IMT Asset Management AG

Investment Outlook

Q3 2026

AI INFRASTRUCTURE BOOM

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Since the beginning of the year, we have become more constructive on the economic outlook. Economic data and business-cycle indicators, particularly in the United States, have remained resilient. Supported by the AI investment boom and a substantial fiscal impulse, with the US fiscal deficit remaining close to 6% of GDP, growth has continued to exceed expectations.

Against this backdrop, financial markets delivered strong returns despite periods of heightened volatility. Risk assets performed well overall, while emerging markets outside China generated particularly strong returns, supported by their exposure to technology sectors and semiconductor supply chains.

Two themes have dominated markets: artificial intelligence and geopolitics. AI remained the primary driver of equity market performance, but leadership broadened during the year. While the initial rally was led by hyperscalers and developers of large language models, investor attention increasingly shifted towards companies enabling AI adoption, including semiconductor manufacturers, equipment suppliers and infrastructure providers. Industrials, energy companies and utilities also benefited from growing investment in power generation, grid upgrades and data-center capacity.

Private markets delivered solid results despite negative headlines surrounding several semi-liquid private credit funds. Credit spreads remained tight, deal activity increased and default rates stayed near historical lows. Conditions in private equity also improved, with transaction activity, distributions and IPO volumes recovering from depressed levels, although a significant share of activity remained concentrated in large AI-related transactions.

While our economic outlook has improved, we remain mindful of key risks. Geopolitical tensions could reignite inflationary pressures through higher energy prices and keep borrowing costs elevated for longer. We are also increasingly cautious about stretched valuations, particularly in AI-related segments of the equity market.

As a result, we have maintained a slightly defensive portfolio stance. We remain underweight US equities and high-yield bonds while maintaining a meaningful allocation to high-quality dividend stocks. Within US equities, we favor equal-weighted ETFs over traditional market-cap-weighted ETFs to reduce concentration risk and retain a modest overweight in government bonds.

In June, we took advantage of the decline in commodity prices amid easing concerns over potential energy supply disruptions and increased our commodity allocation, bringing it back to a neutral position relative to our strategic asset allocation.

Financial markets

The second quarter of 2026 was characterized by a strong rally in equity markets. The advance was driven by the easing of tensions in the Middle East following the ceasefire agreement between the United States and Iran in April, continued resilience of the US economy, and the ongoing boom in AI-related infrastructure investment.

Market leadership continued to broaden beyond the largest technology platforms towards companies supporting AI adoption, including semiconductor, networking and infrastructure providers. Firms involved in semiconductors, memory chips, networking technology, and energy and data-center infrastructure were particularly in demand. Industrial companies also benefited from this investment cycle. While the so-called "Magnificent Seven" continued to deliver mostly positive returns, they often lagged behind the performance of these infrastructure-related beneficiaries. The S&P 500 gained approximately 15% during the quarter, while the Nasdaq advanced by more than 20%, marking the strongest quarter for US equities since 2020.

Bond markets, by contrast, were primarily weighed down by rising inflation concerns and the prospect of a more restrictive monetary policy stance. As a result, monetary policy returned to the center of investors' attention. The European Central Bank raised its key policy rates by 25 basis points in June, bringing the deposit rate to 2.25%. At the same time, market participants increasingly began to expect that the Federal Reserve might maintain its restrictive policy stance for longer than previously anticipated.

Currency markets experienced significant volatility during the quarter. After initially coming under pressure, the US dollar regained strength as investors sought the safety of dollar-denominated assets and ultimately ended the quarter modestly stronger against the euro.

Commodity markets were at the center of market developments. Oil and natural gas prices initially rose sharply as a result of the conflict in the Middle East. However, following the signing of the Memorandum of Understanding between the United States and Iran on 17 June, tensions eased noticeably. Energy prices subsequently retreated and ended the quarter only slightly above pre-crisis levels.

Gold benefited temporarily from elevated uncertainty and strong demand for safe-haven assets. As geopolitical tensions eased and investor risk appetite returned, however, significant profit-taking emerged. As a result, gold declined by approximately 14% during the second quarter.

Despite the strong performance of global equity markets, cryptocurrency markets struggled during the second quarter. Bitcoin lost approximately 14%, while Ethereum declined by around 25%, reflecting continued investor caution towards digital assets.

Central Banks

During the second quarter, monetary policy diverged somewhat across major economies as central banks responded to rising inflationary pressures driven by higher energy prices and persistent geopolitical uncertainty. While policymakers generally remained cautious, the quarter was marked by a more hawkish tone from the US Fed under its new Chair, Kevin Warsh, and by the European Central Bank's decision to resume its tightening cycle.

The US Fed left policy rates unchanged at its June meeting, the first chaired by Kevin Warsh. However, the Fed adopted a noticeably more hawkish stance, removing its previous bias towards rate cuts and emphasizing its commitment to price stability. Updated projections pointed to higher inflation expectations and increased the likelihood that additional tightening may be required if inflation remains elevated.

The European Central Bank raised its key policy rates by 25 basis points in June in response to rising energy-driven inflation pressures. At the same time, it raised its inflation forecasts and lowered its growth projections, while reiterating that future decisions will remain data-dependent.

The Bank of England kept rates unchanged but adopted a somewhat more hawkish tone, with two Monetary Policy Committee members voting for an immediate rate increase. Meanwhile, the Bank of Japan continued its gradual normalization process, raising its policy rate by 25 basis points as concerns about inflationary pressures increased.

The Swiss National Bank left its policy rate unchanged at 0% and reiterated its willingness to intervene in foreign-exchange markets if necessary. Despite a modest increase in imported inflation, Swiss price pressures remain low by international standards.

Overall, the second quarter marked a shift towards a more hawkish monetary policy stance. Central banks have become increasingly focused on anchoring inflation expectations and preventing energy-driven inflation from feeding into wages. Such second-round effects could make inflation more persistent and require interest rates to remain higher for longer.

Private Markets

Private markets remained resilient during the second quarter despite elevated geopolitical uncertainty and periods of market volatility. Similar to public markets, private equity investors have increasingly shifted their focus from asset-light businesses towards sectors with tangible assets and infrastructure exposure. Reflecting the growing demand for AI-related infrastructure, industries such as utilities, energy, machinery and industrials accounted for a significantly larger share of buyout activity than a year ago, benefiting from rising investment in power generation, grid upgrades and data-center capacity. At the same time, AI continued to dominate venture capital activity, although investment broadened beyond software and model developers towards the wider ecosystem supporting AI adoption.

Private equity activity remained broadly constructive, with transaction volumes, distributions and IPO activity continuing to recover from depressed levels. Secondary markets have become an increasingly important source of liquidity. Following a record year in 2025, activity remained robust as both limited partners and general partners increasingly relied on secondary transactions to manage liquidity needs, extend holding periods and optimize portfolio construction.

Private credit markets also remained healthy. Deal flow increased, particularly in the US direct lending market, while default rates stayed close to historical averages. Although concerns surrounding software-related credits resulted in modest spread widening and negative headlines for some semi-liquid credit vehicles, broader credit markets remained well-functioning and supportive of new transactions. Overall, private market fundamentals remain sound, supported by resilient financing conditions and strong secular investment themes.

Outlook

The US economy continues to demonstrate remarkable resilience, supported by healthy corporate investment, a highly expansionary US fiscal policy and ongoing investment in AI-related infrastructure. At the same time, renewed tensions in the Middle East have increased uncertainty surrounding global energy supplies and raised the risk of higher energy prices.

Against this backdrop, the risk of inflation remaining above central-bank targets for longer has increased. This concern was recently reinforced by the more hawkish stance adopted by Federal Reserve Chair Kevin Warsh and by the European Central Bank's decision to raise interest rates in June. Policymakers have become increasingly focused on preventing higher energy costs from feeding into inflation expectations and wage growth, which could require policy rates to remain elevated for longer.

While economic growth remains supportive for risk assets, higher-for-longer interest rates and elevated geopolitical uncertainty warrant a disciplined investment approach. We therefore continue to favor high-quality assets and maintain a modest overweight in government bonds, which should provide diversification benefits should growth or market sentiment weaken.

At the same time, we remain somewhat cautious given elevated US equity valuations, particularly in market segments that have benefited most from AI-related optimism. As a result, we maintain our slightly defensive portfolio positioning, including an underweight in US technology equities and a preference for equal-weighted equity exposure to reduce concentration risk.

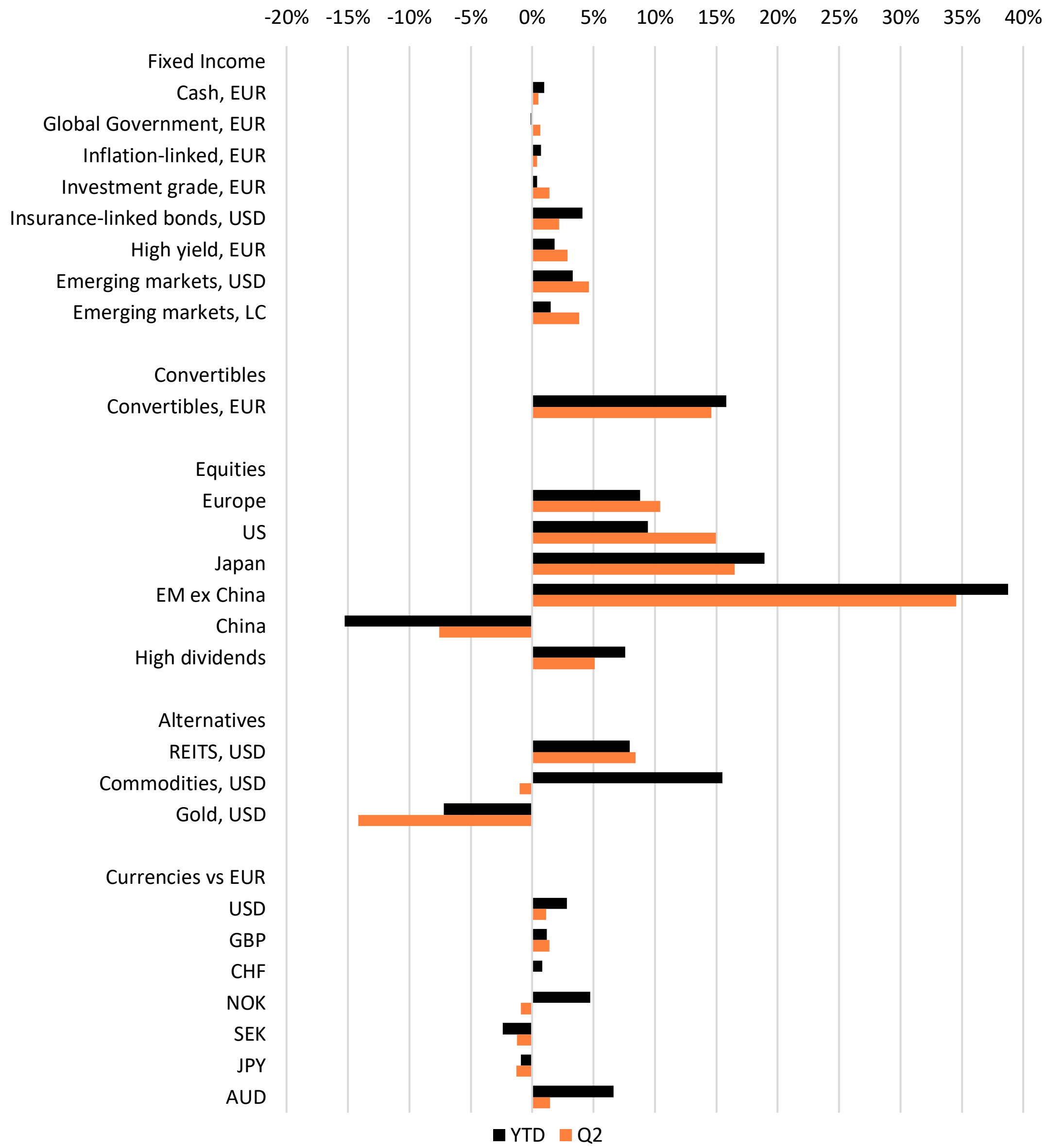
ASSET ALLOCATION

The second quarter was characterized by a strong risk-on environment. Emerging Markets ex China was among the best-performing asset classes, led by Taiwan and South Korea, where semiconductor, memory chip and electronics manufacturing companies benefited significantly from the global AI investment cycle. Notable contributors included TSMC, Samsung Electronics and SK Hynix.

By comparison, Chinese equities underperformed due to subdued domestic demand, ongoing property-market weakness and a lower participation in the AI-driven market rally.

Convertible bonds also generated strong returns, as their exposure to technology and growth-oriented companies allowed investors to participate in rising equity markets.

Meanwhile, gold experienced a notable correction after its strong gains earlier in the year. As geopolitical concerns eased and investor sentiment improved, prices retreated, leaving gold approximately 7% lower on a year-to-date basis.

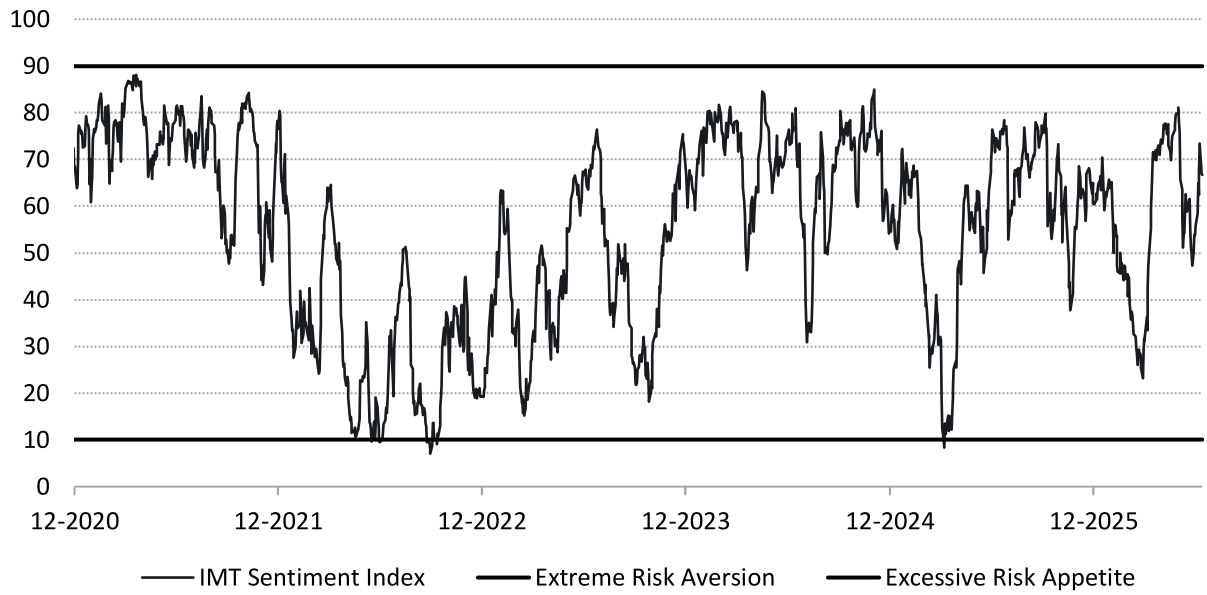


IMT SENTIMENT INDEX

In recent months, we developed the IMT Sentiment Index, a quantitative indicator designed to assess whether market participants are generally risk-seeking or risk-averse. The index combines six market-based indicators: credit spreads between high-yield and investment-grade bonds, the S&P 500 implied volatility index (VIX), the put-call ratio, the relative performance of equities versus bonds, a market breadth indicator (the share of stocks trading above their 200-day moving average), and a momentum indicator.

Historically, readings above 90 have been associated with excessively optimistic market sentiment and a heightened probability of a market correction. Conversely, readings below 10 have often coincided with periods of extreme pessimism and an increased likelihood of a market recovery.

At present, the IMT Sentiment Index stands slightly above its long-term average, suggesting a constructive market backdrop but not providing a strong directional signal for markets in either direction.



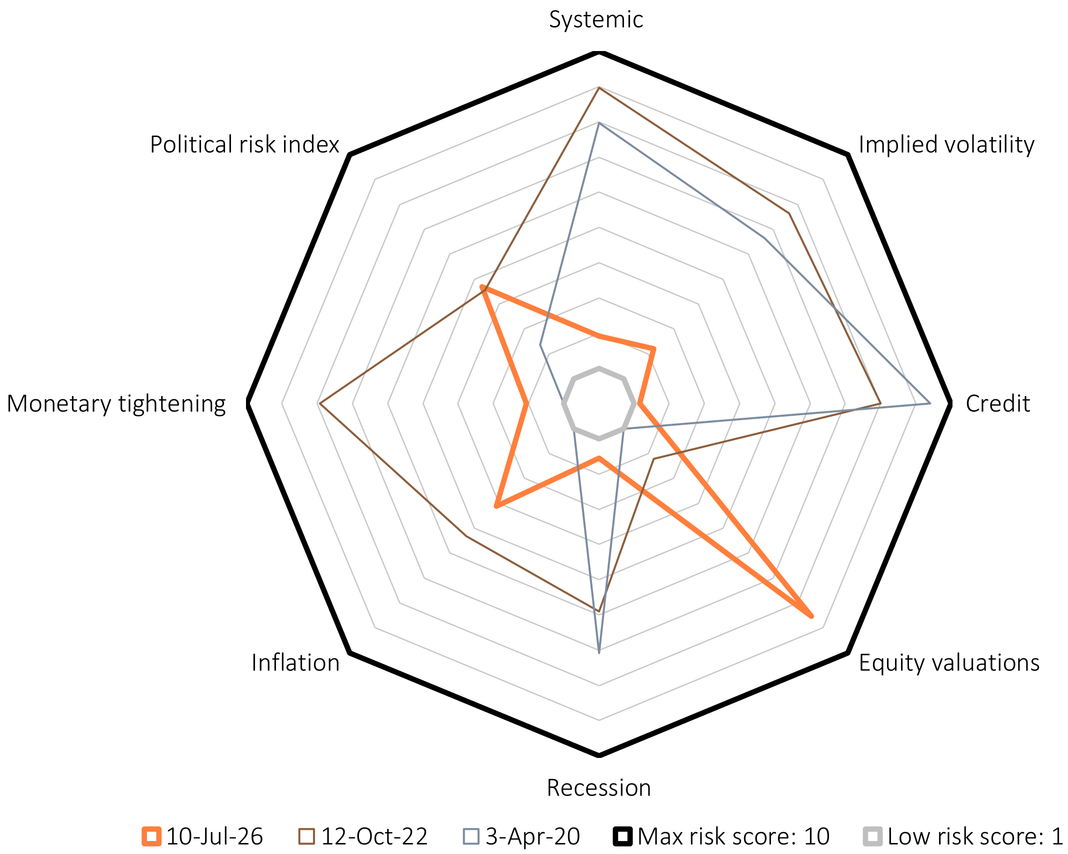
IMT RISK MONITOR

Our risk monitor points to a largely benign market backdrop, although equity valuations remain elevated by historical standards. Political and inflation risks continue to be somewhat above average but have receded from the peaks observed earlier this year.

Monetary tightening risks have also moderated following the ECB's June rate hike and expectations that easing geopolitical tensions would help contain inflationary pressures.

However, the recent re-escalation of military conflict in the Middle East increases the likelihood of renewed inflationary pressure and could prompt a more restrictive monetary policy stance.

Meanwhile, credit spreads remain near historically tight levels, suggesting that investors currently see little risk of a meaningful increase in default rates.



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

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

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