Perspectives
Financial Markets

SwissLife
Asset Managers

August 2026

Interest rates & bonds
Iran re-escalation pushed yields higher in July

	10-year government bond yield			Investment-grade credit spread		
	Current	July 2026*	Year-to-date*	Current	July 2026*	Year-to-date*
US	4.7%	23 bps	53 bps	80 bps	6 bps	2 bps
Eurozone	3.2%	32 bps	33 bps	79 bps	-1 bps	1 bps
UK	5.0%	28 bps	56 bps	88 bps	2 bps	5 bps
CH	0.4%	15 bps	15 bps	75 bps	0 bps	-4 bps

10-year government bond yield eurozone = DE, bps = basis points.
* Change as at 30 July. Source: Bloomberg

USA
– The re-escalation of the Iran war and oil-price volatility pushed US Treasury yields higher in July. USD IG spreads widened on significant long-dated AI bond supply, while USD HY spreads widened slightly.
– We expect the Fed to keep rates unchanged this year despite elevated inflation. Markets are already doing part of the Fed's job by pushing yields higher, but risks to our view are skewed towards hikes.

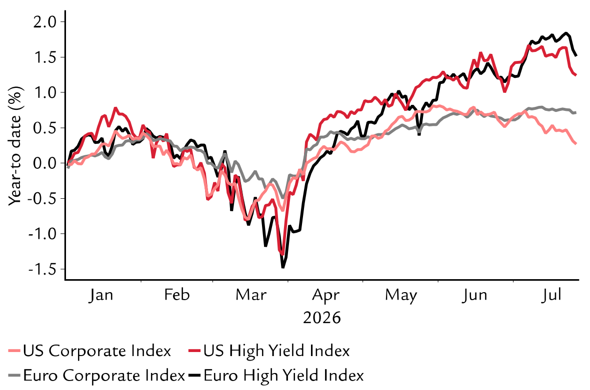
Eurozone
– Bund yields rose across the curve in July as higher oil prices lifted inflation expectations. EUR IG and HY spreads tightened over the month.
– In Europe, the ECB has inflation concerns, while weaker growth limits how far tightening can go. We expect a 25 bps hike in September.

UK
– Core inflation remained at 2.6% in June, above expectations. 10-year gilt yields rose in July, while UK IG spreads widened slightly.
– As with the ECB, we expect one policy rate hike in September 2026, as inflation remains above target.

Switzerland
– Core inflation was stable at 0.3% in June, below expectations. As in the US, the eurozone and the UK, 10-year sovereign yields rose on geopolitical tensions. Swiss IG spreads tightened slightly.
– We expect the SNB to stay on hold for the foreseeable future, unless the ECB starts, or markets price, a sustained hiking cycle.

Positive year-to-date credit excess returns in 2026
Year-to-date, EUR and USD credit has delivered positive excess returns over government bonds. This reflects spread tightening, mainly in EUR credit, due to strong demand for all-in yields. Low default rates, benign default forecasts and low recession probabilities support credit. Moreover, markets do not yet view the recent oil-price increase as a broad, deep or lasting credit event, even though it has lifted inflation expectations and government bond yields. EUR credit has outperformed USD credit year-to-date. USD IG was weighed down by large volumes of long-dated AI-related bond supply, while the AI scare around software companies affected USD HY spreads. Credit has also delivered positive total returns year-to-date in both IG and HY, as rising yields were more than offset by the return on the credit spread component. Given tight spreads versus government bonds, further tightening potential looks limited. However, the technical and fundamental picture remains supportive, so we stay neutral on IG and USD HY credit. We expect wider EUR HY spreads, given tighter valuations. Regarding government bonds, the front end of the curve may rally more strongly in Europe than in the US, as markets appear to overprice ECB tightening. For August, we expect lower 2-year and 10-year government bond yields in the US and eurozone, while remaining neutral on Switzerland.

Excess return versus government bonds



Sources: ICE BofA, Macrobond, Swiss Life Asset Managers Research. Last data point: 27.07.26

Equities

Reversal in July, staying defensive

Regional equity markets	July 2026*	Year-to-date*
USA	-2.3%	7.3%
Eurozone	-2.0%	10.3%
UK	4.3%	12.2%
Switzerland	1.5%	11.0%
Emerging markets	-9.3%	12.4%

MSCI net total return indices in local currency.
* Performance as at 30 July. Source: Bloomberg

USA

– The AI stock rally stalled in July and the US market lost more than 2%. The Philadelphia Semiconductor Index (SOX) fell by 27% in July.
– Two factors explain the AI losses: 1) cheaper and more transparent Chinese AI models are gaining market share; 2) enormous capital expenditure and its monetisation are being called into question.
– There is a wide gap between the current P/E ratio, at around 25, and the forward P/E ratio, at around 18.

Eurozone

– The eurozone equity market again outperformed the US market and is now up 3% year-to-date. This is remarkable, as the European market has almost no direct AI exposure apart from ASML.
– Another remarkable fact is that, over the past five years, European bank stocks have outperformed the Mag 7 and semiconductors by far.

UK

– In July, the UK market again showed its defensive qualities and clearly outperformed other markets.

Switzerland

– Like the UK market, the Swiss market performed comparatively well in July, supported by a strong month for pharma and financials.

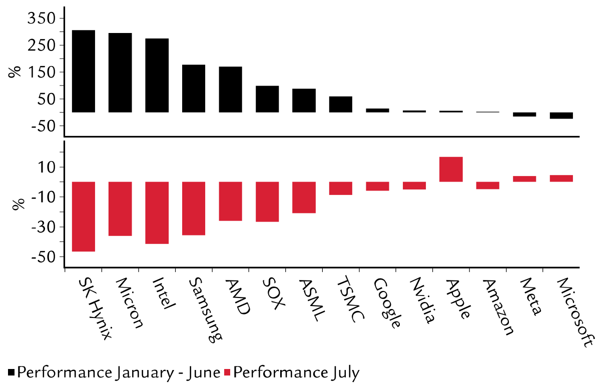
Emerging markets

– After the strong rally driven by Asian semiconductor stocks, emerging market equities corrected sharply in July.
– The key AI stocks lost between 9% and 47%, with SK Hynix at the lower end. Several Chinese AI stocks also fell sharply.
– We identify three reasons for the selloff: 1) leveraged retail investors were forced sellers; 2) SK Hynix and Samsung also announced investment plans of several hundred billion US dollars; 3) investors are reassessing the capital expenditure of the key US AI companies.

Market update: earnings season, AI and the Fed

The earnings season started in mid-July. Overall, results are excellent and above expectations. For US equities, earnings growth versus the previous year has so far come in at 22%, while it is 12% in Europe and 69% in emerging markets. This strong earnings growth, together with positive earnings revisions, is an important support factor for the market and most likely explains why the losses in July were comparatively small.
As noted above, several AI stocks fell sharply in July, but these losses must be seen in the context of the previous gains (see chart). Both equity and debt issuance of US hyperscalers are soaring as free cash flow is no longer sufficient to finance the enormous investments. In addition, circular financing between companies is also rising rapidly. Finally, cheaper open-weight and open-source models from China are gaining market share. As a result, the business models of the key US players, whose models are less transparent and more expensive, are now more at risk.

AI stock performance 2026



Sources: Macrobond, Swiss Life Asset Managers Research. Last data point: 30.07.26

Finally, we want to share an interesting observation: in the three months after the nomination of a new Fed chair, the US market has consistently fallen in the past, by 12% on average. Since 22 May, when Kevin Warsh was nominated, the performance has been around –2%. We adjusted our equity strategy in June, when we advocated a cautious stance. We retain this view for the coming month, even though AI stocks have corrected meaningfully. In addition to the AI risks, oil prices have increased significantly. Consequently, interest rates rose; the 30-year US Treasury yield is now at its highest level since 2007, which adds as a negative factor for equities. We continue to favour more defensive equity styles, such as high-dividend strategies.

Currencies

USD pulls back

	July 2026*	Year-to-date*	1-month view
EUR/USD	0.2%	-2.5%	➘
EUR/CHF	1.2%	0.3%	➔
GBP/USD	0.6%	-1.0%	➘
USD/JPY	0.6%	4.4%	➔

* Performance as at 30 July. Source: Bloomberg

USA

– At the time of writing, the USD had depreciated by around 0.3% on a trade-weighted basis in July. The ongoing US-Iran war remained a key market driver throughout the month. Renewed tensions pushed up Brent crude back above USD 90 per barrel, supporting commodity-linked currencies such as NZD and NOK, while adding to inflation concerns.
– We maintain a positive view on the USD supported by favourable real yield differentials and the continued resilience of the US economy.

Eurozone

– The EUR strengthened against the CHF and against the USD in July. Rising energy prices led markets to price in a greater likelihood of ECB rate hikes, providing support for the EUR despite the ECB leaving rates unchanged at its July meeting.
– We stick to our negative view on EUR/USD which is primarily based on our expectation of general USD strength.

UK

– GBP appreciated both against the USD and the EUR in July. As in the eurozone, rate hike expectations for the Bank of England were increased by financial markets following the rise in energy prices.
– We reiterate our negative view on GBP/USD and our neutral view on GBP/EUR.

Switzerland

– CHF weakened against the EUR in July, breaching the 0.93 mark.
– Following the strong move in July, we now hold a negative view on EUR/CHF and a neutral view on USD/CHF for August.

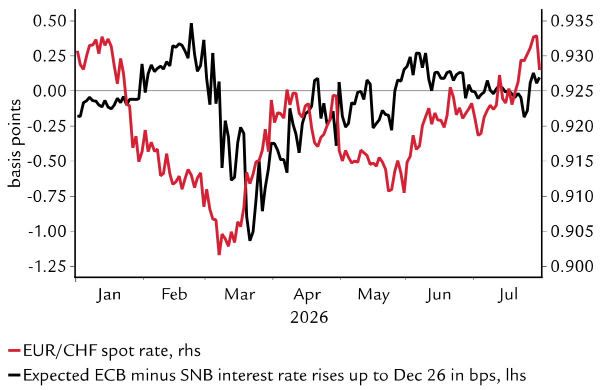
Japan

– The upward move in USD/JPY continued in July.
– We have a neutral view on USD/JPY as the risk of currency interventions should cap further upside.

Geopolitics and inflation worries back in focus

July was dominated by the re-escalation in the Middle East which also had a significant impact on FX markets. Rising energy prices boosted commodity-linked currencies such as the NOK and NZD, while renewed inflation concerns led investors to price in additional rate hikes by major central banks.
The US Fed July meeting showed a growing dissent within the Federal Open Market Committee, with three members voting for a hike. However, markets interpreted the Fed chair's post-meeting comments as relatively dovish, causing the USD to weaken as an immediate response. We believe that markets will start to reprice more Fed hikes again as inflation remains above target and US economic growth is solid. We therefore stick to our positive view on the USD. In addition to a USD-favourable real-yield differential, safe-haven demand and elevated geopolitical risks should continue to support the currency.
In contrast, the ECB's July meeting had little impact on FX markets, as investors had already priced in a 25 bps rate hike for September. As a result, the EUR showed limited reaction despite the ECB's hawkish messaging. Also, the pricing of future SNB monetary policy was affected by the moves on the energy market, but less so than for the eurozone. This caused EUR/CHF to climb above 0.93. We see the current move as overstretched, as inflation differentials continue to favour CHF. Additionally, the amount of interest rate hikes currently priced in for the ECB looks exaggerated to us, leaving the EUR exposed to a reversal, especially if eurozone inflation continues to surprise to the downside. For this reason, we are looking for a reversal of EUR/CHF in August.

EUR/CHF vs. difference in monetary policy expectations



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 30/07/26

Asset allocation

Opportunities beyond AI

July in review

- Global equities were mixed amid ongoing geopolitical uncertainty and increased volatility in technology shares. Emerging markets and the Nikkei struggled, while Asia Pacific ex Japan, Canada and UK outperformed.
- Sovereign bond yields rose across the board as tensions in the Middle East re-escalated.
- US investment-grade credit spreads widened while European spreads remained broadly stable.
- The USD depreciated modestly on a trade-weighted basis.

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

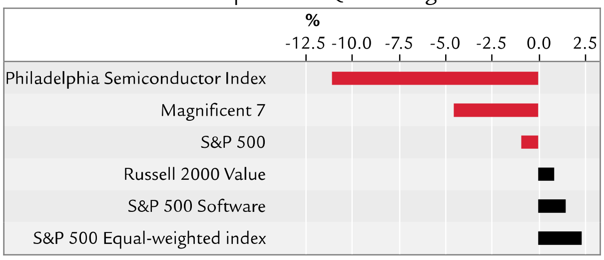
- Over the past month, our cautious stance on global equities paid off as US equities came under pressure and the semiconductor-heavy emerging markets equities sold off.
- We remain neutral on equities due to elevated volatility during the earnings season and concerns around potentially excessive AI-related capital expenditure.
- Within equities, we retain a small overweight in the US due to resilient earnings growth and in emerging markets, where valuations have become more attractive after the selloff.
- We remain neutral on government bonds given the uncertainty around the inflation outlook despite another sharp rise in yields.
- We are currently underweight credit, although to a lesser extent than before. We see a better risk/reward profile in real assets. For Swiss investors specifically, we continue to favour Swiss NAV-based real estate and infrastructure.

AI optimism meets reality: diversification matters

Alphabet’s second-quarter results prompted a shift in sentiment towards AI. While the company reported strong growth and highlighted rising demand for AI and cloud services, rising capex and declining free cash flow spooked investors. This triggered a broader pullback across hyperscalers and semiconductor companies.

Although we continue to believe AI will be a transformative force across industries and a driver of long-term economic growth, even strong investment themes can encounter periods of correction when they run into a wall of worries. Such pullbacks, however, often create opportunities for disciplined investors who are diversified and already positioned for a rotation in market leadership.

Return since Alphabet's Q2 earnings release



Sources: Macrobond, Swiss Life Asset Managers Research.
Data range: 22/06/25 - 30/07/26

In this environment, we remain focused on quality and seek value in areas that are overlooked or out of favour. Swiss equities offer exposure to high-quality businesses with resilient cash flows. US stocks ex-Magnificent 7 are picking up pace, supported by strong earnings growth, while software companies offer a compelling hedge against AI-related sell-offs.

In short, with AI likely to remain a source of near-term volatility, broader participation from other sectors and styles is needed before the next leg of the equity rally can take hold.

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