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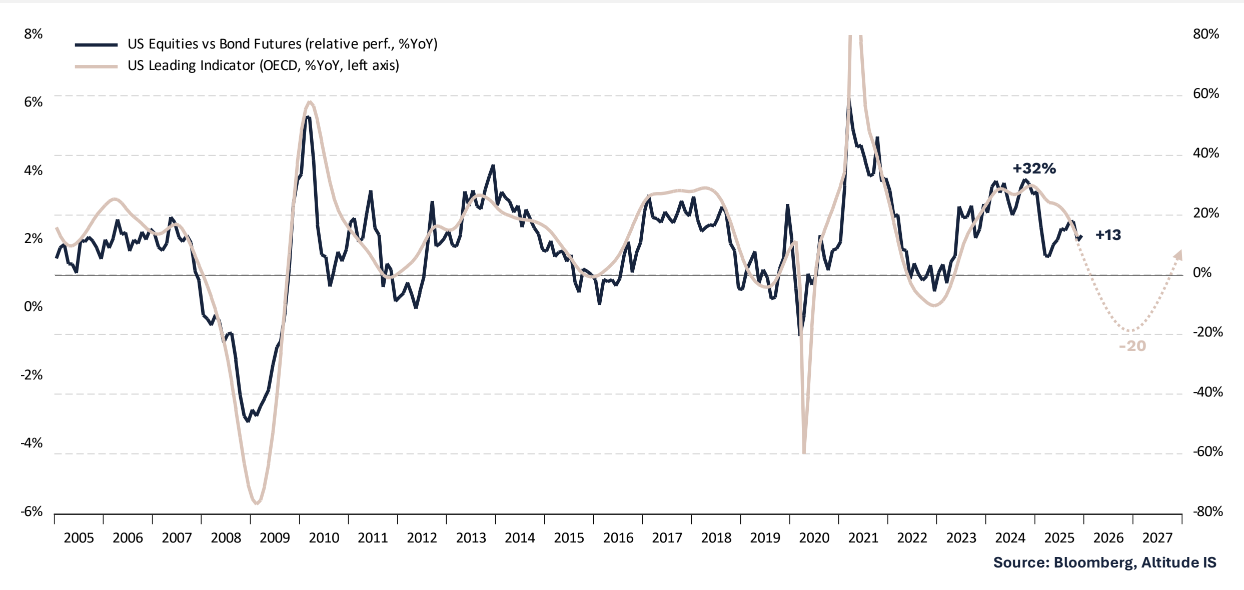
"2026 OUTLOOK: THE WIND IS RISING, BUT THE CREW IS READY"

- Last year saw all asset classes deliver record performances
- Government debt and the technological revolution in AI contributed to this
- Investors have rarely been so enthusiastic about holding risky assets
- The coming year will be much stormier and will require vigilance

CHART OF THE WEEK: "What if 2026 were the year of bonds and duration?"



FINANCIAL MARKETS ANALYSIS

How can we distinguish between a perpetual pessimist and a vigilant strategist? In times of crisis, both will fare well. However, during the rest of the time, when there are many bullish periods, only the latter will be able to generate good performance. Whereas the "perma-bear" locks himself into a prophecy of permanent doom and misses opportunities, the "vigilant fox" invests while also considering the dangers involved. Rigorously measuring risks does not prevent him from exposing his portfolio to the upward trend in the markets. We hope to belong to the second category. Our modelling of the global economic and financial cycle has enabled us to maintain very dynamic positions when indicators allowed, and then to favour cautious tactics in the face of recent market imbalances. In recent years, the TINA (There Is No Alternative) dogma, which favours risky assets, has given way to an era of strongly positive interest rates and stock market valuations that defy the laws of gravity. The latest crises, whether economic, geopolitical, health or environmental, have been weathered easily thanks to two main factors: abysmal debt levels and a technological revolution. This combination is conducive to the formation of bubbles.

The vigilant strategist does not wait for the end of the world but is prepared for the storm. He resembles the navigator depicted by Joseph Conrad in "The Shadow Line". **Long before reaching the latitudes where storms rage, he prepares the ship and chooses the favourable currents.** For those unfamiliar with the solitude of the ocean, the navigator differs from the coastal sailor in his ability to live with the long term and the invisible. Where the coastal sailor reacts to the immediate waves and remains dependent on the sight of the coast, the navigator studies the flows, the undercurrents and the areas of meteorological convergence on a hemispheric scale. Navigation on the high seas is the art of absolute preparation and calm anticipation: every halyard is checked, every reserve is calculated, every waypoint is studied, not out of fear of the sea, but out of respect for its power. The navigator does not seek to fight the storm head-on but will be able to survive it unscathed when the horizon closes in and the land is nothing more than a memory. It is when crossing this "shadow line", the intangible boundary between the serenity of the trade winds and the heart of the storm, that the navigator's quiet foresight will make all the difference.

Between 2023 and 2025, this period of steady, favourable winds allowing for calm progress caused no difficulties for vigilant investors – quite the contrary. The extent of the market rise had not been anticipated, but this shift in trajectory boosted performance. Thanks to the robustness of the architecture put in place, most of the performance was captured. Tactical reallocation to defensive sectors allowed exposure to equities without sacrifice, thus avoiding the trap of premature exit from the market. This choice offered natural protection in March and April, when the market was experiencing violent turbulence, at a negligible cost. In addition, the heavy weighting in gold proved beneficial, while rigorous management of the dollar's depreciation was key to preserving the real stock of performance. The inclusion of capital-protected structures was also a cornerstone of this success, as they delivered very strong performance while acting as a shield, drastically limiting the overall risk of the portfolio.

Fig. 2 – Job creation in the United States

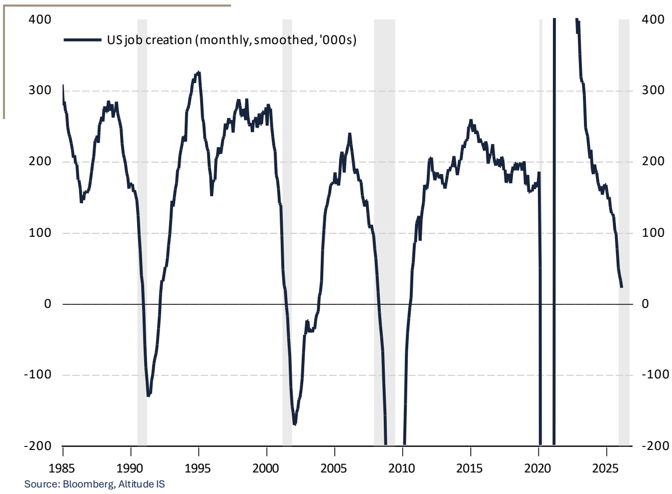
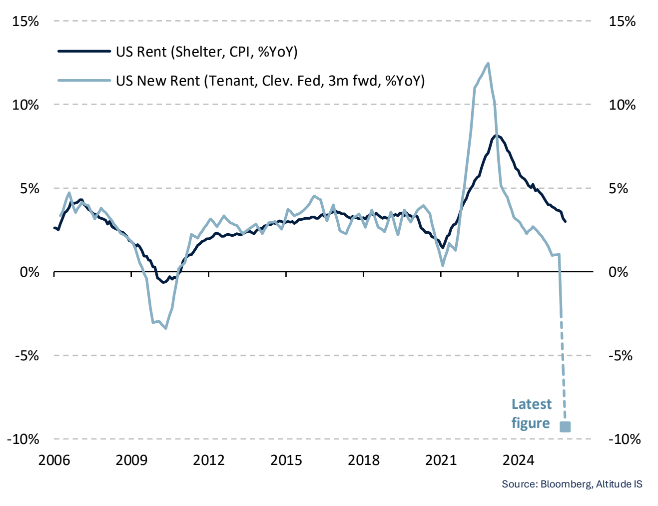


Fig. 3 – Housing component of US inflation



For 2026, we will continue to remain vigilant and prepare the ship for the storm ahead. The economic slowdown, long questioned, is now widely accepted and is entering its final acceleration phase. The decline in employment is now bordering on technical recession (see Fig. 2). Inflation will remain relatively high due to customs tariffs, but could pleasantly surprise thanks to its "shelter" component, which will reflect stagnant rents (see Fig. 3). This context of depressed employment and contained inflation will allow the Federal Reserve to lower its key rates more quickly and more sharply than expected by the consensus. Even the ECB could resume its monetary policy easing. A sharp decline in long-term rates is to be expected, particularly if the Fed chooses to use its money-creating power to artificially lower the cost of long-term credit, a form of financial repression necessary to stabilise public debt costs. What if 2026 were the year of bonds (see Chart of the Week) and duration?

Fig. 4 – Equity allocation and valuation

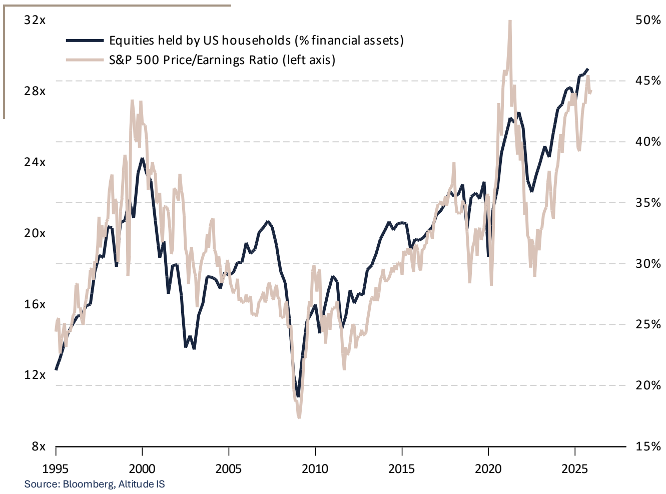
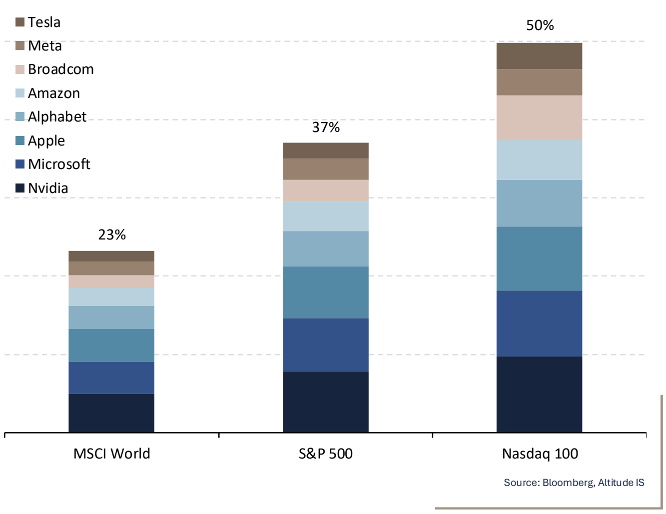


Fig. 5 – Index concentration

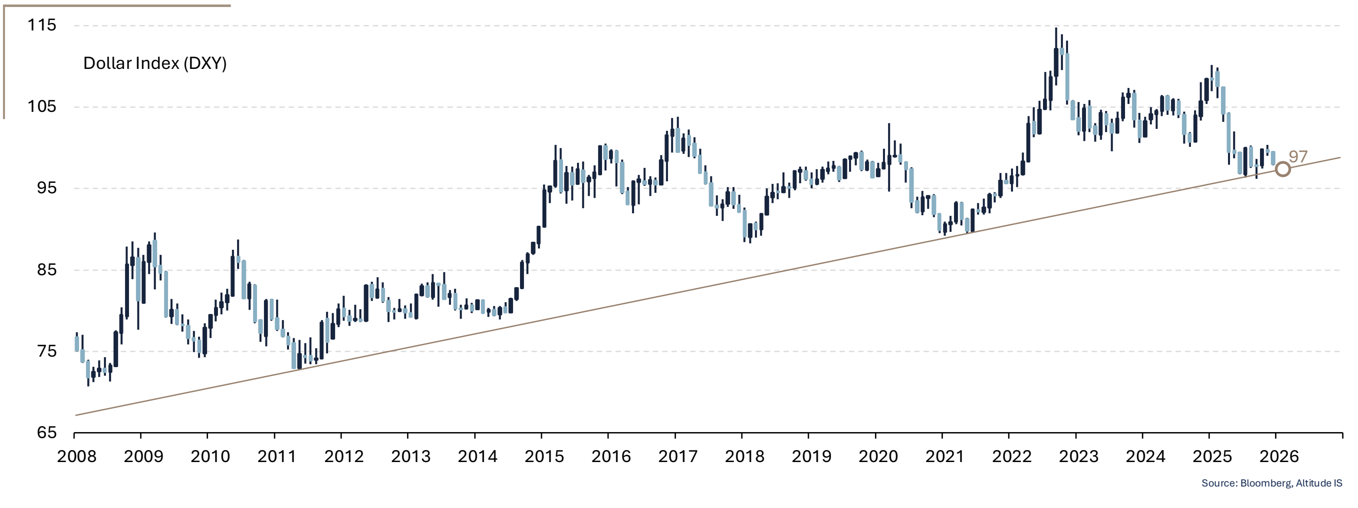


In this environment of sluggish growth, corporate earnings will grow little, making current valuations unsustainable. This disconnect will trigger a major stock market correction, at least as intense as the one seen in 2025, but much more protracted. The purge of excesses will not happen in a flash, but through a slow erosion of conviction and a reduction in private investors' equity allocations (see Fig. 4). Market exaggeration is currently reaching its peak in the theme of artificial intelligence. While profit growth is real for some giants, unlike the vast emptiness of the internet bubble, the similarities with the late 1990s are too obvious to be ignored. The extreme concentration of growth in a handful of titans, which now carry record weight in global indices (see Fig. 5), points to systemic fragility.

The enormous investment cycle dedicated to AI, this digital arms race, could end up saturating the real economy's capacity. As in the past, markets are reaching historic highs where even unprofitable stocks, those "zombie" companies buoyed by hopes of future profits, are regaining suspicious vigour. We are in that phase of the cycle, so familiar and yet so perilous, where **investors confuse the speed of technological innovation with the sustainability of valuation multiples.** They forget that financial history is a graveyard of industrial revolutions that were overpaid. This year more than ever, selection will be crucial: defensive sectors, the Swiss market and emerging markets will fare better. At the same time, the dollar will resume its depreciation (see Fig. 6), particularly against the Swiss franc, while gold will continue its climb to new heights.

Every sailor knows that the ocean can hold surprises that defy even the most tried and tested models. Although our central scenario favours caution, two major forces could act as tailwinds, artificially prolonging the current cycle. An AI-related productivity shock, for example, that is faster and deeper than expected, could help safeguard profit margins despite slowing demand. This real efficiency gain would then legitimise valuation multiples that we currently consider unsustainable. Similarly, massive government fiscal support in the form of targeted stimulus packages could avert a recession. Such intervention would prolong the current euphoria and delay the necessary purge of market excesses.

Fig. 6 – Dollar exchange rates against its main counterparts



Conclusion:

The coming storm should not be feared, nor should the anticipation that precedes it be paralysing. The storm will be weathered with the serenity of those who anticipated the change in the wind and remained alert. On the other hand, woe betide those investors who, through overconfidence or weariness, have failed to prepare themselves. Like the sentinels in The Desert of the Tartars, who ended up falling asleep just as the horizon was finally coming to life, the danger lies in imagining that the current calm is a permanent state of affairs.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2026 Year-to-Date (%)	2025 (%)	2024 (%)
Equities							
World (MSCI)	1 019.6	59.12	-0.3%	1.8%	0.5%	22.9%	18.0%
USA (S&P 500)	6 858	52.39	-1.0%	0.5%	0.2%	17.9%	25.0%
USA (Dow Jones)	48 382	56.08	-0.7%	2.0%	0.7%	14.9%	15.0%
USA (Nasdaq)	23 236	48.64	-1.5%	-0.7%	0.0%	21.2%	29.6%
Euro Area (DJ EuroStoxx)	617.8	70.65	1.7%	3.3%	0.9%	21.2%	10.2%
UK (FTSE 100)	9 951	66.70	0.9%	2.7%	0.2%	25.7%	9.6%
Switzerland (SMI)	13 267	76.39	0.2%	3.4%	n.a.	18.0%	7.5%
Japan (Nikkei)	52 015	52.56	0.0%	0.3%	n.a.	28.6%	21.3%
Emerging (MSCI)	1 429	71.03	2.3%	4.3%	1.8%	34.3%	8.0%
Brasil (IBOVESPA)	160 539	56.97	-0.2%	-0.3%	-0.4%	34.0%	-10.4%
Mexico (IPC)	64 141	51.28	-2.3%	1.1%	-0.3%	35.1%	-11.0%
India (SENSEX)	85 752	59.50	0.8%	0.7%	0.6%	10.5%	9.6%
China (CSI)	4 717	54.57	-0.1%	2.5%	n.a.	21.0%	18.2%
Com. Services (MSCI World)	164.4	54.69	-0.1%	-0.3%	0.1%	33.0%	31.9%
Cons. Discretionary (MSCI World)	456.0	44.75	-1.8%	0.3%	-0.4%	9.8%	20.7%
Cons. Staples (MSCI World)	289.6	45.31	-0.5%	-0.6%	-0.1%	9.3%	4.7%
Energy (MSCI World)	269.0	62.46	2.9%	2.0%	1.7%	14.8%	2.9%
Financials (MSCI World)	227.5	68.24	-0.3%	5.1%	0.6%	29.5%	25.1%
Health Care (MSCI World)	396.3	57.73	-0.4%	0.9%	0.4%	15.3%	1.5%
Industrials (MSCI World)	473.8	62.89	0.7%	4.3%	1.5%	26.1%	12.8%
Info. Tech. (MSCI World)	971.1	53.65	-0.6%	0.4%	0.5%	26.6%	31.9%
Materials (MSCI World)	398.2	67.04	-0.5%	5.8%	0.7%	32.5%	-7.6%
Real Estate (MSCI World)	986	47.33	-0.5%	-0.5%	0.1%	3.6%	-0.4%
Utilities (MSCI World)	196.2	59.58	1.2%	0.3%	1.3%	24.7%	13.0%
Bonds (Bloomberg)							
World (Aggregate)	3.55%	52.28	-0.2%	0.4%	-0.1%	8.2%	-1.7%
USA (Sovereign)	3.92%	47.30	-0.2%	-0.2%	-0.2%	6.3%	0.6%
Euro Area (Sovereign)	2.98%	41.37	-0.2%	-0.5%	-0.3%	0.6%	1.9%
Germany (Sovereign)	2.63%	37.72	-0.2%	-0.7%	-0.3%	-1.6%	0.6%
UK (Sovereign)	4.52%	49.86	-0.1%	0.0%	-0.4%	6.1%	-3.0%
Switzerland (Sovereign)	0.53%	38.95	0.1%	-1.1%	0.0%	0.3%	5.4%
Japan (Sovereign)	1.83%	27.85	-0.2%	-1.2%	0.0%	-4.6%	-2.1%
Emerging (Sovereign)	5.90%	65.68	-0.1%	0.5%	0.0%	13.1%	7.0%
USA (IG Corp.)	4.85%	48.02	-0.4%	0.0%	-0.2%	7.8%	2.1%
Euro Area (IG Corp.)	3.27%	47.11	-0.2%	-0.2%	-0.1%	3.0%	4.7%
Emerging (IG Corp.)	5.84%	69.05	0.0%	0.5%	0.0%	8.1%	7.0%
USA (HY Corp.)	6.57%	74.55	0.1%	0.4%	0.0%	8.6%	8.2%
Euro Area (HY Corp.)	5.49%	77.89	0.1%	0.3%	0.0%	5.2%	8.2%
Emerging (HY Corp.)	7.20%	77.54	0.0%	1.0%	0.0%	13.9%	14.9%
World (Convertibles)	546.5	59.79	0.6%	2.2%	1.4%	22.4%	9.4%
USA (Convertibles)	711.3	54.64	0.3%	1.3%	1.6%	16.9%	10.1%
Euro Area (Convertibles)	291.7	72.65	0.6%	1.3%	0.4%	24.8%	14.7%
Switzerland (Convertibles)	283.4	70.34	0.3%	1.7%	0.2%	17.5%	-10.5%
Japan (Convertibles)	257.9	58.96	0.1%	1.7%	0.0%	13.8%	6.4%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 789	89.89	n.a.	0.2%	n.a.	11.1%	11.1%
Macro	1 451	80.20	n.a.	0.5%	n.a.	8.1%	7.4%
Equity Long Only	2 446	80.71	n.a.	-0.2%	n.a.	10.6%	12.0%
Equity Long/Short	1 942	90.02	n.a.	0.7%	n.a.	15.9%	14.0%
Event Driven	1 896	88.27	n.a.	1.1%	n.a.	9.9%	8.7%
Fundamental Equity Mkt Neutral	1 843	96.80	n.a.	0.6%	n.a.	11.6%	12.4%
Quantitative Equity Mkt Neutral	1 799	85.47	n.a.	1.7%	n.a.	8.1%	9.8%
Credit	1 707	98.71	n.a.	0.4%	n.a.	6.9%	8.5%
Credit Long/Short	1 725	100.00	n.a.	0.2%	n.a.	5.9%	10.0%
Commodity	1 980	87.35	n.a.	-1.2%	n.a.	10.6%	14.7%
Commodity Trading Advisors	1 395	65.85	n.a.	1.3%	n.a.	4.0%	7.9%
Volatility							
VIX	14.51	43.08	6.7%	-12.5%	-2.9%	-13.8%	39.4%
VSTOXX	15.24	44.34	8.5%	-10.9%	3.5%	-13.5%	25.3%
Commodities							
Commodities (CRB)	538.6	n.a.	-0.6%	0.6%	-0.2%	0.6%	5.1%
Gold (Troy Ounce)	4 418	n.a.	-2.6%	5.2%	2.3%	64.6%	27.2%
Silver (Troy Ounce)	75.40	n.a.	4.5%	29.2%	5.2%	148.0%	21.5%
Oil (WTI, Barrel)	57.32	n.a.	-2.1%	-2.3%	-0.2%	-19.9%	0.1%
Oil (Brent, Barrel)	60.85	n.a.	-4.2%	-5.1%	-2.6%	-15.7%	-4.6%
Currencies (vs USD)							
USD (Dollar Index)	98.74	53.09	0.7%	-0.3%	0.4%	-9.4%	7.1%
EUR	1.1685	44.80	-0.7%	0.4%	-0.5%	13.4%	-6.2%
JPY	157.17	41.13	-0.7%	-1.2%	-0.3%	0.3%	-10.3%
GBP	1.3426	53.72	-0.6%	0.7%	-0.4%	7.7%	-1.7%
AUD	0.6675	56.90	-0.3%	0.5%	0.0%	7.8%	-9.2%
CAD	1.3771	53.22	-0.6%	0.3%	-0.3%	4.8%	-7.9%
CHF	0.7942	51.63	-0.7%	1.3%	-0.2%	14.5%	-7.3%
CNY	6.9817	88.71	0.3%	1.3%	0.1%	4.5%	-2.7%
MXN	18.015	54.23	-0.2%	0.9%	0.0%	15.7%	-18.5%
EM (Emerging Index)	1 853.6	76.37	0.2%	1.0%	0.1%	7.2%	-0.7%
XBT	92 384	n.a.	5.4%	3.6%	5.4%	-6.5%	120.5%

Source: Bloomberg, Altitude Investment Solutions — Total Return by asset class (Negative \ Positive Performance)

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