IMT Asset Management AG

Investment Outlook

Q1 2026

OUTLOOK 2026

By Thomas Trauth
CEO IMT Asset Management
January 2026

The global economy enters 2026 displaying a degree of resilience that we did not anticipate a year ago. Financial markets benefited significantly from this environment in 2025, with risk assets delivering strong and, in many cases, above-average returns.

While the near-term outlook remains constructive - supported by pro-cyclical fiscal impulses in the United States, easing monetary conditions in Europe, and continued public investment in infrastructure and defense - several developments warrant a more cautious and selective approach to portfolio positioning in our view.

Inflation risks have not been fully resolved. In particular, the delayed effects of elevated trade barriers and tariffs in the United States may yet re-emerge in consumer prices over the course of 2026. At the same time, persistently high public debt levels and large fiscal deficits constrain policymakers' room for maneuver and increase the economy's sensitivity to inflationary shocks.

The growing political pressure on institutional frameworks - most notably on the independence of the US Federal Reserve - is of particular concern. Central-bank credibility plays a critical role in anchoring long-term inflation expectations. Any perception that monetary policy decisions may become subject to political influence risks undermining this credibility. History shows that once inflation expectations become unanchored, restoring confidence typically requires more restrictive policy measures and comes at a higher economic and market cost. Institutional uncertainty can, therefore, itself become a source of renewed inflation volatility.

Valuations in several segments of the equity market also remain elevated. This is particularly evident among large US technology companies, which continue to dominate index performance despite already demanding valuation levels. The resulting concentration risk reinforces the importance of diversification and disciplined portfolio construction.

Against this backdrop, we continue to favor a defensive tactical allocation. We remain underweight US equities, high-yield credit, and commodities, while maintaining an overweight position in nominal government bonds, which offer attractive yields and important portfolio-stabilizing characteristics. In addition, we continue to see the risk of further US dollar weakness.

In our view, the coming quarters are unlikely to replicate the exceptionally positive market environment of last year. Investors should instead be prepared for a more volatile phase, with markets reacting more sensitively to macroeconomic data, policy decisions, and geopolitical developments. We therefore remain focused on maintaining broad diversification and robust downside risk protection across our portfolios.

Financial markets

The year 2025 was characterized by a K-shaped economic development. While certain sectors - most notably technology and artificial intelligence - experienced very strong momentum, economic conditions for large parts of the population remained significantly more subdued.

The ongoing AI boom led to substantial price gains, particularly among large US technology companies. AI-related investments reached new record levels, with leading corporations announcing further significant increases in spending on data centers, semiconductor infrastructure, and AI applications. Across the industry, AI-related investments for 2026 are being discussed in the range of several hundred billion US dollars.

By contrast, real income growth for large segments of the US population remained weak. Persistently elevated inflation of around 3%, combined with early signs of cooling in the labor market - including a moderate increase in the unemployment rate from 3.8% to 4.3% - weighed on consumer demand.

Overall, these developments proved supportive for equity markets. Once again, large US technology companies were the primary beneficiaries. The technology-heavy NASDAQ Index recorded a gain of approximately 20% in 2025, while the S&P 500 Index rose by around 16.5% and the MSCI Europe Index by roughly 18.5%.

The leading central banks continued their easing cycle over the course of the year and implemented further rate cuts. The Federal Reserve reduced its policy rate by a total of 75 basis points, while the European Central Bank lowered its key interest rates by 100 basis points. Long-term government bond yields, however, remained elevated due to rising public debt levels and renewed inflation concerns. In Europe, long-term yields increased slightly over the year, whereas they declined modestly in the United States.

A particularly notable development in 2025 was the pronounced depreciation of the US dollar. The USD lost around 9.5% against a basket of major currencies and weakened by nearly 12% against the euro.

Despite ongoing geopolitical tensions - most notably related to the war in Ukraine, conflicts in the Middle East, and strained relations between the United States and China - oil prices declined significantly over the course of the year (approximately -18%). Gold prices reached several new all-time highs and ended the year slightly below USD 4,500 per ounce.

Cryptocurrency markets were exceptionally volatile. Crypto-friendly legislation adopted by the US administration drove Bitcoin prices to above USD 120,000 by mid-October, before a subsequent correction to around USD 90,000.

Private Markets

The performance of private equity funds since 2021 has been disappointing. This can largely be attributed to the sharp increase in financing costs following years of exceptionally low interest rates, combined with elevated entry valuations during the boom phase that culminated in 2021. Growth equity and venture capital strategies have been affected even more severely, given their greater sensitivity to both discount rates and capital market conditions.

As a consequence of this repricing and the more challenging macroeconomic environment, global deal activity declined markedly. At the same time, exit markets remained constrained, reflecting valuation gaps between buyers and sellers. This resulted in net negative cash flows for private equity investors, as capital calls exceeded distributions for an extended period. The ensuing liquidity strain at the investor level significantly impaired demand for new fund commitments.

Fundraising conditions have therefore become increasingly challenging. Several private equity managers have exited the market altogether, while others have accumulated a growing inventory of portfolio companies due to delayed exits. This environment has created attractive opportunities for selective secondary fund managers, who have been able to acquire positions at meaningful discounts to net asset value.

Another notable development has been the sharp increase in continuation vehicles. General partners are increasingly using these structures to provide liquidity to existing investors in maturing funds, while retaining exposure to assets they continue to view as attractive. While this reflects ongoing exit constraints, it also underscores the growing sophistication and flexibility of the private equity market.

Looking ahead, we believe that investors with the ability to commit capital in the current environment are presented with compelling opportunities. Capital supply has moderated, entry valuations have declined materially since 2021, and competitive pressure has eased in several market segments. However, selectivity remains critical. We favor allocations to secondary funds and to primary managers with a proven track record in driving operational improvements or specializing in turnaround situations involving over-leveraged balance sheets.

Outlook 2026

We do not expect the overall very positive investment environment of 2025 to be repeated in this form. While the global economy currently appears robust, both a pro-cyclical monetary and fiscal policy stance in the United States and extensive infrastructure programs in Europe are likely to continue supporting economic activity for the time being. Nevertheless, we are observing several developments with increasing concern.

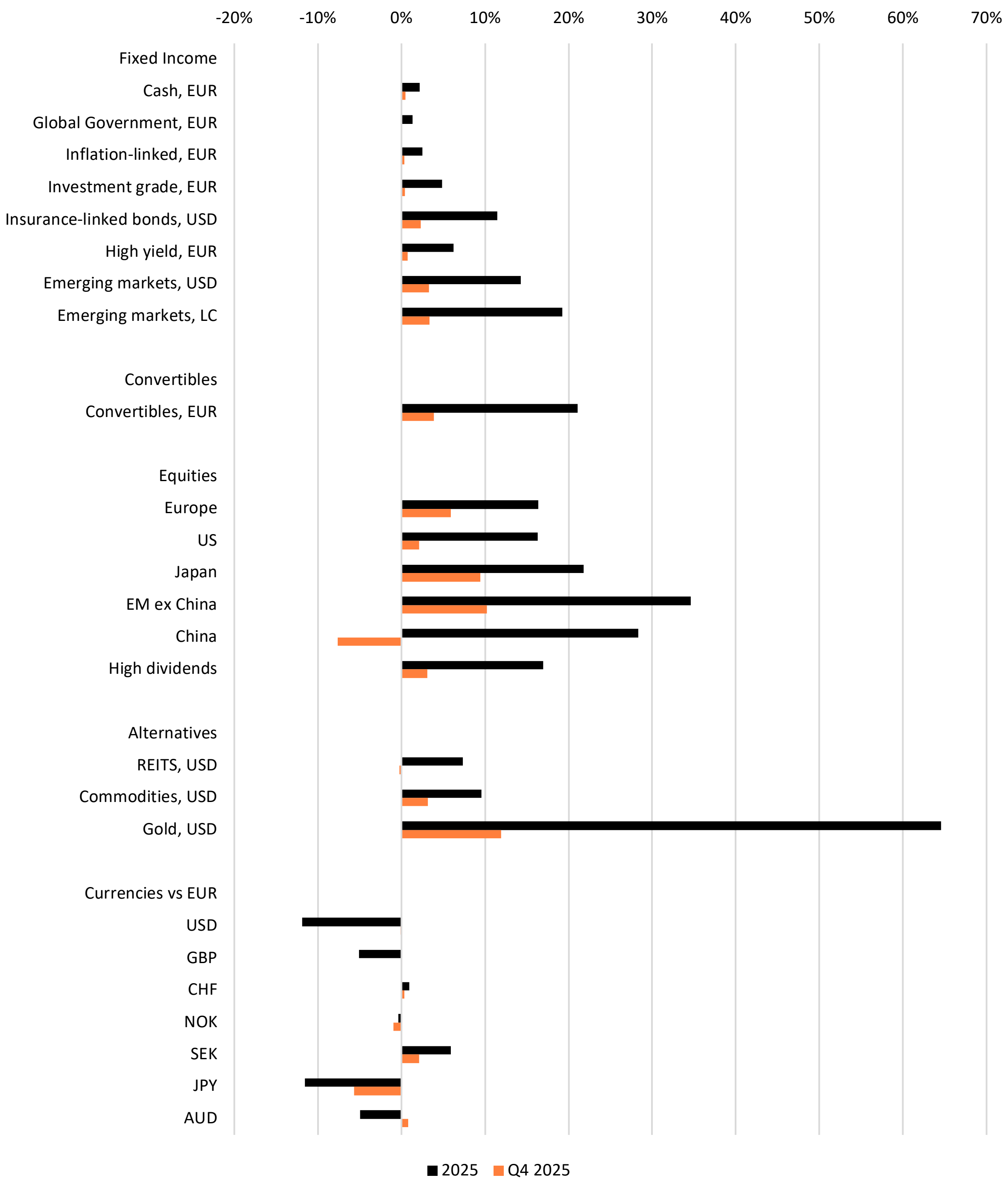
US inflation could rise again in 2026 due to persistently high tariffs and their delayed impact on price dynamics. In addition, we view the growing political interference by the US government in the independence of the central bank critically. A loss of confidence in monetary policy credibility could lead to rising inflation expectations and higher long-term interest rates, which in turn would likely weigh on equity markets and the US dollar.

Moreover, the current investment boom in the field of artificial intelligence does not appear sustainable in its present form and shows clear signs of overheating. While large US technology companies have very strong balance sheets and generate substantial cash flows, overly optimistic expectations regarding future earnings potential could result in a pronounced equity market correction, with potentially negative spillover effects on the real economy.

In light of the risks and uncertainties outlined above, we are maintaining our defensive tactical positioning. US equities - particularly in view of the very high valuations of US technology companies - as well as high-yield bonds and commodities remain underweight. By contrast, we are overweight nominal government bonds.

ASSET ALLOCATION

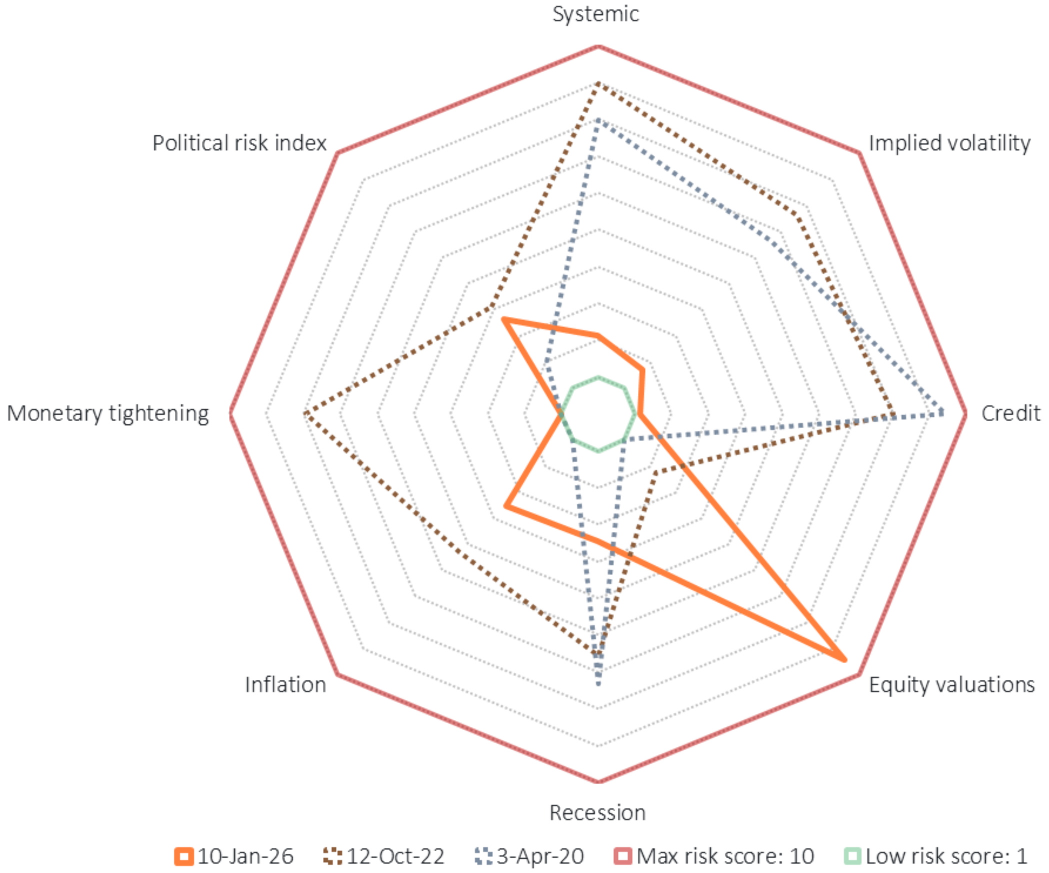
Over the course of the year, financial markets have delivered strong and broadly positive performance across most asset classes. Risky assets advanced despite ongoing macroeconomic and geopolitical uncertainties as well as already elevated valuations. At the same time, traditionally defensive assets also performed well. Gold prices, for example, rose sharply, gaining around 65% in 2025, while government bonds benefited from central bank rate cuts. In contrast, the US dollar emerged as the weakest performer, depreciating by approximately 12% over the year, likely reflecting heightened policy uncertainty and growing concerns regarding the credibility of the US administration.



RISK MONITOR

The overall risk landscape remained largely unchanged over the past quarter. Elevated equity valuations continue to represent the dominant risk factor, while both inflation and recession risks remain somewhat heightened. At the same time, tight credit spreads and low levels of implied volatility indicate that investors are relatively unconcerned about the current investment environment. Low implied volatility - tantamount to low option prices - suggests that hedging demand remains muted.

3-Apr-2020: Global pandemic
12-Oct-2022: Inflation shock



DISCLAIMER

This document is for information purposes only and is not a solicitation of an offer or a recommendation to buy or sell any investment instruments or to engage in other transactions. This document contains data and information which are prepared by IMT Asset Management AG. Although IMT Asset Management AG takes care to ensure that the information in this document is correct at the time it was collected, IMT Asset Management AG neither explicitly nor implicitly provides any assurance or guarantee of accuracy, reliability or completeness, and assumes no liability or responsibility for either its own or for third-party publications. IMT Asset Management AG is not liable for any direct, indirect or incidental loss incurred on the basis of the information in this document and/or on the risks inherent in financial markets. Investment in financial products should be done only after carefully reading the relevant legal requirements, including sales restrictions or any other risk factors. Any opinions represented in this document solely reflect those of IMT Asset Management AG or specified third-party authors at the time of publication (subject to modifications). The services mentioned in this document are addressed exclusively to clients of IMT Asset Management AG.

Source for all graphs: Bloomberg, IMT Asset Management AG.

IMT Group
Austrasse 56 · P.O. Box 1235
9490 Vaduz · Liechtenstein
T +423 238 17 17 · imt@imt.li

www.imt.li