Perspectives
Financial Markets

July 2026

Interest rates & bonds
Iran de-escalation headlines calm markets

	10-year government bond yield			Investment-grade credit spread		
	Current	June 2026*	Year-to-date*	Current	June 2026*	Year-to-date*
US	4.4%	-4 bps	23 bps	75 bps	3 bps	-3 bps
Eurozone	2.9%	-8 bps	0 bps	79 bps	0 bps	1 bps
UK	4.7%	-11 bps	22 bps	86 bps	1 bps	3 bps
CH	0.2%	-13 bps	-3 bps	75 bps	1 bps	-4 bps

10-year government bond yield eurozone = DE, bps = basis points.
* Change as at 25 June. Source: Bloomberg

USA
- In June, the US Treasury yield curve flattened as short rates increased. USD HY spreads tightened further, while IG spreads were broadly unchanged.
- We raise our estimate for the neutral policy rate from 3% to 3.25%. Warsh's first meeting as chair was hawkish, but we expect the Fed to look through above-target inflation and deliver no hike this year.

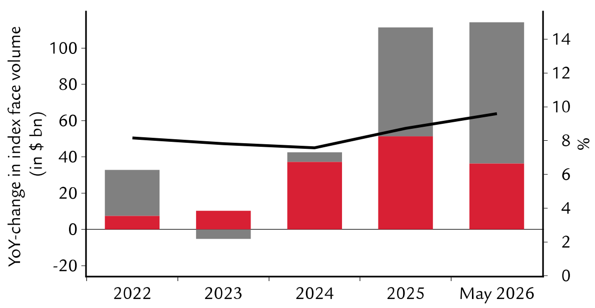
Eurozone
- Short-end Bund yields rose and the curve flattened. EUR IG and HY spreads tightened on Iran de-escalation headlines, with total returns outperforming USD credit.
- As expected, the ECB hiked by 25 bps on 11 June. We expect another 25 bps hike in September, above neutral, due to inflation concerns.

UK
- Core inflation rose to 2.6% in May from 2.5%, but undershot expectations. 10-year gilt yields declined, and UK IG spreads were stable in June.
- The Bank of England kept rates unchanged on 18 June. Inflation remains above target and growth is weak. We expect one policy rate hike in September 2026, in line with markets.

Switzerland
- Inflation was unchanged at 0.6% in May, below expectations. In June, Swiss yields declined moderately and spreads remained broadly stable.
- Regarding the SNB, we expect a zero-rate environment for the foreseeable future.

USD IG Hyperscaler & Tech sector issuance jumps
Since 2022, the outstanding face value of the USD IG Hyperscaler & Tech sector index has grown much faster than the USD IG corporate bond index, mainly reflecting refinancing needs linked to AI capex. The ramp-up began in 2022-2023, when the public release of ChatGPT delivered a general-purpose AI product and triggered massive user growth and usage intensity. This led to the 2024-2025 infrastructure build-out, as hyperscalers raced to introduce similar AI tools and invest heavily in capex. In 2026, new agentic AI models were introduced that can execute tasks end-to-end and resolve customer queries autonomously, lifting forecasts for sustained and higher AI capex. As a result, the face value of USD IG Hyperscaler & Tech sector index bonds has already increased more in 2026 year-to-date than in all of 2025. This large US AI capex also supports GDP growth and the wealth effect for consumers via stock valuations. Though spreads are tight, fundamentals and technicals are neutral to positive, and we are neutral on USD IG and HY credit for July. We expect wider EUR HY spreads due to tight valuations, higher inflation, higher rates and lower growth expectations in Europe. Our rates view shifts to the downside, as a resolution of the Iran conflict becomes more likely, allowing markets to price a more benign policy outlook and lower yields. For July, we expect lower 2-year and 10-year government bond yields in the US and the EU, but remain neutral for Switzerland.

Tech & Hyperscaler bonds in USD IG index (C0A0)



— Tech & Hyperscalers share, rhs
▪ Hyperscalers in Retail and Media sectors, lhs
▪ Technology & Electronics sector, lhs

Sources: Macrobond, Swiss Life Asset Managers Research. Last data point: 31.05.2026

Equities

More defensive stance warranted

Regional equity markets	June 2026*	Year-to-date*
USA	-2.9%	7.7%
Eurozone	3.3%	11.6%
UK	1.1%	8.0%
Switzerland	5.2%	9.6%
Emerging markets	0.5%	26.2%

MSCI net total return indices in local currency.
* Performance as at 25 June. Source: Bloomberg

USA

- The US markets lagged other regions in June, despite a continued rally in semiconductor stocks.
- The Philadelphia Semiconductor Index (SOX) gained another 5% in June.
- Excluding AI and energy stocks, the S&P500 would be down in 2026.
- Despite strong earnings growth, market valuations have become stretched again (P/E of 25).

Eurozone

- The eurozone equity market performed well in June and is now again ahead of the US market in 2026.
- Financials, technology and consumer staples were the top-performing sectors in June.

UK

- The UK market was flat in June.

Switzerland

- The Swiss market delivered a strong performance in June, particularly on days when global equity markets declined.

Emerging markets

- After a strong start, performance soured in June due to setbacks in technology stocks.
- As in the US, AI (infrastructure) stocks remain the key market driver.
- The MSCI Emerging Markets Index is now highly concentrated: the four largest Asian economies account for more than 75% of the index, Taiwan Semiconductor (TSMC) alone has a 15% weight, and the full index of 1200 stocks is only as diversified as an equally weighted portfolio of 30 stocks.
- Taiwan now accounts for 26% of the index, compared to 23% for South Korea, 20% for China, and 10% for India.
- Despite strong performance, valuations relative to the US and global markets remain attractive, with key AI stocks still trading below a P/E of 30.

Turning more cautious on equities

As expected, the SpaceX IPO was successful, with gains of up to 50% in the first few trading days. It was the largest IPO ever, and further, potentially even larger listings from companies such as Anthropic or OpenAI could follow later this year. It is worth noting that, historically, large IPOs have not been particularly successful (see table), as they typically occur during periods of strong market performance and elevated valuations. While most IPOs perform well in their first week, one-year performance has generally been weak – Palantir being a key exception – and average drawdowns tend to reach around 50% in the first year. Based on price-to-sales metrics, SpaceX stands out as by far the most expensive IPO.

Company	IPO Date	1 Week Performance	1 Year Performance	Drawdown 1 Year	Price-to-Sales IPO
Space X	2026	37%			96
Palantir	2020	5%	153%	-5%	30
Alibaba	2014	-4%	-30%	-35%	42
Robinhood	2021	46%	-74%	-80%	33
Coreweave	2025	20%	87%	-65%	5
Meta (Facebook)	2012	-17%	-31%	-54%	28
Averages		15%	21%	-48%	27.6
Median		13%	-30%	-54%	30

Sources: Bloomberg, Swiss Life Asset Managers, other sources. Last data point: 22.06.2026

Another important development is that, for the first time in many years, net equity supply in the US is turning positive, leading to increased capital issuance and a rising number of shares outstanding, which in turn dilutes earnings per share. Such dilution has been a persistent feature in emerging markets and is likely a key driver of their long-term underperformance. JP Morgan expects net issuance in 2026 and 2027 (free-float adjusted) to exceed USD 1 trillion, or around 2% of market capitalisation, marking the fastest increase since 1999. At the same time, share buybacks – and free cash flow – among major technology companies have declined to near zero.

We adjusted our equity strategy in June. Following the SpaceX IPO and the peace agreement in the Iran conflict, many positive developments now appear largely priced in. IT and semiconductor stocks have become highly dominant, leading to increasingly unbalanced market performance. Expectations for AI stocks are extremely elevated – for example, SpaceX revenues are projected to grow 100x by 2030, while S&P 500 profit margins are expected to rise from 14% to nearly 17% by 2028. At the same time, net issuance has turned positive for the first time in years, even as issuers continue to tap bond markets. Taken together, we believe a pause and consolidation are warranted.

Currencies

Renewed market confidence in the USD

	June 2026*	Year-to-date*	1-month view
EUR/USD	-2.5%	-3.2%	↘
EUR/CHF	1.2%	-1.0%	→
GBP/USD	-2.0%	-2.1%	↘
USD/JPY	1.6%	3.2%	→

* Performance as at 25 June. Source: Bloomberg

USA

- At the time of writing, the USD appreciated 2.7% on a trade-weighted basis in June. Solid US economic data as well as the 17 June FOMC meeting, which markets interpreted as hawkish, were major drivers and overshadowed the potentially USD-negative effect of the de-escalation in the Middle East. The latter led to a sharp decline in commodity-related currencies such as AUD, NZD, CAD or NOK.
- We keep our positive view on the USD as real yield differentials remain supportive amid continued US economic outperformance.

Eurozone

- The EUR lost against the USD but gained against CHF and SEK in June.
- We think that financial market expectations for the ECB are now more appropriate than a month ago. Therefore, our negative view on EUR/USD is now primarily based on our expectation of general USD strength.

UK

- GBP weakened against USD and appreciated marginally against EUR in June. Similar to the ECB, rate hikes expectations for the Bank of England were reduced by financial markets following weak UK data.
- We reiterate our negative view on GBP/USD and neutral view on GBP/EUR.

Switzerland

- CHF lost almost 2% on a trade-weighted basis in June as SNB rate hikes were priced out by markets.
- We reiterate our neutral view on EUR/CHF and positive view on USD/CHF.

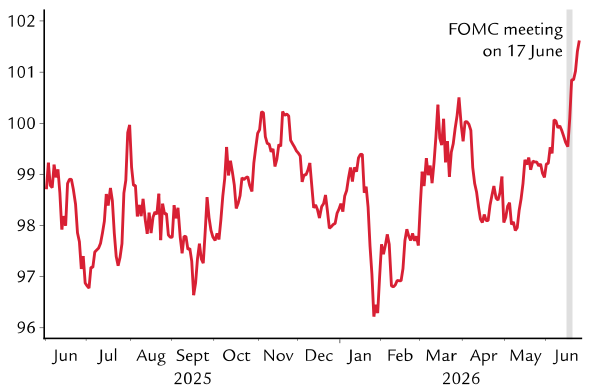
Japan

- USD/JPY moved higher in June and breached the 160 mark. The expected rate hike by the Bank of Japan did not lend any support as interest rate differentials to the US remain wide.
- We have a neutral view on USD/JPY as the risk of currency interventions should cap the upside.

A fresh impetus from central bank meetings

As described in the previous edition of the *Perspectives*, the 5-year real yield differential between the US and the eurozone had been (and still is) in favour of further USD appreciation, the extent of which was somewhat underwhelming in May. We suspected that investors might have been cautious ahead of the leadership transition at the US Federal Reserve. And indeed, the first press conference of Kevin Warsh as new Fed Chair as well as the hawkish shift in the median FOMC members' rate projection gave fresh impetus to the USD, which appreciated significantly in June. While Kevin Warsh, a sceptic in terms of "forward guidance", did not express any view on the future policy rate path, he reiterated several times in the press conference his firm commitment to price stability and dispelled any fears that he might be under political influence from the White House. With Fed independence and credibility now reinstated among FX investors, their focus has shifted to more fundamental drivers such as real yield differentials and US economic outperformance, which both remain in favour of a stronger USD.

US dollar index (DXY)



Sources: Macrobond, Swiss Life Asset Managers Research. Last data point: 24.06.2026

In contrast to the Fed, the ECB meeting was largely a non-event from an FX market perspective as both the 25-basis points interest rate hike as well as President Lagarde's policy stance at the press conference were in line with investors' expectations. Meanwhile, the dovish tone of the SNB in its June meeting has now cemented market expectations of a continuation of the SNB's zero-rates policy. In combination with the SNB's commitment to use the currency intervention tool, the trend of a weaker CHF was supported in June.

Asset allocation

A market to manage not to chase

June in review

- Global equities advanced despite ongoing geopolitical uncertainty. Japan and emerging markets performed strongest.
- Sovereign bond yields were volatile, moving higher at the beginning of June before nearly returning to end-May levels.
- European credit spreads tightened in June, whereas US credit spreads remained broadly unchanged.
- The USD strengthened over the month.

Current asset allocation views

Asset class	Active weight
Global government bonds	neutral
Global investment-grade credit	underweight
Global equities	neutral

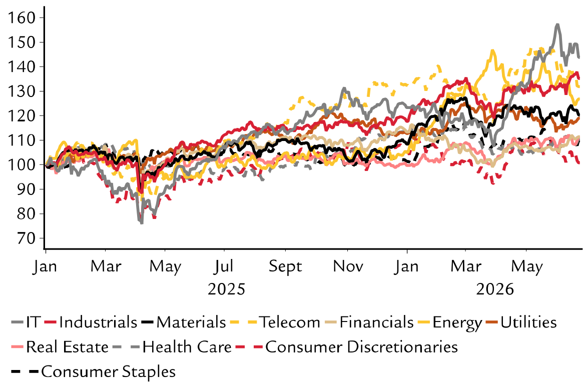
Source: Swiss Life Asset Managers

- Over the past months, our more constructive positioning has been validated: equities delivered strong returns. However, the stronger the rally, the higher the bar going forward.
- Our positioning turns more cautious, and we are taking equities back to neutral. The bar to beat has risen, and the AI trade is increasingly crowded, with a lack of near-term catalysts.
- Within equities, we trim our overweight in the US and emerging markets, which both benefited from the AI complex. In addition, we are implementing an overweight in Japanese stocks as a cyclical counterweight, supported by corporate governance reforms, improved company fundamentals and continued earnings growth.
- We continue to stay underweight credit, as spreads have remained very tight and the risk-reward is asymmetric.
- We remain neutral on rates, as the market has started to look through geopolitical risk and we expect long-term yields to gradually normalise rather than move sharply in either direction.
- The underweight in credit funds an overweight in real assets. We continue to favour Swiss NAV-based real estate and infrastructure.

Selectivity as a strategy:
investing in a market of narrow margins

Following a strong equity market phase, the opportunity set is becoming more nuanced. While headline returns remain supportive, forward-looking return expectations are compressing. Elevated valuations, rising earnings expectations and still concentrated positioning mean the margin for error is narrowing. At the same time, markets are evolving. While past performance was driven by a limited set of leaders, participation is now gradually broadening. This is a positive development, but it does not simplify investing. Instead, dispersion across sectors and stocks remains high, even as index performance appears stable.

Sector dispersion (S&P 500)



Sources: Macrobond, Bloomberg, Swiss Life Asset Managers Research. Last data point: 24.06.2026

As a result, broad beta exposure is becoming less effective, and returns are increasingly driven by differentiation between companies that can deliver on elevated expectations and those that cannot, and between crowded segments and those offering more balanced positioning. Selectivity therefore becomes central: across asset classes, where risk premia are compressed; within equities, where earnings dispersion is rising; and across themes, where positioning matters as much as fundamentals. In this environment, success shifts from capturing broad market momentum to identifying where the next incremental return will come from. In short, as markets broaden but dispersion persists, success depends less on being broadly invested and more on being precisely positioned.

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