

Cham, October 6th 2026

Outlook into the 4th Quarter 2026

Back to rate hikes

As year-end approaches, investors face an increasingly politicised final quarter. In Europe, the long-standing doctrine of putting social policy ahead of economic policy is reaching its limits, while abrupt policy shifts in Washington continue to undermine the predictability businesses need for long-term planning. Political uncertainty is likely to intensify further as the US heads into November's midterm elections, including elections for the House of Representatives. With President Trump's approval ratings low and the cost of living still elevated, we expect Republicans to lose their majority. Any subsequent dispute over the election results, combined with the risk of a government shutdown, could add considerably to financial-market volatility.

At the same time, the escalating conflict in the Gulf region has emerged as an important inflationary force, pushing central banks towards tighter monetary policy. This marks a dramatic reversal in the interest-rate outlook: at the start of the year, markets were still anticipating further rate cuts. Such a fundamental shift has significant implications across financial markets. In this environment, cautious investors are on safe ground if they stick to their long-term investment strategy. A portfolio built around high-quality companies with sound fundamentals remains a classic anchor of stability.

Diversification as a buzzword can lead to costly misunderstandings.

The belief that gold or bonds offer better protection for wealth remains deeply rooted among much of the European population. But treating standard diversification as a truth set in stone ignores the fact that financial markets never stand still. In an unsettled world, the mechanisms of traditional diversification work only to a limited extent.

Diversification is supposed to prove it's worth when times get rough. In practice, it only partly does. Government bonds and other fixed-income securities should rise when equities fall. Yet in recent years, we have repeatedly seen the opposite: problems in bond markets have dragged equities lower, and vice versa. Similarly, gold and government bonds are widely expected to appreciate during geopolitical and economic crises.

The crises and bear markets of the past 25 years have demonstrated that standard diversification is no universal remedy and that there is no consistent pattern. From the Gulf War in 1991 and 9/11 in 2001 to the Lehman collapse in 2008, the Crimea crisis and war in Ukraine, the Hamas attacks and, most recently, the war involving Iran, periods of high volatility have affected every asset class, with each behaving differently from one crisis to the next.

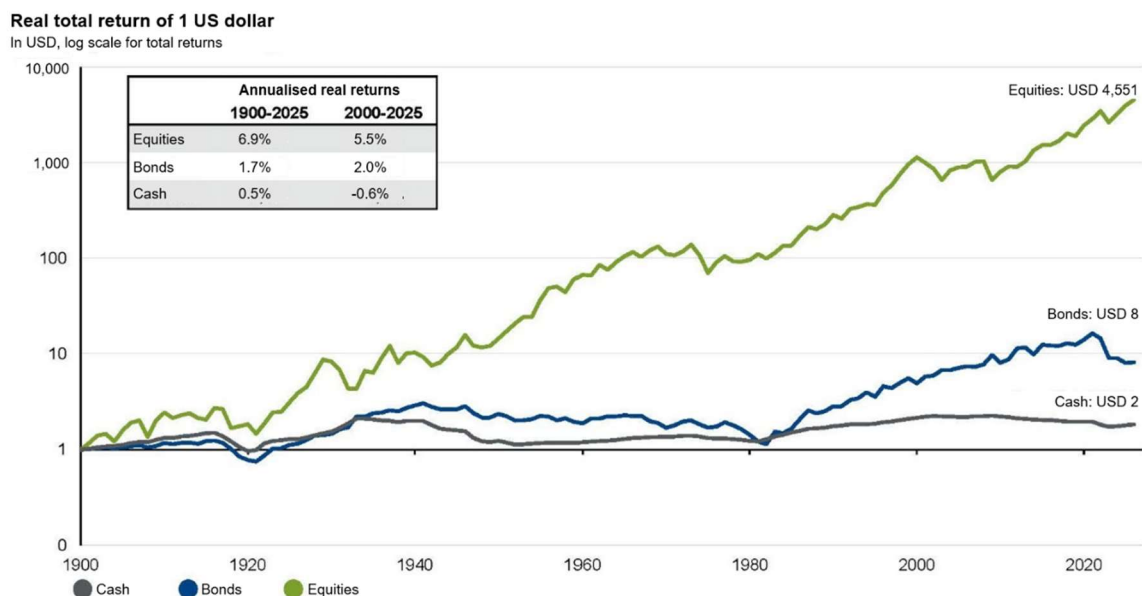
Ultimately, asset prices have been—and continue to be—driven more fundamentally by economic data, risks to growth, inflation, monetary policy and interest rates. Financial markets generally incorporate both economic developments and geopolitical events into prices.

Rather than maintaining the discipline of a long-term investment strategy, investors can understandably feel compelled to act. The fear of missing the right moment can lead to selling at precisely the wrong time, turning temporary paper losses into permanent realised losses.

Uncertainty is a normal condition in financial markets. The differing correlations between asset classes support diversification where the investment objective is relatively short-term. For a portfolio positioned over a longer horizon of four to five years, however, diversification is more a question of economic growth and currency exposure. More than 60% of the global economy is transacted in USD, while global dollar reserves account for only 40% of global foreign exchange reserves. The debate about the end of the USD as the world's leading reserve currency resurfaces regularly. Yet a global economy without a leading currency would be vulnerable to recurring crises.

Diversification as a universal remedy for every situation would undermine market forces. Paradoxically, all investment flows would move in the same direction, leaving financial markets vulnerable to extreme market movements. A well-functioning market, by contrast, thrives on differing opinions.

A central argument in favour of a long-term investment horizon:

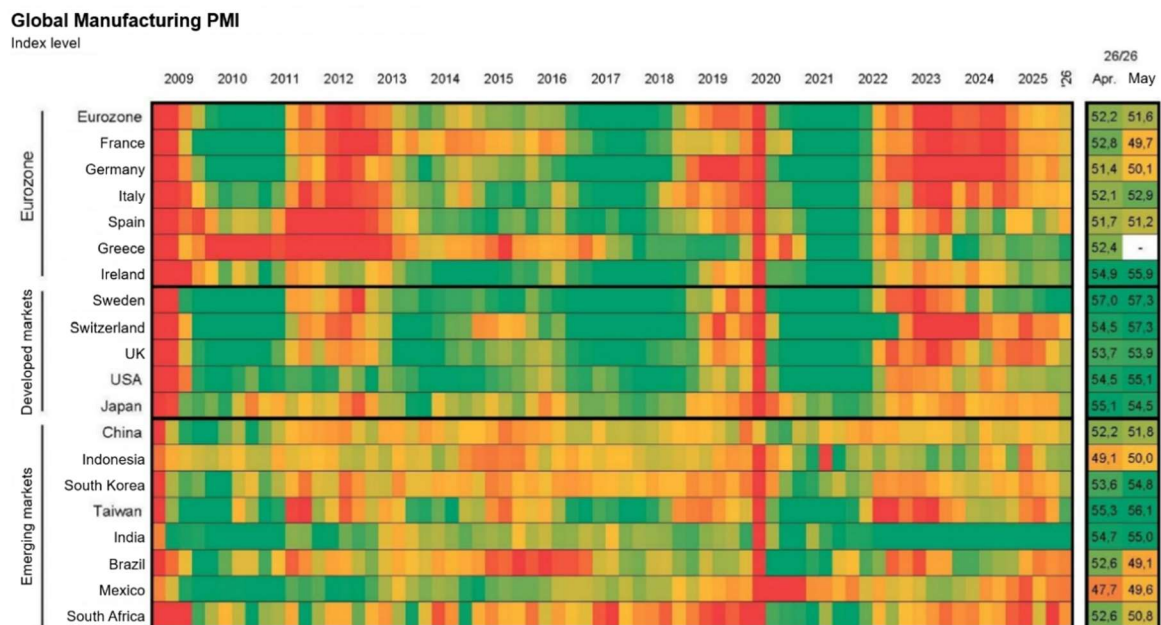


Source: Bloomberg, FactSet, S&P Global, Shiller, Siegel, J.P. Morgan Asset Management

Behind the geopolitical fog, economic data are barely getting noticed. This is why many investors struggle to reconcile the relentless flow of dramatic daily headlines with record levels in equity markets. The fact is that global economic growth remains positive and many leading companies continue to generate strong profits. While some industrial sectors and mid-sized companies are fighting for survival, politics alone is not to blame. That said, at the beginning of the year MPM had expected somewhat better data for interest rates, inflation and economic growth. Nevertheless, the indices remain within the target range of 7,800 to 8,000 points that we forecast for the S&P 500: the 7,800 level has already been reached.

Industry forecasts present a positive picture for the coming quarters. The continued expansion of the AI ecosystem alone is expected to require a further USD 1 trillion of investment by 2028, generating substantial profits for the industry's hyperscalers. Particular attention should also be paid to investments in cybersecurity. On the other hand, in certain sectors it is important to recognise that government-driven revenues also place a burden on public finances. The defence industry, for example, can create an illusion of economic growth.

The Purchasing Managers' Indices, a classic leading economic indicator, are presenting a more positive picture this autumn than we have seen for years:



Source: Bloomberg, S&P Global, J.P. Morgan Asset Management

In recent weeks, economic activity has been gaining momentum worldwide. The forecast for global economic growth of 3.1% for the year remains intact. As things stand, that figure should hold for next year too, though it is still too early to put firm numbers on the 2027 investment year. Sudden geopolitical shifts and extreme weather could yet stoke inflation and rattle stock markets. US and Eurozone inflation have moved in lockstep for years now. As a result, currency fluctuations have remained within an acceptable range. In this context, the outlook for precious metals is relatively moderate.

In the autumn of 2012, we wrote in this publication: 'Fortunately, politics is dominated by economics and not the other way around.' Times have certainly changed. In 2026, political influences have unquestionably overshadowed economic fundamentals. Back in 2012 – when the S&P 500 stood at around 1,400 points – the financial world was, much as it is today, concerned about rapidly rising government debt and growing inflation risks, at the time under President Obama. What is often overlooked is that debt must be viewed in relation to economic output, and on this measure neither France nor Germany is in a comfortable position.

Moreover, the debt debate tends to focus on government budgets. In reality, government debt has been rising far more rapidly than corporate borrowing, while private individuals are considerably less indebted – and this is true globally. Around 20 years ago, politicians and regulators took greater control over the banking sector in an attempt to bring the debt crisis under control, all under the banner of ‘customer protection’. In 2026, the question remains: who protects the banks’ customers? Today, almost 15 years later, the debt crisis is still with us – as are the old problems.

The year-end is already in sight. A stable investment strategy with a long-term focus and a prudent cash reserve should provide attractive investment opportunities before the end of the year and allow the year to close with a positive result.

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