

Investment Report

October 2026

Factum AG

Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	5%	3%	→
Bonds	35%	35%	→
Equities	47%	47%	→
Alternative investments	13%	15%	→

**Changes since the last Investment Report (3 September 2026) & current assessment.*

Strategy overview

The third quarter of 2026 was marked by a significant repricing of the interest rate and inflation outlook. Whereas market participants had still been anticipating further rate cuts in the US at the start of the year, that scenario had been off the table by mid-September at the latest. The catalyst was the collapse of the ceasefire between the US and Iran at the beginning of the quarter. The resulting renewed rise in oil prices reignited inflation and prompted both the US Federal Reserve and the European Central Bank to raise their policy rates in September.

The consequences of this reversal were felt above all in the bond market: in early October, 10-year US Treasuries yielded around 5.3%, their highest level since 2002. Equity markets have so far remained largely unfazed, with US indices continuing to trade close to the record highs reached in August. This resilience is underpinned by solid corporate earnings, although their base is

«Interest rate and inflation expectations have been fundamentally repriced.»

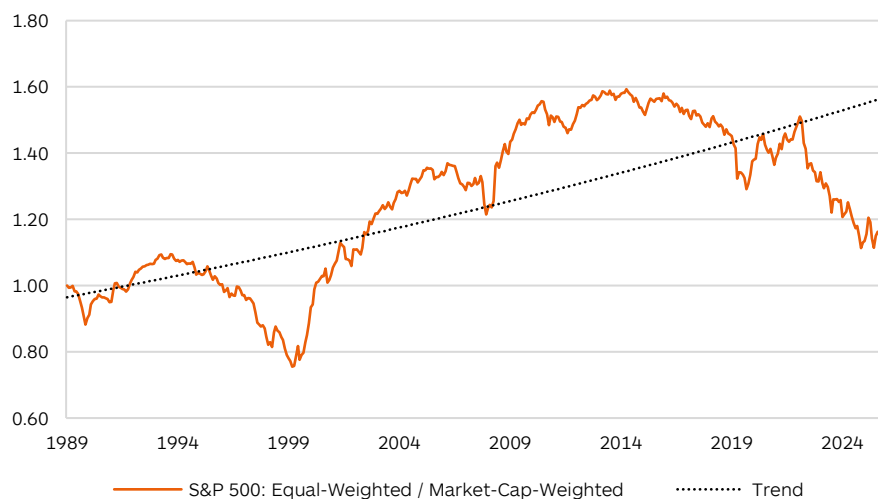
«US yields at their highest since 2002.»

narrow: the technology sector alone accounts for around two-thirds of this year's gain in the global equity index.

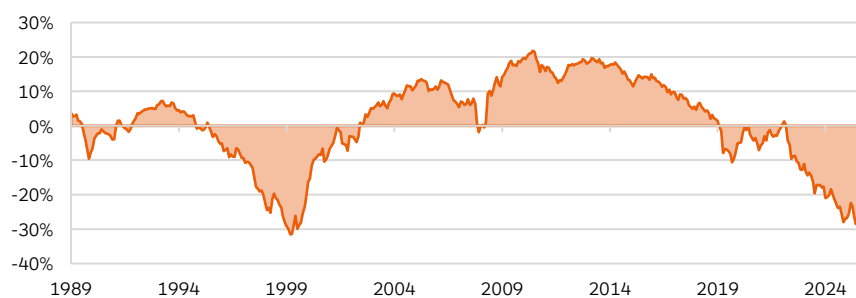
We have made no changes to our positioning since the last investment report. In August, we deliberately closed our underweight in US equities via the equal-weighted S&P 500: around one-third of our US equity allocation is implemented through this index, while the remaining two-thirds are held on a market-cap-weighted basis. Since implementation, however, the equal-weight component has yet to pay off. The rebound in the large technology stocks, led by the hyperscalers, has once again increased market concentration and narrowed market breadth. Thanks to the market-cap-weighted portion, we are nevertheless participating in the uptrend. We regard the equal-weighted component as a hedge in the event that the high expectations placed on the large technology companies are not met and a pronounced correction ensues.

«Equal weight as a hedge against market concentration.»

S&P 500: Equal- vs. Market-Cap-Weighted



Deviation from Trend



Source: Bloomberg Finance L.P., Factum AG

The chart above shows the ratio of the equal-weighted to the market-cap-weighted S&P 500 since 1989, together with its deviation from the long-term trend. At around 30% below trend, this deviation has reached a magnitude observed only once since the series began – in 1999 and 2000, at the height of the dot-com euphoria. This does not imply that markets are in a bubble today. The comparison does, however, illustrate that market concentration has reached a historical extreme. In the past, deviations of this magnitude have sooner or later reverted, which is why we are maintaining our equal-weight component with conviction.

«Market concentration at an extreme last seen around the turn of the millennium.»

In bonds, we remain neutrally weighted and continue to favour a somewhat shorter duration, an approach that has proven its worth in an environment of rising yields. Within alternative investments, we remain overweight via gold and industrial metals. Gold initially recovered during the quarter but fell back significantly in September on the back of higher real yields and a firmer US dollar. We view the strength of the US currency as temporary. Over the longer term, we see persistently high interest rates as an additional burden on the already strained US debt situation and, consequently, as a source of depreciation potential for an already overvalued dollar. Combined with elevated geopolitical risks worldwide, we consider the upside potential for gold to be significantly greater than the downside risk. Industrial metals did gain in the third quarter, but lagged energy commodities considerably, as the Iran conflict primarily drove up the prices of fossil fuels. Over the long term, however, we see industrial metals as better positioned than fossil commodities: ongoing electrification is boosting demand, while supply can only be expanded slowly.

«We see more upside than downside potential for gold.»

Politics

The geopolitical environment remained tense in the third quarter. Following the collapse of the ceasefire between the US and Iran, passage through the Strait of Hormuz was restricted for much of the quarter. Towards the end of September, both sides signalled openness to talks on a phased reopening of the strait, which brought some relief to the oil market. A lasting solution, however, remains a long way off.

«The Strait of Hormuz remains the focal point.»

In the US, the focus was on limiting the impact of higher energy prices. Given the investment required, the oil agreement with Venezuela announced at the end of August is unlikely to make a noticeable contribution to supply for several years. In addition, Treasury Secretary Scott Bessent signalled a larger buyback programme for long-dated government bonds. As the volume announced at the end of September fell short of expectations, yields continued

«Bond buybacks bring only short-term relief.»

to rise. Evidently, measures of this kind can influence the refinancing costs of a highly indebted government only temporarily at best. With the midterm elections in November, political pressure on the administration and the central bank is likely to intensify further.

In Europe, the question of political stability gained prominence. In France, the yield spread over German Bunds widened to more than 155 basis points – its widest since the 2012 euro crisis – on the back of a large budget deficit and the absence of stable parliamentary majorities. Signs of political instability are also mounting in Spain. In Germany, the state elections in September underscored the increasing fragmentation of the party landscape: the AfD emerged as the strongest party in Saxony-Anhalt and Mecklenburg-Western Pomerania, while in Mecklenburg-Western Pomerania the CDU failed to enter a state parliament for the first time in the history of the Federal Republic. In Berlin, Die Linke became the strongest party. Parties on the left and right fringes of the political spectrum are thus gaining ground, while the traditional mainstream parties are losing their appeal. This is unlikely to make it any easier for the federal government to implement the reforms and investment programmes it has launched.

«Europe's political landscape is becoming more fragmented.»

Economy

The global economy has so far coped with the renewed rise in energy prices better than expected. The US economy in particular proved resilient, supported by heavy investment in artificial intelligence and stable consumer spending, although higher energy costs are weighing above all on lower-income households. The labour market continued to cool: the private sector added only 46,000 jobs in September, and wage growth slowed to 3.0% year on year, its weakest pace since May 2021.

«The US economy proves resilient.»

Inflation remains the greatest challenge. It stands at 3.4% in the US and reached 3.8% in the Eurozone in September, its highest level in three years. With core inflation also picking up again, price pressures can no longer be attributed to oil prices alone. The build-out of AI infrastructure is adding further pressure by tightening the supply of electricity, raw materials and skilled labour. Inflation is therefore proving more persistent than central banks had assumed at the start of the year. Tighter monetary policy also has a downside for the US federal budget, as every rate hike increases the cost of servicing the country's high public debt.

«Inflation is proving persistent.»

The Eurozone economy largely stagnated. Germany is increasingly benefiting from its fiscal programmes, while France is holding back growth in the region. On a positive note, manufacturing purchasing managers' indices have recently returned to expansion territory. Poland remains a bright spot in Europe: the economy grew by 3.8% year on year in the second quarter and is expected to expand by more than 3% in 2026, once again significantly outpacing the Eurozone, driven by robust domestic demand and EU co-financed infrastructure investment. In China, the government continues to rely on exports and industrial production to drive growth, while private consumption remains subdued. The result is a persistently high current account surplus.

«Poland is growing much faster than the Eurozone.»

Equity markets

For equity markets, the third quarter was a tale of two halves. Initially, optimism surrounding artificial intelligence drove prices higher; the rise in yields in September then triggered setbacks, although these were confined to individual stocks and sectors. US indices continued to trade just below their record highs, while Europe, Switzerland and Japan lost ground. European equities suffered from outflows by international investors, the Swiss market from price declines in individual heavyweights such as Novartis, Richemont and UBS, and in Japan the Bank of Japan's rate hike weighed on sentiment. Emerging markets proved comparatively resilient, supported by solid domestic demand.

«A quarter of two halves for equity markets.»

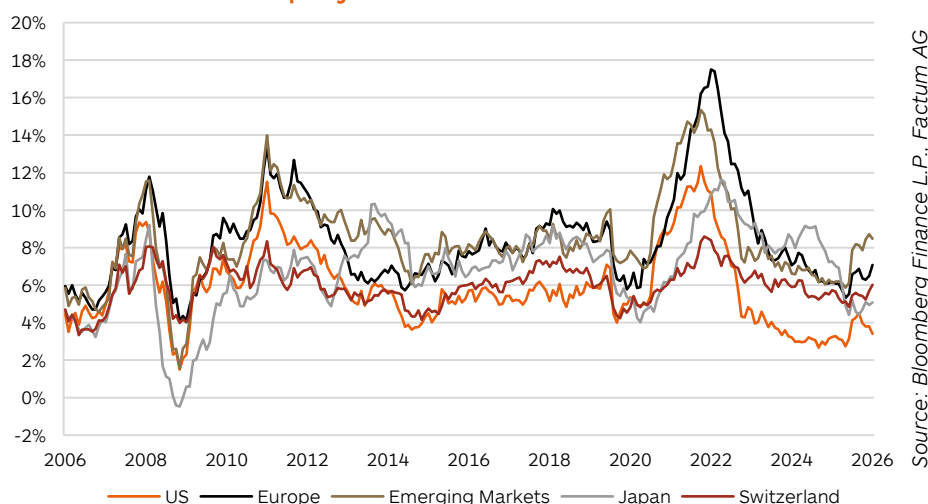
Markets are drawing support from the earnings side. Companies in the MSCI World are on track for earnings growth of more than 30% this year, with the technology sector accounting for over half of this. The earnings power of the large technology companies has thus changed little – what has changed, however, is the way they finance their AI build-out. The major US hyperscalers are expected to invest close to USD 700 billion in 2026. Whereas they were initially able to fund their investments largely from free cash flow, they are now increasingly tapping the capital markets. Barclays estimates that companies involved in AI infrastructure had issued bonds totalling USD 337 billion by the end of August, equivalent to around one-sixth of all investment-grade issuance. The once asset-light technology companies are thus evolving into capital-intensive infrastructure operators, whose higher depreciation charges are likely to weigh increasingly on earnings in the coming years.

«The AI build-out is increasingly debt-financed.»

Against this backdrop, the rise in interest rates takes on additional significance. Business models whose returns lie far in the future are particularly sensitive to rising financing costs. At the same time, the US equity risk premium – the expected excess return of US equities over the real yield on 10-year government bonds – has fallen from around 4.5% in May to 3.4%, well below the levels in other regions. While this does not constitute an immediate sell signal, the cushion against disappointments is becoming thinner. We are therefore closely monitoring developments in real yields and in the credit spreads of the large technology companies.

«The US equity risk premium is the lowest of any region.»

Equity Risk Premiums



Note: Equity risk premium defined as earnings yield minus the real yield on 10-year government bonds.

Bond markets

Bond markets in the third quarter were shaped by tighter monetary policy. On 16 September, the Fed raised its policy rate by 25 basis points to a target range of 3.75% to 4.00%, its first hike since July 2023. Following its move in June, the ECB raised its deposit rate by a further 25 basis points to 2.50% on 10 September, bringing its cumulative tightening since the start of the year to half a percentage point. The Bank of Japan raised its policy rate to 1.25%, the highest level since 1995, while the SNB left its policy rate unchanged at 0%. Whereas rate cuts were still expected in the US in the spring, futures markets are now pricing in several further hikes through the end of 2027. Under its Chair Kevin Warsh, the Fed has thus made clear that fighting inflation takes priority.

«The Fed, ECB and Bank of Japan tighten monetary policy.»

The yield on 10-year US Treasuries climbed from around 4.5% over the course of the quarter, breaking through the 5% mark and reaching 5.34% in early October, its highest level since 2002. Since August, the main driver has been real yields, which at just under 2.5% are at their highest in around two decades. It was also notable that yields responded to rising oil prices but barely eased when prices fell. Added to this is the high level of government debt, for which investors are demanding a higher risk premium. In Europe, the yield on 10-year Bunds rose to 3.65%, a 17-year high, before demand for safe-haven assets pushed it back below 3.40% in early October. Even in Switzerland, yields rose despite unchanged monetary policy, with 10-year Swiss Confederation bonds most recently yielding around 0.60%.

«Rising real yields are driving bond yields higher.»

In our view, bonds are once again offering attractive yields. We consider a rate shock similar to that of 2022 unlikely, as central banks are this time tightening not from the zero lower bound but from a considerably higher starting level.

«Bonds offer attractive yields.»

Commodities

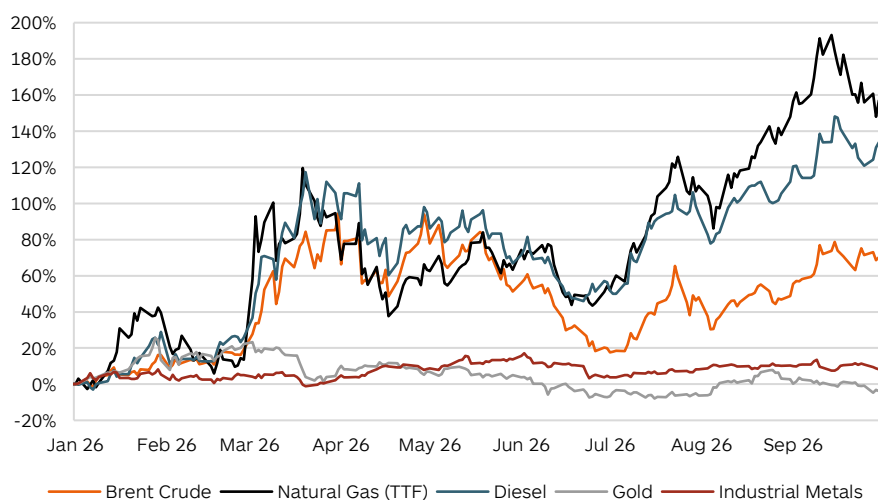
Energy dominated developments in the commodity markets. Brent crude was trading below USD 75 per barrel at the start of the quarter, climbed to a peak of just under USD 110 and ended the quarter at around USD 102. European natural gas prices rose even more sharply, while diesel prices in the US climbed to new record highs. As long as the situation in the Strait of Hormuz is not resolved on a lasting basis, a geopolitical risk premium is likely to remain priced into oil.

«Oil temporarily rose to just under USD 110.»

Gold gained around 10% in August but lost significant ground again in September. The decisive factors were higher real yields and a firmer US dollar, which raise the opportunity cost of holding the non-yielding precious metal. The traditional relationship between real yields and the gold price, which played hardly any role last year, has thus regained relevance. Notably, some major asset managers increased their gold allocations precisely in September. Central bank purchases also remain an important structural support, particularly from emerging-market central banks that are gradually diversifying their reserves away from the US dollar.

«Gold corrects after a strong August.»

Commodity Price Performance Year-to-Date



Source: Bloomberg Finance L.P., Factum AG

Currencies

Contrary to widespread expectations, the US dollar appreciated in the third quarter. It was supported by its widening interest rate advantage over Europe and Switzerland, as well as by renewed confidence in the Fed's commitment to fighting inflation. Measured by purchasing power parity, however, the dollar remains richly valued, which is why we continue to expect a weaker US currency over the medium term. Given the SNB's zero interest rate policy, the Swiss franc was increasingly used as a low-cost funding currency for carry trades, but was once again sought after as a safe haven amid the tensions in European bond markets in early October. The Japanese yen benefited from the Bank of Japan's rate hike.

«The US dollar appreciates against expectations.»

Bitcoin recovered strongly during the quarter, supported by renewed inflows into exchange-traded products. Given its high volatility, however, we believe it is suitable at most as a small satellite position. We also apply this approach in our balanced strategy fund, in which cryptocurrencies are included with a maximum allocation of 1%.

«A strong quarter for bitcoin.»

Announcement

This issue marks the end of an era. For more than ten years, Christof Wille wrote our investment report month after month, guiding our readers through eventful times in the financial markets – from the COVID-19 pandemic and the turnaround in interest rates to the geopolitical upheavals of the recent past. With great care, consistency and a keen sense for what matters, he put market developments into context and conveyed them clearly. The investment commentary has thus become an integral part of our communication and is valued by many of our clients. We would like to sincerely thank Christof Wille for his long-standing commitment. He remains with Factum AG and will in future devote himself fully to his responsibilities in business development.

«Thank you, Christof Wille.»

Responsibility for the investment commentary is now passing to our Portfolio Management team. In future, the report will thus be written where our investment decisions are made. At the same time, we are changing the publication frequency from monthly to quarterly. This gives us room for more in-depth analysis and a comprehensive assessment of events, without content being repeated at short intervals. We are also redesigning the report and considering how we can bring our own views to bear even more strongly in future. The next issue will be published in January 2027 and will review the fourth quarter of 2026.

«The investment commentary will now be published quarterly.»

However, we do not want to keep important developments from you until the next quarterly report. In the event of significant developments in the financial markets, we will therefore keep you informed by means of a brief ad hoc update.

«Ad hoc updates on significant market events. »

We thank you for your trust and look forward to continuing to share our views with you in the future.

Market overview 30 September 2026

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	13'830.34	-3.06	7.45
SPI	19'612.09	-2.48	7.64
Euro Stoxx 50	6'269.02	-2.22	11.00
Dow Jones	50'906.05	-4.12	7.19
S&P 500	7'651.54	-0.35	12.73
Nasdaq	26'861.86	1.93	16.09
Nikkei 225	66'753.72	1.22	34.54
Emerging markets	1'704.87	-0.65	23.52

Commodities

Gold (USD/troy ounce)	4'157.41	-6.31	-3.75
WTI crude (USD/barrel)	90.42	5.43	57.47

Bond markets (change in basis points)

US Treasury bonds 10Y (USD)	5.28	0.53	1.12
Swiss Eidgenossen 10Y (CHF)	0.58	0.14	0.26
German Bundesanleihen 10Y (EUR)	3.59	0.26	0.73

Currencies

EUR/CHF	0.95	0.83	1.74
USD/CHF	0.84	3.39	5.45
EUR/USD	1.13	-2.48	-3.54
GBP/CHF	1.11	1.22	3.82
JPY/CHF	0.53	4.92	4.94
JPY/USD	0.01	1.49	-0.44
XBT/USD (Bitcoin)	83'621.23	6.05	-4.59

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