“Debt Spiral and Loss of Confidence”

Our Opinion
September 2026

Dear Reader,

In our article, "Debt Spiral and Loss of Confidence", we examine how rising government debt across the major industrialised economies is shaping financial markets and what this means for portfolio construction.

We hope you find the article insightful and thought-provoking.

Your Advisory Team

Neue Bank

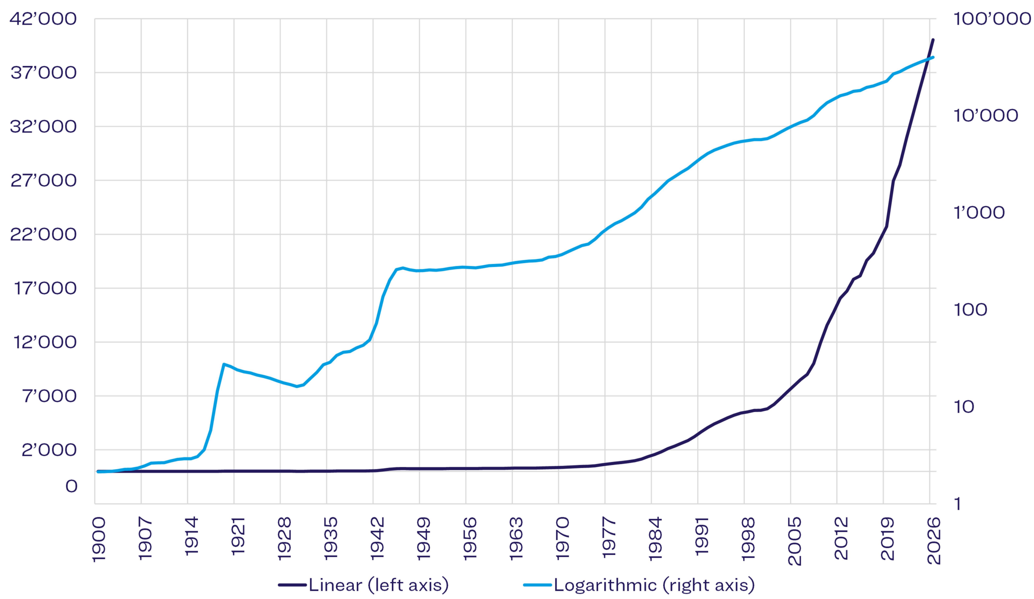
Economic Outlook

The global economy is increasingly being shaped by high levels of government debt. In the United States, government debt has now reached almost USD 40 trillion. At the same time, interest costs are rising. The more existing debt that needs to be refinanced at higher interest rates, the greater the bur-den on government finances.

Neue Bank traffic light

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

U.S. National Debt, in USD billions



Scoure: https://fiscaldata.treasury.gov and Neue Bank AG

Both lines illustrate the same underlying trend, but with different emphases. The linear scale, shown by the dark blue line on the left, measures debt in absolute terms. The distance between USD 7 trillion and USD 12 trillion is therefore the same as the distance between USD 37 trillion and USD 42 trillion. This presentation clearly highlights the extent to which debt has increased in absolute dollar terms in recent years. The logarithmic scale, shown by the light blue line on the right, works differently. Equal distances represent equal percentage changes rather than equal dollar amounts. A doubling of debt is therefore shown in the same proportion, regardless of whether debt rises from USD 1 trillion to USD 2 trillion or from USD 20 trillion to USD 40 trillion. The logarithmic scale therefore provides a better perspective on the rate of growth over a longer period. Put simply, the linear scale shows how many additional dollars of debt have been accumulated, while the logarithmic scale shows how much debt has grown relative to its respective starting point. The linear scale makes the most recent increase appear particularly steep because the absolute increases are becoming larger. The logarithmic scale somewhat moderates this visual effect, but also confirms that debt continues to grow at a persistently high rate. So far, the US economy remains relatively resilient. Many technology companies continue to report strong earnings, while consumer spending remains stable. At the same time, there are early signs of a slowdown. Employment figures have been revised downwards, and momentum in the labour market is weakening.

Inflation also remains above the US Federal Reserve's target. However, the economic burden of government debt depends not only on its absolute level. Economic output, economic growth and interest costs are also important. When maturing bonds have to be refinanced at higher yields, interest expenses increase. This can create a selfreinforcing cycle: higher interest rates lead to higher interest costs, which widen the budget deficit, requiring governments to take on additional debt. In Europe, the picture is more subdued. Growth remains weak, particularly in the industrial sector. Germany is expected to return to modest growth in 2026, although the recovery remains fragile. At the same time, yields on longdated European government bonds are also rising. Investors are therefore demanding greater compensation for higher levels of indebtedness and the associated risks. High government debt is consequently becoming a global issue. Governments are facing higher financing costs, while central banks must balance the fight against inflation with the need to maintain financial market stability. The chart therefore points less to an imminent crisis than to a debt dynamic that is increasingly constraining governments' fiscal room for manoeuvre.

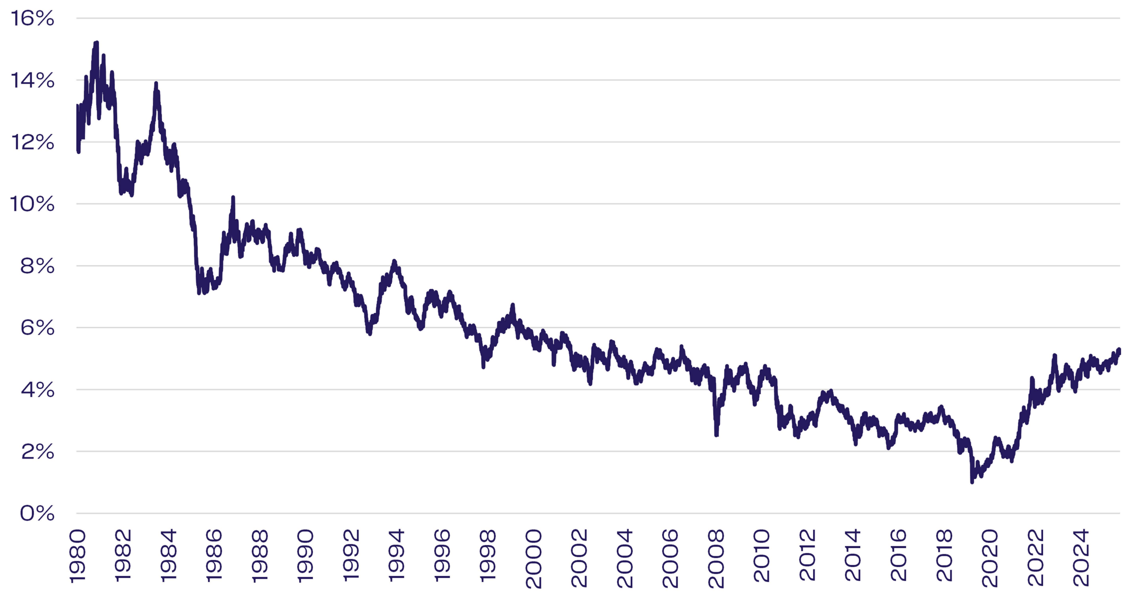
Equities

Equity markets have remained remarkably resilient despite high levels of debt and rising interest rates. Market setbacks are often quickly recovered. Several factors are supporting this resilience, including share buybacks, regular inflows into ETFs and savings plans, and the strong earnings generated by the major technology companies. At the same time, market concentration has increased significantly. In particular, the major technology companies are investing substantial amounts in artificial intelligence. An increasing share of these investments is being financed through bond issuance. As a result, large technology companies are increasingly competing with governments for capital in the financial markets. As long as expectations for AI-driven growth are met, this trend can continue. However, if returns fail to live up to expectations, pressure could spread simultaneously to both equity and credit markets. Companies whose share prices have risen sharply and whose investments are largely debt-financed would be particularly vulnerable. For equity investors, this makes careful analysis and selection of individual securities increasingly important. Not every sector benefiting from the AI boom has its own sustainable, long-term growth drivers. We therefore favour companies whose businesses can continue to grow solidly, independently of the current enthusiasm surrounding artificial intelligence.

Bonds

Bond markets indicate that investors are becoming more cautious. Yields on long-dated government bonds have risen significantly in recent months. In the United States, ten-year Treasury yields are currently around 4.7%, while thirty-year yields have risen above 5% - the highest levels in nearly two decades.

Development of the Yield on 30-Year U.S. Treasury Bonds



Scoure: Bloomberg and Neue Bank AG

There are several reasons behind this development. Investors are anticipating higher inflation, are increasingly concerned about rising government debt, and are demanding higher yields for holding government bonds over the long term. Countries with already high debt levels and large budget deficits are particularly affected. The US Treasury continues to rely heavily on shortterm debt. This can help contain interest costs in the near term. At the same time, however, it increases the risk that this debt will soon have to be refinanced at significantly higher interest rates. Monetary policy is therefore becoming increasingly influenced by the government's financing needs. We therefore continue to favour short to mediumterm maturities. In our view, longdated bonds face an elevated risk of further increases in yields, which would put corresponding pressure on prices.

Currencies

High levels of government debt are also weighing on confidence in the US dollar. Combined with the prospect of a more accommodative monetary policy, this is reinforcing concerns that the dollar could lose purchasing power over the long term. Investors are therefore increasingly seeking real assets and investments that are less directly dependent on the fiscal policy of a single government. The Japanese yen also remains under pressure. The US and Japan intervened jointly in the foreign exchange market for the first time in 15 years to support the yen. So far, however, the impact has been limited. Without a significant increase in Japanese interest rates, it is likely to remain difficult to sustainably reverse the yen's downward trend. A rate hike in Japan would not be without risks, however. It could put pressure on the socalled yen carry trade, whereby investors borrow cheaply in Japan and invest in higheryielding currencies. If these positions are unwound, this can trigger significant movements across international financial markets. We therefore continue to selectively hedge foreigncurrency exposures in client portfolios. We are paying particular attention to developments in the US dollar and the yen, as both currencies provide important signals about investor confidence in monetary and fiscal policy.

Alternative Investments

Gold is benefiting from the combination of high government debt, political uncertainty and growing distrust in fiat currencies. Demand is being supported by both central banks and investors. China has been increasing its gold holdings for 21 consecutive months. Gold ETF holdings are also continuing to rise. This suggests that demand is not being driven solely by short-term speculation. Many investors view gold as insurance against further currency depreciation and against financial or political crises. According to a study by Deutsche Bank, gold remains in a strong uptrend despite intermittent setbacks. Various forecasts see the gold price reaching between USD 4,800 and USD 5,500 per troy ounce by the end of 2026. We therefore continue to maintain a strategic allocation to gold in client portfolios. Gold mining equities can serve as a complementary tactical investment, as they often respond more strongly to changes in the gold price. However, they are also more volatile and subject to additional risks, including production costs and political developments in mining countries. Gold is not without risks, however. A surprisingly restrictive monetary policy by the US Federal Reserve or a severe liquidity squeeze in financial markets could weigh on the gold price temporarily. Over the long term, however, we continue to view gold as an important component of portfolio diversification and as a hedge against further erosion of wealth through currency depreciation.

PRIMUS–ACTIVE

With the PRIMUS-ACTIVE mandate, we offer you the opportunity to invest your assets according to the tradi-tional principles of wellknown portfolio theories. We place particular emphasis on broad diversification, both in the strategic allocation of asset classes and in security selection. In addition, we take into account that financial markets are subject to long-term cycles and trends and aim to use these fluctuations to your ad-vantage. The client advisors of Neue Bank AG look forward to presenting the specific features of this assetmanagement solution to you in a personal meeting

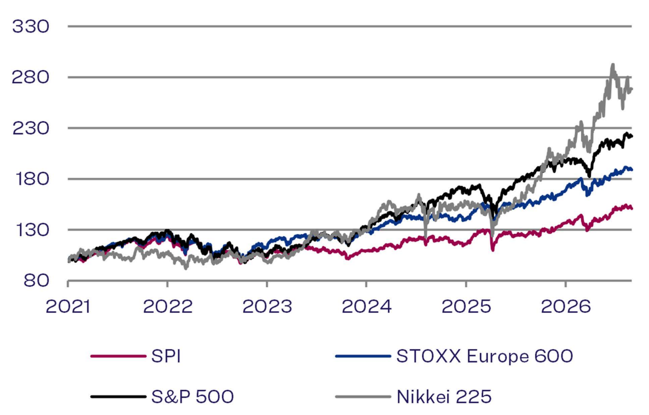
Key Performance Indicator PRIMUS–ACTIVE Equities Global EUR[1]

	31.08.2026	2025	2024	2023	2022	2021
PRIMUS-ACTIVE Equities Global	13.78%	16.00%	27.14%	14.93%	-29.11%	31.66%
Benchmark	9.36%	5.42%	6.01%	10.04%	-13.78%	17.17%

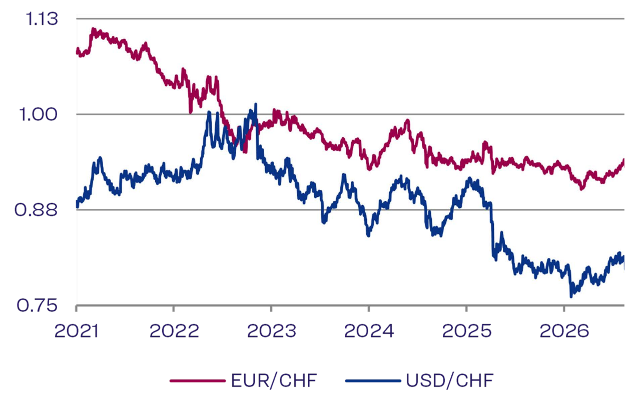
[1] This is a marketing communication and does not constitute investment advice or an offer or solicitation to buy or sell financial instruments. Investments in financial instruments involve risks. Past performance is not an indicator of future performance and offers no guarantee of future success. The performance figures shown are gross values and do not take into account your individual tax liability. Net performance is lower due to fees. You can also find our opinion on our homepage: www.neuebank.li S.E.& O.

Market data

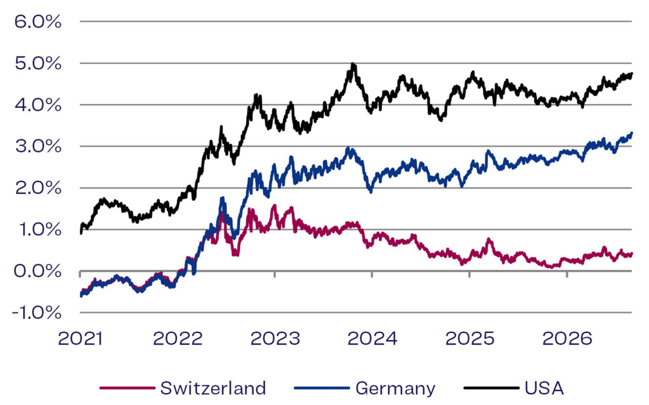
Stock market (indexed)



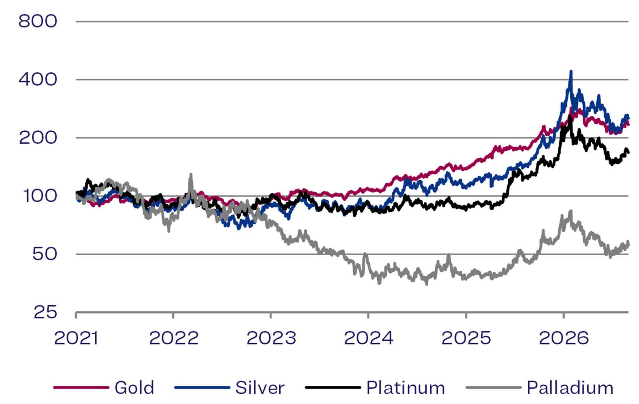
EUR/CHF and USD/CHF



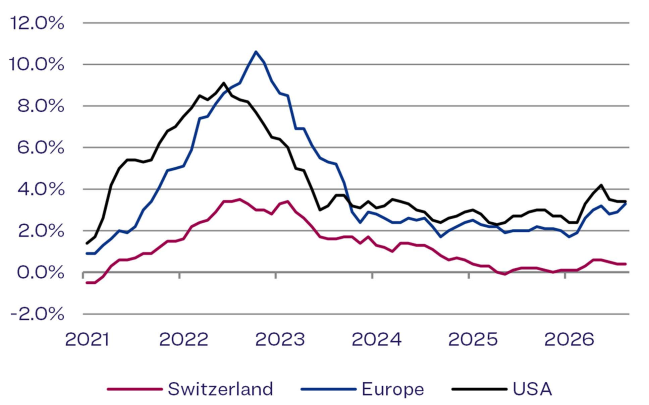
10-year government bond yield



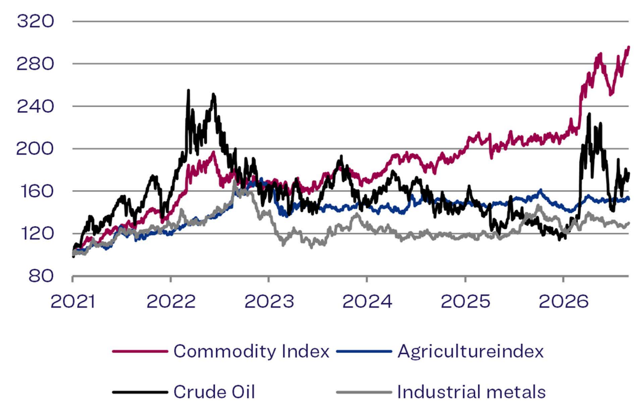
Precious metals (indexed)



Inflation rate



Raw materials (indexed)



The price developments are shown over 5 years.

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