REVIEW & OUTLOOK

HYPOSWISS
ADVISORS

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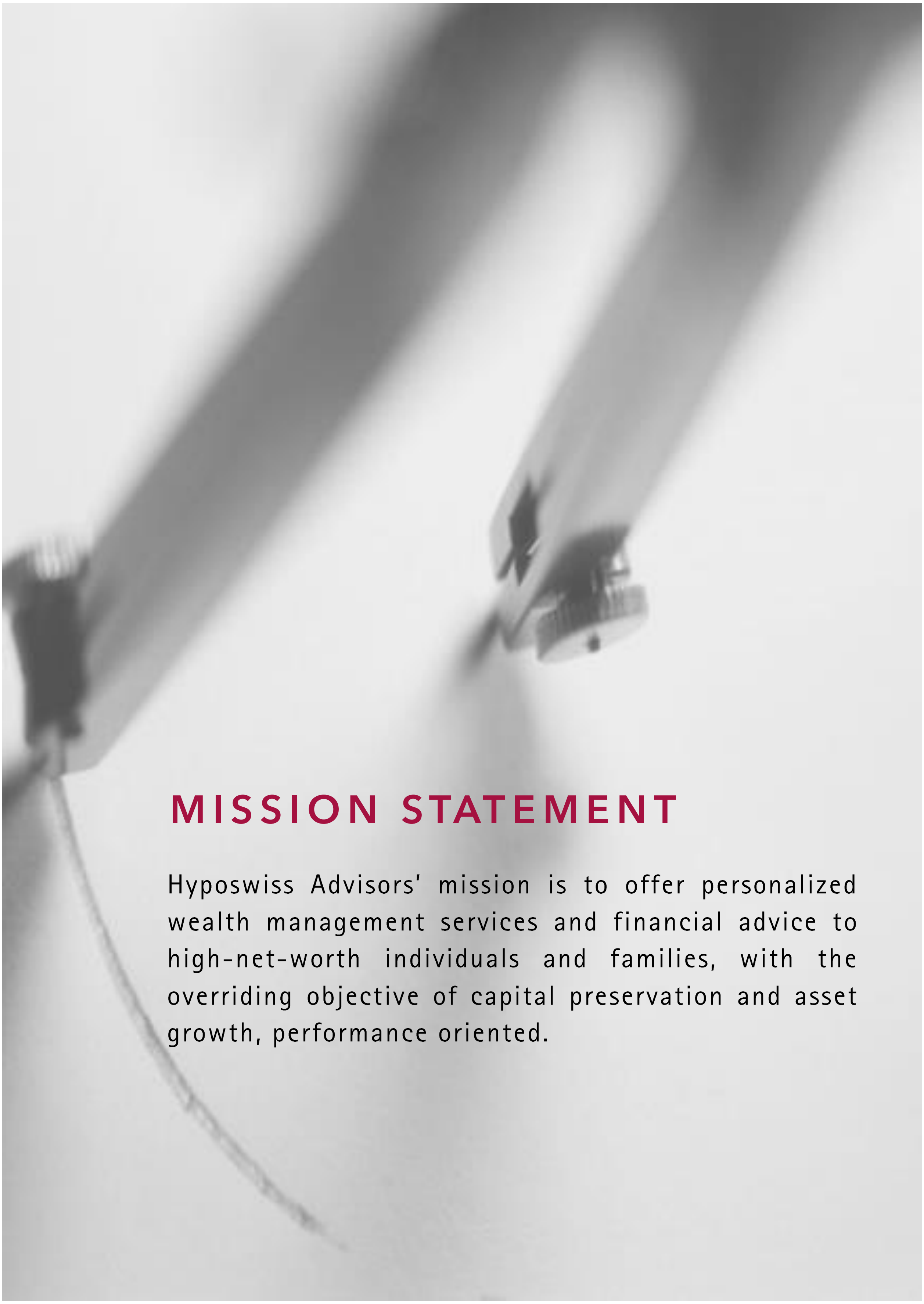
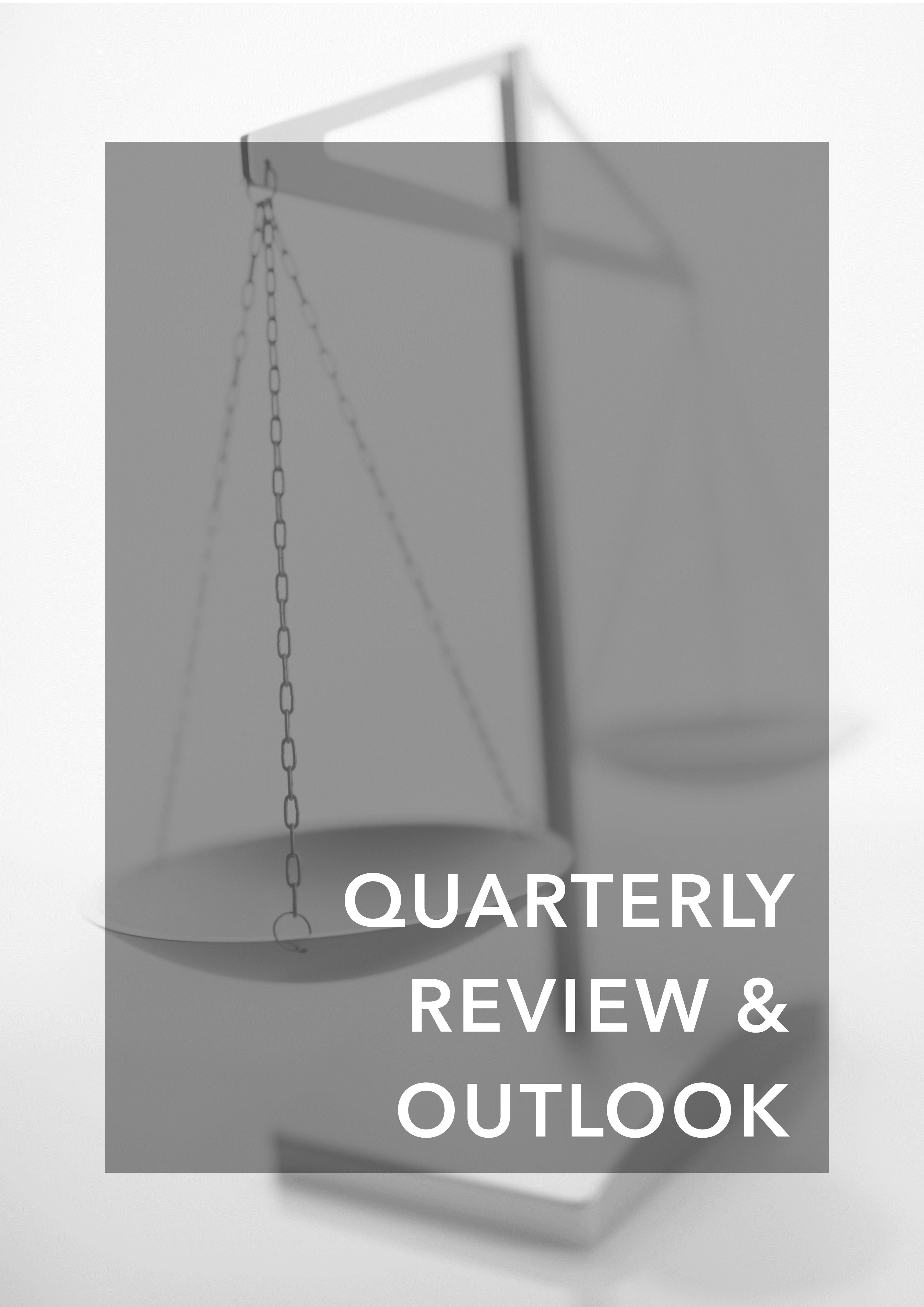


MISSION STATEMENT

Hyposwiss Advisors' mission is to offer personalized wealth management services and financial advice to high-net-worth individuals and families, with the overriding objective of capital preservation and asset growth, performance oriented.



QUARTERLY REVIEW & OUTLOOK

CONTINUED RESILIENCE

2025 can be characterized as another year of resilience. The global economy has maintained growth at or above trend since early 2022, despite the Russian invasion of Ukraine in 2022, significant synchronized monetary tightening in 2022-23, and a sharp rise in US tariffs accompanied by heightened uncertainty in 2025. This is truly remarkable and has compelled economic forecasters to discard many of their traditional models. This outcome has been achieved alongside reasonable inflation behavior, allowing central banks to reverse some of their inflation fighting tightening and come back to a neutral monetary policy by the end of 2025.

The cost associated with this economic performance has been a widening gap between regions and between income levels, materialized by a slowdown in U.S. employment in recent months. This slowdown is a concern, as some indicators are approaching levels that have historically signaled an increased risk of recession. We are more optimistic, our forecast is for the labor market to stabilize in 2026, cushioned by a continuous improvement in business sentiment and corporate profits.

Our outlook for 2026 is based on a recoupling of regional growth levels, thanks to the fading effects of tariffs and the fiscal front loading outside of the US. The risks around this central scenario are distributed both ways. The process of economic recoupling could create upside surprises for overall growth, with its associated favorable benefits on income and profits. If the slowdown in employment turns out to be more severe or more durable than expected, the effects could spill over to the rest of the economy and increase the risk of an overall recession.

During the last quarter, the Federal Reserve proceeded to cut rates on Dec 10 to a target range of 3.5 to 3.75%. The decision was reached by a 9-3 vote, highlighting divisions within the FOM. These divisions are expected to complicate further easing. Developed equity markets traded constructively. Precious metals continued their relentless rally, with silver reaching all-time highs during a period of heightened volatility. Yields in developed markets were broadly unchanged, in a very low volatility regime. Emerging markets benefitted from currency gains and positive trends in cyclical assets.

Financial assets are ending the year at levels that are broadly supportive of economic activity. 10-year real yields are at 1.8% in the US, and the policy-sensitive 2-year yield is at 3.50%. Credit spreads are tight, and credit markets are supportive of the large financing activity that will be required for AI investments and M&A transactions. Equity valuations are on the expensive side but not more so than a year ago. Foreign exchange levels have gone through large adjustments in 2025 but have not been and are not a hindrance to economic activity.

As we consider the outlook for 2026, we maintain a broadly constructive view of risk assets, based on our central economic scenario. We are also mindful of the following risks:

- The deficit trajectory of most developed market economies shows no sign of improving, despite the favorable cyclical backdrop. In currency markets, the fiscal risk premium is already apparent in the JPY and could continue to have a moderate negative impact on the USD. On the other hand, the CHF and the Scandinavian currencies could continue to appreciate on the back of the fiscal discipline of their respective governments. For fixed income markets, we are concerned about episodes during which budget worries affect negatively the long end of major global bond markets. This could be disruptive for overall financial markets and could herald the return of some form of fiscal dominance, such as yield curve control or quantitative easing.
- The mid-term election cycle in the US could prove to be a source of volatility, notably through disruptive initiatives from the US

administration on affordability or other politically driven issues.

- Given the importance of AI related capital expenditures for the overall economy, any unexpected slowdown in this area could have large spillover effects.
- We are expecting central banks to show patience on the progress on inflation, and refrain from tightening initially into a strong economy. But a durable and synchronized economic recovery could justify central bank tightening in late 2026 or early 2027.

OUTLOOK FOR MAJOR ASSET CLASSES

FIXED INCOME

The 2024-2025 wave of monetary easing is coming to an end, as rates have now been broadly normalized in all major developed economies. Only a significant slowdown or a heightened risk of recession would justify lower rates from here. Credit spreads will remain supported by a favorable economic environment and stability in interest rates, but have limited scope to tighten further given the large financing needs associated with the current capex investment boom. This puts a lid on the performance of developed bond markets going forward.

Bond markets allocations in developed countries are therefore justified primarily by their (limited) carry and their roles as a hedge against recession risk. These investments do carry a non-negligible fiscal risk, particularly at the longer end of bond markets.

In contrast, the easing process in EM has been more modest, allowing central banks to maintain an easing bias into 2026. EM economies are poised to benefit from an upswing in the global economic cycle leading to robust domestic and external demand.

In general, these economies also benefit from favorable debt dynamics. According to the IMF, net government debt in advanced economies averages above 80%, compared to around 45% in emerging and middle-income economies.

EM local currency assets therefore represent an attractive alternative to diversify away from core DM exposure. Beyond the more favorable debt metrics, the asset side of many EM balance sheets is anchored in real commodities such as precious and industrial metals and agricultural products. Finally, if the USD remains weak, EM debt is likely to continue to generate inflows.

CURRENCY MARKETS

The USD has depreciated by 9.4% on a trade weighted index in 2025. The outlook for 2026 is for a continuous depreciation, albeit at a more modest pace than in 2025. Despite its recent decline, the US currency is still overvalued by 10-15% on most long-term measures. We remain concerned about the

US Dollar Index (USDX), from 31.12.2024 to 31.12.2025
Source: MarketMap FIS

uncertainties linked to the new Federal Reserve leadership and the potential for unsustainable fiscal spending.

EQUITY

Despite the significant upswing in US equities in 2025, valuations have not expanded. The progression fully relied on earnings growth. As we consider the outlook for 2026, the following points come to mind:

- We are looking at the potential for mid-cycle acceleration, which would benefit some of the sectors left behind in 2025.
- The rate of AI investment growth will likely decelerate from the unsustainable 2025 pace, but it is reasonable to expect increasing corporate AI adoption. The broader diffusion of AI benefits is expected, over time, to benefit a larger segment of corporates and sectors.
- The trend towards a modest re-leveraging of the corporate sector is expected to continue.

Beyond the favourable outlook for US (and generally developed market) equities, we must consider the effects of the expected synchronized global cyclical upswing on emerging market equities. This asset class has underperformed over the past five years and is trading at a significant valuation discount (P/E ratio of 13.5 versus 22 for the US).

The quality of earnings derived from EM corporates has improved substantially thanks to better governance standards. Earnings growth in 2026/27 is expected at a robust 19%/12%. In addition, investment in this segment allows, to some extent, for the mitigation of concentration risks currently embedded in developed market equities indices.

GOLD

Gold has been a significant contributor to portfolio performance in 2025. Gold's investment case remains strong into 2026, supported by long-term fiscal sustainability concerns and ongoing central-bank reserve rebalancing. We recommend maintaining a significant allocation, while not expecting a performance as spectacular as in 2025. We are attracted by the hedging and diversification properties of precious metal, particularly in a world where bonds do not provide these qualities anymore.

Gold spot prices in USD, from 31.12.2024 to 31.12.2025
Source: MarketMap FIS

CONTACT

HYPOSWISS ADVISORS SA

Office Address: Rue Bovy-Lysberg 10
Mailing Address: Bd du Théâtre 10
1204 Geneva – Switzerland
Tel. +41 22 310 76 40

info@advisors.hyposwiss.ch
www.hyposwissadvisors.ch

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