



Market Insights



Markets don't wait for politics

In November, Americans will vote in the midterm congressional elections, which could fundamentally alter the balance of power in Washington and, with it, shape the economic policy environment for the next two years.

The stock market, however, does not seem to be waiting for greater political clarity. Markets have already performed strongly so far this year. This is noteworthy, because midterm years have often been characterised by elevated uncertainty and comparatively weak returns. Since 1990, the S&P 500 has generated an average return of only around 3% in midterm years. Average performance in the following year, by contrast, exceeded 20%.

This predicts neither the election result nor the future direction of the stock market. It does, however, illustrate something else: markets attempt to anticipate political and economic changes in advance. Benjamin Graham, the legendary investor known as the “father of value investing”, once described the stock market as a voting machine in the short term and a weighing machine in the long-term. This idea is particularly relevant in the run-up to elections.

Historically, markets in midterm years have often begun to recover several weeks before election day, once the political scenarios became clearer. In other words, markets start trading expectations for the period after the election before the votes have even been counted.

In 2026, the market appears to be anticipating this pattern even earlier. Despite geopolitical tensions, persistent inflation and renewed interest rate increases, US equities have remained robust for months. Both the Fed and the ECB raised interest rates in September. Nevertheless, equity markets have held firm and reached new highs. Corporate earnings and substantial investment in artificial intelligence and infrastructure currently appear to matter more than political and monetary policy uncertainties.

BELVÉDÈRE INSIDE

Discipline and flexibility through a semi-institutional approach

ECONOMY

Investment keeps the cycle moving

INTEREST RATES

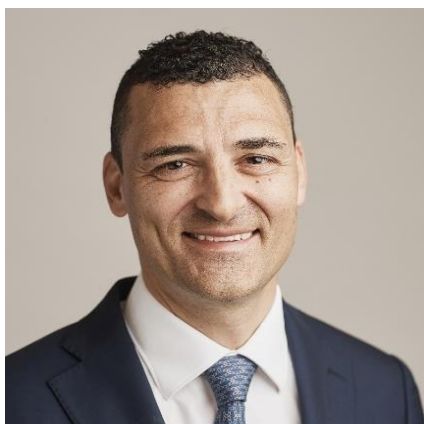
A change in direction

EQUITIES

High expectations

ASSET ALLOCATION

Tactical risk reduction



Giorgio Saraco

Executive Partner,
Head Asset Management

Somewhat paradoxically, a difficult political constellation could even prove attractive from a market perspective. If neither party fully controls Washington after the midterms, political gridlock could follow. At the same time, however, the likelihood of major legislative packages, far-reaching tax changes and regulatory intervention would decline. Gridlock may therefore occasionally be the more favourable outcome for markets. What is regarded as political stalemate in Washington can be interpreted as stability on Wall Street.

The election outcome may remain relevant for individual sectors. For the broader market, however, other factors matter more over the longer term: corporate earnings, interest rates, productivity and valuations. This is the key message for investors. The question is not whether the coming months will bring further political or economic surprises – they almost certainly will. What matters instead is whether those surprises will materially change the fundamental development of companies and the economy over the longer term.

So far, there is little to suggest that they will. Earnings and investment remain robust, while markets have absorbed higher interest rates surprisingly well. This is no guarantee of further gains, but it does show that political headlines alone rarely provide a sound investment strategy.

Voters go to the polls in November. The markets appear to have started voting long ago.



INSIDE

Belvédère 360°:
Discipline and flexibility through a semi-institutional approach

By Michael Seifert, Partner and Senior Client Advisor Family Office

As wealth grows, the questions our clients face evolve, too. Family values, changing life circumstances and increasingly complex wealth structures require solutions that go beyond individual areas of expertise. A comprehensive view that combines financial, entrepreneurial and family dimensions becomes increasingly valuable. Trust or foundation structures cannot be managed effectively through a simple portfolio overview alone. Traditional securities, alternative investments and illiquid assets need to be brought together. Equally important is clarity regarding the role each asset plays within the overall wealth structure: How large should the liquidity buffer be? What is the appropriate asset allocation? How does each position contribute to risk and return?

Belvédère 360° provides a comprehensive framework that combines the individual requirements of the trust structure with a clear and measurable portfolio allocation. Together with the trustee, we develop specific guidelines as well as investment policy for the overall portfolio. These define target weightings, permitted ranges and benchmarks for each asset class.

The semi-institutional approach combines the discipline of institutional investors with the flexibility required by the trust and its beneficiaries. Core investments form a broadly diversified, long-term foundation, while satellite investments complement them with specific opportunities, individual preferences or additional sources of return.

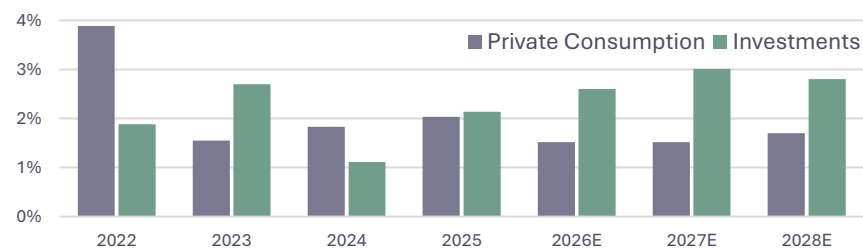
Within our comprehensive Family Office philosophy, the portfolio cockpit plays an important part. It shows how assets are developing, identifies the contribution of individual investments and monitors deviations from the defined targets. In doing so, it provides the basis for transparent and constructive discussions with the trustee.

Belvédère 360° transforms individual assets into a coherently structured overall portfolio – with binding guidelines, clearly defined responsibilities and ongoing monitoring. This allows the assets held within the trust structure to be managed effectively across generations and in line with the individual objectives of the beneficiaries.

ECONOMY

Investment keeps
the cycle moving

Economic growth in G7-countries



Source: ZKB, FocusEconomics

Despite geopolitical tensions, higher energy prices and increased interest rates, the global economy remains surprisingly resilient. Global growth of around 3% is still expected for 2026. The United States in particular continues to surprise on the upside, while Europe, although growing considerably more slowly, is also proving to be more resilient than expected at the beginning of the year.

What is particularly notable is not so much the pace of growth as its composition. Investment is expanding significantly faster than private consumption. AI-driven investment in data centres, semiconductor capacity and electricity grids has spread well beyond the United States. At the

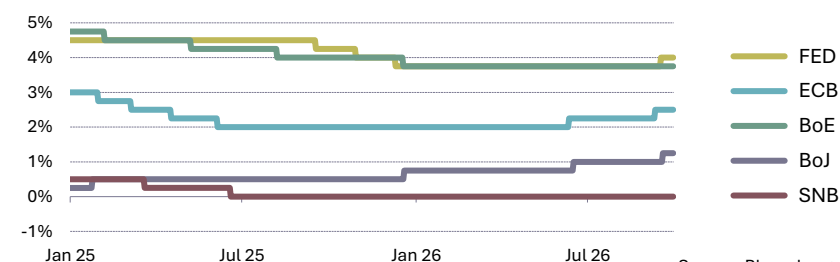
same time, higher spending on infrastructure and defence is generating additional demand. Across the G7 economies, investment is expected to grow almost twice as fast as private consumption in 2026 and 2027.

Regional differences remain substantial. In the United States, technology investment and robust consumption continue to support economic activity. The eurozone is benefiting from higher public spending and a recovery in credit demand, but with expected growth of just under 1%, growth remains subdued. China, by contrast, is losing momentum: strong exports and investment in future technologies can only partly compensate for persistently weak domestic demand.

Switzerland has been a positive surprise. Although the strong second quarter was partly driven by an exceptional contribution from exports in the chemical industry and pharma, leading indicators and domestic demand point to a broader stabilisation.

Despite higher interest rates, we remain constructive. The investment cycle should continue to support global expansion, although higher financing costs and energy prices are increasing the risks. The key question will be whether strong investment spending translates into lasting productivity gains. The cycle is continuing, but its durability will increasingly depend on the strength and effectiveness of investment.

Central bank action since 2025



Source: Bloomberg, BAM

INTEREST RATES

A change in direction

Only a few months ago, the dominant question was when the next interest rate cut would arrive. That picture has now reversed. Inflation is more persistent and the economy more resilient than predicted. Expectations of further easing have once again given way to pressure for tighter policy.

In September, the Fed raised its policy rate by 25 basis points, its first increase since 2023. The ECB continued its tightening cycle. The Bank of Japan also raised rates, while the Bank of England has so far remained on hold. Switzerland is the exception,

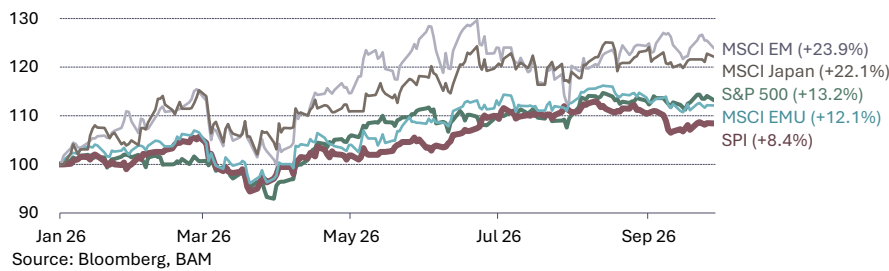
with a policy rate of 0%. Thanks to moderate inflation and a still-strong Swiss franc, the SNB faces little pressure to react yet.

The development of long-term interest rates is particularly noteworthy. The yield on ten-year US Treasuries has once again reached the 5% mark. In addition to inflation, high government deficits, rising refinancing costs and the resulting higher risk premia are playing an increasingly important role. Long-term yields have also risen significantly in Europe and the UK. This creates new opportunities. High-

quality corporate bonds once again offer attractive yields without excessive credit risk. By contrast, high-yield spreads remain historically tight and provide only limited compensation for the additional risks.

We therefore do not expect a rapid return to a low-interest-rate environment. Instead, the coming months are likely to be characterised by higher but increasingly differentiated interest rates. This is not necessarily bad news. After years of very low yields, income has once again become a meaningful part of total returns.

Equity markets worldwide



EQUITIES

High expectations

Equity markets have remained remarkably resilient despite geopolitical tensions and rising interest rates. Corporate earnings remain the key driver. Particularly earnings expectations in the United States continue to be elevated and provide important fundamental support for markets.

However, as share prices have risen, so too have expectations. US equities continue to trade at a significant premium to other regions, while higher bond yields reduce the relative attractiveness of equities. As long as earnings continue to grow strongly, this remains manageable. The market is likely to be considerably less forgiving of disappointments in growth or mar-

gins than it was only a few quarters ago. At the same time, opportunities are broadening. Europe is benefiting from improving earnings expectations and investment in infrastructure, defence and energy. A number of emerging markets are also showing rising corporate earnings combined with more attractive valuations. Parts of North Asia in particular continue to benefit from the sustained investment cycle in semiconductors and technology.

We remain constructive on Swiss equities. Solid balance sheets, strong capital discipline and attractive dividends provide stability in a more demanding market environment. In

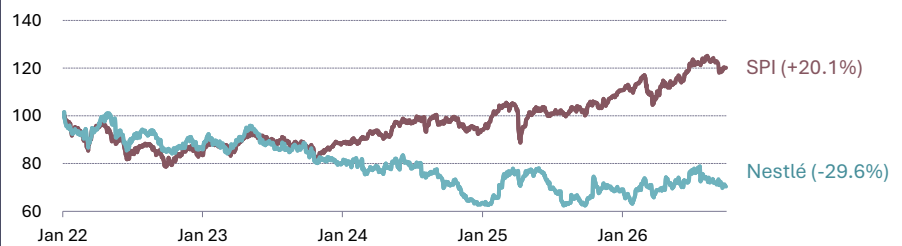
addition, valuations have become more attractive again relative to international markets.

For the coming months, we remain broadly positive but have become more cautious. Following the strong market performance, the balance between opportunities and risks has become less attractive. High valuations, rising interest rates and geopolitical uncertainty leave little room for disappointment. Quality, valuation and sustainable earnings growth are therefore key. After strong years for equities, preserving what has been achieved is becoming more important than chasing the last percentage point of performance.

NESTLÉ

Expectations met (again)

Nestlé: Lagging, despite positive results



Nestlé delivered what the market expected in the first half of 2026. Sales growth and margins were in line with forecasts, meaning the Group has now met expectations for several consecutive quarters.

There is considerably more movement in the portfolio. For its mineral water business, Nestlé is founding an equally owned joint venture with private equity firm Platinum Equity, which is expected to generate billions for the Group in the first half of 2027. In addition, the food supplements and ice cream businesses are up for

sale. Both generate below-average returns, and their sale should therefore provide a noticeable positive to the Group's margin.

Going forward, Nestlé will focus more strongly on coffee and pet food, which together account for almost half of the revenues. At the same time, the cost-saving programme is running slightly ahead of plan. Notably, a significant proportion of the freed-up funds is being reinvested in advertising for brands with strong growth rather than being used to boost margins in the short term. The

second half of the year is likely to be more challenging, although management is confirming its growth and margin targets. The comparison base has risen, as have expectations, while inventory reductions by US pet food retailers and the delisting of products by a major European customer are creating additional headwinds.

The share price has not reflected these positive developments. At current levels, Nestlé looks attractive, particularly as its dividend yield of 4.1% is well above the average for the broader Swiss equity market.

ASSET ALLOCATION

Tactical risk reduction

Following the strong equity performance, we have reduced risk tactically in our global mandates by trimming the allocation to US equities and increasing the liquidity buffer accordingly.

Higher valuations, rising interest rates and geopolitical risks call for greater caution. At the same time, the additional liquidity gives us the flexibility to reinvest when valuations become more attractive or new opportunities arise.

Asset classes

Current position

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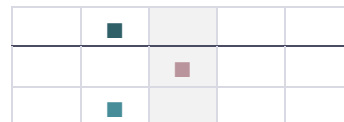
Liquidity



Bonds

Government Bonds

Investment Grade



Equities

Switzerland

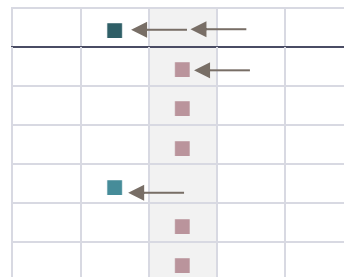
Europe

UK

USA

Japan

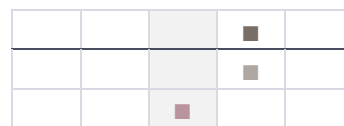
Emerging Markets



Alternative investments

Gold

Real Estate Switzerland



BELVÉDÈRE
Asset Management

Imprint

Publisher:
Belvédère Asset Management AG
Hauptstrasse 45, CH-8750 Glarus

Authors:
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Stop press: 28.09.2026

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