Comment on the investment policy in the 3rd quarter of 2026

Bad mood in the real economy and euphoria on the financial markets
A contradiction that lasts?

The forecasters of the global economy have started the new year with a lot of hope. The global economy recovered from the extraordinary shocks of the past half decade at an astonishing pace. Inflation figures were also on track to meet the two percent target. Capital market participants are betting on falling central bank interest rates.

This optimistic perspective was badly disappointed by the coordinated attack on Iran by the US and Israel. The so-called "short war" ended in a veritable global energy crisis. The attackers have simply overlooked the fact that Iran has a strategic position with the Strait of Hormuz that cannot be easily overcome even with the strongest army in the world. The closure of this strait has led to a new global supply shock, making it necessary to correct global inflation and GDP growth rates. However, the extent of the change depends heavily on the duration of the closure of the strait. But it is already obvious that the loss of purchasing power for American consumers is so great that the government expects considerable losses in the November elections. Trump therefore has a great incentive to break off the Iran exercise as soon as possible. Only a treaty, which could be interpreted as an obvious instrument of surrender, is likely to cause him to escalate the war. We think this is rather unlikely, as he knows how to communicate defeats as victories.

The situation on the stock markets is different. After a brief slump after the start of the war, they have reached new highs again. Various factors have contributed to this. First and foremost, artificial intelligence (AI) should be mentioned. Investors are euphoric about the performance of this new technology. This is also evident in the valuation of AI companies that go public. Space X achieved a market capitalization of over 2 trillion dollars with a turnover of one hundredth ($20 billion) in 2025 and a loss of around $5 billion. However, it is not only the high expectations of AI for the future that have a positive impact on other companies. It is above all the high investment expenditures that AI companies are already making for energy- and chip-intensive data centres. The investment volume of the five largest AI companies is estimated at around one trillion dollars for 2025/26. This investment boost has largely offset the negative consequences of the American government's tariff and military policy. In addition, investors expect not only higher output from AI applications, but also higher margins, as they tend to replace work. This is even more pronounced for generative AI, which promises to be able to substitute creative and innovative human services in a later phase. This could further improve the earnings potential for capital. It is likely to be more difficult for the production factor labour. It is unlikely to be able to maintain its share of GDP.

There is another special feature of AI innovations to consider. They are extremely capital-intensive. This is in contrast to the innovations of the last 30 years, which were mainly based on knowledge. The evolution of computers, the Internet, social networks and platforms required a lot of program investment but little capital investment. From an economic point of view, AI investments are much more comparable to the inventions of the steam engine, the railway, and electricity. The latter have brought enormous gains in economic prosperity but have also inflicted large losses on investors. Capital-intensive innovations are usually characterized by economies of scale, so that a phase of overinvestment is followed by a long-term selection competition that claims many victims, so that in the end only a few or even only one remains. This thesis also seems to motivate AI investors. They are raising so much capital via the stock exchange, the capital market and the fast-growing private markets that they can take the leading position as soon as possible. Therefore, the question of the sustainability of these investment sums is already being asked today. If any doubts arise about this, the corrections on the stock markets, given their high valuations, would be enormous. We are not there yet, but the risk must be kept in mind.

Moreover, there is a danger not only from the supply side. Demand could also become a stumbling block for investors. To the extent that AI can replace human labour, wage income will also increase less than output. This would generally reduce economic demand and cause returns on investments to fall. If these risks materialize at a later date, considerable economic and financial losses would be expected.

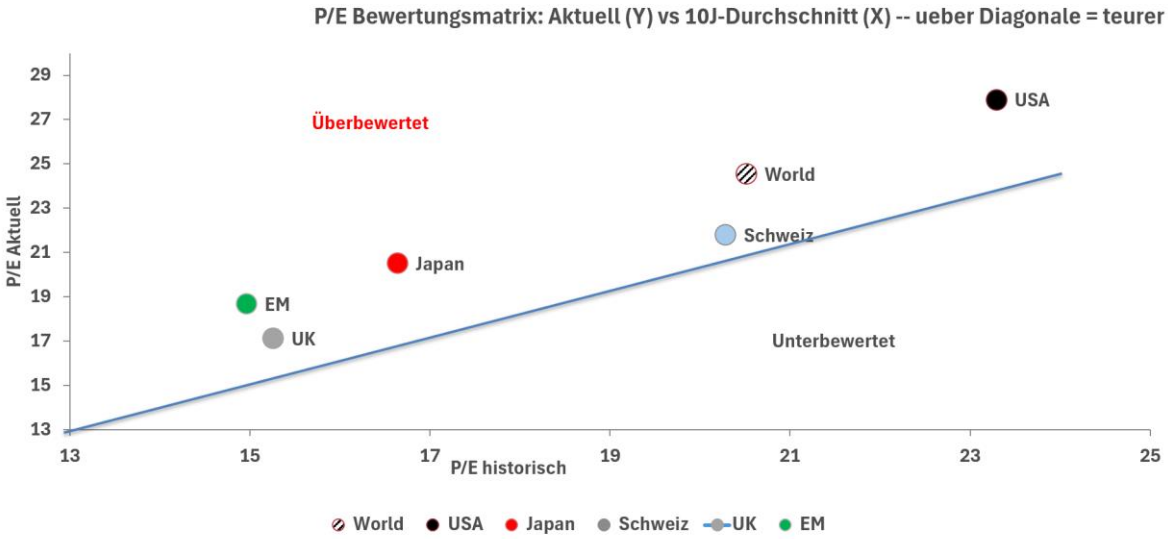
Another factor supporting equities is related to deregulation in the US. The decision of the U.S. Supreme Court on June 30, 2026, to grant the president the power to dismiss heads of government agencies without justification, represents a break with a hundred-year-old tradition. Such exposed persons, who have to step on the toes of many citizens and companies with their authorities, enjoy special protection in most Western democracies, regardless of their political affiliation. Just think of the authorities responsible for environmental protection, competition, health protection, etc. With the replacement of these strategic positions, the freedom for entrepreneurial activities is likely to expand, even if it is only that official regulations and many unpopular regulations are less actively controlled and implemented. This measure is likely to gradually reverse the decades-long efforts of those regulatory politicians who tried to integrate external costs into the market economy.

Assuming that the US president has every interest in not allowing the conflict with Iran to escalate and keeping the Strait of Hormuz open, whatever the price, the risk of inflation becoming entrenched also decreases. This means that interest rates can be expected to fall again at the beginning of 2027 at the latest.

With the Iran war, the dollar has also risen in value again. However, those hoping for a permanent trend reversal are likely to be disappointed again soon. This is because the structural factors that weigh on the dollar have changed only marginally. The tariffs on imported goods do not solve the fundamental problem of the imbalance between saving and investing. With the high budget deficit of around 5 percent of GDP, this imbalance is being exacerbated. This means that the foreign debt of the USA continues to grow. It is therefore a matter of time before doubts arise again as to whether the US is willing to meet its obligations. In the medium term, economic and monetary developments also do not speak in favour of the dollar. Europe and Asia have suffered particularly from the closure of the Strait of Hormuz. They have a higher recuperation potential than the USA. This is likely to lead to a narrowing of the interest rate differential between the US and Europe, with Europe likely to leave the neutral level of short-term interest rates in the short term and as a precautionary measure, while the US is even more restrictive.

However, the situation of public finances remains tense, as there is hardly any room for the necessary consolidation. On the contrary, there is no way around increasing military spending, especially in Europe, in the current decade. The room for manoeuvre for monetary policy thus remains limited. Any interest rate hikes would further worsen the fiscal situation and expose it to pressure from governments. Fears that the new head of the FED, Kevin Warsh, could follow Trump's pressure for lower interest rates have not yet been confirmed. On the contrary. He has held out the prospect of having his theses on monetary policy processed by analysis teams. That will take time. We therefore do not expect any changes in concept before the end of the year.

Overall, the trend in the USA towards externalising the costs of companies to the general public supports the value of the companies. Innovations in the field of AI are also promising. They are likely to raise the growth rates of the global economy to a higher level or even, in the case of generative AI, increase them exponentially. Capital will be the big winner. It is likely to increase its share of GDP significantly. However, these high expectations are already built into the current extreme valuations of AI companies.



Even small revisions to expectations could quickly lead to major corrections. New shocks in the global economy or an escalation of the ongoing wars, which led to supply bottlenecks and a new wave of inflation, would also lead to a slump in the stock markets - via the braking manoeuvres of the central banks. We are not that far yet. However, increased vigilance is advised. However, a change in the long-term strategy is not imminent. Overvaluations can have a long life.

Best wishes, Prof. Dr. Josef Marbacher & CORUM Investment Committee