

AquilaViewpoints

Market Outlook | 4th Quarter 2026



Tactical Perspective:

Macro ▲

Bonds ▼

Equities ►

Other Asset Classes ▲

Executive Summary

- Factory orders, retail sales, GDPNow and purchasing managers' indices point to a robust US economy. The resulting inflation is driving yields higher. In the short term, the positives prevail.
- In the eurozone, sentiment is running ahead of the real economy; German fiscal policy is likely to lift German growth to just under 2% in 2026 and 2027, well above the consensus of 1.0% and 1.1%, respectively. Switzerland grew strongly in the second quarter, driven by pharmaceuticals.
- The Fed, ECB and BoJ each raised rates by 25 basis points in September to counter the war-related, energy-driven surge in inflation, although rate hikes have only limited effect against a supply shock.
- Thanks to low inflation, the SNB is sticking to its zero interest rate policy.
- Yields are rising across the curve on the back of tighter monetary policy. Weak auction demand, particularly from foreign buyers, adds further pressure.
- Earnings remain solid support. In the US, analysts expect third-quarter earnings growth of 28.9%, with estimates rising. Headwinds come from the discount rate, as yields above 5% depress the present value of future earnings.
- The SNB's zero interest rate policy is weakening the franc. In Japan, currency interventions have fizzled out, and with a negative real interest rate the BoJ remains behind the curve.
- Record diesel and high gasoline prices are weighing on Republicans ahead of the midterms; US–Iran talks are unlikely to bring much relief.

Our Macroeconomic Assessment

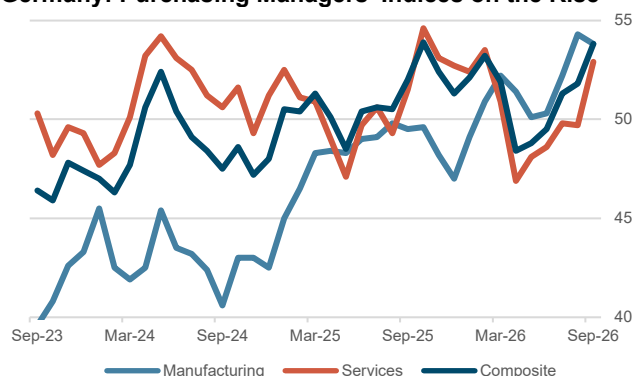
Economy

- In the US, preliminary factory orders for July rose strongly by 1.1% month on month. Retail sales were similarly upbeat in August, increasing by 1.2% on the previous month – a picture corroborated by the Atlanta Fed's GDPNow model, which points to annualised real growth of 5.0%. In addition, S&P Global's purchasing managers' indices came in well above expectations in September and remain firm. Government bond yields rose markedly in response, weighing on the outlook.
- For now, we expect the positive factors to prevail.
- In the eurozone's largest economies, hard growth data remain disappointing, while sentiment indicators and the outlook are improving sharply from a low base. This confidence is likely to feed through to the real economy in the coming quarters.
- The Swiss economy grew more strongly in the second quarter than at any time since 2021. However, almost half of the growth came from the volatile pharmaceutical sector, which was already losing momentum in August.

Monetary Policy

- In September, three major central banks each raised their policy rates by 25 basis points: the ECB lifted its deposit rate to 2.50%, the Fed its target range to 3.75–4.00% and the Bank of Japan its policy rate to 1.25%. All three cited the war-related, energy-driven surge in inflation.

Germany: Purchasing Managers' Indices on the Rise



Source: Bloomberg Finance L.P.

- The Fed's decision carries the most weight. Donald Trump appointed Kevin Warsh to head the central bank with the stated expectation that he would cut rates. Instead, the Federal Open Market Committee has now voted unanimously for a hike, against the president's wishes. Warsh also pointed to robust growth, geopolitical risks and persistent inflationary pressure to justify the move. The committee judges that financial conditions are not yet restrictive enough.
- The SNB is keeping its policy rate at 0% even as growth picks up again. With inflation low, it can afford to, and we consider the decision appropriate. The SNB remains willing to intervene in the foreign exchange market.

Our Investment Conclusions

Bonds

- Inflation rates stubbornly above target have prompted the major central banks to tighten. Bond markets are following suit, with yields rising across the entire curve. Ten-year government bonds yield over 5.2% in the US, over 5.3% in the UK, over 3.6% in Germany, over 3.1% in Japan and over 0.6% in Switzerland.
- France deserves particular attention. Its ten-year yield has risen to over 4.7%, above those of Spain, Italy and Greece. The market thus rates France as riskier than the eurozone's former stressed sovereigns. The reason is the poor state of its public finances.
- The ongoing tightening cycle is keeping buyers on the sidelines. As long as further rate hikes are priced in, price losses loom, so investors are waiting. Demand is only likely to return once yields reach a level that compensates for further hikes, or once the end of the cycle comes into view, which is not yet the case.

Equities

- US companies grew earnings by 35% year over year in the second quarter, with momentum spread somewhat more broadly across sectors than before. For the third quarter, FactSet expects slightly lower growth of 28.9%. Analysts have raised their estimates by 1.6% since the end of June. Thanks to higher oil prices, energy sector earnings are growing by more than 100%. The slowdown is likely due to shrinking net margins and partly to base effects, which will be felt in full in 2027.
- In Europe, earnings expectations have been raised sharply over the course of the year. Goldman Sachs expects 15% growth for the Stoxx 600 in 2026.
- Germany looks different. At 8%, expected earnings growth for 2026 is below the European average, but it is likely to accelerate to around 16% in 2027 thanks to the cyclical recovery and fiscal stimulus.
- Earnings growth thus remains solid support for equities and offsets the headwinds from the bond market.

Currencies

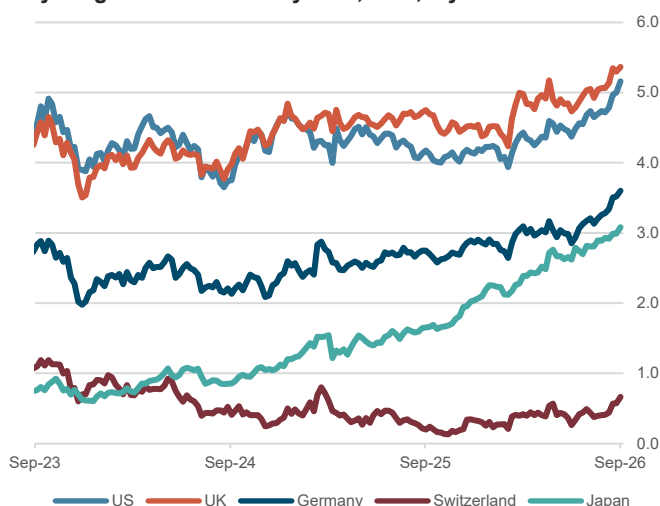
- The SNB welcomes the weaker franc, and its zero-rate policy reinforces the trend while the ECB and the Fed tighten. Following the SNB decision, the dollar rose to around CHF 0.83, its highest level in 16 months. As markets are pricing in a further widening of the interest rate gap, this upward trend is likely to continue.
- Against the euro, the franc has traded in a narrow range since the start of the month: EUR/CHF is holding steady at around 0.9450, well above its March low of around 0.90.
- For the Swiss economy, the weaker franc cuts both ways. It gives exporters a tailwind but also makes imports more expensive, nudging inflation slightly higher.
- For the yen, two instruments are working in tandem: BoJ rate hikes and the joint US–Japanese intervention. The intervention had only a brief effect, and rate hikes alone are not enough to reverse the trend. With a policy rate of 1.25%, headline inflation of 1.9% and core inflation of 1.6%, the real interest rate remains negative, leaving the BoJ behind the curve.

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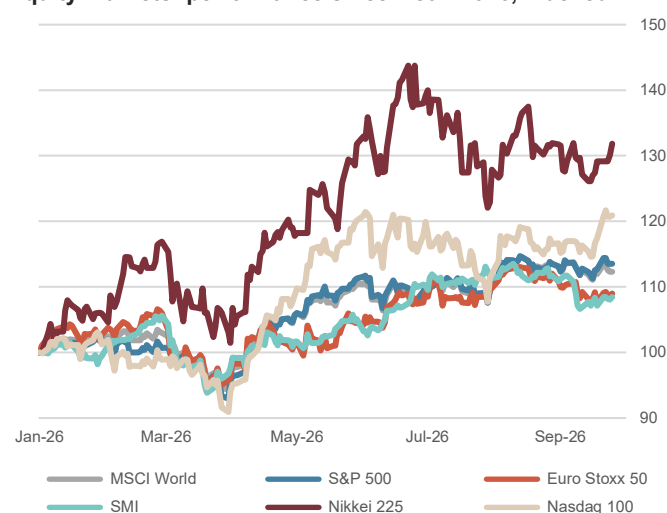
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10-year government bond yields, in %, 5 years



Source: Bloomberg Finance L.P.

Equity markets: performance since 1 Jan 2026, indexed



Source: Bloomberg Finance L.P.

Our scenarios

Scenario	Probability	Cash	Bonds	Equities	Alternative Investments
Positive Disinflation and Late Cycle	25%	↓ Underweight	↑ Overweight	↑ Overweight	→ Neutral
Base Case Robust Economy under Interest Rate Pressure	55%	→ Neutral	↓ Underweight	↗ Slight overweight	↑ Overweight
Negative Stagflation and Confidence Shock	20%	↑ Overweight	↓↓ Strong underweight	↓ Underweight	↑ Overweight
Weighted Trend	100%	→ Neutral	↘ Slight underweight	→ Neutral	↑ Overweight

Source: Aquila Investment Management