

AquilaMonitor

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January 2026

Contents:

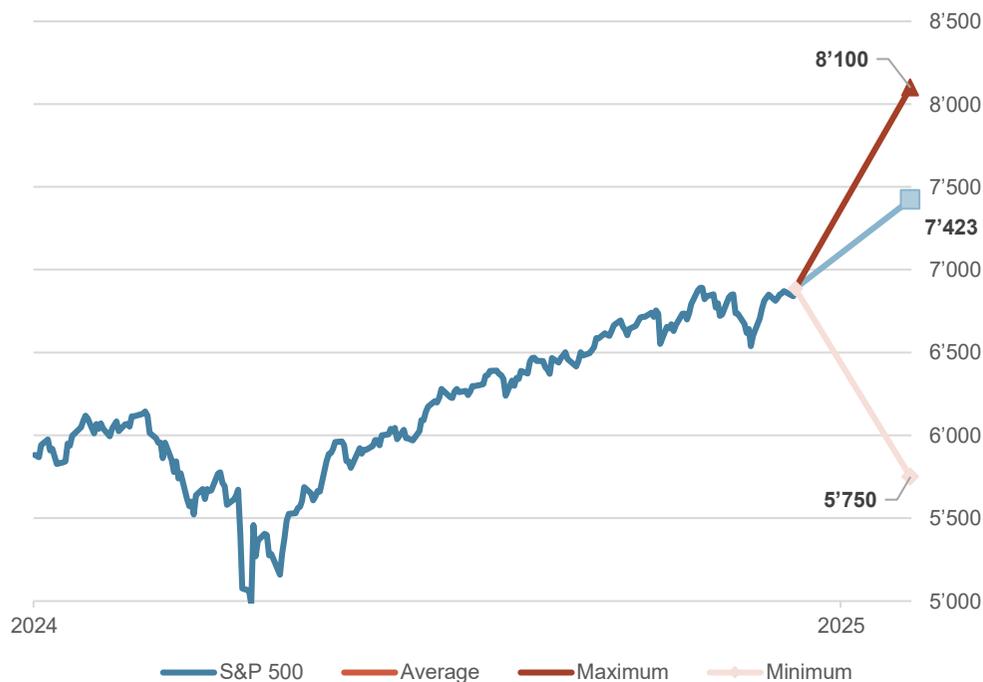
Executive Summary | Macroeconomic Assessment | Asset Classes



Executive Summary

- The Atlanta Federal Reserve's forecast model expects GDP growth of 2.7% for the fourth quarter.
- In the US and the Eurozone, fiscal and monetary policy and positive consumer sentiment are contributing to decent economic growth, while in Switzerland there are signs of a recovery in the manufacturing sector.
- In December, the Fed cut its key interest rate for the third time this year and announced it will buy short-term Treasury securities as necessary to maintain an ample supply of reserves in the system. The Fed could now “pause” on lowering policy rates further until the handover to Jerome Powell’s successor. Kevin Hassett is seen as the most likely replacement for Powell.
- The ECB and SNB leave their key interest rates unchanged. The BOJ tightens its monetary policy again.
- The bond markets are trending slightly weaker again.
- Led by the US, stock markets are again approaching their highs for the year.
- The US dollar has stabilized further, while the Swiss franc has lost some of its luster.
- The price of gold has experienced wild ups and downs in recent weeks, triggered by a massive wave of speculation. We remain positive in our (long term) assessment on gold.

2026 price forecasts for the S&P 500 equity index



Source: Bloomberg Finance L.P.

2026 price targets for the S&P 500 range between 5,750 and 8,100

- Analyst average estimates for the S&P 500 at end-2025 are slightly below the current index level. But the most frequently cited forecast for end-2025 is 7,000 points, which implies moderate upside potential until the end of the year and a gain for 2025 overall of more than 20%. But this obviously refers to the USD return and the dollar has lost around 12% against the Swiss franc so far this year.
- Analyst S&P 500 forecasts for 2026 range widely between 5,750 and 8,100 points, with the average around 7,420. This corresponds to an expected price gain of around 8%.
- The trend in US corporate earnings is expected to remain positive. Earnings growth outside the mega-cap Tech stocks is expected to pick up significantly, further closing the gap with the “Magnificent 7”.
- According to Bloomberg, the average of earnings estimates for the S&P 500 index in 2026 stands at USD 301, while FactSet expects index earnings of USD 309. These forecasts imply an annual earnings growth for the overall market of just under 12% and 14.75%, respectively.
- Based on these forecasts, the respective P/E ratios based on 2026 earnings are around 24.7 and 24, both high by historical standards. For the investor, the “positive” of high earnings expectations is thus offset by the “negative” of high valuations. However, if the former prove accurate and earnings expectations are met, global stock markets are likely to have a good year ahead, especially since the US market plays a dominant role in the equity asset class due to its size.

Economy

USA: Atlanta Fed's "GDPNow" forecast model



Switzerland: purchasing managers' index for the manufacturing sector, last 6 years



Source: Bloomberg Finance L.P.

2025 - an eventful year with resilient economic growth

- The official figures for the third quarter, delayed by the shutdown, showed robust annualized GDP growth of 4.3%, significantly exceeding estimates.
- Consumer and small business sentiment indicators in the US are improving, and the wealth effect from stock market gains also points to robust economic growth in the final quarter. The Atlanta Federal Reserve's forecast model predicts solid growth of 2.7% for the fourth quarter.
- Neither the cooling trend in the labor market nor the shutdown appear to be having much of a negative impact on the US economy. Fiscal and monetary easing, and the rolling back of regulations are providing fundamental support. A further cooling of the labor market would be undesirable. Hence, the Fed's recent rate-cutting moves.
- In the Eurozone, expansionary fiscal policy is also becoming the main driver of growth, something which implies growing budget deficits and higher government debt levels. Germany is budgeting for a deficit of around 4% of GDP in 2026, which will again violate the Maastricht rules of 1992 and which the government justifies by the need for higher spending on defense and infrastructure.
- The purchasing managers' index for the manufacturing sector in Switzerland recovered to 49.7 points in December and fell back to 45.8 points in January. The retroactive reduction in customs duties to mid-November is likely to improve sentiment going forward. The service sector, on the other hand, could recover significantly to 52.1 points. We note that this survey has been subject to major fluctuations in the recent past and the data series may therefore not be very meaningful.
- Consumer sentiment in Switzerland, as measured by the State Secretariat for Economic Affairs (SECO), is showing a strong recovery that is above expectations. This should provide a favorable environment for Christmas sales and economic growth.
- China: Growth in 2025 was disappointing as the recovery was hampered by the persistent structural real estate crisis and ongoing geopolitical tensions. We expect a slight upturn in the economy in the new calendar year thanks to public investment programs, which should also benefit from the central bank's expansionary monetary policy and contribute to the economic turnaround.

Monetary policy

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



Inflation expectations – year on year changes, last 6 years



Source: Bloomberg Finance L.P.

Recent central bank decisions in line with expectations

- Jerome Powell's term as Fed Chair expires in May 2026. Among the candidates to succeed him, Kevin Hassett is emerging as the most likely successor. Hassett is currently Director of the National Economic Council and is thus the chief economic advisor within the Trump Administration. He advocates an Administration-co-ordinated, business-friendly and expansionary monetary policy. His appointment would be seen as a threat to the Fed's independence, reviving memories of the inflationary surge in the 1970s that happened under then-Fed Chairman Arthur Burns and President Nixon.
- In December, the Fed lowered its key interest rate for the third meeting in a row, this time by another 25 basis points to a range of 3.50-3.75%. The additional cut was justified by more signs of weakness in the labor market, but it was not unanimous. Due to the 43-day government shutdown, important official data on inflation were missing. The core PCE rate, at 2.8%, is well above the target of 2%, and there is a tendency for further upward pressure as the effects of tariffs are passed on, at least in part, along the value chain. Jerome Powell has suggested there is little room for further cuts. Fed official rate forecast data released after the December FOMC meeting suggest only one interest rate cut for 2026, based on some reduction in uncertainty.
- The FOMC members also decided to purchase short-term Treasury securities for the purpose of ensuring sufficient reserves within the financial system and supporting the management of the key interest rate.
- These decisions were well received in stock and foreign exchange markets.
- As expected, the SNB's December policy meeting left its key policy interest rate unchanged at 0%. Although inflation has fallen slightly in recent months, the SNB expects it increase from here, with an average of 0.6% forecast for 2027. The SNB's economic outlook has improved thanks to lower US tariffs and a better global economy. The Swiss central bank reserves the right to intervene in the foreign exchange market if necessary. The hurdles for reintroducing negative interest rates remain high. Yields on 10-year Swiss government bonds have risen significantly to above 0.3% in recent days, reducing the likelihood of a further policy rate cut.
- The ECB also stuck to its current policy guidelines. At 2.2%, the inflation rate in the currency area in November was practically on target and continues to support a pause.
- As expected, the Bank of Japan raised its key interest rate by 0.25 percentage points to 0.75% on December 19. A continuation of the tightening of monetary policy is expected, which should avert further depreciation of the yen.

Asset classes – bonds/stocks

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



Bonds: Bond markets slightly weaker

- 10-year government bonds are currently yielding around 4.2% in the US, 2.9% in Germany, and 0.3% in Switzerland. Thus, yields have increased slightly in recent weeks.
- We link these slightly higher yields, particularly in Europe, to "pension reform" in Germany. The German government continues to spend money freely. And, with the ongoing deterioration in government debt, it is surprising that bond markets are not building up a larger risk premium. Investors see an increased chance of intervention by central banks (quantitative easing) to support bond markets should yields rise to uncomfortable levels. The goal of stable bond markets would thus be achieved without concrete intervention. The ECB in particular is under pressure to act in this regard.

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



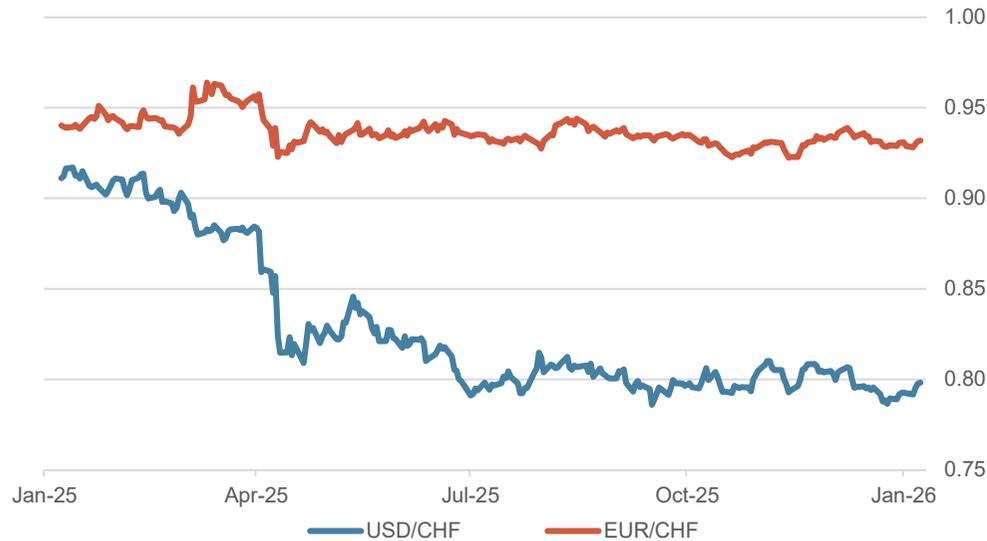
Source: Bloomberg Finance L.P.

Equities: US markets once again in the driving seat

- The Nasdaq and S&P 500 are up 21% and 18% respectively in local currency terms this year and are trading at near all-time highs. The November correction has already been offset. The valuation of certain sectors – especially those related to artificial intelligence – continues to be hotly debated. Leveraged buyouts (LBOs) and acquisitions are emerging as new drivers of the US stock markets. This phenomenon is also characteristic of the late phase of a market cycle.
- In Europe, stock markets remain robust despite less than encouraging fundamentals. The SMI has also caught up noticeably of late, thanks to the strong performance of index-heavyweight Roche. In returning to its yearly high, the SMI is now up around 18% since the start of the year.
- In the medium term, we expect tariffs and persistent inflationary pressure to dampen companies' willingness to invest and private households' propensity to consume. However, we are sticking to our cautiously constructive assessment of the stock markets. At the same time, we would like to reiterate that valuation levels in several market segments, especially in the US, are already significantly elevated, implying a high level of risk. Within our equity allocation, we are tactically underweight in the US.

Asset classes – currencies and other investments

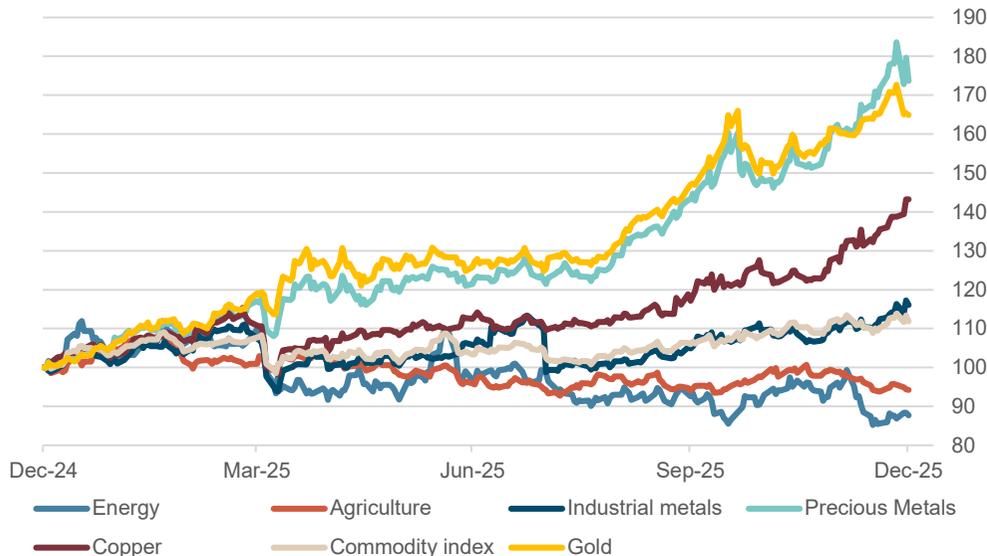
Euro and dollar against the Swiss franc, last 12 months



Currencies: Euro slightly stronger against the CHF

- The US dollar has lost around 12% of its value against the Swiss franc during 2025 and is currently hovering around the 0.80 mark. We note, however, that the decline occurred overwhelmingly 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 eroded due to aggressive US trade policies and political attacks on the independence of the Federal Reserve.
- The euro has been fluctuating within a narrow range of 0.92-0.94 against the Swiss franc for some time now. 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 Swiss francs, as capital is increasingly flowing into Switzerland despite low interest rates globally. This underscores the fact that security and stability are currently more important to many international investors than returns.

Commodity indices, last 12 months



Gold remains in demand but with less upward price momentum

- 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 4,320. Currently, the price per ounce is around USD 4,450, with the price per kilo in Swiss francs around 113,000.
- Our long-term assessment of gold remains positive. We view gold as a robust “real” asset with value-preserving properties. It remains a key component in our portfolios. Among the supports for the boom in gold are (i) high demand from central banks, (ii) the general trend toward de-dollarization, and last but not least, (iii) increasing government debt in many countries. We view the deterioration in government balance sheets as reflecting the increasing polarization of society and the lack of willingness to reach difficult decisions in political disputes. This is described in the Anglo-Saxon world as “kicking the can down the road”: Problems are not solved because solutions are rather postponed into the indefinite future. Thus, the outlook for government debt is poor and this is correspondingly positive for gold and other “real” assets.

Source: Bloomberg Finance L.P.

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