ZURICH

Investment Outlook July 2026

Navigating Complexity, Finding Opportunity





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2026 Review – The year so far

Global equity markets have demonstrated remarkable resilience so far this year. Geopolitical tensions, ensuing energy price shocks, shifting monetary policy, and changes in companies' earnings forecasts have all contributed to periods of heightened volatility. Yet despite these developments, markets have largely overcome short-term disruptions, reflecting resilience rather than fragility.

One of the key drivers of this volatility has undoubtedly been the escalation of conflict in the Middle East and the subsequent closure of the Strait of Hormuz, through which 20% of global oil and gas supplies transit. The resulting disruption to global energy markets triggered a sharp increase in prices, reigniting inflation concerns and prompting investors to reassess expectations for interest rates. While fears of prolonged disruption and broader regional escalation weighed on sentiment throughout the first quarter, a sharp acceleration in earnings growth in Artificial Intelligence (AI)-related companies led equities to rally sharply from early April lows.

US equities started the year in a position of strength, supported by healthy consumer demand, an enduringly strong labour market, and accommodative monetary policy. Although periods of risk-off sentiment followed the outbreak of the war, equity markets recovered quickly as corporate earnings consistently exceeded expectations. Investors increasingly shifted their focus away from geopolitical headlines and towards the longer-term opportunities arising from AI.

The AI investment cycle remained the defining theme for global equity markets. The 'Magnificent 7' or the subset of 'hyperscalers' underperformed the broader equity market as market leadership broadened meaningfully during the first half of the year. Investors are increasingly rotating toward the infrastructure beneficiaries of AI adoption, away from those companies announcing higher spending on AI, with semiconductor stocks, in particular, reaching new highs at the end of the first half amid continued supply shortages and bottlenecks in key areas of the AI supply chain. Emerging markets plugged into this theme have rallied on this trend (namely Taiwan and South Korea), Despite bouts of volatility and divergent sector performance, European equities have performed well in local currency terms vs other developed markets.

Inflation also returned to the forefront of market discussions. In the Eurozone, headline inflation has remained stuck around 3% since April, above the European Central Bank's (ECB) 2% target. This has led to a policy response with the ECB's deposit rate now sitting at 2.25% following the first hike in June since September 2023. Inflation in the US has increased to 4.2% from 2.4% in February while the federal funds rate remains sitting in the 3.50% – 3.75% range.

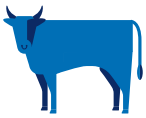
In the US, persistent fiscal deficits, and rising Federal debt levels more broadly, have helped keep yields higher, particularly for longer-dated maturities. Central banks are increasingly adopting a more hawkish stance with the ECB and Bank of Japan (BoJ) hiking rates by 25 basis points (bps) in June, and the Fed widely expected to follow suit before year-end.

Commodity markets have mirrored this higher-inflation environment. Energy led gains within the sector, with oil and gas lifted by Middle East disruptions and global reliance on oil imports, only to fall sharply to pre-war levels on the re-opening of the Strait of Hormuz and the announcement of a peace agreement. Industrial metals rose on AI-related infrastructure and electrification spending. Gold endured a mixed first half of the year. A rally prior to the outbreak of conflict in the Middle East did not persist, and the precious metal posted a poor second quarter of 2026.





For the Equity Bulls



- Peace talks between US and Iran to relieve inflationary pressure.
- The AI economy evolves from infrastructure spending to productivity gains and greater earnings.
- The US consumer exhibits enduring strength and supports equity earnings.
- A resilient US economy, with well-anchored inflation expectations, leads to broader equity market participation.

For the Equity Bears



- Energy supply disruptions persist, reigniting inflation risks.
- Fiscal deficits and rising government debt continue to pressure sovereign bond markets.
- A correction in technology and AI-related stocks spills over into broader market sentiment.
- Higher real yields and reduced consumer spending impact economic growth.

Outlook Summary

Across our multi-asset funds, from an asset allocation perspective, we continue to hold a close to neutral equity position and an overweight position in short-dated bonds. Our positioning in fixed income reflects a more cautious stance towards higher duration bonds as interest rate trends are broadly upwards across developed economies. Equity exposure across our portfolios continues to express a more diversified view following recent tech-led buoyancy as markets assess the robustness of the AI-investment cycle and its ability to deliver the next phase of earnings growth. We express some positive risk preferences within individual equity portfolios across different sectors and themes, as the market itself has broadened out. Within the Alternatives asset category (where applicable) we will implement tactical positions as opportunities present themselves.

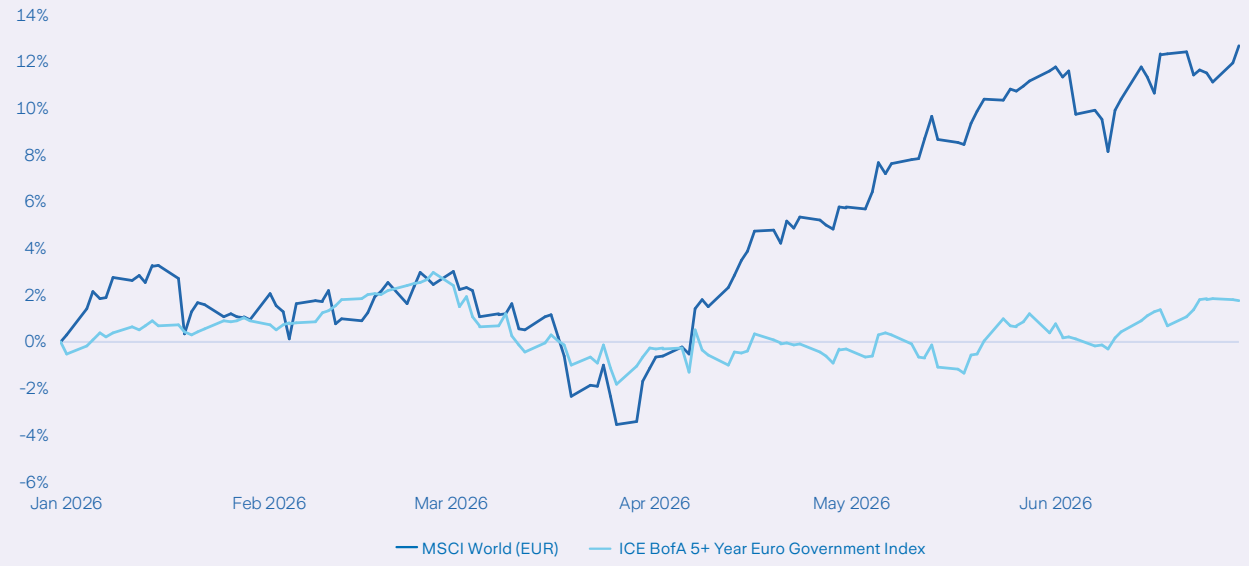
Entering the second half of the year, we expect geopolitical uncertainty to remain a theme under the current US Administration and its effects on the global economy are likely to remain a defining feature of 2026. Markets have proved resilient in the face of significant disruption, yet the implications for inflation, energy security, and fiscal policy continue to unfold. As active investors, we remain focused on navigating both short-term market volatility and the more durable structural trends driving markets. Our emphasis remains on balancing near-term risks with longer-term opportunities as markets continue to price in the implications of an increasingly complex global environment.

Geopolitical risks have moved from a peripheral market consideration to a primary driver of risk assets, with their effects on energy markets, inflation dynamics, and central bank expectations shaping market behaviour throughout the year. Recent peace talks between the US and Iran have eased some immediate tail risks and helped stabilise investor sentiment around energy prices. Damage to production facilities and persistent bottlenecks along key shipping routes suggest that pre-conflict supply conditions are unlikely to be restored immediately. While progress in negotiations has improved the outlook for energy markets, it remains too early to judge whether this will provide sufficient disinflationary momentum for central banks to return to the rate-cutting path that prevailed before the conflict. The market is now forecasting rate hikes in the Eurozone and US before the end of the year, before stabilising into the middle of 2027.

The economic backdrop for this year is characterised less by recession risk and more by a debate around durability. Global growth has remained resilient, underpinned by strong US consumer demand and continued AI-led investment which has helped offset the drag from higher interest rates and geopolitical uncertainty. Looking ahead, we will continue to monitor inflation, employment conditions and capital expenditure trends closely, as the interaction between policy expectations and corporate earnings drive growth expectations in both the short to medium-term.

Interest rate expectations remain closely tied to both inflation and fiscal policy. If lower inflation was to materialise it should, in theory, provide central banks with the scope to lower rates. However persistent fiscal deficits may complicate this outlook. In the US, government borrowing remains at elevated levels, with the fiscal deficit running at approximately 6.5% of Gross Domestic Product (GDP) with currently no political appetite for fiscal consolidation. This fiscal environment remains a key risk consideration for us, as longer-term rates are likely to remain elevated.

Volatile 2026 with Equities outperforming Bonds so far this year



Source: Bloomberg 31.12.2025 – 30.06.2026

Equities

Global equity markets have demonstrated remarkable resilience this year. Despite persistent geopolitical tensions, renewed inflation concerns and higher rates across most major economies, equities have continued to rally with indices reaching record highs. Drawdowns have generally been short-lived, with earnings growth rather than sentiment driving performance. Strong corporate fundamentals, powerful AI-related themes and confidence in the markets' ability to adapt to an increasingly fragmented global economy are likely to remain key drivers of return in the months ahead.

It is important to recognise the performance of European markets versus US peers. Sentiment towards the US is riding high, supported by the AI narrative. However, for the first half of 2026, European equities have outperformed US peers in both local and euro currency terms. Furthermore, since just before the US election in 2024, European equities are marginally behind in local currency terms and clearly ahead in euro terms.

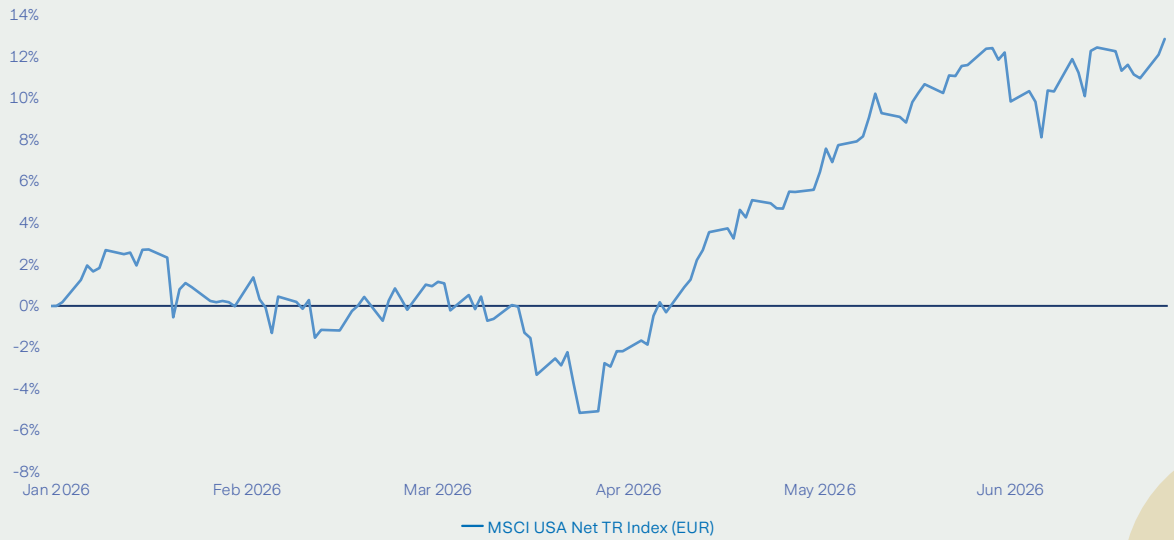
Across our multi-asset portfolios, we are close to neutral positioning in equities. Our exposure remains tilted toward cyclical and growth sectors with a focus on Information Technology, Financials and Industrials. From a geographical perspective, Europe and Asia Pacific remain our favoured regions across equities. We maintain a more cautious stance in terms of our exposure to the US. As active investors, we have been able to take advantage of thematics across these markets, with the AI boom broadening the opportunity set beyond hyperscalers to those companies benefiting from so-called 'second-order effects' of capital expenditure by the hyperscalers on AI.

While markets have seen recent bouts of tech-sector weakness as concerns grow over the level of investment outpacing monetisation, 2026 has seen a shift from mega-cap leaders to infrastructure story underpinning the AI revolution. The four largest hyperscalers are expected to spend more than $700B on capital expenditure (Capex) this year, roughly 80% more than in 2025; as the race to build computing capacity intensifies. We expect this unprecedented level of investment to create opportunities across broader sector beneficiaries like semiconductors, infrastructure providers but also in sectors that may appear less obvious such as financials and transport. However, investors will begin to require more material indications of concrete return on investment, given the huge capital deployment taking place.

As ever, earnings growth has been the dominant force behind equity gains. Quarterly earnings reports have repeatedly come in ahead of forecasts, renewing investor confidence in AI as a long-term growth driver. With AI infrastructure investment providing significant tailwinds through the first half of this year, investors are increasingly focused on whether this Capex cycle will give way to a second phase of earnings growth. There are now lofty earnings expectations embedded in parts of the equity market and hence there's a risk that such earnings expectations are not met with likely share price implications.

As we look to the rest of 2026, our positioning reflects our belief that earnings growth will broadly remain a supportive driver of equity markets. We will continue to broaden our exposure to opportunities across the AI ecosystem and geographies, recognising that the beneficiaries of this theme are expanding beyond the market leaders. At the same time, inflation and subsequent interest rate expectations will be closely monitored, as a higher-for-longer policy stance may challenge investor sentiment and lead to further volatility in equity markets. However as always, valuation, not volatility, remains the key risk consideration for us in assessing whether any market drawdowns represent buying opportunities or not.

US Equities rallied despite geopolitical tensions



Source: Bloomberg 31.12.2025-30.06.2026

Bonds

Looking back at the first half of this year, bond markets have endured sustained periods of volatility with interest rates pushing yields across all maturities broadly higher. While markets entered 2026 anticipating a gradual short-term interest rate easing cycle, renewed inflationary pressures and resilient economic activity have instead reinforced the prospect of a higher-for-longer interest rate environment. Against this backdrop, our current positioning remains marginally overweight short-term versus medium-duration bonds.

Medium-term inflation expectations remain a key consideration for us in relation to our structural view on bond markets. The disruption to global energy markets following the closure of the Strait of Hormuz demonstrated how vulnerable the inflation outlook remains to supply-side shocks. The resulting spike in oil and gas prices left the European Union (EU) facing a second energy crisis within just four years, prompting the ECB to revise its inflation expectations higher for 2026. This period saw the German 10-year Bund rise to 3.2% during May, its highest level since 2011.

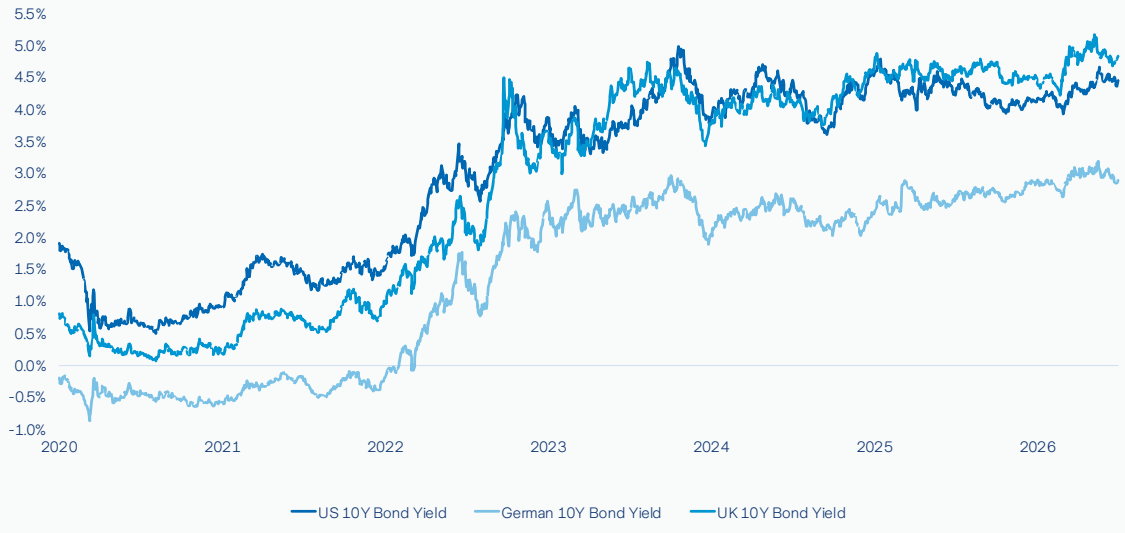
While yields have moderated from peak levels, our eurozone bond portfolio reflects our view that policy rate expectations are likely to remain elevated for longer than anticipated. On a tactical basis we continue to favour shorter-duration exposure across our bond portfolios. Encouragingly, medium-term inflation expectations remain broadly anchored at supportive levels.

Central banks across developed markets continue to face challenging conditions. Expectations of monetary easing have given way to concerns surrounding higher energy prices and their impact on inflation. The ECB raised rates by 25bps as inflation jumped to 3.2% from 1.9% in February. Japan followed a similar path with the BoJ increasing policy rates to 1%, its highest level in 31 years. Meanwhile, the Bank of England kept rates unchanged as policymakers continue to balance considerations of persistent inflation with sluggish economic growth.

In the US, June brought the prospect of a higher global rate regime into sharper focus following the appointment of the Federal Reserve (Fed) chair Kevin Warsh. Markets had initially anticipated a more dovish policy stance, only to reassess expectations following firmer inflation messaging and a change in his communications' approach. Treasury yields remained elevated throughout the period, supported by resilient economic data with the 2-year yield remaining above 4.0% for much of the last quarter. The removal of forward guidance under the new Fed Chair could increase volatility in related risk assets in and around Federal Reserve activity.

While economic growth has proved resilient, credit spreads across both investment-grade and high-yield markets remain close to the tighter end of multi-year recent ranges. In our view, investors are receiving limited compensation for taking additional credit risk, particularly at the longer end of the curve where spreads provide limited protection against unforeseen risks. Our preference for shorter-dated credit exposures remains.

10-year government yields across developed economies



Source: Bloomberg 31.12.2019 – 30.06.2026



Currencies & Commodities

Following a substantial position last year, we materially reduced our allocations to Gold in late December 2025. This lower allocation was offset by increases to other commodities such as Oil. Following an impressive two-year rally, Gold has recorded its weakest quarterly performance in more than a decade as extended positioning, rising real yields and expectations of a more hawkish Fed have reduced investor appetite for non-yielding assets. We expect to see further opportunities in Gold, following recent weakness.

Often considered a barometer for the health of the global economy, copper has remained highly sensitive to shifting growth expectations and monetary policy developments throughout the first half of 2026. Expectations of higher-for-longer interest rates, paired with uncertainty surrounding US tariff policy have contributed to volatility in copper markets. Looking beyond the cyclical outlook, the structural case for copper remains positive, supported by demand from electrification, grid expansion, and AI-related infrastructure development.

Oil prices have dominated headlines for the most part of this year, surging in response to the closure of the Strait of Hormuz following the outbreak of the war. While the recent ceasefire between the US and Iran has reduced the immediate risk of further escalation, the conflict has left a lasting effect on energy markets. Despite oil prices retreating from their record highs, the market remains vulnerable to further bouts of volatility, with investors continuing to balance geopolitical risks against concerns surrounding global growth and demand. It is likely that there will continue to be tactical opportunities in this space.

In currency markets, investors have renewed their preference for the US dollar as a safe haven asset. The combination of heightened geopolitical uncertainty and the view that US interest rates will move higher has supported demand for dollar-denominated assets, pushing the key EUR/USD pair down from its 1.20 peak at the beginning of this year to 1.14 by the end of June. The dollar may face longer-term structural risks, but current geopolitical uncertainty and a more hawkish Fed could provide a supportive backdrop. At this time, we continue to monitor opportunities in relation to currency hedging and may look to hedge some exposures in the near future, on a tactical basis.

Oil volatility continues



Source: Bloomberg 31.12.2025 – 30.06.2026

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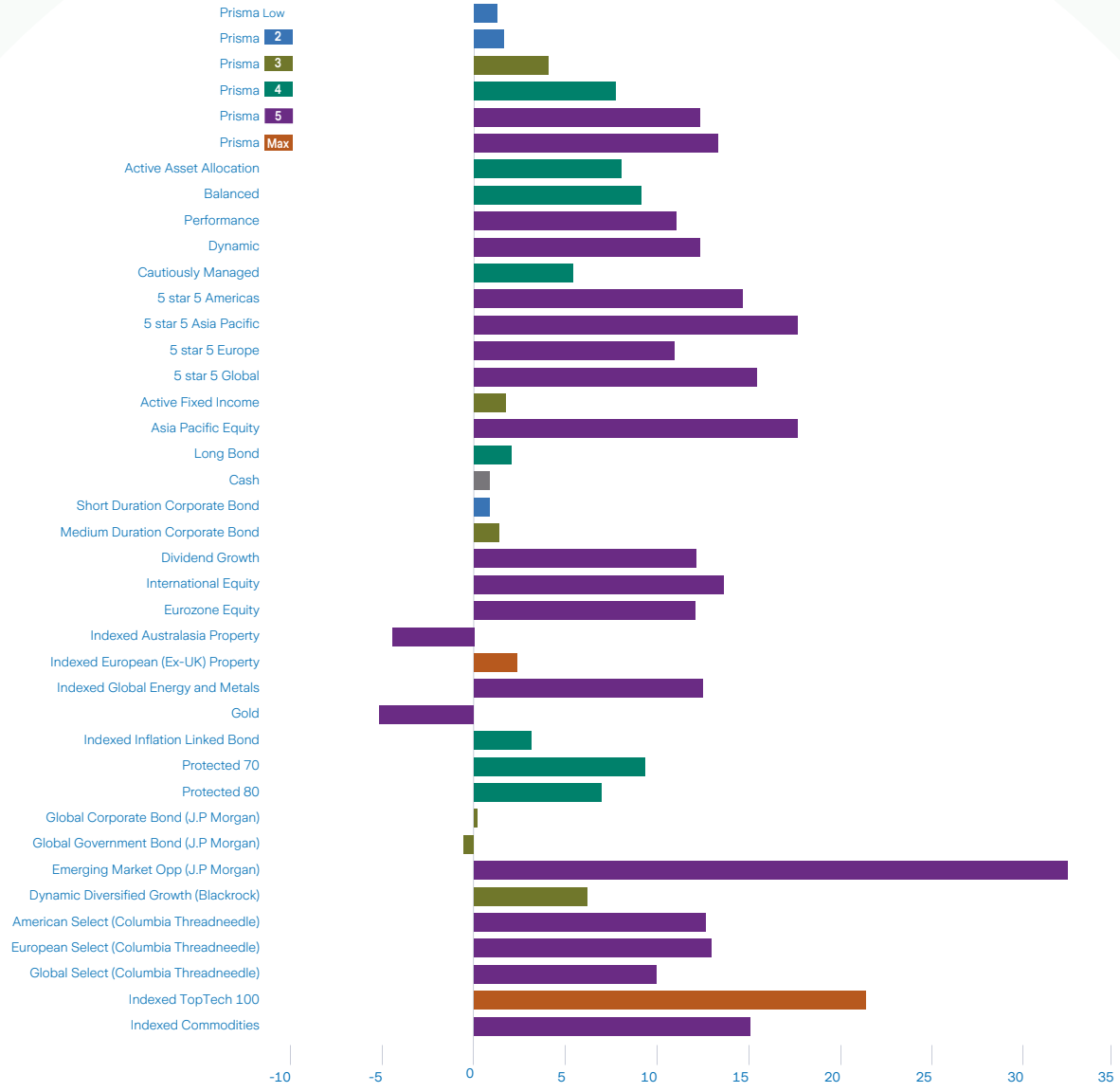
2026 Performance

year to date

Risk/Reward Rating

Lower — Higher

1 2 3 4 5 6 7



Notes: Annual management charges (AMC) apply. The fund performance shown is before the full AMC is applied on your policy. Returns are based on offer/offer performance and do not represent the return achieved by individual policies linked to the fund. Risk Ratings as at 31/03/2026.

Source: Zurich Life 02/01/2026 - 01/07/2026.

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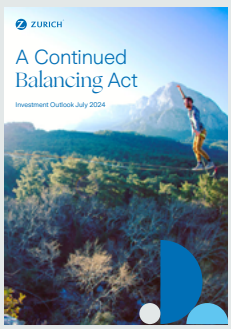
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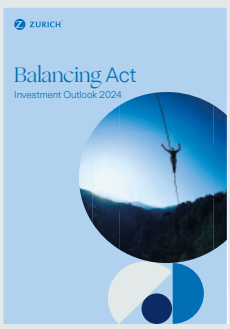
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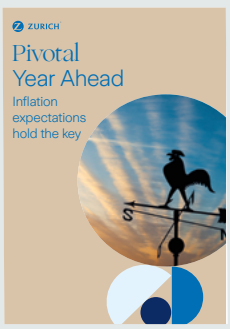
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July 2024



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