PKB

The House View

Investment Strategy

January 2026

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Market Overview

Market Overview

January was noisy but not chaotic. Macro data surprised on the upside, inflation stayed contained and growth held up. Equities started strong, led by emerging markets, bonds stayed resilient, the USD weakened on geopolitics, and gold remains a stabilizer despite recent volatility. Valuations look fuller in the US while EMs offer upside.

January is the kind of month that reminds you markets have a sense of humor. Prices moved fast, narratives flipped even faster, and the last few days felt particularly bumpy. Still, once the noise fades, the bigger picture looks far more balanced than daily volatility suggests.

Macroeconomic data have generally come in better than feared. In the US, the labor market, still the Federal Reserve's main reference point today, continues to hold up reasonably well. Hiring has slowed but this is not a weak labor market. In tougher environments, people tend to stay put, and resignation rates confirm that. Sentiment data have been worse than hard data, but the gap is partly structural. Many surveys are now conducted online, where pessimism is easier to express. Add political bias among respondents and lingering inflation scars from 2022, and sentiment looks darker than reality. Inflation hovers around 2.8%, but is far from alarming. Fed Chair Jerome Powell echoed this view, stressing that price pressures are not accelerating and that tariff-related inflation should be temporary.

Powell's opinion still matters, even as President Trump has pointed to Kevin Warsh as the next Fed Chair, subject to Senate approval. Last summer, Warsh started to favor much lower interest rates. This likely caught Trump's attention, especially as his focus broadens beyond domestic issues. Europe, for instance, is slowly standing on its own feet. Trade frameworks with Latin America (Mercosur) and India, after decades of negotiations, are moving forward, reducing tariffs and improving export visibility. At the same time, incentives for higher infrastructure and defense spending across the Union are becoming harder to ignore.

European data are improving. Germany has exited recession after two years, Spain continues to outperform, Italy is holding on with low but stable growth, and France remains caught in political uncertainty. Switzerland faces similar growth challenges, yet its expansion remains low but solid. Inflation is subdued and wage growth is expected to exceed it in 2026, around +0.7%, supporting consumption. The strong CHF is still the main constraint, hurting exporters and earnings translation, with roughly 90% of profits generated abroad. Limited room for FX intervention or negative rates keeps growth just below 1%.

In Asia, resilience stands out in India, Thailand and Indonesia, while China adds to concerns. Growth of around 4.5% in Q4 2025 is respectable, but it relies heavily on exports, while the real estate sector remains under pressure. This uneven backdrop explains why investors are increasingly selective across emerging markets.

Markets themselves started the year on solid footing. Equities performed well, broadly mirroring early 2025. Emerging markets led, helped by a weaker USD, with Latin America and Asia in the spotlight. Europe and the US advanced too, but at a slower pace. Japan rebounded sharply on expectations of fiscal expansion under PM Takaichi, although upcoming elections add uncertainty. Bond markets proved resilient, supported by a strong US earnings season, with over 70% of companies beating expectations. This backdrop favored corporate bonds, especially high yield.

Meanwhile, the USD continued to weaken, driven by geopolitical tensions around Venezuela, Greenland and rising risks involving Iran. Despite the noise, our overall stance remains constructive. We favor emerging market equities, have reduced US equity exposure, see value in Europe, remain cautious on Japan and Switzerland, and like German government bonds around 2.85%. Corporate bonds still offer attractive carry, while gold remains a useful anchor to dampen volatility, despite recent drops.

Tactical Asset Allocation

Asset	Change	--	-	=	+	++
Cash				○		
Bonds				○		
World					●	
Government EU	↑			●		
Corporate				●		
Emerging Markets					●	
TIPS			●			
Convertibles				●		
High Yield				●		
Equities				○		
US	↓			●		
Europe				●		
Switzerland			●			
Emerging Markets					●	
Japan			●			
Value					●	
Momentum			●			
Commodities				○		
Gold				●		
Forex Outlook						
Euro / Dollar				●		
Euro / Swiss Franc				●		

Equity Market Overview

Equity Market Overview

Equities started 2026 very strong, though the pace may slow. US valuations look stretched at 22x earnings and AI spending raises questions. Europe offers selective upside, Japan looks riskier, Swiss stocks help smooth volatility, and emerging markets remain the most attractive region in equities.

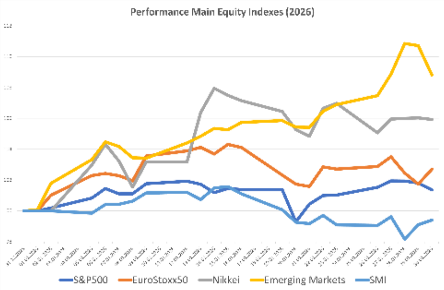
Stocks came out of the gates running, almost as if last year never ended, but they slowed at the end of the month. January delivered another very strong start for equity markets. This pace is unlikely to be sustained for long, but the underlying tone remains constructive and broader than many expected.

US equities are finding it harder to break decisively above recent highs. Valuations are no longer forgiving, with the S&P 500 trading above 22x expected 2026 earnings. At the same time, investors are becoming more selective around the massive wave of investments in Artificial Intelligence, expected to exceed USD 500bn in 2026. The key question is no longer about spending, but about returns: how and when these investments will translate into sustainable profits. Earnings season has nevertheless started on solid ground. So far, 75% of companies have delivered positive EPS surprises, while 69% have beaten revenue expectations. Q4 2025 EPS growth reached 8.2% year-on-year, marking the tenth consecutive quarter of positive growth. Looking ahead, expectations are cooling. For Q1 2026, six out of ten companies are guiding negatively on earnings. Still, the average earnings surprise remains healthy at +5.3%. Seven out of eleven sectors are reporting YoY growth, with IT and Materials standing out, while Energy, Health Care and Consumer Discretionary are lagging. Banks reported strong numbers, although markets remain uneasy about Donald Trump's proposed 10% cap on credit card rates. IT earnings were also solid overall, with Microsoft being the main disappointment.

In Europe, earnings season has only just started, typically with a more neutral tone. Valuations remain clearly below US levels, even if they sit toward the upper end of the past five- and ten-year ranges. This discount reflects structurally lower margins and slower earnings growth, expected around 7% compared with more than 11% in the US. That said, Europe offers pockets of opportunity. Banks remain attractive, supported by solid balance sheets, decent earnings momentum and meaningful M&A potential, both within domestic markets and across Eastern Europe. Industrials and other cyclical sectors also look interesting, as European growth could still surprise to the upside. Spain deserves a special mention after stellar growth last year. Its index is rich in banks, which we favor, utilities benefiting from rising power demand, and energy names that can gain from higher oil prices. European equities are not cheap anymore, but we believe there is still room on the upside, especially in small caps. These companies trade at very low multiples compared to large caps, can benefit from AI-driven efficiency gains, are supported by a decent macro backdrop and carry a more cyclical tilt.

For now, we remain cautious on Japanese equities. They performed extremely well in 2025 and started 2026 strongly, helped by a very weak JPY. Recently, however, the picture has changed. Inflation is expected to rise in 2026 and the Bank of Japan could resume rate hikes earlier than expected, potentially already in Q1 2026. Nikkei valuations sit near the upper end of the past ten years. Swiss equities continue to act as a buffer against volatility. The market has been a clear laggard among developed peers and may remain so in calm environments. Still, its conservative sector composition, high dividend yield above 3% and overall stability make it a useful parachute if volatility returns.

The biggest opportunity remains emerging markets. We do not favor single-country bets at this stage. Overall EM valuations are very low, despite last year's and this year's performance so far. Underlying growth is solid, markets have lagged developed peers for years, fiscal policies are expansionary, debt dynamics are healthier than in the US, and central banks remain accommodative. For these reasons, we stay positive on the asset class.



Bond Market Overview

Bond Market Overview

Bonds stay resilient, with better value in European government bonds than in the US. Corporate and EM bonds still offer attractive carry. We remain cautious on the USD, prefer CHF and EUR. Gold pulled back after excesses but remains a key portfolio stabilizer, while silver and platinum look stretched.

Bonds don't steal the show, but they keep the plot together. January confirmed that fixed income continues to deliver decent results, even if nothing close to last year's performance. Still, something is clearly moving.

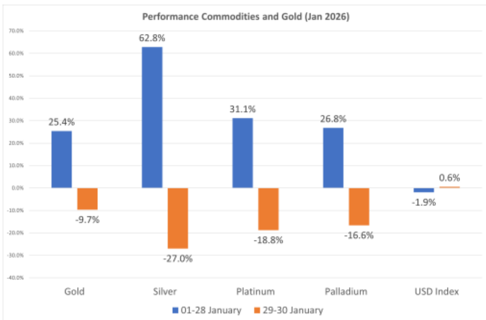
In the US, the debate around the soon-to-be-elected new Fed Chair is creating noise and volatility. Many investors are positioning for sharply lower rates. We disagree. The FOMC has 12 voting members: the Chair can influence, but does not decide alone. And when inflation misbehaves, responsibility always lands on the Fed, not on the White House. Bond vigilantes, who ultimately shape the medium and long end of the curve, are well aware of this. The US 10-year Treasury remains stuck in its recent range between 4% and 4.5%. Today is not yet a clear buy opportunity, but we think the odds still favor a gradual steepening of the curve.

Opportunities look more compelling in European government bonds, particularly German Bunds. Over the past year, the 10-year yield has oscillated between 2% and 3%. We had been underweight, but yields have climbed from around 2% at the end of 2024 to roughly 2.85% today. Historically, Bund yields rarely move above 2.9% unless inflation spikes. With inflation under control and the euro strengthening, this looks like a good moment to close our negative stance and re-engage.

Corporate bonds continue to perform well. Spreads have tightened significantly since October 2022 and now sit close to three-year lows, leaving little room for further compression. That said, carry remains attractive. We prefer not to extend duration too far and focus on the 3- to 4-year segment. High yield bonds remain interesting, even with very tight spreads. Issuance has picked up, but demand remains strong, balance sheets are healthy, growth is present and cash levels are high. The key is discipline: stay in high yield, but not too low quality, avoiding ratings below BB. EM bonds also look appealing for similar reasons, with Eastern Europe standing out for investors seeking yield without excessive risk.

EM bonds tend to benefit when the USD weakens. While a short-term bounce is possible, we continue to see the dollar as a currency to avoid structurally. A potentially more dovish Fed, weak fiscal dynamics, an upcoming Supreme Court decision on tariffs and Donald Trump himself all add uncertainty. As in his first mandate, the administration seems comfortable with a weaker USD to support exports. We prefer the CHF as a conservative anchor and the EUR, which could still surprise to the upside.

A weaker dollar also supports commodities, especially gold. We still believe gold belongs in every portfolio, but prices recently reached levels that are hard to justify. In the final days of January, gold fell sharply from nearly USD 5,600 to just above USD 5,000. Demand remains strong, but it is increasingly speculative. According to the World Gold Council, between Q2 2024 and Q4 2025, jewelry and industrial demand fell from 46% to 39% of total demand, central bank demand dropped from 28% to 17%, while ETFs and bars and coins jumped from 26% to 44%. This suggests profit-taking is natural, and gold is also being used to raise liquidity. Still, a 5% allocation remains a sensible volatility buffer. We avoid silver and platinum. For metals exposure, palladium or diversified baskets including industrial metals tied to the AI cycle look more attractive.



Key Market Indicators

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		Curncy	%1M	%YTD	%1YR	31.01.2026
Bond Markets						
Bond Markets						
Bloomberg Intermediate US Govt/Credit TR Index Value Unhedged	U.S. Bond Market	USD	0.08	0.08	6.44	2'497.60
Bloomberg Euro-Aggregate 1-10 Year TR Index Value Unhedged EUR	European Bond Market	EUR	0.65	0.65	3.03	240.20
Swiss Bond Index SBI AAA-BBB 1-10 Total Return	Swiss Bond Market	CHF	0.61	0.61	1.57	134.19
Money Market						
FTSE 3-Month US Dollar Eurodeposit LCL	U.S. Money Market	USD	0.33	0.33	4.31	201.39
FTSE 3-Month Euro Eurodeposit LCL	European Money Market	EUR	0.16	0.16	2.19	161.83
FTSE 3-Month Switzerland Franc Eurodeposit LCL	Swiss Money Market	CHF	-0.01	-0.01	-0.01	115.30
High Yield Markets						
Bloomberg Global High Yield Total Return Index Value Unhedge	Global High Yield Market	USD	0.99	0.99	11.64	1'880.74
Bloomberg Intermediate US High Yield Total Return Unhedged USD	U.S. High Yield Market	USD	0.50	0.50	7.63	2'551.31
Bloomberg Pan-European High Yield (Euro) TR Index Value Unhedged EUR	European High Yield Market	EUR	0.70	0.70	5.31	413.16
Equity Markets						
MSCI ACWI Index	World Equities	USD	2.92	2.92	20.16	1'044.26
S&P 500 INDEX	U.S. Equities	USD	1.37	1.37	14.87	6'939.03
NASDAQ Composite Index	U.S. Technology Equities	USD	0.95	0.95	19.54	23'461.82
EURO STOXX 50 Price EUR	European Equities	EUR	2.70	2.70	12.50	5'947.81
FTSE MIB Index	Italian Equities	EUR	1.30	1.30	24.83	45'527.42
Swiss Market Index	Swiss Equities	CHF	-0.60	-0.60	4.69	13'188.26
Nikkei 225	Japanese Equities	JPY	5.93	5.93	34.75	53'322.85
MSCI Emerging Markets Index	Emerging Market Equities	USD	8.81	8.81	39.76	1'528.09
Other Assets						
Bloomberg Commodity Index	Global Commodities	USD	5.32	5.32	21.41	172.07
Gold Spot $/Oz	Gold	USD	13.31	13.31	74.89	4'894.23
Crude Oil, WTI Generic	Oil	USD	13.57	13.57	-10.09	65.21
US Dollar Index Spot Rate	Dollar Index	USD	-1.35	-1.35	-10.50	96.99
Bloomberg Euro Index	Euro Index	EUR	0.09	0.09	8.07	936.24
Chicago Board Options Exchange Volatility Index	Volatility	USD	16.66	16.66	6.15	17.44
Chart and Table Data source: Bloomberg, PKB Private Bank, elaborated with MS Excel					*Data at*	*2026-02-01*

Source of data in graphs: Bloomberg

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