



Vontobel

Investors' Outlook

Connecting the dots

September 2026



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Connecting the dots



Dan Scott
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Dear readers,

As this publication returns from its summer break, there are plenty of dots to connect. But they don't necessarily all add up to the same conclusion.

Take the economy, for example. Dr. Copper¹ would have us believe it is booming, buoyed by demand for data centers, power grids, and artificial intelligence (AI) infrastructure. The University of Michigan Consumer Sentiment Index, on the other hand, has been telling us the opposite for years, repeatedly pointing to a recession that has yet to turn up. Consumer spending has held up well, and the K-shaped economy² helps explain why, as wealthier households have continued to spend,³ while those on lower incomes have felt much more of the squeeze.

A few other worries for investors have receded for now. Private credit is unlikely to be the domino that topples things over, in our view. The market is vigilant while the sector digests some bad loans and demand from borrowers is moving back toward banks and public markets. Traffic through the Strait of Hormuz has picked up a bit, taking some of the sting out of growth fears. And the perennial question of how long the AI capex boom can last has, so far, been answered by earnings. Concerns about a rate hike by the US Federal Reserve (Fed) at its upcoming September meeting had dissipated amid weaker nonfarm payrolls and lower-than-expected inflation, but Chair Kevin Warsh's more hawkish speech at the Jackson Hole symposium put a hike back on the market's table.

We also see some clouds on the horizon. US retail sales have disappointed for two consecutive months, and while two reports do not a downturn make, it gives us another reason to keep an eye on the consumer.

The other signal that's giving us pause is coming from the bond market. Long-term yields have climbed to multi-year highs, and US Treasury Secretary Scott Bessent is trying to push back by doubling the size of planned buybacks of longer-dated bonds to ease some of the pressure. Even so, investors are demanding more compensation to hold longer-duration debt amid concerns about large deficits and inflation. The resulting rise in the term premium⁴ is one of the reasons why we're seeing a bear steepening⁵ of the yield curve, which historically hasn't been a very positive sign for equities.

For now, our equity overweight stays in place, and we'll see how much equities can torque the returns from here. But we do believe it's prudent to look for more potential defensive assets to help balance risks in portfolios, which is why we've upgraded gold, as we believe it's poised to benefit from a potentially weaker US dollar and also provides a hedge against geopolitical risk.

In this Investors' Outlook, we take a closer look at how the Fed might change under Warsh (who would probably rather do away with one particular set of dots), explain what's been going on in the bond markets, and share our views on the yellow metal.

The dots may not all line up neatly, but we'll keep connecting them to help our clients make sense of what may come next.

→ Webcast

To view our webcast on recent market developments, click [here](#).

¹ See "Glossary and sources" on p. 21.



—
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—
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Cruel summer

Summer barely provided respite, whether on the thermometer or in markets. Tensions between the US and Iran flared up again, sending oil prices higher, while questions over AI spending weighed on technology stocks. Strong earnings and demand for AI infrastructure then helped equities recover. Bonds were less forgiving, as US government debt surpassed USD 40 trillion and concerns over heavy issuance pushed long-term yields higher.

The global economy, and especially the US, has held up well. We believe growth will lose some momentum from here as central banks provide less support than they did at the start of the year, the scope for further fiscal stimulus looks limited, and geopolitical risks haven't gone away. But we don't expect the slowdown to tip the economy into recession.

Inflation is poised to inch lower, in our view, despite the pressure from energy prices over the summer. We expect US goods inflation, which tariffs have temporarily pushed

higher, to moderate more. The impact of the oil shock is also likely to fade as more crude is rerouted to circumvent disruption in the Strait of Hormuz. So, while inflation is still above target in both the US and the Eurozone, we see the recent supply-side pressures easing over the coming months.

That should allow central banks to take a more patient approach to further tightening. Investors spent much of the summer fixated on oil and inflation, but the US labor market has been weakening in the background. Considering the Fed's dual mandate, softer inflation and a cooling labor market may give it good reason to stay put. In our view, the bar for rate hikes is high.

Vontobel's Multi Asset Boutique's Investment Committee has decided to reduce its exposure to government bonds to underweight from neutral and to upgrade gold to overweight from neutral. Find the details of our asset allocation on page 5.

	UNDERWEIGHT ⁶		NEUTRAL ⁷	OVERWEIGHT ⁸		
	significantly	slightly		slightly	significantly	
1 Liquidity			→			We remain neutral on cash but stand ready to take advantage of opportunities as they present themselves.
2 Bonds	↘					We have moved government bonds to underweight from neutral, bringing our overall fixed-income positioning to a significant underweight. In the absence of a recession, which we do not expect in the foreseeable future, we find the case for government bonds less compelling. Resilient economic growth, lingering inflation uncertainty, the prospect of higher term premia under a Warsh-led Fed, and mounting concerns over fiscal sustainability and elevated debt issuance continue to weigh on the asset class. We continue to hold an overweight position in high-yield bonds. 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.
3 Equities				→		Our overweight positioning in equities remains in place, expressed primarily through emerging-market stocks. Equity markets have largely absorbed the summer's geopolitical and AI-related volatility, while the macro backdrop remains supportive. Attractive valuations, continued earnings upgrades, and sustained AI-related demand reinforce our constructive view on emerging markets. The macro backdrop continues to be resilient, with strong earnings momentum, continued fiscal support, and ongoing AI-related capex the dominant drivers of risk appetite. We reiterate our neutral stance on Swiss, Eurozone, US, and Japanese equities.
4 Gold				↗		We have upgraded gold to overweight from neutral, as we see a more attractive risk-reward profile. After a strong start to the year, prices came under pressure as the conflict with Iran drove oil and the US dollar higher and revived concerns about inflation and monetary tightening. That sell-off flushed much of the speculative excess from the market. Since then, softer US data has eased concerns about a more hawkish Fed, while worries over fiscal sustainability and debt dynamics help support the case for gold. Central bank demand is still robust and gold-backed exchange-traded funds have returned to inflows, too. If the Fed stays on hold before eventually returning to rate cuts, we believe one of the last major headwinds facing gold could disappear.
5 Commodities			→			In 2026, commodities have once again demonstrated their role as an effective inflation hedge, particularly when supply shocks are a primary driver of rising prices. They also provide protection against uncertainty linked to geopolitical tensions, reinforcing their diversification benefits. However, with 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 August 2026. Subject to change without further notice.

With love, Kevin

The Fed has a towering reputation—and a dismal recent track record. That was the message of Kevin Warsh’s April 2025 Group of Thirty (G30)⁹ lecture, *Commanding Heights: Central Banks at a Crossroads*, in which he delivered a scathing critique of what he called “the most influential economic agency in the world.”¹⁰



—
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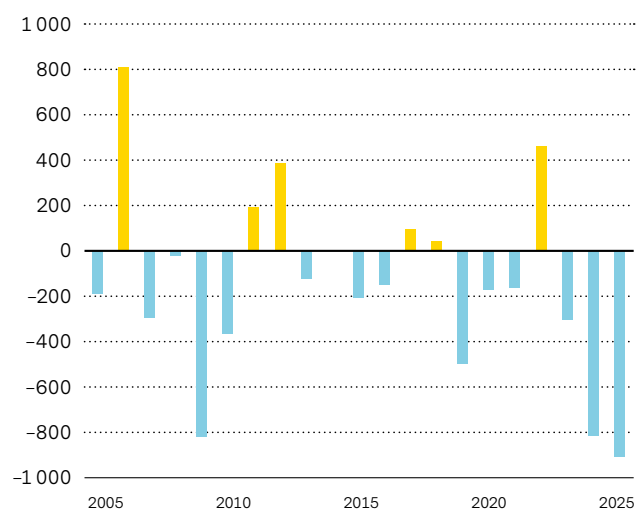
—
Stefan Eppenberger
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In a nine-page broadside, Warsh laid out what he regards as the many failings of the institution he now heads. First came what he described as “central bank fast food.” Warsh expressed his disdain for the Fed’s frequent changes to its metrics, including its preferred measures of inflation. He also dismissed the central bank’s policy of data dependence as offering little real value, arguing that policymakers should pay scant attention to the second decimal place in the latest government data. In his view, “breathlessly awaiting trailing data from stale national accounts” that are subject to revision reflects a false sense of precision rather than sound policymaking (see chart 1). Warsh was equally skeptical of near-term forecasting. Once policymakers publish their economic projections, he argued, they risk becoming prisoners of their own words. Nor was he convinced by forward guidance, “a tool rolled out to great fanfare in the financial crisis.” In his view, such efforts to steer market expectations may have been appropriate in times of acute stress but have little place under more normal economic conditions.

Then came what Warsh described as “a more substantial offering.” Looking beyond the day-to-day mechanics of policymaking, he argued that the Fed had fundamentally

Chart 1: Warsh thinks official economic data lag real-time conditions and face substantial revisions

How many fewer/more jobs added than previously reported*, in thousands



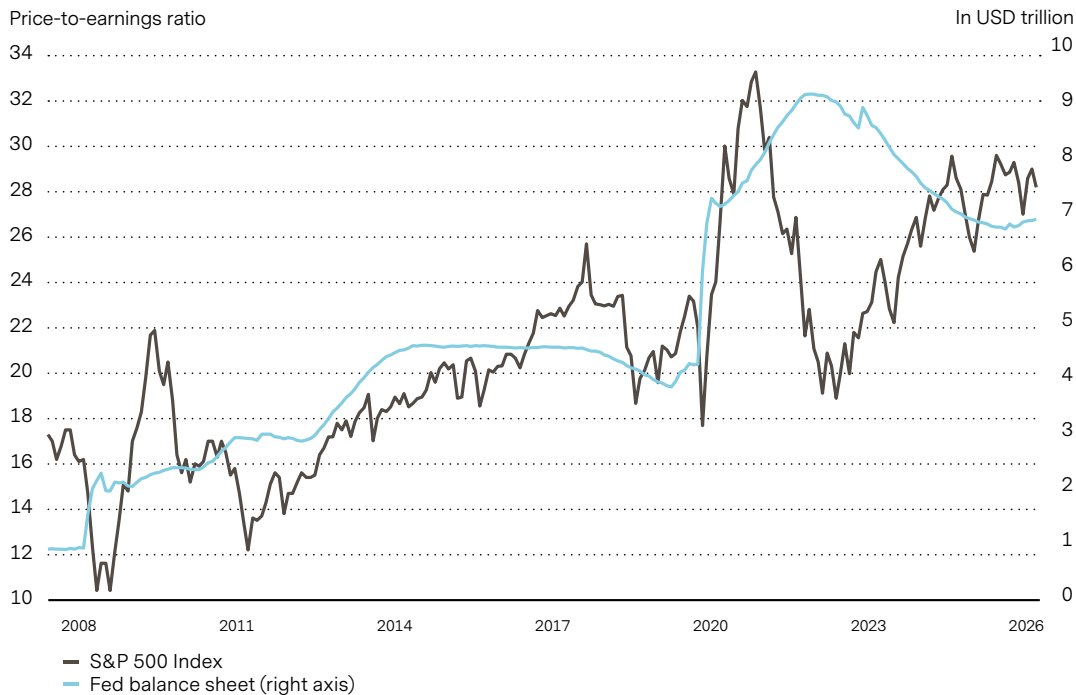
*Over the 12-month period ending March

Source: Bureau of Labor Statistics, Vontobel; as of 2025.
Note: 2013's estimate in the chart is after employment scope changes.



8 Market highlights

Chart 2: Warsh thinks the Fed has become too big a player



expanded its role in the US economy. Warsh noted that from the early 1990s until the global financial crisis, the central bank largely confined itself to managing episodes of crisis and market panic before, in his words, “largely and dutifully” leaving the stage once stability had returned. Since 2008, however, “central bank dominance has become a new feature of American governance.” He went on to fault Fed officials for supporting government spending during economic downturns while remaining conspicuously silent on fiscal discipline during periods of sustained growth and full employment. More concerning still, he argued, was the Fed’s position as the single largest buyer of US Treasury debt and other government-backed liabilities since 2008. Warsh viewed the Fed’s USD 7 trillion balance sheet as a “proxy for the Fed’s growing imprimatur on the economy.” In his view, this had created a self-reinforcing cycle: “Each time the Fed jumps into action, the more it expands its size and scope ... more debt is accumulated ... more capital is misallocated ... more institutional lines are crossed ... and the Fed is compelled to act even more aggressively the next time” (see chart 2).

But Warsh did not stop at fiscal policy. He also took aim at the “modern central bank,” which he said had become “a bit too willing to traffic in contraband” by venturing into politically charged issues beyond its statutory mandate (in other words, he accused the Fed of mission creep). In his view, the Fed should refrain from taking positions on social or political matters unless they pose a clear threat to its core missions of price stability and maximum employment. On the subject of those core missions, Warsh also accused the central bank of committing “intellectual errors” that ultimately led to the inflation shock of the early 2020s. Among them, he argued, was the belief that monetary policy had “nothing to do with money,” that the Fed was merely a bystander to forces beyond its control, and that inflation was driven primarily by “Putin and the pandemic” rather than by “the surge of government spending and (money) printing.”

Warsh’s 2025 speech provided an early glimpse of his desire for change. In the months that followed, he offered further food for thought, including his view that AI is a

powerful disinflationary force, capable of boosting productivity and lowering costs across the economy.

Who is this fierce Fed critic?

Few figures in modern economic policy bridge the worlds of Wall Street, Capitol Hill, and central banking as seamlessly as Warsh. Educated at Stanford University and Harvard Law School, Warsh began his career in mergers and acquisitions at Morgan Stanley before serving as Special Assistant to the President for Economic Policy under George W. Bush.¹¹ When he was appointed to the Fed's Board of Governors in 2006 at just 35 years old, he became the youngest governor in the central bank's history. During his tenure, Warsh established himself firmly as an economic hawk. He consistently warned of the long-term risks of runaway inflation and questioned the prolonged reliance on emergency monetary stimulus. After opposing Ben Bernanke's plan to purchase USD 600 billion of Treasury securities, Warsh resigned from the Board in 2011. Warsh also has an elite financial and political pedigree. His marriage to Jane Lauder, an heiress to the Estée Lauder cosmetics fortune, makes him the wealthiest person ever to lead the central bank. His father-in-law, Ronald Lauder, is not only a prominent Republican donor¹² but also a long-time friend of Donald Trump.¹³

The strategic reset: Five task forces

To drive the regime change, Warsh has established five three-person task forces. Each panel brings together minds from academia, technology, and global policy to re-examine the Fed's foundational assumptions.¹⁴

The **Communications Task Force**, co-led by former Treasury official Peter R. Fisher, former Central Bank of Brazil president Arminio Fraga, and former Bank of England governor Mervyn King, "will review how the Federal Reserve conveys policy deliberations and decisions amid uncertainty." Fisher is known as a vocal critic of Fed communications, arguing that the decision-making process and communications of the Federal Open Market Committee (FOMC) reflect a "phony consensus that obscures accountability and increases inertia."¹⁵ Meanwhile, King is known for his Maradona theory of interest rates, inspired by Argentine soccer star Diego Maradona's "Goal of the Century" against England at the 1986 World Cup.¹⁶ Although Maradona appeared to weave effortlessly past five defenders, King argued that his genius lay not merely in his dribbling, but in his ability to anticipate where the game was heading. For central bankers, King suggested, the lesson is that policymakers can shape outcomes by staying ahead of events and guiding expectations. In doing so, central banks can influence financial

conditions and prompt interest rates and asset prices to adjust even before any official policy action is taken.

The **Balance Sheet Policy Task Force** is led by Harvard professor Karen Dynan, alongside Raghuram Rajan, former governor of the Reserve Bank of India and now a professor at Chicago Booth, and Jeremy Stein, a former Fed governor and current Harvard professor. This group will review "the benefits and risks of the current ample-reserves regime and the composition of the Fed's balance sheet... [and] assess alternative frameworks for the conduct and operation of monetary policy." Dynan is considered a data-driven economist. Rajan has long warned that expanding a central bank's balance sheet is much easier than reversing it. He has argued that such expansion may have made the financial system more dependent on central bank liquidity, so that subsequent moves to shrink the balance sheet can expose funding vulnerabilities and require further interventions.¹⁷ Stein views the balance sheet primarily through the lens of financial stability.¹⁸ Instead of blindly slashing its total size, he focuses on composition and advocates for shifting the Fed's assets out of long-term Treasuries and mortgage-backed securities into short-term Treasury bills. In his view, maintaining a large balance sheet can actually enhance financial stability because providing a vast supply of safe, short-term liabilities crowds out risky private-sector money creation.

The **Data Task Force** brings together Harvard economist Raj Chetty, University of Chicago professor Kevin Murphy, and former Walmart CEO Doug McMillon. Their mandate is to "improve the quality and timeliness of real economic signals" that inform the Fed's decisions. The members lean heavily toward the view that traditional macroeconomic indicators arrive too late to capture changes in consumer behavior. Chetty was a pioneer in the use of alternative data to monitor economic conditions during the pandemic, while McMillon has observed that massive corporate datasets can provide a timelier view of inflation, consumer spending patterns, and broader economic health, often weeks before official data are released.

The **Productivity and Jobs Task Force** features venture capitalist Marc Andreessen, Stanford economist Charles I. Jones (currently on leave at Anthropic), and Xbox CEO Asha Sharma. Its mandate is to "survey the pace, the reach, [and] the economic impact of new general-purpose technologies, including AI, and explore the implications for the Fed in pursuit of our employment and inflation mandates." Given Andreessen's outspoken belief in the deflationary and transformative power of AI,¹⁹ and Jones's extensive academic focus on long-run economic



FEDERAL RESERVE



growth models driven by technological change,²⁰ one thing is clear: this task force has a highly optimistic, pro-technology stance and appears keen to ensure that the economic impact of rapid AI adoption is reflected promptly in the Fed's models.

The **Inflation Frameworks Task Force** is run by Harvard's Greg Mankiw, New York University professor and Nobel laureate Thomas Sargent, and C.D. Howe Institute senior fellow William White. This panel has the somewhat opaque task of "revisiting" how the Fed "understands and responds to the drivers of inflation." Mankiw has not only argued that monetary aggregates deserve greater attention but also quipped that "an inflation target of 2 is better than a target of 2.0."²¹ Sargent was a leading figure in the rational expectations revolution of the 1970s. Earlier models assumed that people responded passively to changes in fiscal and monetary policy. Rational expectations theory took a different view, recognizing that individuals look ahead, anticipate the actions of governments and markets, and adjust their behavior accordingly in ways they believe will leave them better off.

A Fed news release did not indicate when the task forces' work would be completed, although Warsh has said he expects most, if not all, findings to be announced this year.

What we expect: A bit of revolution, a bit of evolution

The new task forces have set off a scramble on Wall Street to predict which recommendations will come first and which could have the biggest implications for monetary policy and financial markets. Of the five, we believe the Communications Task Force is the most likely to produce near-term policy changes. Indeed, one could argue that the process has already begun. The FOMC's post-meeting statement following Warsh's first meeting as chair in June contained just 132 words, down from 341 after Powell's final meeting in April. More notably, Warsh declined to submit his own interest-rate projection for the June dot plot. In doing so, he reduced the number of dots to 18 from 19, explicitly signaling that under his leadership, the Fed will rely less on forward promises and more on real-time economic data.²²

Tweaking the type of data the Fed considers or expanding the range of indicators it monitors is unlikely to face much resistance, in our view. Few officials would argue that relying on field agents to walk through grocery aisles and manually record price tags for inflation calculations remains an effective approach in the digital age. In fact, the Fed has been trying to leverage private-sector data for years. That said, we expect alternative data to

complement rather than replace traditional government statistics. While such datasets can provide timely insights, they also come with important methodological limitations. Online price data, for example, can be collected frequently and offer an early signal of inflationary pressures, but may not be representative of the broader basket of goods and services consumed by households. Another caveat is that these datasets typically have a shorter history than official statistics and therefore offer less evidence of how they perform across different economic regimes.

By contrast, changes to balance-sheet policy are likely to take longer. Any move toward active sales of mortgage-backed securities or longer-dated Treasuries, rather than relying solely on passive runoff, would likely come only after an extended review process. As Warsh himself noted, "I'm not of the mistaken view that we can go back to where we were when I arrived at the Fed in 2006, but I think there are several other sustainable equilibria that we can achieve." Similar considerations apply to the inflation framework. Among other things, we believe Warsh wants the panel to develop a roadmap for a world in which supply shocks have become the new normal and to reassess the 2020 Flexible Average Inflation Targeting (FAIT) framework, which sought to make up for periods of below-target inflation by allowing inflation to run moderately above 2 percent for some time.

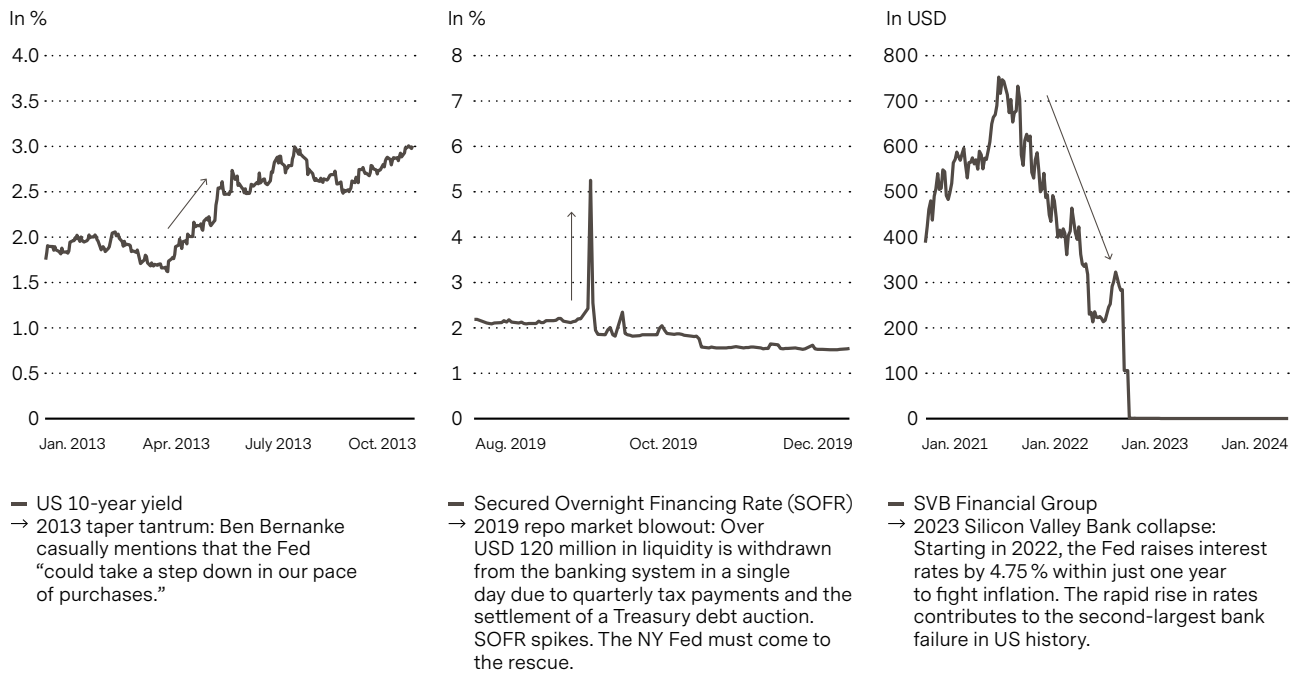
We would also expect the task force to examine whether measures such as trimmed-mean inflation could play a larger role alongside traditional Personal Consumption Expenditures (PCE) metrics in assessing underlying price pressures. However, any material change to inflation frameworks or inflation targets would require extensive study before implementation, given the potentially significant implications for monetary policy. For now, a reinterpretation of the Fed's 2 percent target appears more likely to us than a formal redefinition. Warsh himself suggested as much when he remarked that "the two is the left of the decimal point," implying that one shouldn't fret about what lies to its right.²³ The same caution applies to the Productivity and Jobs Task Force. While the group may explore the economic implications of technological change and AI, there appears to be little appetite within the FOMC to make near-term policy decisions based on uncertain estimates of future productivity gains.

Relationship status: It's complicated

While Warsh casts himself as an agent of change, significant constraints are likely to limit his ability to remake the Fed in his image. First, monetary policy is not a one-man show. The Fed chair cannot govern by decree but must

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Chart 3: Withdrawing liquidity is easier said than done



Source: LSEG, Vontobel; left chart as of December 31, 2013, middle chart as of December 31, 2019, right chart as of December 27, 2024.

build consensus among the 11 other members of the FOMC. The July meeting underscored just how fraught the internal debate has become, with three policymakers dissenting from the decision to hold rates steady.

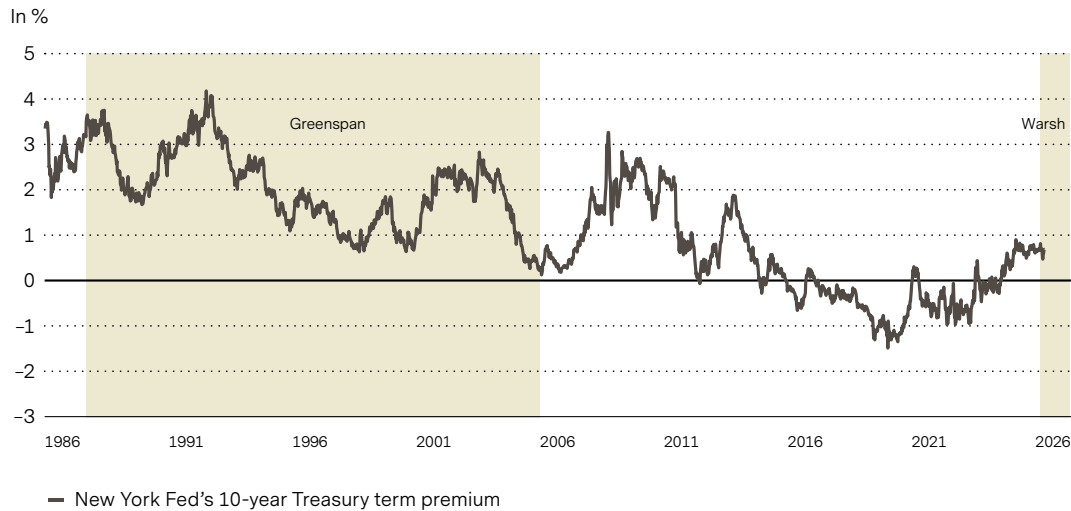
Second, draining liquidity from financial markets that have grown accustomed to abundant central-bank support is easier said than done (see chart 3). In 2013, then-Fed Chair Ben Bernanke's suggestion that the central bank might begin tapering its asset purchases triggered the so-called taper tantrum, sending Treasury yields soaring and sparking capital outflows from emerging markets. Six years later, strains in US funding markets caused overnight repo rates to surge unexpectedly, forcing the Fed to intervene with large-scale liquidity injections. More recently, the collapse of Silicon Valley Bank in March 2023 showed how quickly financial stress can surface when higher interest rates expose vulnerabilities built up during long periods of monetary accommodation.

Third, Warsh must contend with the demands of an often-impatient White House. Although Donald Trump has publicly pledged to respect Warsh's independence, the president has a long record of publicly pressuring the

central bank. Jerome Powell repeatedly found himself in Trump's crosshairs over interest-rate policy, and there is no guarantee that Warsh will be spared should the Fed fail to deliver the rate cuts Trump is seeking.

Yet constraints are not the same as irrelevance. Even if Warsh is unable to fully deliver on his vision, a shift at the margin in the Fed's reaction function could still carry meaningful consequences for financial markets. Perhaps the most important implication for investors is that the famous Fed put, the belief that the central bank will ease monetary policy to support equity markets during sell-offs, effectively providing investors with a downside safety net, may become less dependable. A Fed that places greater weight on price stability would likely be less inclined to cushion every bout of market volatility, especially when inflationary pressures remain elevated. To be clear, we do not expect the Fed to stand idly by in a financial crisis. If push comes to shove, it would still act as a backstop. But the bar for intervention could be higher, making policy support less automatic and increasing the importance of market fundamentals and active management.

Chart 4: The return of the term premium?



Note: The term premium is defined as the compensation that investors require for bearing the risk that interest rates may change over the life of the bond.

Source: LSEG, Vontobel; as of July 31, 2026.

Another consequence could be the return of a more meaningful term premium (see chart 4). Years of quantitative easing compressed long-term yields by reducing the compensation investors demanded for holding long-duration government debt. While practical constraints limit the speed of balance-sheet reduction, a Fed less willing to suppress long-term yields would generally leave private investors to absorb a larger share of Treasury duration risk. To be sure, the Treasury could partially offset such a shift through its issuance strategy, for example by relying more heavily on short-term bills and less on long-dated bonds. However, absent a complete offset, the balance of risks would still point to upward pressure on term premiums. Their eventual path will also depend on factors such as inflation expectations, inflation uncertainty, fiscal dynamics, and investor demand for safe assets. If a more disciplined Fed succeeds in anchoring inflation expectations, some of the upward pressure on term premiums could be offset. Even so, we believe the overall outlook points to a higher equilibrium level for long-term yields, a steeper yield curve, and renewed focus on duration risk.

A Fed that prioritizes price stability should, in theory, be supportive of the US dollar and less favorable for non-yielding assets such as gold. In practice, however, the picture is more nuanced. A leaner Fed, if taken too far, could weigh on economic growth and weaken the dollar. Moreover, the Fed rarely operates in isolation. Other major central banks are unlikely to stand idly by, meaning that relative policy decisions, rather than Fed policy alone, will continue to shape currency markets.

Warsh has repeatedly stressed that his critique comes from a place of admiration rather than antagonism. Reflecting on his G30 speech months later, he described it as “a love letter more than a cold critique.” He explained: “It’s a love letter because, if the institution can reform itself, there can be great things for both the institution and the country.”²⁴

Warsh has delivered his love letter. Now he must find out whether the recipient loves him back enough to change.

The Fed's center of gravity tilts hawkish



—
Christopher Koslowski
Senior Fixed Income &
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Markets entered 2026 expecting Fed easing, but year-end policy expectations have moved decisively higher as inflation has stayed above target and the FOMC has turned more hawkish.

The July meeting made that change clear. Three policy-makers voted for an immediate 25-basis-point hike and several others signaled that tighter policy could be appropriate if disinflation stalls (see chart 1). More important than the dissent is the broader movement of the FOMC's center of gravity: the debate is increasingly about when, and under what conditions, another hike might come. Chair Warsh's reduced emphasis on forward guidance has also added to uncertainty around the policy path. Long-dated Treasury yields have risen amid higher expected policy rates, a larger term premium, heavy Treasury supply, and fiscal concerns. Long-term inflation expectations are comparatively anchored, suggesting investors are demanding more compensation for uncertainty, while confidence in the Fed's credibility appears intact. Inflation is still the key consideration as the Fed weighs stubborn price pressures against a softening labor market.

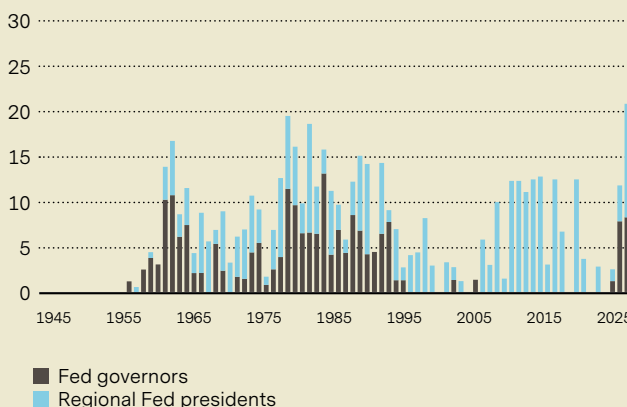
Heavy supply in investment grade, low duration in high yield

US investment-grade issuance has passed USD 1.5 trillion year-to-date, ahead of the same point in 2020, the record year for supply. Hyperscalers make up a growing share as investment in AI and data centers drives funding needs. Demand has kept pace, but the steady flow of new debt has required greater new-issue concessions and weighed on parts of the technology sector. Large AI-related commitments point to more funding needs ahead, suggesting supply pressure could remain important even as balance sheets stay strong.

In high yield, spreads remain historically tight, but the market's underlying quality has improved materially. BB-rated issuers now account for more than half of the index (see chart 2), high-yield issuers can tap the primary market with ease, and all-in yields are high by historical standards. Shorter duration also makes high yield less sensitive to moves in long-dated government bond yields. In fact, high-yield investors remain exposed to very little interest-rate risk by historical standards, with duration close to its lowest level in 15 years, although it was even lower at the end of last year. Coupled with better credit quality, we believe that leaves income as an important return driver, even without further spread compression.

Chart 1: Fed governors and regional Fed presidents have become much more willing to dissent

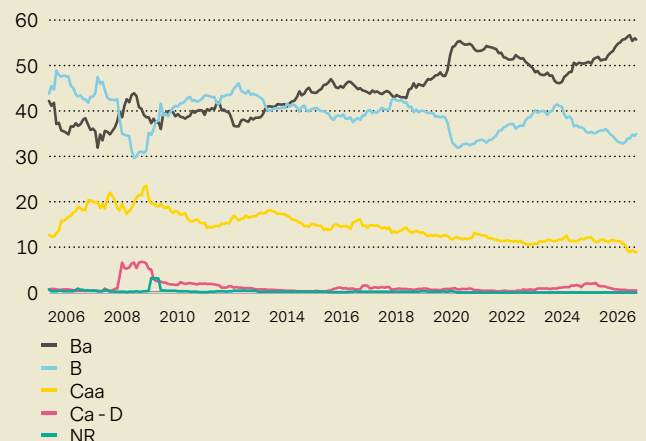
Dissenting votes per year, in %



Source: Federal Reserve Bank of St. Louis; calculations from official meeting-level voting data, Vontobel; as of July 29, 2026.

Chart 2: BB-rated issuers now make up over half the market, reflecting a stronger quality mix

Rating allocation, in %



Source: LSEG, Vontobel; as of August 20, 2026.

Equities' summer storm



—
Clémence Rusek
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Global equity markets weathered their own summer storm this year, with a turbulent June and July clearing into sunnier conditions in August.

Global stocks traded sideways through June and July, with the technology sector giving back early gains as a sell-off swept through semiconductors. Then, in August, markets staged an impressive comeback, breaking out of that range and pushing back toward new highs (see chart 1).

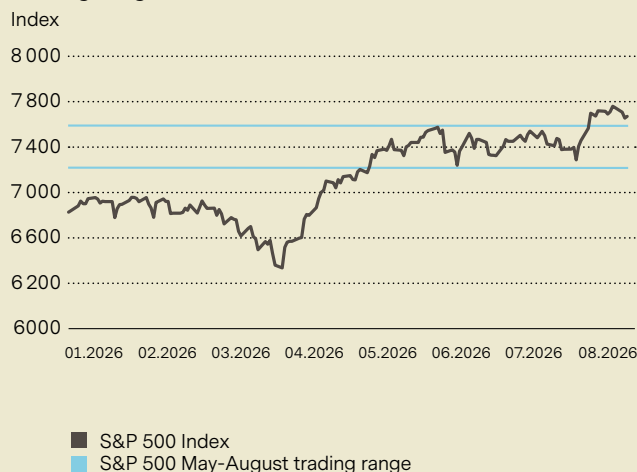
Investors faced three main challenges in quick succession in the early summer months. First, positioning in chip-makers had become extremely crowded after a strong run, and the unwind was exacerbated as leveraged positions in South Korea were cut. At the same time, breakthroughs in AI in China revived a broader debate over the returns on the vast amounts of capital being poured into AI. Second, oil prices jumped back toward USD 100 per barrel in mid-July as tensions between the US and Iran flared again, fanning fears that inflation could reaccelerate. Third, those inflation risks led markets to price in a tighter path for Fed policy.

Some of these concerns eased over the course of August. The unwind in chip stocks appears to have run its course. The standoff in the Strait of Hormuz remains unresolved, but oil prices have stayed contained. While Fed Chair Warsh's comments at the Jackson Hole symposium were more hawkish than expected, we believe the bar for a Fed hike remains high.

The second-quarter earnings season provided further support, delivering about 50 percent earnings-per-share (EPS) growth, the strongest quarterly profit growth outside of a post-recession recovery. In our view, it also confirmed that the AI cycle remains firmly intact. The "Big Four" hyperscalers²⁵ rose around 10 percent as a group in July after reporting earnings. The key takeaway was computing demand, which remains exceptionally strong, while supply is still constrained. Order backlogs grew for another quarter, keeping capital expenditure elevated and revenue visibility high into next year. Perhaps the clearest evidence that AI spending is translating into revenue came from unexpected cloud growth²⁶ of around 45 percent year-over-year (see chart 2), along with expanding margins.

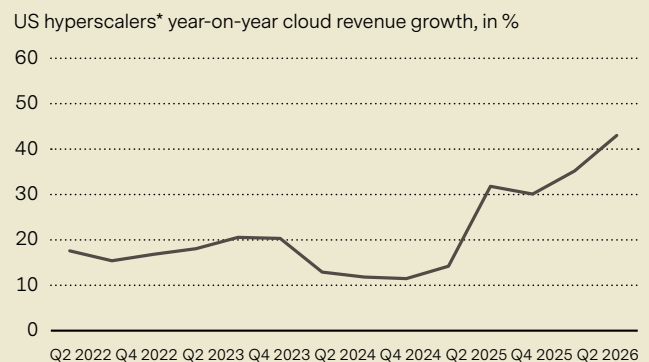
But importantly, the strength was not confined to technology. Earnings surprises were broad-based across sectors, suggesting corporate profitability is improving across a wider swath of the market and providing a healthier, more durable foundation for equities.

Chart 1: The S&P 500 has broken out of its 3-month trading range



Source: LSEG, Vontobel; as of August 21, 2026.

Chart 2: Hyperscaler cloud revenue is surging



*This chart refers to Amazon, Microsoft, Alphabet

Source: Company filings, Vontobel; as of August 21, 2026.

When bad news is good news



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

Gold bulls had a difficult year. After surging to record highs in the opening months of 2026, the metal spent much of the following months trapped in a prolonged and frustrating slump. Relief finally came with a series of weaker-than-expected economic data, lending credence to an old market adage: bad news for the economy is often good news for gold.

The weakness stemmed from an unusual mix of macro forces. As the Iran war escalated and oil prices surged, markets began pricing in a more hawkish Fed. Nominal Treasury yields rose faster than inflation expectations, pushing real yields higher. For gold, a non-yielding asset, that increases the opportunity cost of holding the metal. A stronger US dollar added another headwind, making gold less attractive for international buyers. Speculative investors unwound gold positions, triggering outflows from futures markets and gold-backed ETFs. Official-sector support also softened, with several central banks, including Russia and Turkey, reportedly selling gold to support their currencies and meet fiscal needs.

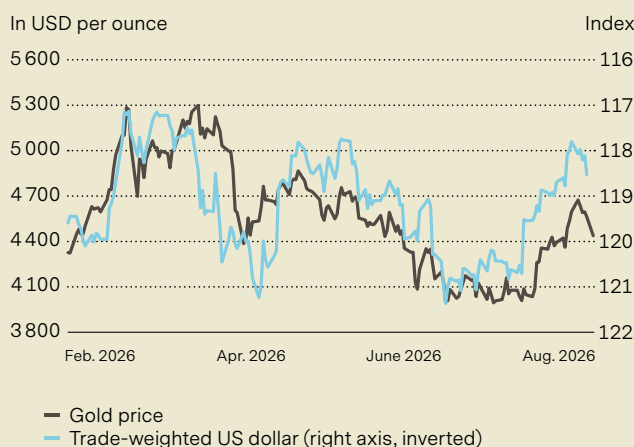
Sentiment began to turn in August. Softer-than-expected US macroeconomic data eased concerns about a more hawkish Fed and weighed on the US dollar (see chart 1). At the same time, growing concerns over fiscal sustainability and debt dynamics boosted gold's appeal as a store of value. Central-bank buying continued too, with the People's Bank of China purchasing a net 20 tons in July, and some investors returned to gold ETFs.

We believe Fed policy is poised to remain the key cyclical driver. If markets price out further rate hikes and the prospect of rate cuts eventually grows, real yields would likely move lower and revive demand for gold through ETFs and physical bullion.

In our view, central-bank demand is also likely to continue to lend support. But after years of exceptionally strong purchases and significant reserve diversification, sovereign buying may struggle to match the record levels seen recently. While this does not imply the trend is reversing, it may leave private investors with a larger role in supporting prices, making the outlook for interest rates and real yields even more important.

Beyond the cyclical outlook, fiscal and debt dynamics, particularly in the US, remain a key pillar of gold's long-term investment case. Persistent budget deficits, rising debt-servicing costs, and questions over the sustainability of the US fiscal trajectory could erode confidence in fiat currencies and strengthen gold's role as a store of value (see chart 2). Together with the gradual fragmentation of the dollar-centric financial system, these forces continue to provide a supportive structural backdrop.

Chart 1: A weaker US dollar typically benefits gold



Source: LSEG, Vontobel; as of August 21, 2026.

Chart 2: Mounting interest payments fuel concerns over fiscal sustainability



Source: LSEG, Vontobel; as of August 21, 2026.

Rates only tell half the story



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

The global rates picture has changed considerably since the end of 2025. Markets had been pricing in widespread rate cuts across developed economies, but those expectations have since reversed, with several central banks moving toward renewed tightening. This has generally helped currencies where relative carry²⁷ has improved, with Australia, Norway, and New Zealand among the clearest examples (see chart 1).

But higher rate expectations have not helped every currency. The euro and sterling have lagged even as expectations have turned more hawkish, with the European Central Bank already raising rates and the Bank of England yet to do so. Fed rate expectations have also moved higher. In Europe and the UK, the prospect of tighter policy reflects renewed inflation pressure rather than stronger growth. Higher rates alone, whether anticipated or delivered, don't necessarily make a currency more attractive. The reason rates are rising and what it means for relative growth and carry all play a role.

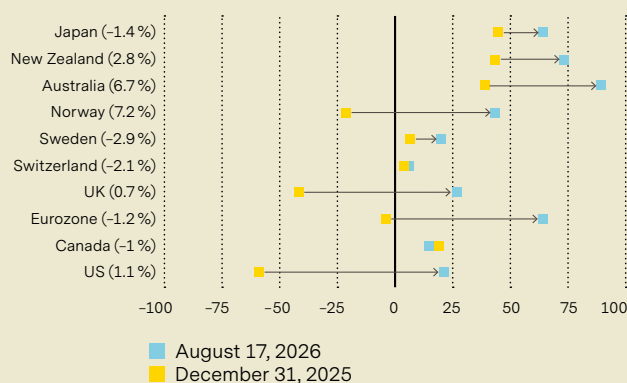
A little less dollar?

Reserve managers are starting to trim their dollar exposure. For the first time in three years, central banks surveyed by OMFIF²⁸ say they expect to reduce their long-term dollar exposure, while increasing allocations to the euro and renminbi. Public pension and sovereign wealth funds are doing the same, which indicates that geopolitical considerations are becoming more important for currency exposure decisions alongside interest-rate differentials.

The change is gradual. The dollar still accounts for around 57 percent of global foreign-exchange (FX) reserves (see chart 2), and reserve managers expect its share to decline only to roughly 52 percent over the next decade. Its liquidity, market depth, and safe-haven role are unmatched, and neither the euro nor the renminbi offers a full alternative. In the near term, higher Fed rate expectations and geopolitical uncertainty are likely to support the dollar. Over the longer term, valuation, fiscal concerns, and a more diversified reserve system argue for a less one-sided picture. For the euro, we see some further near-term vulnerability. Relative rates have moved back in favor of the dollar, while higher energy prices are a particular problem for Europe because they make imports more expensive and weigh on growth. Over the medium term, we believe stronger investment and greater fiscal support will be more supportive of the euro. The franc continues to benefit from safe-haven demand, but very low inflation, a sizeable rate disadvantage, and the risk of Swiss National Bank resistance to excessive appreciation could limit its upside.

Chart 1: Stronger currencies have generally seen larger upward rate revisions

Country (year-to-date FX spot return vs. US)

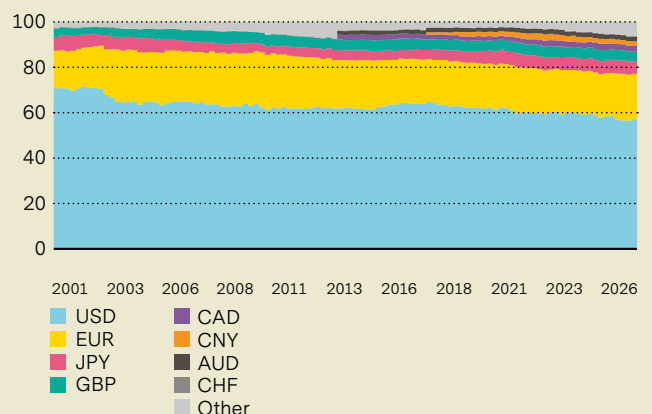


Market expectations through Q4 2026 (in basis points) and realized policy changes so far this year

Source: LSEG, Vontobel; as of August 17, 2026.

Chart 2: Dollar's share of global currency reserves in slow retreat

Share of global FX reserves, in %



Source: LSEG, Vontobel; as of August 21, 2026.

18 Forecasts

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.

			2026	2027	
GDP (IN %)	2025¹	CURRENT²	CONSENSUS	CONSENSUS	
Global (G20)	2.6	2.2	2.4	2.6	
Eurozone	1.4	1.0	0.8	1.2	
USA	2.1	2.1	2.2	2.1	
Japan	1.1	0.7	0.6	0.8	
UK	1.4	1.2	1.0	1.1	
Switzerland	1.4	0.6	1.1	1.4	
Australia	2.0	2.5	1.9	1.7	
China	5.0	4.3	4.6	4.4	
			2026	2027	VONTOBEL VIEW
INFLATION	2025³	CURRENT⁴	CONSENSUS	CONSENSUS	IN 2026⁵
Eurozone	2.1	2.9	2.8	2.2	↓
USA	2.7	3.4	3.3	2.4	↓
Switzerland	0.2	0.4	0.5	0.7	→
			CONSENSUS	CONSENSUS	VONTOBEL VIEW
KEY INTEREST RATES (IN %)	2025	CURRENT	IN 3 MONTHS	IN 12 MONTHS	IN 12 MONTHS⁵
EUR (deposit rate)	2.00	2.25	2.43	2.27	→
USD (Fed funds rate, upper bound)	3.75	3.75	3.80	3.62	→
CHF	–	–	–	0.05	→
			CONSENSUS	CONSENSUS	VONTOBEL VIEW
GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2025	CURRENT	IN 3 MONTHS	IN 12 MONTHS	IN 12 MONTHS⁵
EUR (Germany)	2.86	3.26	2.99	2.93	→
USD	4.17	4.74	4.45	4.33	→
CHF	0.32	0.43	0.42	0.49	→
			CONSENSUS	CONSENSUS	VONTOBEL VIEW
FOREIGN EXCHANGE RATES	2025	CURRENT	IN 3 MONTHS	IN 12 MONTHS	IN 12 MONTHS⁵
CHF per EUR	0.93	0.94	0.93	0.93	→
CHF per USD	0.79	0.81	0.80	0.80	↓
USD per EUR	1.17	1.16	1.16	1.18	↑
			CONSENSUS	CONSENSUS	VONTOBEL VIEW
COMMODITIES	2025	CURRENT	IN 3 MONTHS	IN 12 MONTHS	IN 12 MONTHS⁵
Brent crude oil, USD per barrel	61	91	76	70	→
Gold, USD per troy ounce	4,319	4,397	4,482	4,823	→
Copper, USD per metric ton	12,423	14,158	13,600	12,900	↓

Note: Views are as of August 18, 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 19.

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

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Glossary and sources

- ¹ Dr. Copper is a nickname for copper because it has been viewed as a useful barometer of the health of the global economy due to its wide use across construction, manufacturing, and infrastructure.
 - ² A K-shaped economy is one where different groups move in opposite directions. Some prosper (upward arm of the K), while others fall behind (downward arm).
 - ³ Source: Reuters article, published July 23, 2026. www.reuters.com/commentary/reuters-open-interest/americas-mass-affluence-is-bigger-than-you-think-2026-07-23/
 - ⁴ The term premium is the additional yield investors demand for holding a long-term bond rather than repeatedly investing in short-term bonds, compensating them for interest rate, inflation, and uncertainty risks over time.
 - ⁵ A bear steepening occurs when long-term bond yields rise faster than short-term bond yields, making the yield curve steeper. It's called "bear" steepening because rising yields mean falling bond prices, which is bearish for bonds
 - ⁶ "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.
 - ⁷ "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.
 - ⁸ "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.
- ⁹ Refers to a private, non-profit organization of top leaders from central banks, finance, academia, and economics who discuss major global economic and financial issues.
 - ¹⁰ Source: "Commanding Heights: Central Banks at a Crossroads" by Kevin Warsh, IMF lecture hosted by G30 on April 25, 2025. hoover-s3-website.s3.us-west-2.amazonaws.com/s3fs-public/research/docs/Commanding%20Heights%20April%2025%202025%20DC.pdf
 - ¹¹ Source: Board of Governors of the Federal Reserve System. www.federalreserve.gov/aboutthefed/bios/board/warsh.htm
 - ¹² Source: Open Secrets non-profit organization that tracks and publishes data on campaign finance, lobbying, and the influence of money in US politics. www.opensecrets.org/donor-lookup/results?name=ronald+lauder&order=desc&page=1&sort=D
 - ¹³ Source: Time article, published February 5, 2026. time.com/7368798/trump-greenland-pursuit/
 - ¹⁴ Source: Board of Governors of the Federal Reserve System. www.federalreserve.gov/monetarypolicy/task-forces.htm
 - ¹⁵ Source: The Wall Street Journal article, published April 29, 2026. www.wsj.com/articles/former-fed-official-fisher-urges-fomc-reforms-1461961049?eafs_enabled=false
 - ¹⁶ Source: The Economist article, published May 16, 2024. www.economist.com/finance-and-economics/2024/05/16/diego-maradona-offers-central-bankers-enduring-lessons
 - ¹⁷ Source: The London School of Economics and Political Science, lecture by Raghuram Rajan, as of May 17, 2023. www.lse.ac.uk/lse-player/central-bank-balance-sheet-expansion-and-financial-stability-why-less-can-be-more
 - ¹⁸ Source: Greenwood, Robin, Samuel G. Hanson, and Jeremy C. Stein. 2016. "The Federal Reserve's Balance Sheet As a Financial-Stability Tool". 2016 Economic Policy Symposium Proceedings. Jackson Hole: Federal Reserve Bank of Kansas City. stein.scholars.harvard.edu/publications/federal-reserves-balance-sheet-financial-stability-tool
 - ¹⁹ Source: Andreessen Horowitz/Marc Andreessen: "Why AI will save the world", June 6, 2023, a16z.com/ai-will-save-the-world
 - ²⁰ Source: Stanford GSB and NBER/Charles I. Jones: "AI and Our Economic Future", May 18, 2026—Version 2.0. web.stanford.edu/~chadj/AlandEconomicFuture.pdf
 - ²¹ Source: Gregory Mankiw at Harvard University: "Six Beliefs I Have About Inflation", May 18, 2024. conference.nber.org/confer/2024/INFs24/InflationConference_Mankiw.pdf
 - ²² A Fed dot plot usually has 19 dots, representing the anonymous interest rate forecasts of 19 individual participants (7 members of the Board of Governors and 12 presidents of the regional Federal Reserve Banks).
 - ²³ Source: Transcript of Chair Kevin Warsh's press conference, as of June 17, 2026. www.federalreserve.gov/mediacenter/files/FOMCpresconf20260617.pdf
 - ²⁴ Source: Hoover Institution: "Inflation Is a Choice: Kevin Warsh on Fixing the Federal Reserve", July 8, 2025. www.hoover.org/research/inflation-choice-kevin-warsh-fixing-federal-reserve
 - ²⁵ Amazon, Microsoft, Alphabet, Meta
 - ²⁶ Amazon Web Services, Microsoft Azure, Google Cloud Platform, and Oracle Cloud Infrastructure
 - ²⁷ Refers to the cost or benefit of holding a currency over time, mainly caused by differences in interest rates between two currencies.
 - ²⁸ Official Monetary and Financial Institutions Forum, a think tank focused on central banking, monetary policy, financial markets, and public investment.

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