“Harnessing momentum, managing risks”

Our Opinion
August 2026

Dear Reader,

In the article “Harnessing momentum, managing risks”, we show, among other things, how the momentum factor can be used to achieve outperformance.

We wish you an engaging and stimulating read.

Your Advisory Team

Neue Bank

“Harnessing momentum, managing risks”

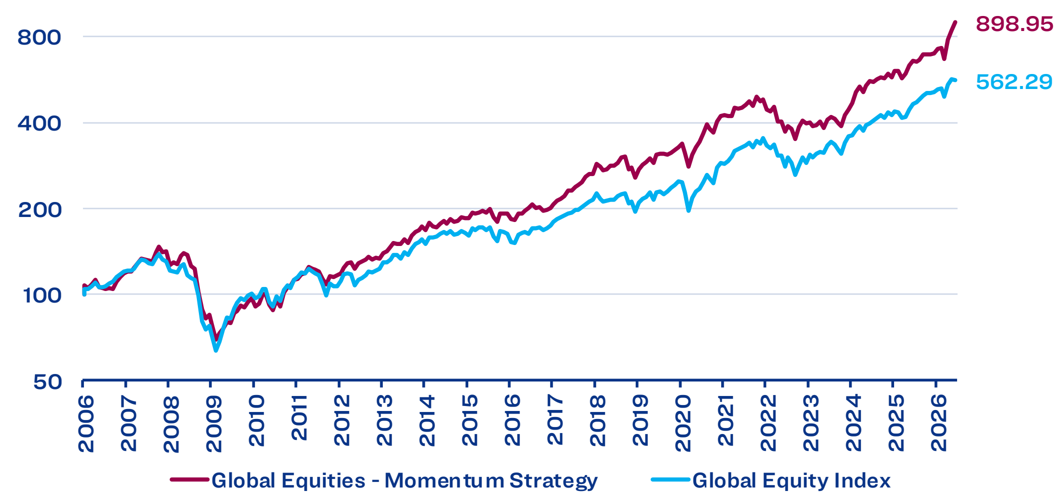
Neue Bank traffic light

- strongly bearish
- bearish
- neutral
- slightly bullish
- bullish
- strongly bullish

Equities

A momentum strategy focuses on equities that are already in a clear upward trend. Instead of buying supposedly cheap stocks and hoping for a recovery, it favours securities that have performed above average in recent months. The underlying assumption is that price strength tends to persist, at least for a certain period of time. Accordingly, the principle is not “buy low, sell high” but “buy and sell higher”.
In practice, momentum is usually measured on the basis of performance over defined time periods. Stocks with the strongest – often risk-adjusted – performance are selected, while weaker names are replaced during regular rebalancing. As a result, the strategy is significantly more active than a traditional buy-and-hold approach.
In retrospect, momentum has proved to be a return-enhancing factor. The global equity momentum index, which bundles the most dynamic stocks from the global large-cap universe, has clearly outperformed the broad global equity index since early 2006; the performance lead amounts to around 337 percentage points, a not insignificant portion of which has also been generated since 2024.

Significant Performance Advantage of Momentum Equities



Source: Bloomberg, Neue Bank

Driven most recently by the strong rally in technology and semiconductor stocks in the wake of the AI boom, this development has led to pronounced sectoral and regional concentration – in particular towards the United States. This concentration is both an opportunity and a risk. As long as the underlying trend remains intact, a momentum strategy can generate substantial excess returns. If sentiment turns in the dominant segments, however, noticeable setbacks are likely. In our active portfolio management, we use the momentum factor on the one hand as one of several criteria in equity selection and, on the other hand, we hold a satellite position in a momentum index fund (ETF), which – as shown above – has proved convincing.

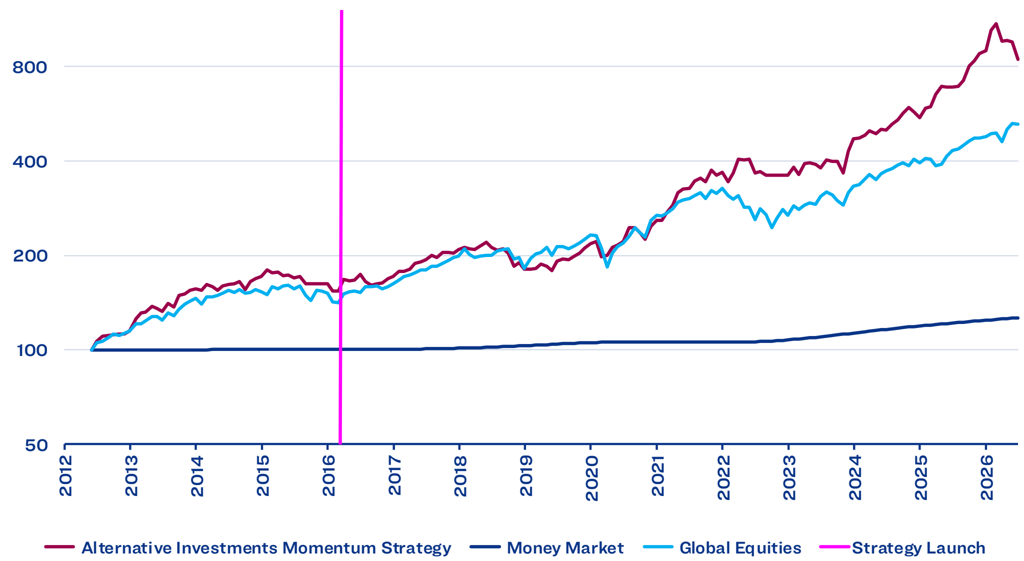
Bonds

The recent rally in momentum stocks in the equity space has a less widely noted flip side in the credit market. Many of the major beneficiaries of the AI boom – including Amazon, Alphabet, Microsoft and, in particular, Oracle – now exhibit significantly higher spreads on their credit default swaps (CDS). Hedging against default by these issuers currently costs between 50 and 75 basis points, and in the case of Oracle almost 200 basis points. This means that costs are at their highest level for years and well above the levels seen, for example, in mid-2025, when CDS were still trading between 20 and 30 basis points, or at 37 basis points in the case of Oracle. At the same time, the outstanding net volume of CDS on these companies has risen sharply. This is driven less by a sudden deterioration in credit quality than by the way the AI investment cycle is being financed: the hyperscalers have massively increased their AI-related investments. An increasing share is no longer financed from ongoing cash flows, but via record-high bond issuance. Oracle illustrates exemplarily what can happen when high expectations are not met. While the company’s CDS spreads are significantly above those of other large technology issuers, its share price has fallen by more than 60% over the past 12 months. The market is thus pricing in not only higher financing and project risk, but also the danger that the ambitious return expectations for AI investments will not be achieved. For the bond market, this implies a bifurcation: as long as the AI story remains intact, these issuers continue to be in demand. At the same time, investors are demanding a higher premium for the concentrated AI and momentum risk. If the high growth and margin expectations are disappointed, a simultaneous correction in equity and credit markets is likely – with disproportionate effects on those names that currently lead both in terms of price gains and CDS spreads.

Alternative investments

The more risks in the equity and bond markets overlap – for example through the high concentration in a few AI and technology names – the more important genuine diversification becomes into asset classes that are as little correlated as possible with these risk factors. In addition to instruments such as microfinance or catastrophe bonds – two of our core holdings in the area of alternative investments – we have been using a momentum strategy as a satellite investment for many years. This involves systematic reallocation between investments such as gold, commodities, listed private equity or real estate. The aim of the strategy is to generate an additional return over money market rates over time. At the same time, it has succeeded in outperforming the global equity index with a similar level of risk.

Alternative Investments – Momentum Strategy(in USD)

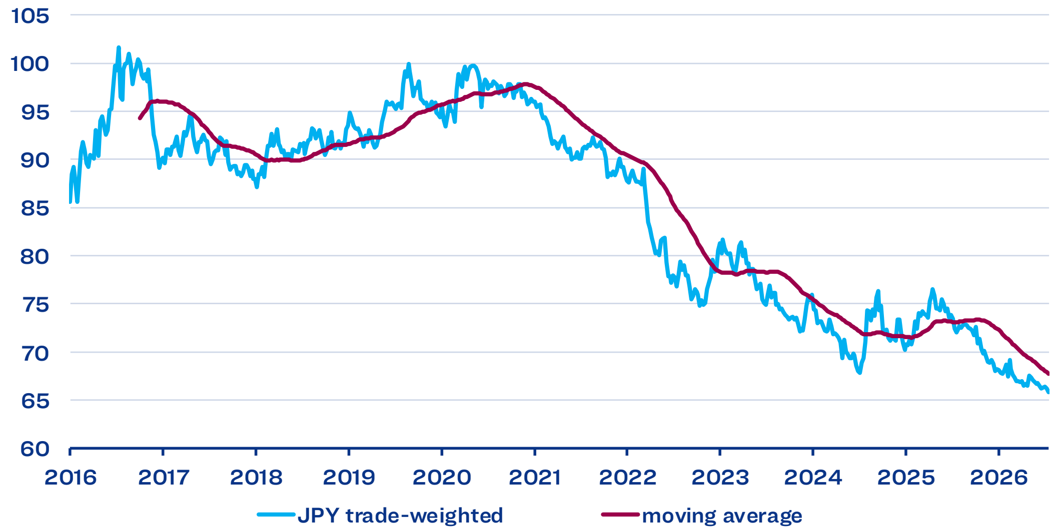


Source: Bloomberg, Neue Bank

As with any momentum strategy, however, it is not immune to short-term setbacks: if price trends reverse quickly, temporary losses can occur – as was recently the case with gold investments – before the trend stabilises again. At present, the model has generated a buy signal for commodities (excluding agriculture), and we have therefore built up a position in this segment. We deliberately refrain from investing in agricultural commodities. On the one hand, speculative positions in staple foods can exacerbate price spikes and thus further impair food security in poorer countries. On the other hand, bets on rising food prices are at odds with our ethical principles of responsibility, as they potentially come at the expense of those who have to spend a large proportion of their income on food. Finally, agricultural markets are heavily influenced by weather extremes, political interventions and subsidies, which makes price dynamics difficult to predict and, in our view, further calls into question the added value of such an asset class.

Currencies
The Japanese yen (JPY) continues to exhibit pronounced negative momentum. On a trade-weighted basis, it has lost around 35% of its value over the past six years. Against the US dollar (USD), the JPY is trading at its lowest level in around three decades. The Bank of Japan's extensive bond purchases are limiting the rise in yields and keeping the interest rate differential with the United States and Europe high. This dampens foreign investor interest and reinforces depreciation pressure on the currency.

JPY weakens against trade-weighted currency basket



Source: Bloomberg, Neue Bank

Against this backdrop, we largely hedge our JPY exposures in portfolios with reference currencies CHF, EUR and USD. As long as the combination of high government debt, yield curve control and a wide interest rate differential persists, we see little reason to position ourselves against the existing downward trend in the JPY.

Economic environment

In the United States, growth remains robust so far, supported by solid corporate earnings and persistently high investment activity in connection with the AI and infrastructure boom. At the same time, there are increasing signs that monetary tightening and higher interest rates are leaving more visible traces: core inflation remains above target, while higher oil prices increase the risk of a renewed inflation wave. Against this backdrop, the US Federal Reserve is unlikely to be able to avoid further interest rate hikes, which will keep financing conditions challenging for companies – particularly in the highly leveraged AI sector. In Europe, the picture is noticeably more subdued. Growth remains moderate, industry is suffering from weak global demand and structural location disadvantages, while the services sector provides some stabilisation. Although inflation has fallen more sharply than in the United States, it is still above the ECB's target, suggesting that moderate monetary tightening remains appropriate. Overall, the global economic environment thus remains two-speed: the United States continues to grow above potential, albeit with increasing late-cycle risks, while Europe is in a fragile recovery phase and heavily dependent on the development of energy prices and global trade.

PRIMUS–PASSIV

For all those investors who invest for the long term based on strategic principles and wish to be fully invested when equity markets recover, we recommend the discretionary portfolio management mandate PRIMUS-PASSIV. Under this mandate, we invest the available funds in cost-efficient index products in line with the "strategic asset allocation".

We would be pleased to present further features of this innovative solution to you in a personal meeting. We look forward to your call.

Performance figures PRIMUS-PASSIV Dynamic CHF[1]

	31.07.2026	2025	2024	2023	2022	2021
PRIMUS–PASSIV Dynamic	6.63%	8.84%	10.41%	6.22%	-16.68%	16.73%
Benchmark	6.52%	8.67%	11.07%	6.29%	-16.08%	16.22%

[1] Past performance is not an indicator of future returns and does not guarantee future success. Performance figures are shown gross, without taking into account your individual tax situation. Net performance is lower due to fees.You can also find our view on our website: www.neuebank.li
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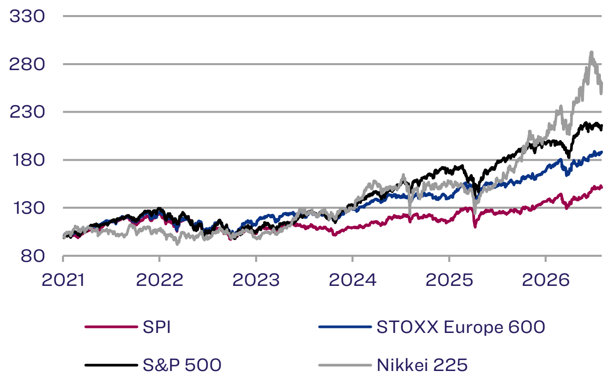
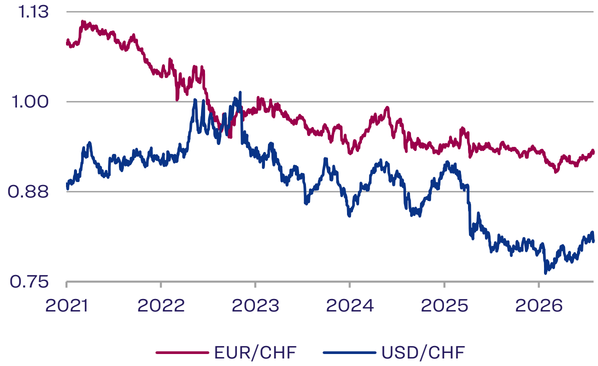
Market data

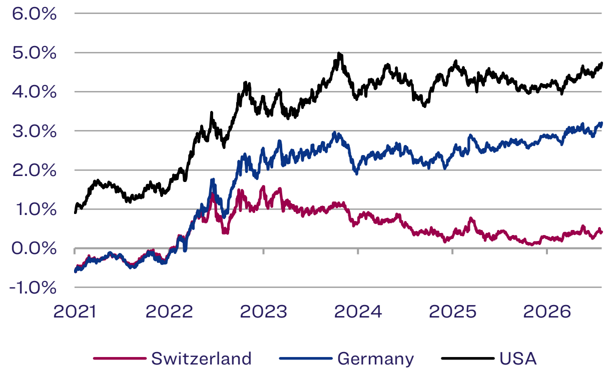
Stock market (indexed)



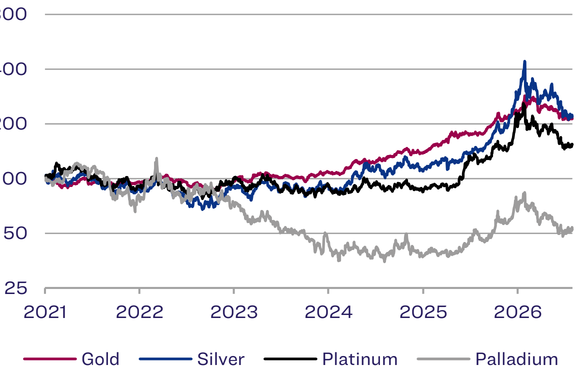
EUR/CHF and USD/CHF



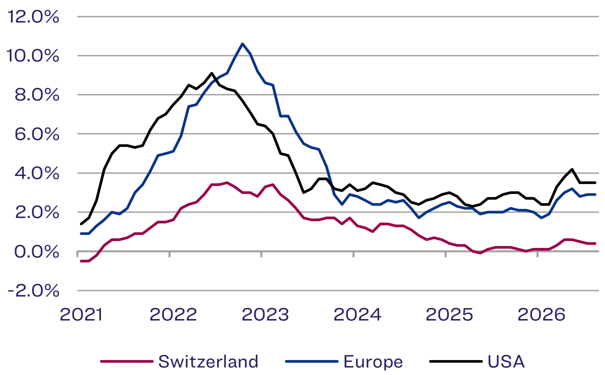
10-year government bond yield



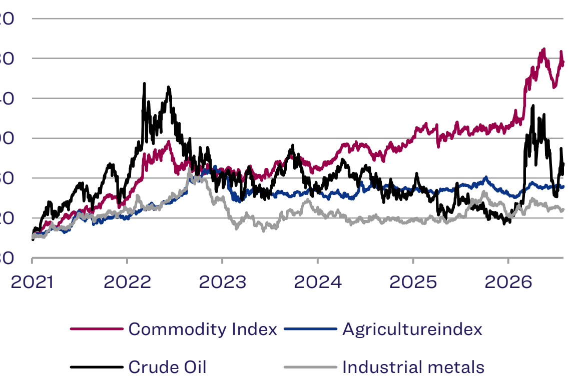
Precious metals (indexed)



Inflation rate



Raw materials (indexed)



The price developments are shown over 5 years.

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