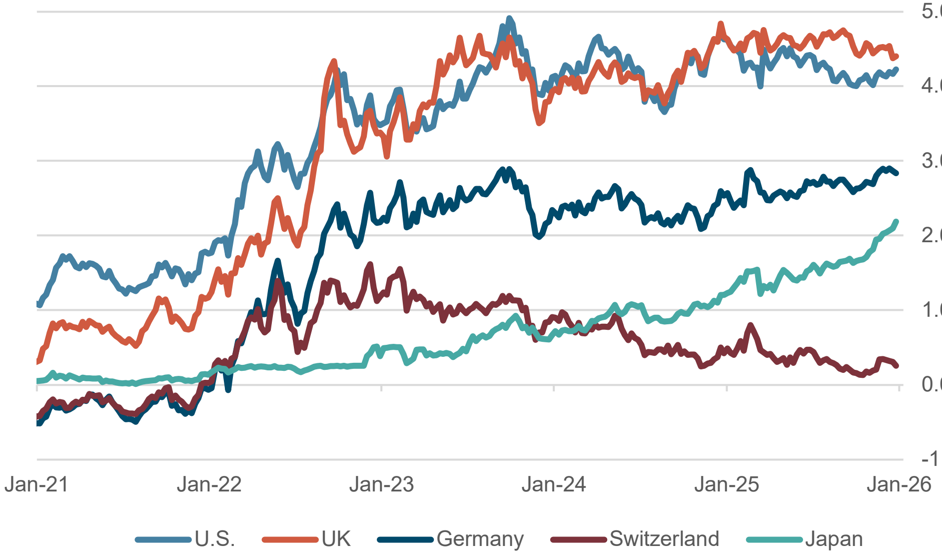
Source: Bloomberg Finance L.P.

Independence of the most important central bank under scrutiny

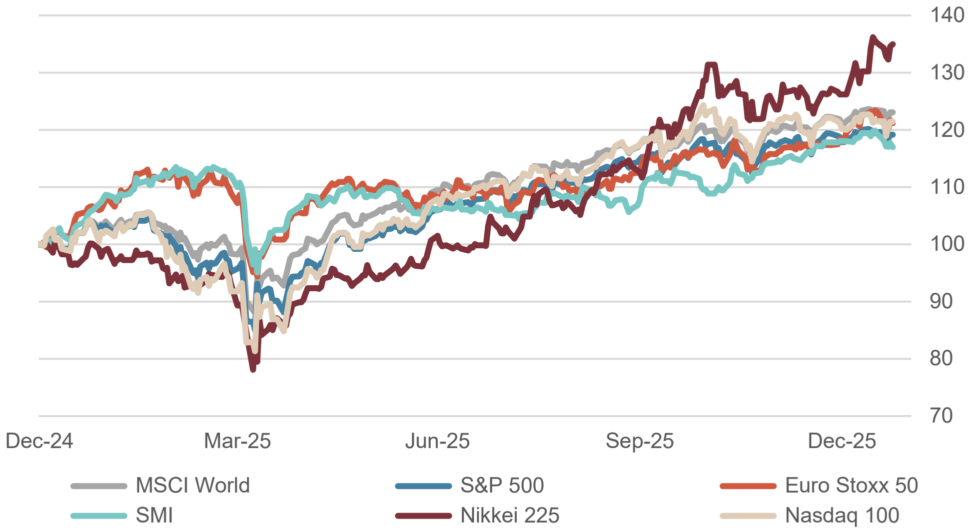
- For the current year, the market expects the Fed to cut interest rates twice, while the committee itself is only planning one move in the second half of the year. Stephen Miran goes much further and is calling for six interest rate cuts to 2.25%, based on his conviction that an overly strong US dollar is damaging to industry, and is therefore advocating a targeted weakening of the currency. His positions are considered to be close to those of Trump and are in line with a more politically oriented economic and monetary policy. In May, a new Fed chair will take over the reins of the central bank; political influence on monetary policy could damage the Fed's reputation, increase the loss of confidence and encourage a further rise in long-term yields.
- The Fed's preferred core inflation figure, based on personal consumption expenditures, remains above its long-term target of 2% at 2.8%. Solid economic growth, a still robust labor market, and substantial economic stimulus, infrastructure, and defense programs form the basis for steady demand for commodities and a potential surge in inflation, which does not justify interest rate cuts at this point in time – nor does the high level of government debt. Fiscal easing and the stock market wealth effect are already having a positive impact on economic growth.
- In the Nixon-Burns era of the 1970s, politically enforced interest rate cuts combined with rising inflation caused negative real interest rates, which led to strong economic growth, rising debt, asset inflation, a flight to real assets, and ultimately stagflation. There are some parallels with the current environment.
- The prevailing commodity inflation is primarily supply-driven and beyond the direct influence of monetary policy measures. In this environment, an expansionary monetary policy tends to have a destabilizing effect and, through additional demand stimuli, exacerbates existing price pressures without alleviating structural bottlenecks on the supply side.
- In Switzerland and the eurozone, inflation is within the target range of 0% to 2%. The two central banks will therefore refrain from taking further monetary policy measures for the time being and maintain their current key interest rates. The ECB's deposit rate is 2% and the SNB's key interest rate is 0%.
- The Bank of Japan faces a conflict of objectives between economic growth, high inflation, and the fiscal policy interests of the Liberal Democratic Party. The rise in yields on 10- and 30-year government bonds to 2.35% and 3.9% respectively reflects the inflation level of almost 3% and a reassessment of the interest rate structure. Against this backdrop, we expect yields to continue to rise, currently driven by geopolitics.

Asset classes – bonds/stocks

Interest rates on 10-year government bonds in %, last 5 years



Equity markets: performance since January 1, 2025, local currency terms indexed



Source: Bloomberg Finance L.P.

Bonds: Why yields are holding up despite uncertainty

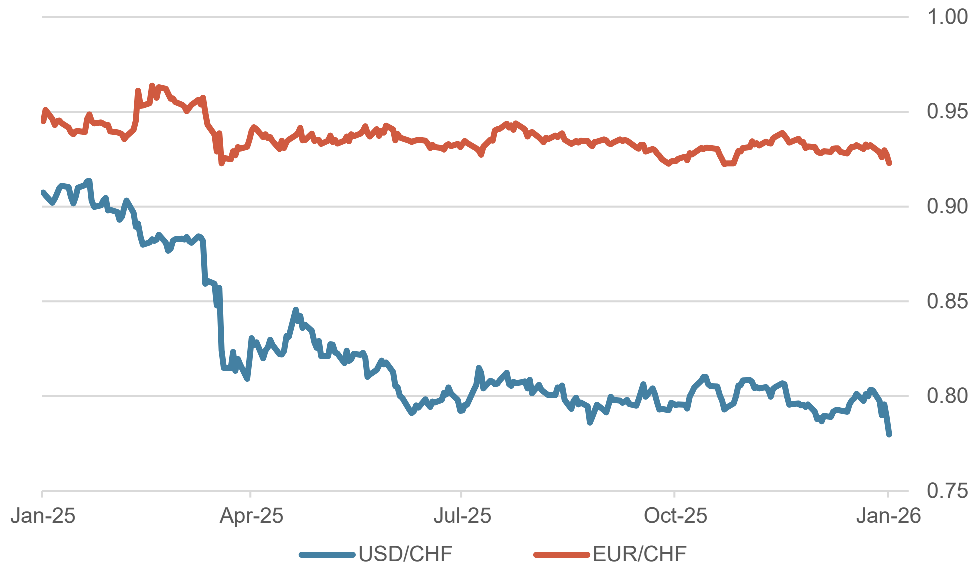
- Yields on 10-year government bonds are currently at 4.2% in the US, 2.9% in Germany, and 2.25% in Japan. They reflect a combination of ongoing inflation uncertainty and a large supply of government bonds due to high government deficits and quantitative tightening. At the same time, geopolitical tensions are having a mitigating effect and ensuring constant demand for safe-haven assets, especially among Swiss citizens, which is dampening yields.
- The heavily leveraged US in particular is dependent on investors from China, Japan, and European countries. This situation could contribute to closer ties among EU countries in the current Greenland crisis. If the Trump administration continues to increase pressure on the Federal Reserve and undermine its independence, it could trigger additional sales, which would push up long-term yields even if key interest rates were cut at the short end.
- Yields are currently holding steady due to a complex interplay of risk premiums, supply effects, and safe-haven flows. This is a fragile balance that could quickly tip if confidence is lost.

Positive market sentiment threatened by trade dispute and shutdown

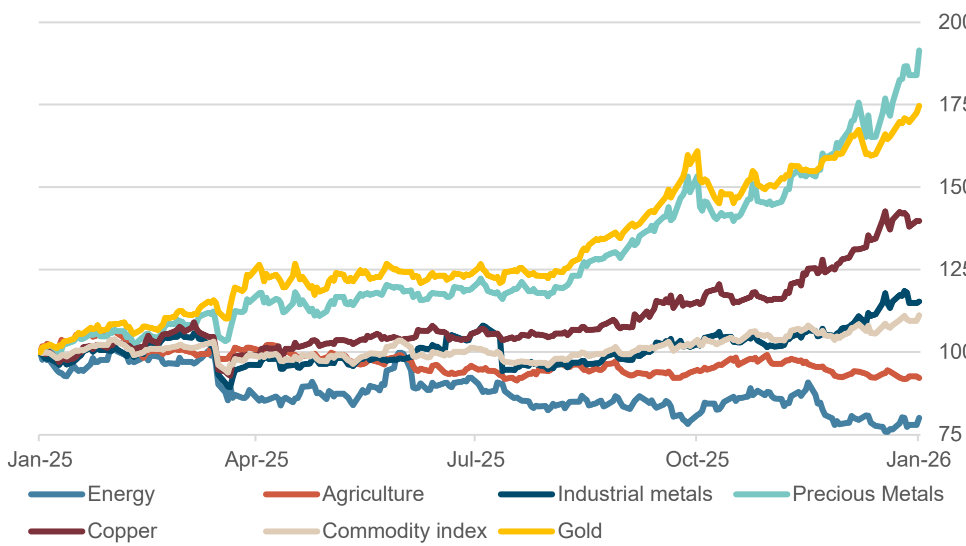
- The US reporting season has gotten off to a promising start. Most companies have exceeded expectations. In contrast, geopolitical tensions surrounding the Greenland crisis, political unpredictability, and the recent shutdown are weighing on US indices. Combined with ambitious valuations and increased volatility, the environment for US equities remains promising but increasingly selective.
- Driven by an expected improvement in consumer and business confidence, increasing clarity in trade, and supportive global monetary and fiscal policy, the cyclical outlook in Europe could brighten after three years of stagnant earnings.
- While structural problems for German companies may persist, the constitutional amendments enabling the spending program to signal a significant reform of the fiscal framework in Germany. The market also offers an attractive dividend yield.
- Overall, robust organic sales growth is expected to continue for Swiss companies. Price increases are currently difficult to implement. Companies are therefore focusing more on efficiency improvements, portfolio optimization, and targeted acquisitions.

Asset classes – currencies and other investments

Euro and dollar against the Swiss franc, last 12 months



Commodity indices, last 12 months



Source: Bloomberg Finance L.P.

Short-term consolidation, medium-term depreciation pressure in the USD

- The US dollar has lost around 12% of its value against the Swiss franc over the course of the year and is currently hovering around the 0.80 mark. However, it should be noted that the decline occurred in the first half of the year and that the currency stabilized significantly in the second half.
- In the medium term, we expect the USD to decline further as confidence in the world's reserve currency is increasingly eroded by aggressive US trade policy and political attacks on the independence of the US Federal Reserve.
- The euro has been fluctuating within a narrow range of 0.92-0.94 against the Swiss franc for some time. The low volatility in this currency pair is likely due to the fact that no further interest rate cuts are expected from either central bank for the time being. Overall, however, we continue to expect sustained high demand for the Swiss franc, as capital is flowing into Switzerland at an increased rate despite low interest rates globally. This underscores the fact that security and stability are currently more important to many international investors than returns.

Gold rises above $5,000 per ounce

- Towards the end of the year, the gold price reached a new all-time high of over USD 4,500. At the end of the year, there was a brief correction to USD 4,319. The price per ounce rose to just over USD 5,000, which equals to a price per kilo of CHF 127,000.
- We remain unchanged in our long-term assessment of gold as a robust real asset with value-preserving properties, and our positioning also remains unchanged. The main reasons for the gold boom are high demand from central banks, the general trend toward de-dollarization, and, finally, the increase in government debt in many countries. The reason for this can be found in the increasing polarization of society and the lack of willingness to compromise in political disputes. This constellation results in what is known in the Anglo-Saxon world as "kicking the can down the road": problems are postponed to the future and not solved. The outlook for the development of government debt is poor and correspondingly positive for gold and other real assets.

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