Review of the first half of 2026 and outlook for the coming months of 2026

A look back at the first half of 2026:

The first six months of 2026 were once again dominated by geopolitics and the Iran conflict, as well as the almost forgotten war in Ukraine, now in its fifth year. Economically, the differences between the various economic regions and sectors intensified further in the first half of the year. In the US, we continue to see economic growth driven by massive investments in artificial intelligence and consumer spending by the wealthiest households, while activity in many other areas remained weak. In Europe, the already weakening economy was further dampened by the Iran conflict and the resulting energy supply shortage, and with the renewed outbreak of war, concerns about the economic outlook are likely to worsen. In China, the figures for the first half of the year again confirmed the contrast between the strong export sector and the still-weak domestic demand, which is impacting both private consumption and the real estate and infrastructure sectors. In Japan, continued strong exports in the field of artificial intelligence supported overall economic activity. Furthermore, domestic demand continues to be stimulated by generous government debt programs, although the effects of the weak yen and high energy prices on private consumption remain to be seen.

The US Federal Reserve (Fed), under the chairmanship of Kevin Warsh, left its key interest rate unchanged at 3.75%. The new chairman also intends to change the institution's communication strategy by significantly reducing the forward-looking content of press releases (following the example of the recently deceased Alan Greenspan, he wants to focus on the technical assessment of the economic situation without specific indications of future monetary policy direction). In the Eurozone, the European Central Bank (ECB) raised interest rates once in the spring, from 2.00% to 2.25%. With this decision, the ECB aimed to send an early signal against rising inflation and avoid repeating the mistake of waiting too long during the coronavirus crisis. For us, this appears to mark the beginning of a longer-lasting global cycle of monetary tightening, intended to prevent potential long-term consequences of the conflict with Iran, the overall energy supply shortage, and possible secondary effects.

In Switzerland, the Swiss National Bank (SNB) is a victim of its own success. As the last remaining safe-haven currency, the Swiss franc remains very strong against all other currencies, resulting in a low inflation rate. We do not foresee monetary tightening and a departure from the zero-interest-rate policy – nor, however, negative interest rates.

Strong first half of the year on the stock markets

The first half of the year was once again very strong on the stock markets. After the shock of the Iran conflict and rising energy prices, the markets quickly returned to normal. April and May were particularly strong months for the stock market, and prices continued to rise for the most part in June, even though the momentum slowed somewhat and the top performers shifted in some areas. Emerging markets (especially in Asia) have been among the top performers since the beginning of the year.

European and American stock markets are in the middle of the pack with a half-year performance of approximately 10%. The Spanish IBEX (+12%) and the Italian MIB (+17%) saw the strongest gains. Because the energy crisis stemming from the Iran conflict was resolved quickly, contrary to general expectations, and economic figures in most regions suffered no significant damage. As a result, corporate profit growth was impressively high, supporting the strong share price performance. The major negative outlier was once again China. Since the beginning of the year, the Chinese stock market is down by around 10%.

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There were also significant changes in the bond market during the first six months. Inflation turned sharply upward due to the supply shock in the energy markets and is likely to remain elevated for some time due to the renewed outbreak of hostilities. This led to interest rate hikes by the ECB and Japan. The other major central banks are closely monitoring the markets, and the year-long cycle of interest rate cuts appears to be coming to an end. In general, major problems such as high national debt and a lack of trust in governments persist. This has led to a significant increase in yields on 10-year government bonds. For example, the yield on German Bunds rose above 3%, and the yield on US Treasuries climbed to over 4.5% (both representing increases of over 15%), demonstrating the new volatility in this sector as well. This sharp rise in yields did not make our work any easier, and our favored precious metals, fluctuated considerably. Gold and silver reached new highs in January at around USD 5,500 and USD 120, respectively, before their prices fell back to USD 4,000 and USD 58. Despite these challenges, we look back on a demanding and exciting first half of 2026.

Our Expectations for the Second Half of the Year:

There's plenty of room for debate not only about the course of the FIFA World Cup, but also about the second half of the capital markets year. We will likely all have to learn that permanent and sometimes protracted crises (we're thinking here of events like Brexit, the coronavirus pandemic, or most recently, the conflict with Iran) are part of the new global landscape. In our assessment, the global economy is likely to continue growing in the second half of 2026. Supported by investments in artificial intelligence, stable consumer spending, and a more accommodative fiscal policy, the outlook for risk assets remains fundamentally positive. At the same time, geopolitical risks, persistently elevated inflation, and challenges in the late stages of the economic cycle could create headwinds at any time. The investment cycle surrounding artificial intelligence remains a key driver. The strong corporate profits we are currently seeing again for the second quarter will further support this positive outlook.

In our view, inflation is likely to remain elevated for longer than previously expected. The price pressure stemming from energy prices should gradually ease, but secondary effects such as higher transportation costs, increased fertilizer and insurance costs, wage increases, etc., could continue to influence inflation. Accordingly, further interest rate hikes by central banks worldwide are possible at any time in the second half of the year.

For the second half of 2026, we remain cautiously optimistic about the equity and bond markets and continue to have confidence in our broad global allocation. The US dollar remains fundamentally supported by comparatively strong economic growth, AI-driven capital inflows, and a potentially prolonged period of restrictive monetary policy by the US Federal Reserve. In the long term, however, greater diversification away from the US dollar and rising gold reserves held by central banks could create headwinds. Due to the renewed armed conflict in the Persian Gulf, we fear permanently higher energy prices and higher interest rates. Depending on the duration of the conflict, the risk of contagion could spread to the economy. The lack of confidence in the soundness of public finances is leading to a reduction in our holdings of government bonds. Therefore, in the current environment, alternative asset classes remain particularly attractive to us. As a supplement, we are increasingly investing in short-term corporate bonds, high-yield bonds, catastrophe bonds, real estate, infrastructure, and precious metals to generate solid returns and construct a robust portfolio.

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What risks do we see in the second half of the year, and what fascinates investors (a brief digression on SpaceX)?
Besides geopolitics, we see the development of AI investments as the most significant uncertainty factor. The current investment boom is by far the most important growth driver of the global economy. If spending on AI infrastructure were to decline significantly, this would, in our view, pose the greatest risk to the global economy and the stock markets.

Many investors are focusing their attention on the fascinating company SpaceX. The valuation of the aerospace company is adventurous and fundamentally incomprehensible. As with Tesla, investors in SpaceX are captivated by Elon Musk's exciting visions of the future. Profitability, valuation, and competitive advantages are irrelevant in this context, and the prospects are sufficient to motivate investors to buy both stocks. The stories are incredible, but they extend far into the future, and we cannot assess what will happen in space in 10 or even 20 years, nor whether a sufficient return is achievable in this sector. We expect continued high volatility in the future. Crucial for future success remains focusing on companies with resilient business models, solid balance sheets, and long-term viable fundamentals. A beautiful summer and an exciting time lie ahead.

We look forward to connecting with you personally.
Sincerely,
Neue Bank AG

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