Investors' Outlook

And now for something completely different

July 2026

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And now for something completely different

—
Dan Scott
Head Multi Asset,
Chief Investment Officer,
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Dear readers,

Markets have been digesting a sequence of events, including the largest initial public offering (IPO) in history by Elon Musk's SpaceX,[1] the announcement of a pipeline of massive AI-linked capital and debt issuance, and the prospect of tighter monetary policy. The European Central Bank (ECB) has already kicked this about-face off, which was widely expected, though investors are now wondering whether it will be a one-and-done move or the first of several this year. We've previously argued that the Eurozone recovery is fragile and that tighter policy is unlikely to help.

All of this raises the question of whether markets can continue to grind higher because, even with a signed agreement between the US and Iran that reopens the Strait of Hormuz, the economic fallout from the war won't just disappear overnight. More hawkish monetary policy is poised to weigh on price-to-earnings (P/E)[2] multiples. We believe that for equities to advance from here, companies will need to deliver more on the "E" side of that equation.

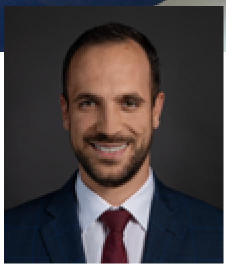
In our view, the June sell-off in the technology sector is a byproduct of that adjustment. Investors seem less willing to extrapolate positive developments into ever-higher valuations and have become more discerning. Optimism has so far been tied to AI infrastructure spending, which has been tangible and relatively easy to assess. But the next step is monetization, which is more intangible and has pitted believers against skeptics. As we move into this next phase, the skeptical voices are slowly getting louder. Investors seem more focused on what companies can deliver than on what they might achieve several years down the road. That's a departure from the pandemic years, when the Cathie Wood investment philosophy[3] found an especially receptive audience among retail investors. At the time, much of the market was willing to overlook traditional valuation metrics and pay premium multiples for companies perceived as disruptive, high-growth innovators. In our view, a more balanced approach is positive, and as such, we believe the consolidation was healthy, especially as the longer-term outlook looks robust to us. However, we believe an expectation reset was needed.

The US Federal Reserve (Fed) held interest rates steady in June but left the door open to rate hikes. While our base case is that the Fed will hold off until September before raising rates, a summer move probably wouldn't come as a big surprise. Given the Fed's dual mandate and a labor market that has kept adding new jobs, policymakers may be in a position to tighten without doing too much damage to the economy.

In this Investors' Outlook, you'll find our views on the UK economy, the wave of IPOs and what it could mean for market participants, and the implications of El Niño for commodity markets. This publication will now enter its summer intermission and will be back with new insights in its September issue. In the meantime, we wish you a summer of pleasant surprises and very few entirely unexpected ones.

→ Webcast
To view our webcast on recent market developments, click **here.**

[1] See "Glossary and sources" on p. 20.



—
Stefan Eppenberger
Chief Investment Strategist,
Multi Asset Boutique, Vontobel

Just in time

The war in the Middle East has reverberated across economies around the world, disrupting trade, fanning inflation, and forcing central banks to reconsider their plans. But after more than 100 days of conflict, the US and Iran have signed a memorandum of understanding.

Under the preliminary agreement, Iran reopened the Strait of Hormuz to commercial shipping, while the US lifted its naval blockade of Persian Gulf ports. Iran will also regain access to frozen assets and receive temporary relief from oil and banking sanctions. We believe this came just in time, as the conflict has contributed to rising inflation and production costs across major economies and eroded consumers' purchasing power. In May, US consumer price inflation hit 4.2 percent, more than double the Fed's target, and the Fed has hit pause on what had previously been a path to rate cuts.

Even so, we believe the global economy is in sufficiently strong shape to absorb these headwinds. That's because on the one hand, the US labor market has started to show signs of reacceleration, and on the other, the combination of US President Donald Trump's "One Big Beautiful Bill Act,"[4] lower tariffs, and the positive impact of AI-related capex, are poised to provide additional tailwinds. With US midterm elections approaching, we also believe Trump has an incentive to take a more pragmatic course. The US-Iran deal is also likely to ease one of the main drivers of recent inflation, namely energy inflation. With the reopening of the strait, Gulf producers that were unable to export oil during the conflict are likely to bring supply back to market. That's on top of the impetus the war has given to efforts to boost renewable energy, which could point to lower oil prices. That's why we believe central banks are unlikely to tighten policy as aggressively as some may fear.

The Multi Asset Boutique's Investment Committee has decided to keep its asset allocation unchanged. Find the details on page 5.

	UNDERWEIGHT[5] significantly	UNDERWEIGHT[5] slightly	NEUTRAL[6]	OVERWEIGHT[7] slightly	OVERWEIGHT[7] significantly	
1 Liquidity			→			We leave our neutral stance on cash unchanged, though we are ready to act should opportunities arise.
2 Bonds		→				Despite our overall negative view on fixed income, we continue to hold selective convictions, including an overweight position in high-yield (HY) bonds.[8] All-in yields remain above their 10-year average, while the asset class is less sensitive to inflation and rising interest rates due to its shorter duration. HY bonds also typically perform reasonably well outside recessionary environments, and we don't anticipate a recession anytime soon.
3 Equities				→		Our overweight positioning in equities remains in place. The macroeconomic backdrop has, so far, been resilient amid strong earnings momentum, continued fiscal support, and ongoing AI-related spending that keep feeding risk appetite. Within equities, we still prefer emerging-market (EM) stocks, where we have an overweight stance. The region benefits from one of the strongest earnings-revision cycles, driven primarily by Taiwan and Korea on the back of continued semiconductor demand. In addition, EM still trade at a valuation discount relative to developed markets. Investor positioning is also relatively light, which we believe leaves room for further catch-up should global growth remain resilient.
4 Gold			→			We reiterate our neutral view on gold. The yellow metal declined in June, falling below USD 4,000 per ounce at the end of the month amid a stronger dollar and fears of higher interest rates. The sell-off helped clear speculative froth from the market, with long positions falling sharply. We believe it's now even more important to get future central bank demand right. According to the World Gold Council's June 2026 survey, 84 percent of respondents expect gold to represent a moderately or significantly higher share of total reserves over the next five years, up from 76 percent previously. Near-term expectations are equally strong, with 89 percent anticipating global official gold reserves to increase over the next 12 months. Overall, sentiment remains skewed toward continued accumulation, although some central banks may slow the pace of purchases after years of aggressive buying. We believe gold could recover a larger portion of its losses once rate-hike fears fully subside and the Fed eventually shifts toward cutting rates. Recent geopolitical developments may also have strengthened gold's long-term appeal amid higher government spending, declining trust in the US as a reliable partner, and the gradual erosion of the US dollar's global dominance, including the role of the petrodollar.
5 Commodities			→			We believe commodities have once again highlighted their role as effective inflation hedges this year, particularly when supply shocks are a key driver of rising prices. They can also help protect against geopolitical uncertainty through diversification benefits. However, with these risks expected to ease ahead of the US midterm elections and oil supply gradually coming back online, a neutral stance on commodities appears justified to us.
6 Alternative strategies			→			Our neutral view on alternative funds and real estate remains unchanged.

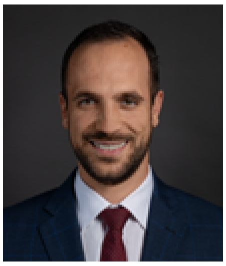
Note: Views are as of June 2026. Subject to change without further notice.

Changes month-on-month: same → higher ↗ lower ↘

Will the UK's stiff upper lip start to tremble?

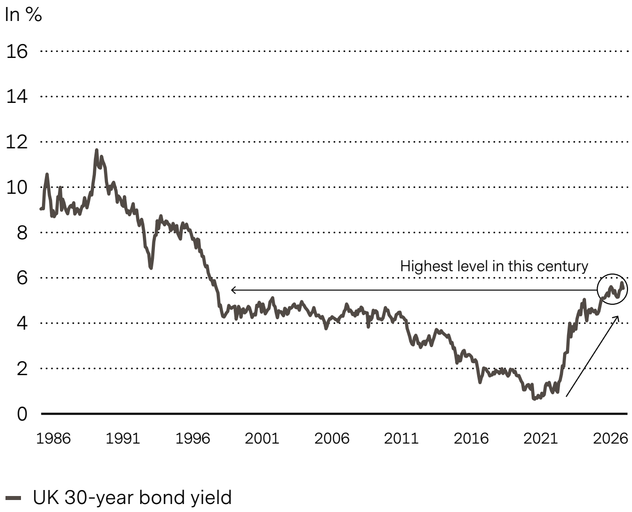
When Monty Python's "Life of Brian"[9] popularized the song "Always Look on the Bright Side of Life", sung from the crosses of Calvary, it offered a masterclass in dark comedy and British stoicism. At its core, the tune is about maintaining a cheerful, resilient attitude and a stiff upper lip in the face of adversity. Some investors watching the UK economy today may find that advice difficult to follow. With growth stalling and structural issues mounting, many things are clearly not going well. The outlook is arguably hardly cheerful, but does it warrant genuine investor alarm?

—
Michaela Huber
Senior Cross-Asset Strategist,
Multi Asset Boutique, Vontobel



—
Stefan Eppenberger
Chief Investment Strategist,
Multi Asset Boutique, Vontobel

Chart 1: High UK long-dated bond yields have sparked fears

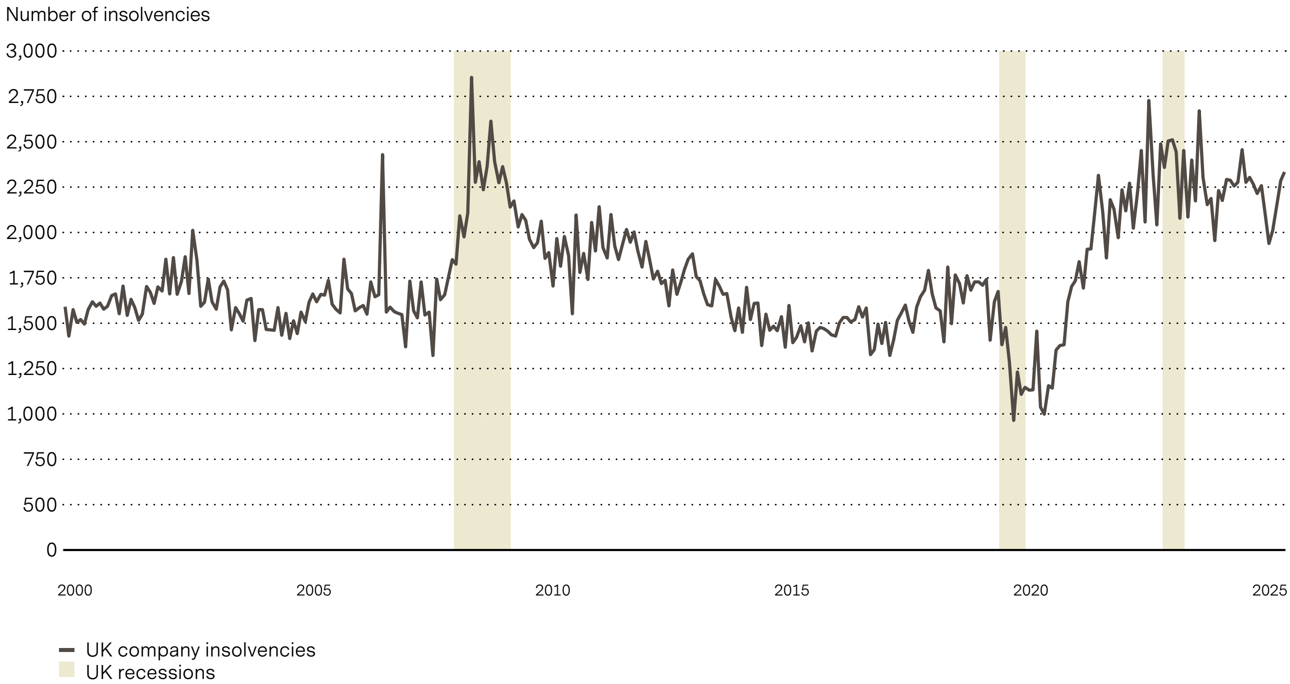


Source: LSEG, Vontobel; as of June 22, 2026.

Maintaining a stiff upper lip has been particularly challenging for UK government bondholders (see chart 1). A sell-off in gilts has pushed yields on 10-year bonds close to 5 percent, while 30-year yields have approached 6 percent (bond yields move inversely to prices).

The sell-off reflects a combination of short- and long-term factors. One of the UK's most immediate vulnerabilities is its sensitivity to international energy markets. As a significant net energy importer, the country relies on overseas supplies for more than 43 percent of its total primary energy consumption, with oil and gas accounting for over 90 percent of imports. Unlike some continental European peers, the UK has relatively limited gas storage capacity, leaving it exposed to swings in global wholesale prices. When disruptions in the Strait of Hormuz pushed oil and gas prices higher, the impact was almost immediately felt across the British economy. Higher energy costs squeezed households' budgets and eroded disposable income, and businesses were forced to prioritize liquidity and cost management over investment and expansion.

Chart 2: The number of corporate liquidations remains elevated for the fourth year in a row



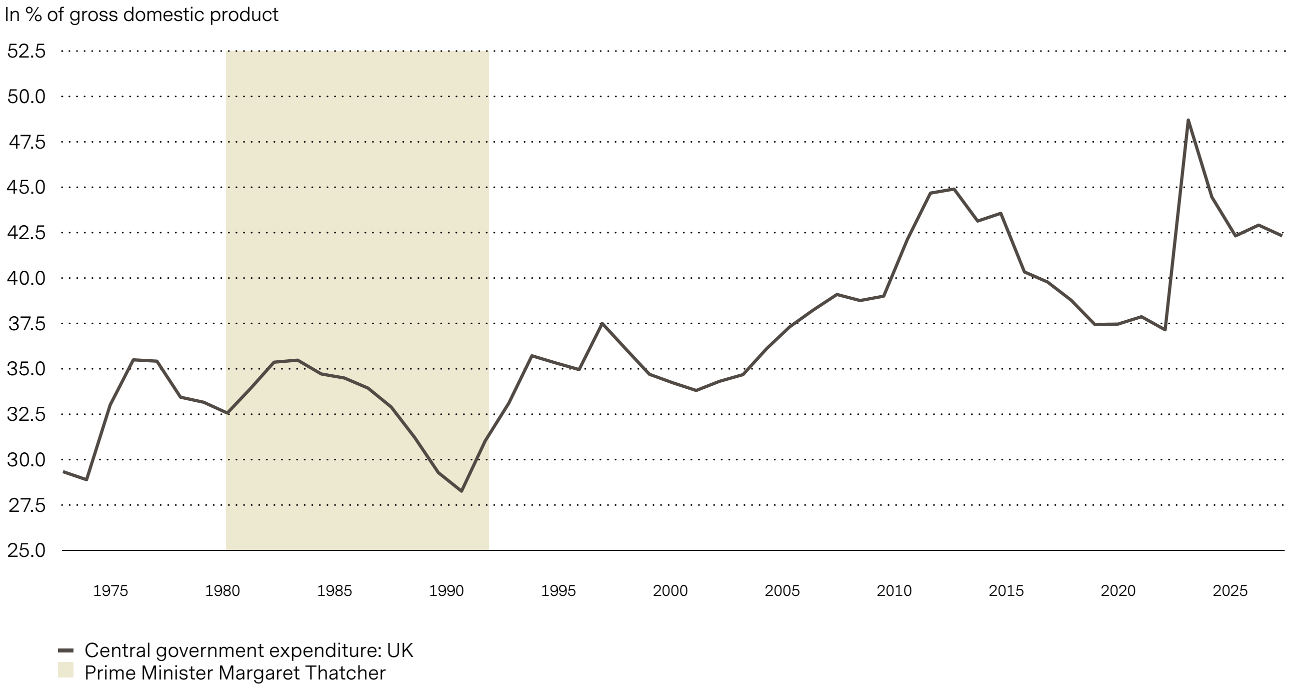
Source: LSEG, Vontobel; as of June 9, 2026.

The surge in energy prices has also fanned fears that the disinflationary trend that had been underway before the war has come to an end. UK consumer price inflation had moderated from around 11 percent in 2022 to roughly 3 percent before the outbreak of the war and was projected to eventually fall back toward the Bank of England's (BoE) 2 percent target. The BoE now expects inflation to remain a little under 3 percent in the third quarter before rising to just over 3.25 percent toward the end of 2026, reflecting lower energy prices (though with the earlier shock still feeding through). All of this has complicated the BoE's rate-cut plans. Before the war, markets expected its main interest rate to move lower from 3.75 percent. Instead, the BoE has kept rates steady, while flagging that upside risks to inflation persist. Although policymakers continue to expect inflation to ease over the medium term, they have stressed that policy will need to stay restrictive enough for long enough to return inflation sustainably to the 2 percent target.

In our view, domestic demand remains the economy's weakest link. Stagnant real (inflation-adjusted) wages have eroded consumer spending power for several quarters, leaving very little room for discretionary expenditure. This pain is also showing up in forward-looking business surveys. According to the Confederation of British Industry, sentiment among UK manufacturers has deteriorated sharply, with optimism about both the business outlook and export prospects falling at their fastest pace since the Covid-19 pandemic.[10] The picture is not much prettier in the services sector: sentiment among consumer-facing businesses has fallen to its lowest level in more than a year, while profitability is declining at the fastest pace since 2020 as costs rose faster than companies were able to raise prices.[11]

The corporate sector offers little reason for optimism. Insolvencies have been elevated for the fourth year in a row (see chart 2). This trend is driven by a combination of high interest rates, rising business rates,[12] and increased labor costs, including adjustments to the national minimum wage. Smaller enterprises, which generally lack the financial buffers and restructuring options available to larger corporations, are bearing the brunt of this environment.

Chart 3: The UK has (like many others) increased its public spending



Source: LSEG, Vontobel; as of June 9, 2026.

Beyond these shorter-term headwinds, deeper structural forces are also at play. Like many advanced economies, public spending has seen a steady increase since the departure of Margaret Thatcher (see chart 3). However, much of this rise has been absorbed by demographic pressures, especially an aging population, as well as higher spending on pensions, healthcare, and debt servicing. That has left less room to improve service quality elsewhere. Combined with weak productivity growth and the legacy of earlier spending constraints, many public services are under pressure despite higher aggregate outlays.

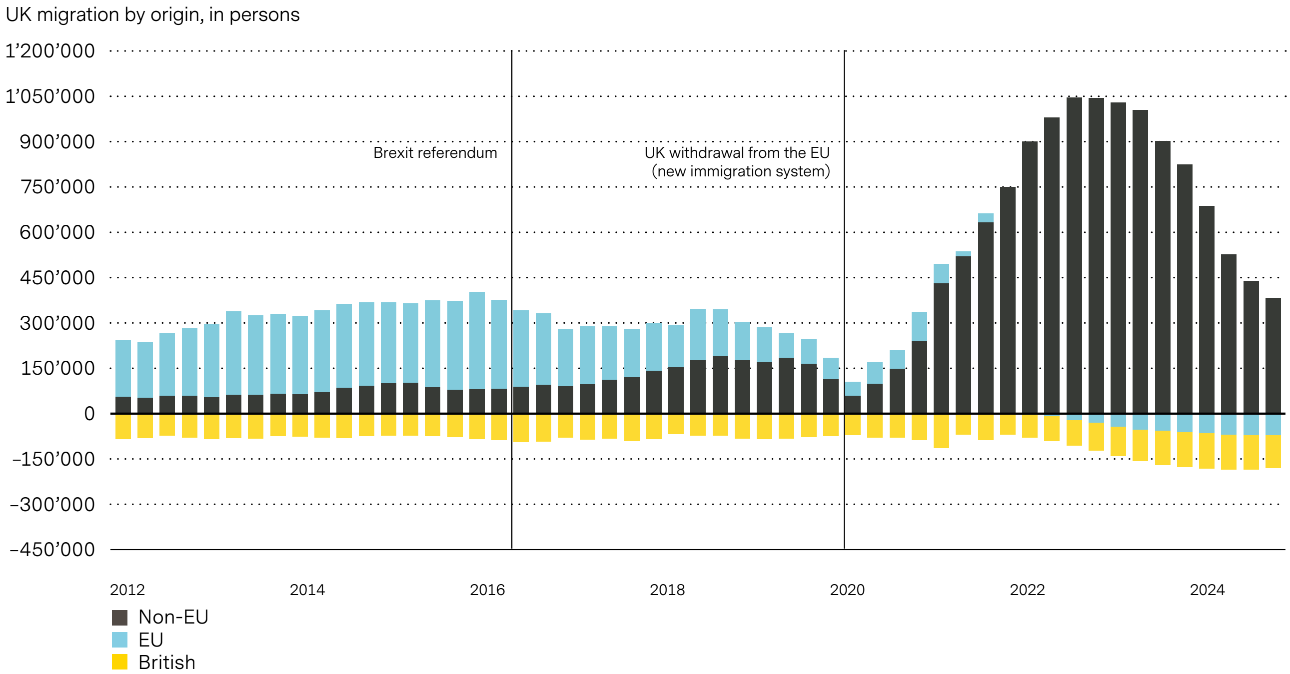
In addition, the UK's decision to withdraw from the European Union (Brexit) has added a further structural drag because it increased trade frictions, reduced labor mobility, and dampened investment, which has weighed on openness and lowered the economy's long-term growth potential.

Then there is also the politically sensitive issue of immigration. Migration to the UK looks very different today than it did before Brexit (see chart 4). Although reducing numbers was one of the stated goals, both the scale and composition of arrivals have changed, moving from a predominantly European labor force to one increasingly driven by non-EU workers, students, and humanitarian routes. Restricting the labor supply is easier said than done as it risks stifling growth and fueling wage inflation, while failing to address public concerns risks deeper political instability.

Compounding these structural challenges is a volatile political landscape that has repeatedly undermined investor confidence. Investors haven't forgotten the turmoil that accompanied Liz Truss's brief premiership, particularly the gilt market sell-off triggered by the September 2022 mini-budget.[13] Although her successor, Rishi Sunak, helped stabilize the economy, the Conservative Party remained divided by infighting between right-wing populists and moderates, high-profile scandals, and a public weary of the high cost of living.

By the summer of 2024, this desire for change culminated in a historic general election. Keir Starmer led the center-left Labour Party to a sweeping victory, ending 14

Chart 4: Immigration increased siginificantly after Brexit and remains a key political issue



Source: Borders and Immigration data from the Home Office, Registration and Population Interactions Database from the Department for Work and Pensions, and International Passenger Survey from the Office for National Statistics; as of June 9, 2026.

years of Conservative rule on a promise of stability and reform. However, while Labour won a massive majority of seats, the election also signaled a fragmenting electorate. The Liberal Democrats made a significant comeback, the Green Party gained ground, and Nigel Farage's right-wing populist Reform UK party won millions of votes, fracturing the traditional right-wing voting base.

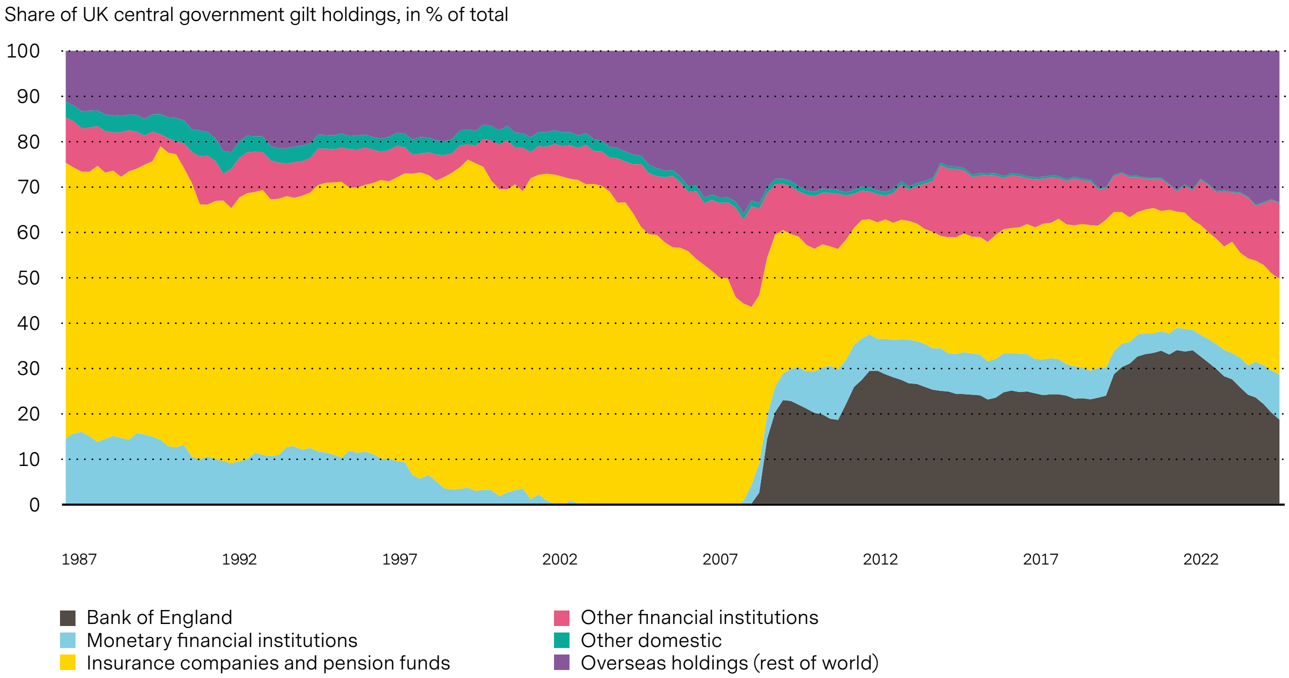
Key questions for investors
For domestic and global investors, the UK's macroeconomic outlook raises questions around governance, debt sustainability, and systemic risk.

First, is the UK heading for a recession? The answer is finely balanced. With the Sahm Rule[14] approaching danger thresholds, consumer confidence at multi-year lows, and manufacturing contracting sharply, it's difficult to identify where growth will come from. If the BoE is compelled to raise rates to 4 percent or higher this summer to counter imported energy inflation, a technical recession[15] before year-end becomes increasingly likely.

Second, will there be a second wave of inflation? We see this risk as elevated, but not inevitable. What do we mean by that? As a net energy importer, the UK is particularly exposed to renewed inflationary pressures if global supply chains remain disrupted. That said, a key difference from the 2021–2022 inflation shock is that labor shortages are less acute than in the aftermath of the pandemic, which is poised to reduce the risk of a wage-price spiral.

Third, could the UK government collapse? This is a fair question following Keir Starmer's resignation on June 22, which marks yet another prime ministerial departure. In our view, prime ministers may change, but the governing party is likely to remain in power. Under the UK's parliamentary system, governments typically fall only if they lose their majority or fail a formal vote of no confidence. The Labour Party secured 411 of the 650 seats in the 2024 general election and, despite some attrition, still held 403 seats as of April 2026, so the government still maintains a solid working majority through to 2029. That said, political stability is far from assured. Starmer's departure comes on the heels of a prlonged cost-of-living crisis, a seris of unpopular policy decisions, and significant losses

Chart 5: Domestic investors still hold most gilts, but investment funds account for a growing share



Source: Bloomberg, Vontobel; as of June 9, 2026.

in recent local elections, all of which have left the ruling party deeply fragmented. With high-profile cabinet resignations and intense pressure from backbench members of parliament[16] ultimately triggering this leadership transition, the next prime minister faces the immediate challenge of uniting a heavily fractured party.

Fourth, is the UK at risk of an imminent fiscal crisis? We believe this is unlikely. A key positive for sovereign creditworthiness is the government's clear prioritization of fiscal discipline over populist spending. Unlike during the 2022 mini-budget episode, the current leadership appears acutely aware of the risks of unsettling bond markets. High public debt and a stringent deficit-reduction strategy have resulted in restrained spending and continued freezes to personal tax thresholds. While this fiscal drag weighs on growth and household consumption, it also reduces the risk of a full-scale sovereign debt crisis.

Fifth, are there systemic contagion risks for international markets? We are not overly concerned, as the risks appear largely contained within the UK. The extent of contagion depends heavily on who owns the sovereign debt. Unlike certain Eurozone economies that rely on volatile foreign capital flows, the UK benefits from a deep and relatively captive domestic investor base. Pension funds and insurance companies hold a significant share of long-dated gilts to match their long-term liabilities, providing a stabilizing force in the market (see chart 5). However, this domestic concentration is a double-edged sword: while it reduces the risk of sudden capital flight, it also means that sovereign stress is transmitted directly into the balance sheets of domestic institutions and, ultimately, the broader British public's savings.

At the end of the day, if markets come under severe strain, we believe there is a high likelihood that, when the burden becomes too heavy, the BoE is likely to step in to make sure bond investors aren't whistling on their own Calvary Hill for long.

Watching the undercurrent

—
Christopher Koslowski
Senior Fixed Income &
FX Strategist,
Multi Asset Boutique, Vontobel

The Fed delivered a hawkish hold at its June meeting, indicating that inflation risks outweigh concerns about slowing growth and leaving the door open to further tightening if needed.

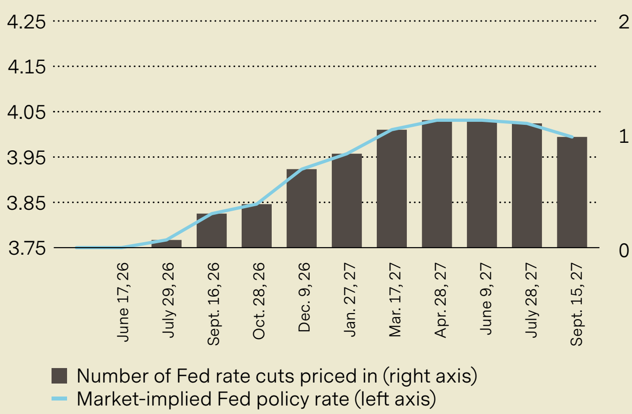
The message that caught our attention was not the decision to leave rates unchanged, but the Fed's more hawkish assessment of inflation. Updated projections suggest a growing number of policymakers believe price pressures could stay above target for longer, with additional tightening no longer off the table. Fed Chair Kevin Warsh stressed that price stability is the central bank's primary objective. While lower energy prices may provide some respite, policymakers seem to be growing more concerned that inflationary pressures could become more entrenched across the economy. For bond markets, the implications are most significant at the front end of the yield curve. Expectations for looser policy have all but disappeared, leaving short-dated yields vulnerable if inflation continues to surprise on the upside. Further out on the curve, slower growth may provide some support, but inflation risks and large fiscal deficits are likely to limit how far long-term yields can decline.

Warsh provided little guidance on the future path of rates, emphasizing flexibility in an uncertain environment. He also signaled a review of the Fed's forecasting, communication, and policy framework, pointing to a potentially more activist central bank in the years ahead. Money markets still assign some probability to additional tightening (see chart 1).

Credit markets tell a different story. Despite higher inflation, geopolitical uncertainty, and record levels of corporate bond issuance (see chart 2), spreads are still hovering near historically tight levels. Investor demand has consistently exceeded supply, allowing issuers to raise large amounts of capital without offering meaningful concessions. This year has been a case in point. Issuance has already surpassed last year's elevated pace, driven in part by hyperscalers[17] and other technology companies funding AI-related investment programs. Yet demand remains exceptionally strong and continues to absorb new supply with ease.

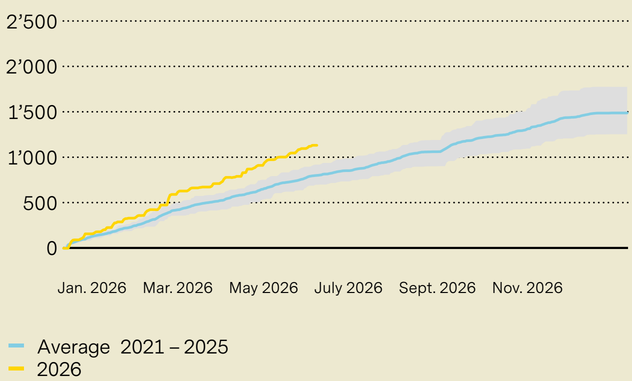
Strong technicals therefore continue to be a key source of support. However, valuations leave little room for disappointment. With spreads already near cycle lows, we believe future returns are increasingly likely to come from carry[18] rather than further spread compression, leaving investors with limited compensation for macroeconomic, geopolitical, and supply-related risks.

Chart 1: Markets have priced in one Fed rate hike over the next year amid rising policy expectations



Source: LSEG, Vontobel; as of June 13, 2026.

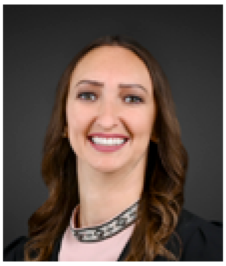
Chart 2: IG* supply is well above historical norms, with hyperscalers accounting for much of the increase



*Investment grade[19]

Source: LSEG, Vontobel; as of June 13, 2026.

Mega-IPOs, a warning sign for equity markets?



—
Clémence Rusek
Senior Investment Strategist,
Multi Asset Boutique, Vontobel

A historic wave of mega-IPOs is sweeping through markets in 2026. Tied to AI and frontier technology,[20] this surge has become one of the main talking points for investors. Giants like Anthropic, said to be mapping out a debut for later this year, and OpenAI, now reportedly eyeing 2027, are widely expected to follow what has already become a milestone: the public debut of SpaceX. Together, these listings are set to form one of the largest issuance cycles in modern financial history.

SpaceX raised USD 75 billion in early June at a valuation of USD 1.77 trillion, completing the largest IPO valuation on record and making Elon Musk the world's first trillionaire.

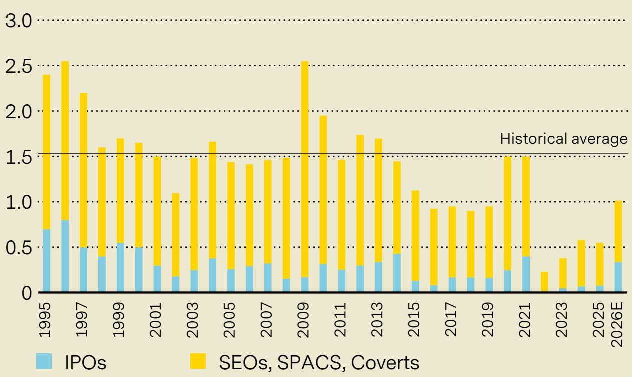
With AI titans like Anthropic and OpenAI preparing their own trillion-dollar public debuts in 2026 or 2027, fears have crept in that this deluge of issuance, alongside capital raises from companies such as Alphabet and Meta, could overwhelm market demand and drag down stock prices across the board. However, the risk of a market crash due to this supply alone is overblown, in our view. These companies are floating only around 5 percent of their total shares, limiting the amount of stock initially released to the public. In total, the volume of new equity expected to come to market this year amounts to about 1 percent of overall market capitalization, well below historical averages (see chart 1).

If immediate supply is not the main risk, attention may instead turn to what follows. While newly listed companies have historically had strong market debuts, their shares have typically underperformed the broader market over the following three years. One reason is that companies deliberately choose to go public when private-market enthusiasm is at its strongest and growth expectations are highly optimistic. Once public discipline forces more transparency, valuations have historically compressed. The SpaceX debut may be exemplifying this. While the offering's two-times oversubscription and post-listing peak showed that market appetite for structural growth and AI remains fierce, the stock has now retreated from its initial highs.

Skeptics also argue that high-profile listings tend to precede market downturns. Examples include Ford in the 1950s, Apple in the late 1970s, Goldman Sachs in 1999, and the SPAC[21] boom in 2021. But we believe the notion that every large IPO signals a market peak is a stretch born of selective memory. For instance, when Google and Facebook went public, no corrections ensued. We believe IPO activity actually tends to mirror market sentiment. If history is any guide, downturns are triggered by the conditions that follow, such as a sharp tightening in financial conditions (see chart 2).

Chart 1: Projected 2026 equity supply is below the long-term average

US equity capital issuance as % of market capitalization*

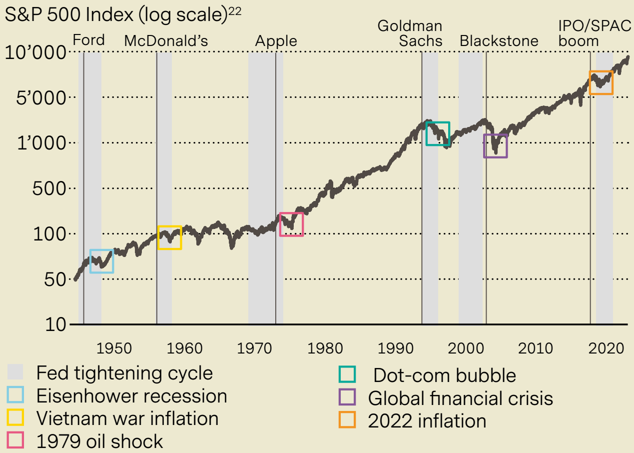


*US market capitalization represented by Russell 3000 Index
Note: SEOs = Seasoned Equity Offerings, SPACs = Special Purpose Acquisition Companies, Coverts = Convertible Securities

Source: Dealogic, Jay Ritter, Vontobel; as of June 18, 2026.

Chart 2: Bear markets that followed large IPOs generally coincided with a tightening of financial conditions

S&P 500 Index (log scale)[22]



Note: For informational purposes only. This content does not constitute investment advice or a recommendation to buy, sell, or hold any financial instruments.
Source: LSEG, Vontobel, as of June 8, 2026.

When El Niño plays tricks

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—
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CFA, CAIA Commodity
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Anyone who's ever raised a young child recognizes the signs: they're quiet for a moment too long, a little too innocent, and you realize they're already up to something, testing limits. Out in the Pacific, a familiar troublemaker is beginning to stir again. El Niño, with its warm ocean currents and knack for bending weather patterns out of shape, is making its way back onto the stage. And much like that spirited child, it rarely arrives without shaking things up.

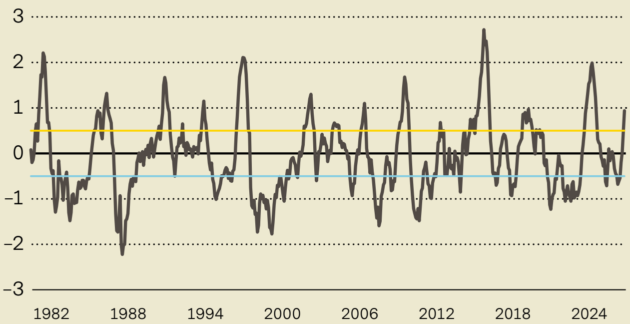
El Niño ("the boy") and La Niña ("the girl") are two siblings within the same climate cycle (ENSO: El Niño–Southern Oscillation), but with very different temperaments. El Niño is the warmer, more unpredictable of the two. During an El Niño event, the water-surface temperatures in the central and eastern Pacific rise above normal, weakening the trade winds that typically push warm water westward. El Niño is associated with temperature anomalies of at least 0.5°C above average, while La Niña is associated with anomalies of at least 0.5°C below average (see chart 1).

Reshuffled agricultural conditions
In the El Niño case, warm water spreads eastward, dragging rainfall patterns with it. Regions like Indonesia, Australia, and parts of India, which usually depend on steady tropical rains, can face unwelcome dryness, while the western coasts of the Americas tend to become wetter. Some of the earliest signs of El Niño are usually felt in these regions. The result is a reshuffling of agricultural conditions worldwide: fields that depend on regular moisture may wither, while others contend with floods at the worst possible time. La Niña pushes in the opposite direction. Trade winds strengthen, driving warm waters farther west and allowing colder water to rise in the eastern Pacific. This intensifies existing weather patterns: the western Pacific becomes wetter, often to the point of flooding, while parts of the Americas turn drier and cooler.

According to the US Climate Prediction Center, El Niño is likely to emerge soon (97 percent probability between May and July) and is expected to last through the Northern Hemisphere winter of 2026–27 (99 percent probability for December to February).[23] Even more concerning

Chart 1: An eye on temperature anomalies

In degrees Celsius

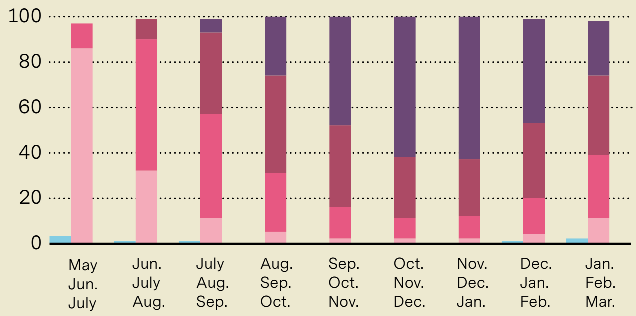


Monthly NOAA climate prediction center Nino 3.4 Sea surface temperature departure from mean
La Niña
El Niño

Source: Bloomberg, Vontobel; data from January 31, 1982 to May 31, 2026.

Chart 2: NOAA ENSO strength probabilites as of June 2026

Percentage change



0.5°C ≤ Index < 1.0°C
1.0°C ≤ Index < 1.5°C
1.5°C ≤ Index < 2.0°C
Index ≥ 2.0°C
–0.5°C < Index < 0.5°C

Source: National Oceanic and Atmospheric Administration US Climate Prediction Center, Vontobel; as of June 2026.

for commodity markets is how strong it becomes. In its June report, the National Oceanic and Atmospheric Administration (NOAA) raised the probability of a strong or very strong event—often dubbed a “super El Niño”—to 89 percent, threatening to disrupt global weather patterns on a scale not seen in years (see chart 2).

From ocean heat to economic uncertainty
Historical evidence suggests that global agricultural supply is often more resilient than initially feared. Production losses in drought-affected regions have frequently been offset by gains elsewhere, resulting in only a limited aggregate supply shock. This has meant that even strong El Niño events have not always translated into broad-based food price inflation.

However, there is a caveat: concentration. Certain commodities are geographically clustered in regions that are systematically exposed to El Niño-induced weather patterns. In these cases, localized climate stress can turn into a global supply risk. This is particularly evident in agricultural commodities. Palm oil production, for example, is heavily concentrated in Southeast Asia, a region that typically experiences drier conditions during El Niño episodes. A strong event can hence translate directly into tighter supply conditions and upward price pressure. Tighter palm oil production then spills over into higher prices for other vegetable oils like soybean oil or canola oil and can even impact imports for used cooking oil.

Similar dynamics apply, albeit to varying degrees, to sugar, coffee, and cocoa, where both yield sensitivity and regional concentration increase exposure to adverse weather shocks. All three markets are heavily concentrated geographically and have proven vulnerable supply chains in the recent past, leading to price volatility. Vietnam, the world’s biggest producer of Robusta coffee, and Brazil, a major producer of sugar, Arabica coffee, soybeans, and corn, are both facing drier weather patterns in the second half of this year. A super El Niño event can also bring drier weather conditions across the Atlantic to West Africa, the world’s most important cocoa-producing region. Grains such as rice and wheat can also be affected. Here, the risk often stems not from physical shortages but from behavioral and policy responses. Governments may act preemptively to secure domestic supplies and even restrict exports, which then amplifies price movements well beyond what underlying fundamentals would justify.

And beyond agriculture?
Beyond agriculture, El Niño also influences energy demand, infrastructure stress, and trade dynamics. Higher temperatures tend to increase electricity consumption, particularly in rapidly urbanizing regions where cooling demand is rising structurally. At the same time, droughts can reduce hydropower generation, while flooding can impact logistics, tightening energy balances.

Another important channel is hurricane activity. El Niño is generally associated fewer Atlantic hurricanes, as stronger wind shear suppresses storm formation, but above-average activity in parts of the Pacific. Forecasts for 2026 point to a quieter hurricane season along the US Gulf Coast. This is relevant because a large share of US liquefied natural gas capacity is concentrated in the region and is therefore exposed to episodic disruptions.

Unwelcome weather meets stressed supply chains
Another, less visible transmission channel runs through global trade. El Niño-driven changes in rainfall patterns can affect key transit routes such as the Panama Canal, where water levels directly constrain shipping capacity. Reduced rainfall can limit cargo loads and transit volumes, creating bottlenecks that ripple across supply chains. In a world already grappling with tight inventories and geopolitical fragmentation, such disruptions can add to cost pressures and extend lead times across industries. In practical terms, El Niño tends to progress through a sequence of market phases. First comes rising confidence in forecasts and early positioning, often in commodity and volatility markets. Next comes a realization phase, when weather impacts either validate or challenge expectations, driving spot price adjustments. The final stage encompasses broader economic consequences and policy responses, inflation pass-through, and potential second-round effects on growth and financial conditions. Ultimately, El Niño acts like a stress test for the global system.

Short-term noise vs. long-term trends

—
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Currency markets are caught between short-term geopolitical developments and longer-term structural trends. Recent market volatility has lent support to defensive currencies such as the US dollar and Swiss franc, but we believe underlying factors, including fiscal imbalances, capital flows, and relative economic fundamentals, will become increasingly important.

Recent market turbulence has temporarily strengthened the US dollar, reflecting its traditional safe-haven status and the relative resilience of the US economy. However, these factors are unlikely to change the broader trend, in our view. Ongoing concerns about the US fiscal outlook, rising debt levels, and the gradual diversification of global portfolios away from US assets are poised to be a source of pressure over the longer term. We therefore see the dollar's recent rebound as a pause in its decline, rather than the start of sustained appreciation.

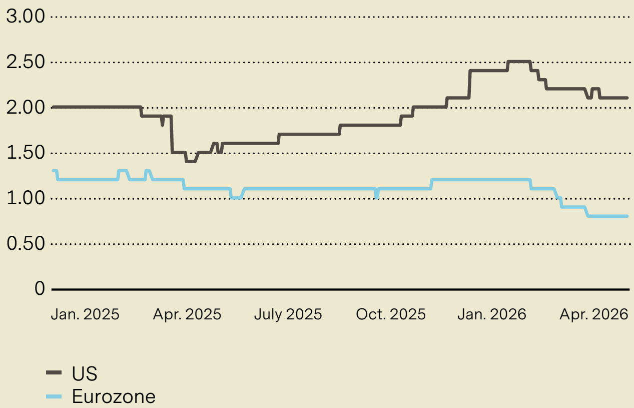
The euro's short-term prospects remain mixed. The ECB's recent rate hike initially supported the currency, but markets have since scaled back expectations for further tightening as oil prices retreated and fears of a prolonged energy shock eased. Relative growth dynamics also continue to favor the US (see chart 1), limiting the euro's scope for a strong move higher against the dollar. A more durable appreciation is likely to require stronger growth momentum in the euro area.

The medium- to longer-term outlook appears more constructive to us. The euro area benefits from a sizeable current-account surplus, improving capital flows, and a stronger external position than the US, and growing concerns about US fiscal sustainability may encourage a gradual reallocation of global capital toward other markets, including Europe. While these factors are unlikely to trigger a rapid appreciation, we believe they should provide a supportive backdrop for the euro over time.

The Swiss franc continues to draw strength from its role as a defensive currency, although its appreciation has become a cause for concern for policymakers. The Swiss National Bank (SNB) has recently stepped up verbal interventions, signaling discomfort with further franc strength and its disinflationary effects. In the short run, the outlook appears more balanced. Markets have lowered expectations for future SNB tightening (see chart 2), while the ECB's recent rate hike has widened the expected policy gap between the euro area and Switzerland. Combined with the SNB's rhetoric, this could curb further gains in the franc, especially if geopolitical tensions continue to ease. Looking further ahead, we believe Switzerland's strong public finances, current-account surplus, and reputation as a safe destination for capital will likely continue to provide support for the franc.

Chart 1: Growth differentials remain a hurdle for EUR / USD

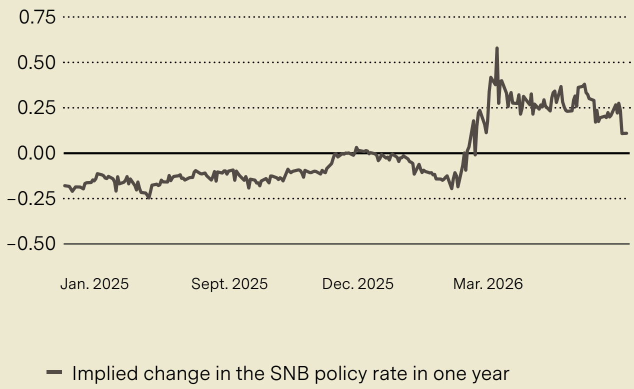
Consensus real GDP forecast for 2026, annual change in %



Source: LSEG, Vontobel; as of June 16, 2026.

Chart 2: Markets have scaled back expectations for future SNB tightening

In %



Source: LSEG, Vontobel; as of June 16, 2026.

Economy and financial markets 2025 – 2027

The following list shows the actual values, exchange rates, and prices from 2025, as well as consensus forecasts for 2026 and 2027 for gross domestic product (GDP), inflation / inflationary expectations, key central bank interest rates, 10-year government bonds, exchange rates, and commodities.

GDP (IN %)	2025[1]	CURRENT[2]	2026 CONSENSUS	2027 CONSENSUS
Global (G20)	2.6	2.5	2.6	2.6
Eurozone	1.4	0.3	0.8	1.2
USA	2.1	2.6	2.1	2.0
Japan	1.1	0.4	0.6	0.8
UK	1.4	1.1	1.0	1.1
Switzerland	1.4	0.6	1.1	1.4
Australia	2.0	2.5	2.0	1.8
China	5.0	5.0	4.6	4.4

INFLATION	2025[3]	CURRENT[4]	2026 CONSENSUS	2027 CONSENSUS	VONTOBEL VIEW IN 2026[5]
Eurozone	2.1	3.2	2.9	2.2	↓
USA	2.7	4.2	3.5	2.4	↓
Switzerland	0.2	0.6	0.6	0.7	↓

KEY INTEREST RATES (IN %)	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
EUR (deposit rate)	2.00	2.25	2.34	2.27	→
USD (Fed funds rate, upper bound)	3.75	3.75	3.73	3.43	↑
CHF	–	–	0.02	0.10	→

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
EUR (Germany)	2.86	2.93	2.98	2.96	→
USD	4.17	4.44	4.37	4.27	→
CHF	0.32	0.37	0.46	0.50	→

FOREIGN EXCHANGE RATES	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
CHF per EUR	0.93	0.92	0.92	0.93	→
CHF per USD	0.79	0.79	0.79	0.79	↓
USD per EUR	1.17	1.16	1.17	1.19	↑

COMMODITIES	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
Brent crude oil, USD per barrel	61	81	92	79	→
Gold, USD per troy ounce	4,319	4,343	4,800	5,000	→
Copper, USD per metric ton	12,423	13,745	12,935	12,410	→

Note: Views are as of June 16, 2026. Forecasts and consensus estimates shown are based on current market conditions and assumptions as of the stated date and are subject to change without notice. Forecasts are not indicative of actual results and are not guaranteed. Actual outcomes may differ materially. This information is provided for illustrative purposes only and does not constitute investment advice or a recommendation. Please refer to the full disclaimer on page 18.

1 Subject to revisions (e.g., potential revisions to 4Q data)
2 Latest available quarter
3 Subject to revisions
4 Latest available month, G20 data only quarterly
5 ↑ above consensus, → in line with consensus, ↓ below consensus

Source: Vontobel, respective statistical offices and central banks; as of June 16, 2026.

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Glossary and sources

[1] Source: Bloomberg article, published June 12, 2026. www.bloomberg.com/news/articles/2026-06-12/spacex-s-mega-ipo-sets-records-makes-musk-trillionaire

[2] Refers to a metric that shows how much investors are willing to pay per share for USD 1 of a company's earnings. It is used to determine a stock's valuation.

[3] Cathie Wood is an investor whose philosophy is to invest in companies developing disruptive technologies (such as AI, genomics, robotics, and electric vehicles) that she believes can transform industries and deliver long-term growth, even if they experience short-term volatility. Her fund experienced losses because she heavily bet on unproven, fast-growing tech companies that soared during the pandemic but collapsed when central banks raised interest rates.

[4] Refers to US President Donald Trump's major fiscal package that combines tax cuts, spending measures, and economic incentives aimed at boosting growth, investment, and domestic production.

[5] "Underweight" means the Vontobel Multi Asset Investment Committee has a lower preference for an asset class or sub-asset class. This reflects the belief that the asset class is less attractive relative to others in the current market environment. It is not a recommendation to avoid the asset entirely but suggests a reduced allocation.

[6] "Neutral" means the Vontobel Multi Asset Investment Committee has neither a higher nor lower preference for an asset or sub-asset class. This reflects a balanced view, where the asset class is expected to perform in line with its historical or market-average performance. It is not a recommendation to take action but suggests maintaining the current allocation.

[7] "Overweight" means the Vontobel Multi Asset Investment Committee has a higher preference for an asset class or sub-asset class. This reflects the belief that the asset class is more attractive relative to others in the current market environment. It is not a recommendation to invest heavily but suggests increasing the allocation.

"Underweight", "neutral" and "overweight" classifications are internal views of the investment committee and should not be construed as recommendations for individual investors or a call to action. It merely reflects Vontobel's outlook on the expected value development of a particular asset class. These evaluations are distributed solely for informational purposes to a wider audience and are not tailored to a specific customer group.

[8] Refer to bonds issued by companies with weaker credit profiles and a higher risk of default. They offer higher interest rates to compensate investors for the increased risk.

[9] Monty Python was British comedy group, and Life of Brian is one of their most famous satirical films, which humorously follows the life of a man mistaken for the Messiah.

[10] Source: Confederation of British Industry survey, published April 23, 2026. www.cbi.org.uk/media-centre/articles/manufacturing-sentiment-tumbles-as-output-and-orders-decline-cbi-industrial-trends-survey/

[11] Source: Confederation of British Industry survey, published May 28, 2026. www.cbi.org.uk/media-centre/articles/consumer-services-face-mounting-pressure-as-profits-fall-cbi-service-sector-survey/

[12] Refers to local property taxes on commercial premises.

[13] Refers to the sell-off in UK government bonds following the unfunded tax cuts announced in the September 2022 mini-budget.

[14] The Sahm rule is traditionally a US metric that triggers a recession warning when the three-month moving average of the unemployment rate rises by 0.5 percentage points above its 12-month low, the UK version of this metric has flirted with danger thresholds. Looking at recent data, the UK unemployment rate did drift upward over the last year to around 5 percent, which aligns with the narrative of a cooling labor market and diminishing vacancies.

[15] A technical recession is commonly defined as two consecutive quarters of negative real gross domestic product.

[16] Backbench MPs are members of parliament who do not hold positions in the government (ministers) or in the official opposition's senior leadership team (shadow ministers).

[17] Refers to very large cloud computing companies that operate massive data centers and provide scalable cloud services.

[18] Refers to the income investors earn simply by holding a bond or credit investment over time, mainly from its interest payments.

[19] Refer to investment-grade bonds issued by companies with strong financial health and a low risk of default. They offer lower interest rates because they're considered safer.

[20] Refers to the next wave of cutting-edge innovations that exist at the edge of scientific and engineering research.

[21] Short for Special Purpose Acquisition Companies. A SPAC is a listed shell company that raises money from investors with the sole purpose of acquiring or merging with a private company.

[22] A log scale plots the X axis on a logarithmic scale instead of a linear scale, which makes it easier to compare long-term returns by preventing recent years from visually dwarfing earlier decades because the index is much higher now.

[23] Source: National Weather Service, Climate Prediction Center, as of June 2026. cpc.ncep.noaa.gov/products/analysis_monitoring/enso/roni/archives/?type=strengths&month=06&year=2026

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