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Our View in May

Shrug at your own peril



Shrug at your own peril

The markets are ignoring risk that stems from Iran. But the second-round effects are yet to come.

It seems as though investors have come to terms with the current situation. Bad news from the Middle East barely triggers any market reaction anymore. Bombs, negotiations, threats - it's all priced in. Artificial intelligence (AI) is driving the rally. The Nasdaq is soaring, South Korea is booming, the mood is carefree.

On the surface, this is a good thing. Those who stayed invested have profited. Anyone who, after the outbreak of war, saw only risks and sold would be worse off today. This shows panic is not a good strategy.

But even if there is no further escalation, the second-round effects are yet to come. Energy remains significantly more expensive than before the outbreak of the war. The Strait of Hormuz is still blocked. Inflation statistics are showing the first signs. But it will take time for the full effects to become apparent. This does not mean that negative

market reactions will automatically follow. However, there is also no guarantee that they won't occur.

The market in South Korea has just demonstrated how quickly sentiment can shift. The stock market there was performing exceptionally well thanks to AI, until a politician suggested taxing AI profits and distributing the proceeds as a special dividend. The market came under pressure in the short term. Whether this will lead to anything more remains to be seen. But it serves as a reminder: even strong trends are not invulnerable.

Our response to this is the same as ever: stay invested and manage the risks in your portfolio. That sounds like routine. It is, and not by chance, because it has proven its worth. This year provides the best example. Those who kept their nerve are ahead. Those who put all their eggs in one basket could well have been wrong. And might have had a few sleepless nights in the meantime.

Dr. Felix Brill, **Chief Investment Officer**

Our View on the Portfolio



- Markets show **resilience**
- **Artificial intelligence** as a growth driver
- **Diversification** remains important



- **Oil supplies** remain blocked due to the Strait of Hormuz
- **Second-round effects** are yet to materialise
- **Sentiment** could shift rapidly

- ● ● ● ● strong overweight
- ● ● ○ ○ neutral
- ○ ○ ○ ○ strong underweight

(Base: Mandate CHF balanced)



Our View in May

Money Market



Bonds



Government Bonds



Corporate Bonds



USD Bonds



Emerging Market Bonds



Equities



Equities Switzerland



Equities Europe



Equities USA



Equities Japan



Equities Emerging Markets



Equities World and Themes



Alternative Investments



Hedge Funds



Insurance-linked Securities



Gold



Industrial Metals



Real Estate



Our View on the Economy



- **Investments in AI** are supporting global growth
- German **infrastructure and defence spending** are boosting the European economy
- **Central banks** still have some scope for interest rate cuts in isolated cases



- The **Iran conflict** could lead to a surge in inflation
- **Signs** of higher energy prices visible
- **Possible interest rate increases** by central banks

Risks due to the Iran conflict are unevenly distributed

The economic damage caused by the Iran conflict is already becoming apparent. The French economy stagnated in the first quarter due to weaker consumer spending. The US economy performed solidly thanks to high levels of investment in artificial intelligence (AI) infrastructure, achieving an annualised growth rate of 2% in the first quarter compared with the previous quarter. Leading economic indicators based on business surveys, however, point to second-round effects. Companies are passing higher input costs, especially energy costs, on to their products. Should there be a broader rise in inflation, private consumption could decline more sharply than previously anticipated. One thing is clear: the war in Iran and the blockade of the Strait of Hormuz will dampen global economic growth in 2026 - even if oil prices fall rapidly.

Our View on Monetary Policy



- Further interest rate cuts are expected from the People's Bank of China
- The **Swiss National Bank (SNB)** is likely to keep interest rates unchanged for now
- The **Fed** has scope to cut interest rates in the event of economic risks



- An **ECB interest rate hike** in June is likely
- **Geopolitical conflicts** are driving up the inflation rate
- The risk of **second-round effects** is considerable

ECB signalling intention to raise interest rates

The monetary policy outlook in Europe currently appears more uncertain than that in the US. The European Central Bank (ECB) is keeping all options open but is considering an interest rate hike in June. This assessment is based on the latest press conference following the meeting of the governing council. An interest rate rise in June is therefore highly likely.

In the US, the Federal Reserve (Fed) is under much less pressure. The continued high level of interest rates gives it room for manoeuvre. It remains to be seen whether the new Fed chairman, Kevin Warsh, will plead for interest rate cuts in the near future. The US economy is growing solidly, whilst higher energy prices are fuelling inflation. Warsh will therefore likely wait to see how inflation develops.

Our View on Government Bonds



- **US yields** are high in comparison
- **Low inflation** is supporting Swiss government bonds
- **Government bonds** are highly liquid



- The **Iran conflict** is driving up inflation, which is putting pressure on government bonds
- **Swiss bonds** carry a particularly high interest rate risk
- **Increased public debt** in developed countries poses a risk to fixed-income securities

Bonds as a function of oil prices

Oil price movements are currently driving developments not only in the equity markets but also in the bond markets. There is a functional link between oil prices and yields. The risks of second-round effects are becoming increasingly apparent. Business surveys point to price pressures. And many companies want to pass on higher input costs, among them energy, to their products. The European Central Bank (ECB) is therefore likely to respond with an interest rate hike. In the US, however, further rate cuts remain a possibility. Yield levels could rise further in the short term. At the same time, higher oil prices are increasing economic risks, which is putting a brake on inflation. This should limit any further rise in yields.

Our View on Corporate Bonds



- The **US economy** has remained robust since the start of the Iran war
- **Top-tier borrowers** showing no signs of stress so far
- **Speculative qualities** have wiped out a minor setback



- **Impact on supply chains and inflation** remains uncertain
- **Credit spreads** are close to record lows

Is there a risk of contagion from private markets?

Jamie Dimon, CEO of the largest US bank, J.P. Morgan Chase, has repeatedly warned of an impending crisis in the credit markets stemming from non-bank lending. This involves unregulated risk-seeking capital that is made available for loans with a higher probability of default and, accordingly, expects a higher return. Several such private credit funds with significant exposure to start-up software companies have had to halt redemptions as investors got cold feet as many investors believe that artificial intelligence (AI) poses a risk to software manufacturers. An indirect spillover to the bond market is theoretically possible if major banks or insurance companies run into difficulties due to exposure to such vehicles or the financing of leveraged clients. Strict regulation and risk management counteract this. Credit spreads are currently falling in the capital market, which contradicts such a negative scenario.

Our View on Equities



- **MSCI World Index** hits new all-time high
- **Strong resilience** despite geopolitical tensions
- **AI supercycle** and strong US corporate earnings are driving share prices



- **Geopolitical Risks**
- Increased **Valuations**
- Vulnerability to **rising interest rates**

The hunt for new record highs continues

Despite geopolitical tensions, rising oil prices and a persistently uncertain interest rate environment, the global equity markets proved resilient. Initial losses triggered by tensions in the Middle East and the Strait of Hormuz were quickly recouped, with the MSCI World Index reaching a new all-time high. The driving force is artificial intelligence, from which semiconductor companies in particular are benefiting and which is fuelling technology-orientated markets such as the US and South Korea.

Europe and Switzerland are lagging behind, partly because few tech companies are listed on these stock exchanges. There is no end in sight to the AI momentum trade - at the same time, elevated valuations make the market more vulnerable to higher interest rates, which is why they must be closely monitored.

Our View on Equities USA



- US stock markets hit **record highs**
- Strong **corporate earnings** drive the market
- Market structure and valuations **leave further room for price movement**



- **Unresolved situation** in the Strait of Hormuz
- Markets remain **news-driven**
- **Risk of further volatility** still present

Profit potential is driving the market

The US stock market is continuing its upward trend and has recently reached new all-time highs, confirming the robust market structure. Despite geopolitical uncertainties, corporate earnings are performing strongly. For the year as a whole, analysts expect earnings growth for S&P 500 companies of around 20 % compared to year-on-year. The current first-quarter earnings season is also proving impressive: profits are set to rise by double digits for the sixth consecutive quarter, with a particularly high 48 % in the technology sector.

Major US tech firms have dispelled doubts that heavy investment in data centres is not paying off. This is having a positive impact on their share valuations. Although valuations in the US market remain elevated overall, the Nasdaq 100's forward 12-month price-to-earnings ratio has fallen to around 24 - down from nearly 30 in October. The valuation premium relative to the S&P 500 has also narrowed.

Our View on Equities Japan



- **Fiscal policy stimulus** boosts growth expectations
- Beneficiary of the global **tech and AI rally**
- **Improved corporate governance** is having an impact



- Share prices have **outpaced profit growth**
- Limited scope for **economic policy**
- Potential headwinds from **monetary policy**

A boost from fiscal policy and the AI boom

The Japanese stock market has shown strength in recent months. A key driver is the 'Takaichi effect' named after the prime minister: the new government is focusing on major fiscal stimulus measures and investment programmes, which are boosting growth expectations and investors' appetite for risk. At the same time, Japan is benefiting from the global tech rally. A key factor here is the competitive position of companies in the semiconductor supply industry, which is closely linked to rising global investment spending on artificial intelligence (AI). Added to this are rising capital inflows as a result of improved corporate governance.

However, share price performance over the past year has outpaced expected earnings growth. Yet despite the rise in valuations, the MSCI Japan Index, with a P/E ratio of just under 18, is more highly valued than Europe but remains cheaper than the US.

Our View on Equities Emerging Markets



- **Attractive valuation** relative to other markets
- **Successful decoupling** from the US
- Aiming for **technological sovereignty**



- **Property crisis** weighs on the economy
- **Domestic consumption** needs a boost
- **Tech sector** less driven by the global AI spending boom

China in waiting mode

Following the rally of the past two years, the Chinese stock market has entered a consolidation phase. Although trading remains robust and the economic decoupling from the US was successful, the domestic economy remains a weak point. High savings rates and subdued consumption are leading to a two-tier economic dynamic: export- and technology-driven sectors are growing, whilst domestically oriented sectors - partly as a result of the ongoing property crisis - are lagging behind.

At the same time, Chinese tech companies are unable to keep pace with the share price momentum of their peers in Taiwan and Korea, as the latter are more strongly driven by spending on artificial intelligence (AI). Despite favourable relative valuations, the market is currently stuck in a sideways trend.

Our View on Gold



- **Central bank purchases** remain high
- Weakening demand for jewellery is offset by **purchases of bullion and coins**



- **Positive correlation** with stock markets
- De-escalation in Iran **favours riskier investments**
- Lower inflation risk **limits scope for rate cuts**

In search of direction

Gold initially coped well with higher interest rate expectations and rebounded. However, it failed to reach new highs, as the de-escalation in Iran has primarily benefited riskier assets. This is reflected in a slowdown in inflows into exchange-traded funds and lower demand from speculators. The correlation with the equity markets remains positive, however. The latest quarterly report from the World Gold Council provides further insights: whilst higher prices are weighing on jewellery demand (-23% year-on-year), demand for bars and coins was strong (+42%). Central bank purchases remain high overall, although countries such as Turkey, Russia and Azerbaijan have sold off significant quantities. In our view, the fundamental drivers for gold remain intact. However, the strong gains of the past two years call for caution, as consolidation could continue.

Our View on Oil



- OPEC is **losing its pricing power**
- **United Arab Emirates** hint at higher production
- **Peace talks** ease pressure on prices



- No return to normal for shipping in the **Strait of Hormuz**
- **Delivery delays** are likely to continue for several months
- Prices are being driven by the **news coming out of the Middle East**

Easing tensions

The peace talks to end the Iran conflict caused volatility in the oil markets to rise significantly. Recently, concerns about a looming supply shortage have eased, which is why the price of a barrel of Brent crude oil is now trading at just over USD 100. Crack spreads – the profit margin for refineries in the production of oil products such as diesel or kerosene – have also eased noticeably. Should the Strait of Hormuz soon become navigable, energy prices will correct further. Nevertheless, they remain heavily driven by news from the Middle East, which is why volatility remains high. Furthermore, the normalisation of supply chains will take several months. Year-on-year, prices are therefore remaining at a higher level. In the longer term, however, the withdrawal of the United Arab Emirates (UAE) from the Organisation of the Petroleum Exporting Countries (OPEC) points to higher supply and thus lower prices.

Our View on Currencies



- **The Euro** is suffering as a result of the Iran conflict
- **High dollar forward sales** point to short-term dollar strength
- **The USD's interest rate advantage** is coming back into focus



- **US dollar and Swiss franc** remain in demand in times of high uncertainty
- **The Swedish krona** is undervalued and has potential for appreciation
- **The yen** is the most significantly undervalued of all currencies

Dollar: No clear direction in sight

There were no strong trends on the currency markets recently. It remains uncertain how long the Strait of Hormuz will remain blocked and what the outlook is for the energy markets. At the same time, a candidate believed to be loyal to Trump is taking over as chairman of the Fed. As such, it is unclear whether, and to what extent, the Federal Reserve will be subject to political influence in the future. So currency markets take no clear stance at the moment.

The dollar is likely to continue its sideways movement against the euro and the Swiss franc for the time being. The rather one-sided market view that the greenback will continue to weaken calls for caution. It is often precisely at such times that the trend reverses. As many speculative investors have sold the dollar on a forward basis, these positions will have to be closed out should the dollar strengthen, thereby amplifying the movement.

Authors

Dr. Felix Brill, Dr. Thomas Gitzel, Manfred Hofer, Bernhard Allgäuer, Jérôme Mäser, Simon Hartmann

Please note that this is a general investment recommendation and therefore does not take into account your personal circumstances.

Responsible for this content

VP Bank AG

CIO Office

Aeulestrasse 6, 9490 Vaduz, Liechtenstein

T +423 235 63 99; cio-office@vpbank.com

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Liechtenstein: VP Bank AG, 9490 Vaduz · info@vpbank.com

Schweiz: VP Bank (Schweiz) AG, 8001 Zurich · info.ch@vpbank.com

Luxembourg: VP Bank (Luxembourg) SA, 2540 Luxembourg · info.lu@vpbank.com

Singapore: VP Bank Ltd Singapore Branch, 189773 Singapore · info.sg@vpbank.com

British Virgin Islands: VP Bank (BVI) Ltd, Tortola VG1110 · info.bvi@vpbank.com