



Investment Strategy

September 2026



"THERE IS A BEAUTY THAT REMAINS
WITH US AFTER WE'VE STOPPED
LOOKING."

CORY RICHARDS,
PHOTOGRAPHER AND EXPLORER, WEARS THE
VACHERON CONSTANTIN OVERSEAS.


VACHERON CONSTANTIN | ONE OF
GENÈVE NOT MANY.

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INTRODUCTION

Letter to investors - Investment Climate

- The global economy is showing increasing signs of a slowdown
- The oil shock and U.S. debt are ultimately fueling fears of rate hikes
- The Fed and the ECB shift toward a tightening stance
- Competition between sovereign debt and AI financing is driving up yields
- Equity markets are soaring without taking the rise in negative factors into account

September 2026 marks a significant shift in risk sentiment across global financial markets, bringing the summer lull and the excessive optimism of previous months to a definitive end. Under the combined pressure of monetary tightening by major central banks and soaring energy costs, stock markets have stalled, oscillating between consolidation and fears of asset repricing. The sharp rise in nominal and real bond yields sent shockwaves through the market, resulting in a severe sell-off across the entire international fixed-income sector. This deterioration in market conditions has been amplified by exogenous geopolitical and energy-related factors. Persistent tensions in the Middle East and disruptions to refining infrastructure have reignited fears of an oil shock, temporarily pushing Brent crude prices above \$100 per barrel and driving up the costs of industrial inputs. At the same time, the credibility of fiscal policies is facing a critical test. In the United States, the federal debt surpassing the symbolic \$40,000 billion threshold, combined with campaign promises of public spending, is forcing institutional investors to demand increasingly higher term premiums. On the real economy front, while indicators generally support the assumption of a soft landing for the global economy, persistent inflation and high borrowing costs pose a growing risk to household consumption and corporate profit margins toward the end of the year. The international monetary landscape underwent a major shift in September with a coordinated tightening by major central banks. The European Central Bank led the way by raising its key interest rates by another 25 basis points, signaling that inflation would not converge sustainably toward the 2% target until 2028 and leaving the door open to further tightening in light of persistent energy shocks. Even more significant was the decision by the U.S. Federal Reserve, which raised interest rates for the first time in more than three years at its September meeting. This tightening caught off guard markets that had become overly complacent about the pace of disinflation; the Fed acknowledged that current inflation no longer stems solely from the labor market but also from non-wage pressures, tariffs, and energy costs. For its part, the Bank of Japan continued to normalize its policy by raising its key interest rate to 1.25 percent; its highest level in three decades in order to counter the yen's weakness. This aggressive move led to a steepening of yield curves and widespread tension in the markets. In the United States, massive Treasury bond issuances found themselves in direct and head-on competition with the colossal capital financing needs of tech giants seeking to fund artificial intelligence (AI) infrastructure and data centers. International bonds fell by -2.46% over the quarter, with yields on 10-year U.S. Treasuries hovering around 5.3% and 30-year mortgage rates peaking at 7.2%. In Switzerland, despite relatively moderate inflation, sovereign bonds felt the global fallout, falling by -1.69% over the quarter, prompting a strict focus on short durations. Stock markets moved in a precarious balance, caught between the spectacular performance of AI-related tech stocks and the drag imposed by rising financing costs. While the global index posted a modest gain of +1.88% for the quarter, sectoral and geographic divergences were striking. In Europe, indices fell by -0.62% (dragged down by the automotive and financial sectors), and Switzerland posted a decline of -2.02%. This environment fully justifies maintaining a cautious, selective allocation firmly focused on balance sheet quality and companies with strong pricing power. Bearing the full brunt of the squeeze between rising discount rates and tighter

refinancing conditions, international listed real estate posted a sharp correction of -5.74% (with Europe down -13.38% and the United Kingdom down -2.65%). In Switzerland, the sector fell by -3.72%, weighed down by historically high premiums that require greater selectivity in investment vehicles. Confirming their status as an effective hedge, commodities emerged as the best-performing asset class, posting a gain of +4.79% for the month, bringing their quarterly gain to +25.10% and their year-to-date gain to over +55%. This momentum is primarily driven by the surge in the energy sector (+45.02%), fueled by geopolitical supply tensions. Precious metals, although temporarily affected by profit-taking triggered by the rebound in the dollar and real interest rates, continue to have exceptional fundamentals underpinned by structural central bank purchases and geopolitical risks. On the alternative assets front, private equity posted a monthly correction of -12.02%, while hedge funds demonstrated their resilience with a decline limited to -0.44%. The tightening of U.S. monetary policy and the appeal of yields on dollar-denominated securities supported the greenback, which rose by +3.39% against the Swiss franc. The euro also gained +2.56%, while the most dramatic movement was seen in the Japanese yen, which appreciated by +6.78% due to the combined effect of interventions by the Bank of Japan and expectations of monetary tightening. The build-up of external pressures; whether stemming from the tightening cycle led by the Fed and the ECB, recurring energy shocks, or rising global sovereign debt requires rigorous management discipline for the remainder of fiscal year 2026. We suggest maintaining strictly reduced bond durations and maturities to hedge against persistent volatility in long-term rates, while preparing strategies for gradual accumulation in high-quality segments offering real yields that have once again become attractive. In the equity segment, underweight and defensive positions should be maintained, with a focus on high-quality stocks with excellent cash flow visibility. Commodities remain a preferred choice for hedging against inflationary and geopolitical risks, while capitalizing on the strength of reserve currencies such as the U.S. dollar.



Alain Freymond
Associé & CEO
BBGI Group

BIG PICTURE

Main convictions

- From resilience to stagflation: the major shift in economies
- Historic flattening of yield curves
- The dollar faces uncertainties, debt, elections, and an economic slowdown
- Stock markets on the brink of a breaking point

From resilience to stagflation, the major shift in economies

The illusion of a soft landing for developed economies appears to be gradually being called into question as statistics increasingly point to near-zero growth in certain economies. The ripple effect of recent energy shocks with the price of Brent crude remaining above \$100 per barrel, combined with the rigidity of restrictive monetary policies, is confronting Western economies with the dreaded scenario of marked economic stagnation, coupled with persistent inflation. Stagflation is no longer a distant risk; it is becoming an increasingly likely prospect and an operational reality in the coming months. While the United States has long displayed remarkable resilience, the warning lights are flashing red for the end of the year. Forecasts now factor in a high probability of a slowdown in growth momentum, confirmed by Q3 GDP growth below +1.5%. The impact of rising energy and commodity prices (pushing the overall commodity index to quarterly increases of more than 25%) has ultimately eroded U.S. households' residual savings. Consumption, the historical driver of GDP, is losing steam under the weight of a Core PCE index that remains stubbornly above +3%. The Federal Reserve, caught between this persistent inflation and cost pressures, is forced to tighten its policy and raise its benchmark interest rates. The cost of capital is affecting business investment, while the federal public debt crossing the critical threshold of \$40 trillion is intensifying the fierce competition for liquidity amid the tech sector's funding needs. The risk of a sharper slowdown in economic activity has therefore increased. Even more sensitive to real estate cycles and debt, the Canadian economy is bearing the brunt of the decline in U.S. demand. On the other side of the Atlantic, the situation is more critical. Europe and the United Kingdom lack the structural buffers of the United States and are already sinking into stagflation. Growth in the Eurozone is projected to decline, teetering on the brink of technical stagnation. Germany is struggling to get back on track, stifled by structurally high energy costs. The ECB therefore faces an intractable dilemma: economic activity calls for lower interest rates, but imported inflation ties its hands. The United Kingdom is grappling with anemic growth coupled with stubbornly high inflation in the services sector, forcing it to make tough budgetary trade-offs. The end of the year appears, in fact, increasingly threatened by the specter of stagflation.

Historical flattening of yield curves

International bond markets are undergoing a major restructuring in the second half of 2026. The dynamics of yield curves in developed countries highlight a profound analytical conflict between the imperatives of central banks and the risk-offset requirements of institutional investors. Our recent analyses confirm that we are entering an unprecedented market environment, marked by a pronounced steepening of yield curves, driven by the combined effects of inflationary pressures and a massive increase in sovereign debt. The short end of the curve remains under close scrutiny by central banks. Faced with a global economy caught in a vise between energy cost pressures and slowing growth, the Federal Reserve and the European Central Bank have opted to implement a restrictive policy and raise key interest rates, leaving the door open for further adjustments if price indices continue to defy their forecasts. Central banks face a complex dilemma stemming from the specific nature of the current inflationary cycle. Indeed, current inflation is not driven by demand-side overheating, but by exogenous supply shocks

(persistent geopolitical tensions along energy routes and the fragmentation of supply chains). Aware that excessive tightening would be ineffective in reopening supply channels while risking unnecessary damage to economic activity, central banks are balancing their anti-inflationary credibility with the need to preserve growth. Globally, the likelihood of further rate hikes varies by region. It remains very real in the United States, Europe, Canada and Australia, given persistent wage pressures and import costs. Conversely, the Bank of Japan (BoJ) is continuing its gradual normalization to counter the yen's weakness, while China stands out with a resolutely accommodative monetary policy and targeted stimulus measures to support its real estate sector and stabilize domestic growth, going against the grain of Western tightening. At the other end of the yield curve, long-term rates are beyond the direct control of central banks and reflect investors' unambiguous assessment of the economic outlook. The U.S. federal public debt surpassing the historic threshold of \$40 trillion, combined with fierce competition from the capital financing needs of the tech and artificial intelligence sectors, has led to a surge in term premiums. Demanding greater compensation in the face of the anticipated erosion of their purchasing power and fiscal risks, the markets are driving 10-year bond yields to record highs (nearing 5.3% in the U.S.). This combination of short-term rates remaining under pressure and long-term rates driven by the risk premium is permanently cementing a historic steepening of the yield curves.

The dollar faces uncertainties: debt, elections and an economic slowdown

While 2026 began amid a complex global monetary transition, the foreign exchange landscape was profoundly reshaped over the course of the year. After suffering significant erosion in 2025, the U.S. dollar (USD) established itself as the linchpin of the global economy, supported by macroeconomic divergence, persistently high interest rates and the reallocation of capital flows linked to energy shocks. However, as the year draws to a close, the greenback's upward momentum faces emerging risks that could limit its gains. While the dollar's dominance has continued to be fueled by the interest rate differential and the appeal of U.S. assets amid economic resilience and financial markets boosted by the AI cycle, the emergence of an economic slowdown in the United States is beginning to weigh on investor sentiment. The gradual cooling of the labor market, combined with the depletion of household savings in the face of persistent inflation, is gradually eroding American exceptionalism, though it has not yet called it into question. Furthermore, the unsustainable burden of federal public debt, which has surpassed the critical threshold of \$40,000 billion, along with the rising cost of debt service due to this summer's rate hikes and widening budget deficits, runs counter to the currency's long-term sustainability, prompting some institutional investors to reassess their exposure. At the same time, the ongoing normalization led by the Bank of Japan (BoJ) and the potential shift in European policies are gradually reducing the yield spread that has long benefited the dollar.

Thus, although the structural fundamentals and safe-haven status of the USD remain robust in the face of geopolitical uncertainties, the accumulation of these cyclical and fiscal vulnerabilities points to a more uncertain and volatile end to the bull cycle in early 2027. Indeed, the foundations of this unilateral supremacy are being shaken by new structural and political risks that are emerging. While the appeal of U.S. assets and the Fed's restrictive policy have temporarily supported the currency, the onset of an economic slowdown in the United States is beginning to erode investor confidence. But the approaching midterm elections in early November may still bring new sources of uncertainty and instability to financial markets, which could affect investor interest and confidence and, consequently, global demand for dollars. The political landscape could also change radically on November 3 in the event of a sweeping Democratic victory in the U.S. congressional elections. A Democratic victory did not seem likely until recently, but this scenario is now gaining credibility. Should the Republicans suffer an electoral setback in the November midterm elections, political gridlock or institutional deadlock in Washington could paralyze the economic and fiscal agenda. This political scenario, combined with a sharp resurgence of volatility in the equity and fixed-income markets, could halt the dollar's upward momentum. Faced with increased instability, investors might then reallocate their capital to other regions, marking a transition to a period of consolidation, or even a sharp decline, for the U.S. dollar in early 2027.

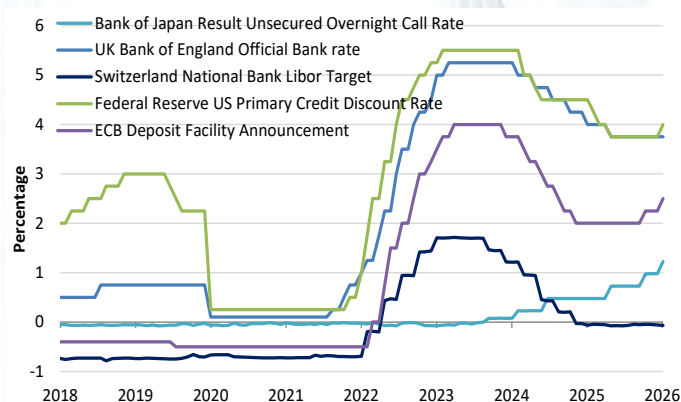
Stock Markets on the brink of a breakdown

U.S. financial assets are facing growing risks of consolidation, driven by the convergence of macroeconomic, monetary, political, and structural factors that are becoming more pronounced as 2026 draws to a close. The slowdown in economic activity is beginning to erode investor confidence, while the Federal Reserve's restrictive monetary policy, forced to keep its key interest rates tight in the face of stubborn inflation and supply shocks, is weighing heavily on valuations. The S&P 500's valuation multiples, which had remained at historically high levels (with a forward price-to-earnings (P/E) ratio above 21x), appear increasingly disconnected from a macroeconomic reality marked by a sluggish soft landing and the risk of downward revisions to corporate earnings. Added to these pressures is the significant uncertainty surrounding the November midterm elections. An electoral setback for the Republicans could paralyze the executive branch, exacerbating the federal budget deficit and the trajectory of public debt, while eroding the dollar's credibility and international standing. From a technical and stock market perspective, the fragility of the markets is also evident in the sharp deterioration of market breadth (the narrowing of market breadth). The outperformance of the indices has for too long been driven by a tiny minority of tech giants, while the majority of stocks in the S&P 500 or the Russell 2000 are under downward pressure and trading below their long-term moving averages. This excessive concentration of capital flows makes the entire stock market extremely vulnerable to even the slightest correction in tech stocks. In this climate of political instability and a resurgence of volatility, institutional investors could trigger massive profit-taking as the end of the fiscal year approaches. This shift away from stocks would be all the more pronounced as a strategic shift could take place from stocks to bonds. Following the sharp rises in yields (with 10-year sovereign yields nearing 5.3%), bonds are once again offering attractive risk premiums and real yields that are becoming increasingly hard for institutional asset managers to ignore. With policy rates and long-term rates potentially nearing their peaks as the slowdown becomes more pronounced, the contrast is striking to all observers, given that equity markets remain at artificially high levels even as economic clarity is lacking. Statistical and quantitative indicators thus suggest a risk of a sharp pullback in the indices, as equity markets are now highly exposed to a sudden reversal should these factors (valuation, market breadth, and political uncertainty) converge unfavorably.

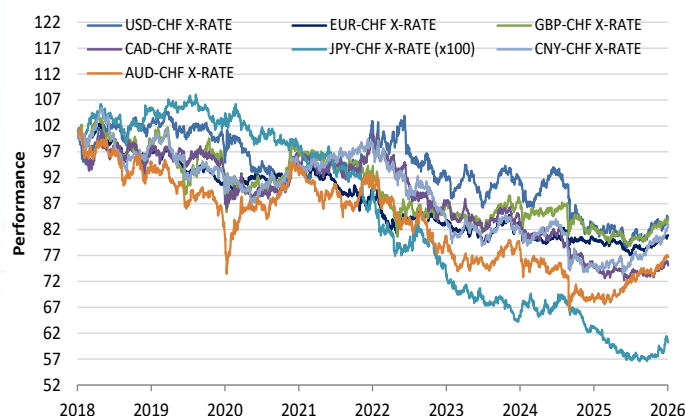
Commodities : a key asset for diversification

In a complex macroeconomic environment characterized by persistent inflation rooted in commodity prices, prolonged monetary policy tightening and the specter of an economic slowdown, or even stagflation; commodities stand out as the ultimate diversification asset for boosting and protecting portfolios. Unlike the equity and bond markets, which are suffering from rising costs of capital and shrinking valuation multiples, commodities benefit from a direct link to the real economy and capture inflation at its source. This resilience is significantly bolstered by current geopolitical realities, where the quest for energy sovereignty and the supply of critical metals create a structural and sustainable risk premium on physical resources. At the same time, precious metals serve as an unparalleled safe haven, offering complete decorrelation and essential protection against mounting sovereign debt and equity market turbulence. Commodities represent the ideal strategic driver for transforming current uncertainties into a powerful alternative source of returns compared to other asset classes.

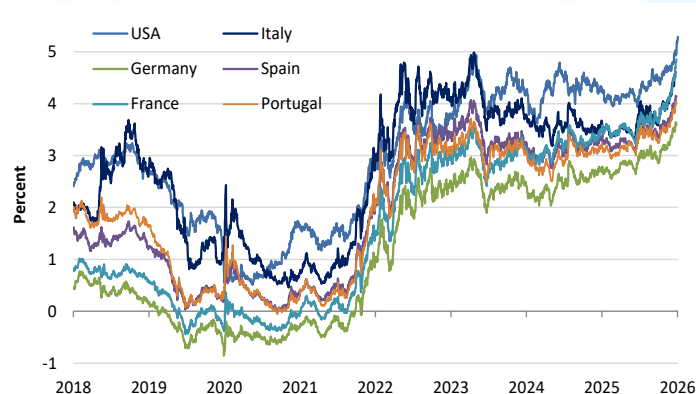
Policy rates (EUR, CHF, GBP, USD, JPY)



7 main currencies against (base 100)



10-year government rates



MACROECONOMIC SCENARIO



MACROECONOMIC SCENARIO

Global Outlook

- Toward a widespread slowdown in global growth
- United States: expected deceleration in GDP in Q3 and Q4
- Eurozone: risks of prolonged stagnation in Q4
- Switzerland: economic momentum returns to normal in H2
- Japan: Q3 stabilizes amid domestic recovery and external risks in Q4
- China: H2 GDP supported by fiscal spending



Toward a widespread slowdown in global growth

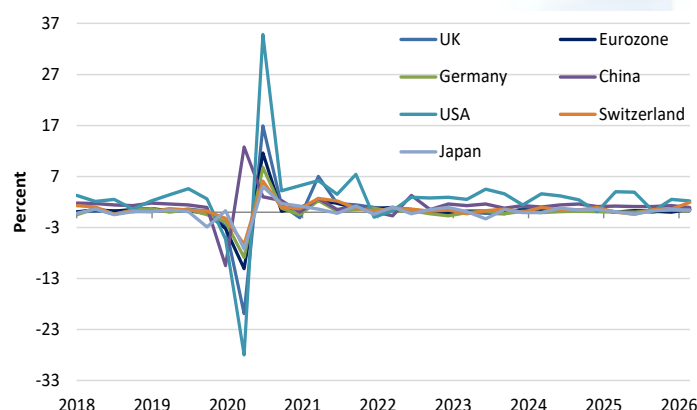
Global growth slowed significantly in the third quarter of 2026, marking the transition from a belated resilience to a more noticeable slowdown that is expected to continue into the fourth quarter. This moderate trajectory is confirmed by economic statistics in many countries, which highlight the gradual loss of momentum among traditional economic drivers amid persistently tight financial conditions. This trend is, in fact, driven more by investors' perceptions of future inflation trends and upcoming central bank rate hikes than by the actual measures already taken by those central banks. The sharp adjustment in yield curves and financing costs across all maturities will have increasingly pronounced effects on consumption and investment in the coming months. In the United States, GDP growth in Q3 is expected to come in within a modest range of +1.2% to +1.5%, weighed down by the depletion of households' precautionary savings and a sharp slowdown in job creation, a trend that is likely to dampen consumption toward the end of the year. In the eurozone, economic activity is stagnating, with growth estimated at +0.1% in Q3, caught between weakness in the industrial sector, consumer caution and persistent headline inflation at +3.2%, while Switzerland is seeing its quarterly GDP return to normal levels, expected to range between +0.2% and +0.3% following a spring peak. The United Kingdom managed to avoid a recession thanks to unexpected resilience in its services sector and labor market, with modest and stable growth of +0.2% to +0.3% per quarter. For its part, Japan's growth is stabilizing at around +0.2% to +0.3% in the second half of the year, balanced between a recovery in domestic demand, technology investments and volatility in external markets. Meanwhile, other major regions are showing mixed trends. China and the emerging Asian economies are facing a gradual slowdown in their manufacturing exports due to weakening demand from the West, although targeted support measures are cushioning the decline. In Canada and Australia, the prolonged impact of high interest rates is significantly dampening the real estate market and weighing on domestic consumption. Overall, the downward trend appears to be widespread, anchoring the entire global economy in a period of sluggish growth for

the fourth quarter of 2026. The final quarter is expected to see a sharp deceleration to +1.8%, supported by Asia and emerging markets (+4%) amid a sluggish outlook for industrialized nations, with growth near zero in the eurozone.

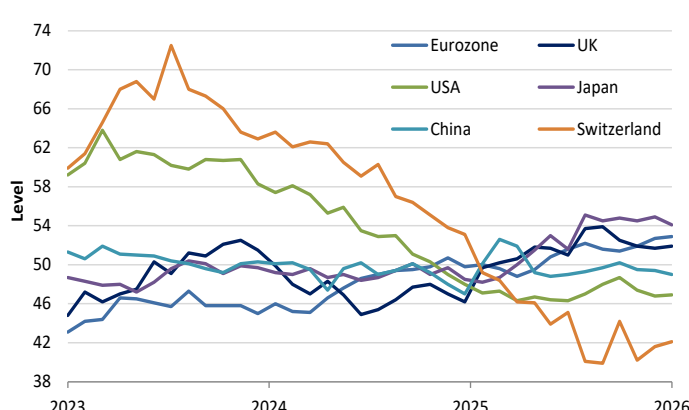
United States: expected deceleration in GDP in Q3 and Q4

An analysis of the U.S. economic outlook at the end of the third quarter of 2026 confirms the shift from belated resilience to a noticeable slowdown, as pockets of fragility that have been building beneath the surface begin to take their toll. Following the revision of second-quarter GDP to +2.2%, data available at the end of the quarter point to a sharper slowdown in job growth. The September nonfarm payrolls report shows only +29,000 net jobs created, keeping the unemployment rate steady at 4.2%. This slowdown is accompanied by moderating wage growth (+3.0% year-over-year), which reduces pressure on the services sector but cuts into real disposable income. At the same time, Q3 GDP projections are now converging toward a modest range of +1.2% to +1.5%, directly impacted by three major vulnerabilities. First, household consumption is reaching its limits, notably with the complete depletion of the precautionary savings accumulated during the pandemic, which has led to massive reliance on credit to maintain household consumption levels. Second, the SME sector and the commercial real estate market are beginning to feel more acutely the effects of the sharp rise in financing costs driven by high interest rates, which is weighing on margins and threatening the financial stability of certain regional banks. Finally, the high level of Treasury issuance to finance the government deficit is keeping constant upward pressure on 10-year bond yields and mortgage rates, with 30-year rates having exceeded 7%.

Quarterly GDP



Manufacturing PMIs



Eurozone: risks of prolonged stagnation in Q4

The economic landscape in the eurozone in Q3 is proving to be more nuanced than expected. Marked by persistent weakness in manufacturing and moderation in the services sector, economic activity is struggling to gain momentum over the summer, confirming an overall economic scenario characterized by consumer caution. The year 2026 continues on a very moderate trajectory, and estimates for Q3 rule out a deep recession but do not anticipate a sharp rebound either. Growth is expected to remain sluggish at best, coming in at +0.1%, further validating our scenario of stagnation and a plateau in economic activity during this third quarter. This trajectory reflects the European productive sector's slow recovery from past shocks, a trend that is set to continue in the coming months. Annual macroeconomic forecasts have, unsurprisingly, been subject to measured adjustments. The ECB's Survey of Professional Forecasters (SPF) and the consensus forecast both point to a growth outlook of +0.8% for 2026, reflecting the modest nature of the recovery. Our baseline scenario anticipates an environment of very weak growth, which is expected to characterize the entire second half of 2026. Energy prices, after stabilizing following the peak uncertainty of Q2, have begun to rise again and are putting pressure on the consumer price index. As the ECB's 2% target slips further out of reach, with headline inflation now at +3.2%, the transportation sector continues to be one of the main drivers of inflation. Domestic demand remains affected by uncertainty, with household consumption struggling to regain solid momentum. Although nominal wage increases remain robust, they are only very gradually offsetting accumulated losses in purchasing power. On the corporate side, private investment has stalled due to very restrictive financial conditions following the ECB's rate hike in June. Public investment (focused on the digital transition, strategic infrastructure, and defense) should help partially offset such declines in activity.

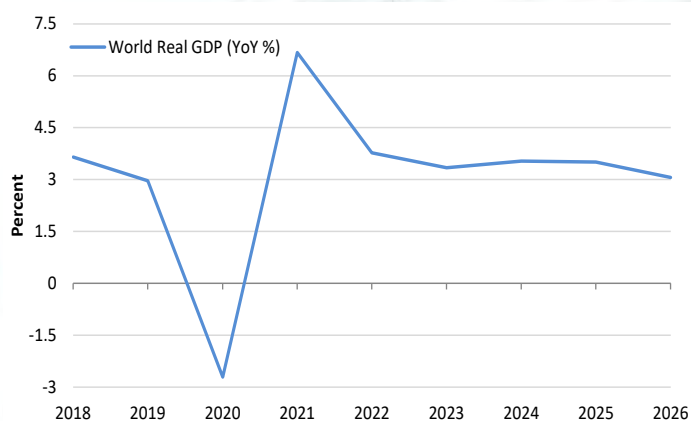
Switzerland: economic momentum returns to normal in H2

For the third quarter and the end of 2026, we should see a gradual normalization of Swiss economic growth, following the exceptional peak recorded in the second quarter. Economists at SECO, KOF, and major banking institutions now anticipate a slowdown in economic activity in the third quarter, with more moderate GDP growth estimated at between +0.2% and +0.3% for the quarter. This slowdown is attributable to the gradual fading of spillover effects in the chemical and pharmaceutical sectors and to the persistent weakness of the European industrial economy, particularly in Germany. For fiscal year 2026 as a whole, growth forecasts stand at +1.3%, a trajectory bolstered by the very strong figures from the start of the year but constrained by several external uncertainties. Among the main influencing factors is, first and foremost, the performance of non-pharmaceutical exports, which remain under pressure from the strength of the Swiss franc despite recent corrections and hesitant global demand. Second, private consumption is nevertheless expected to stall in the face of rising inflation (+0.8% year-over-year in August). The strength of the labor market will, however, provide welcome stability to purchasing power.

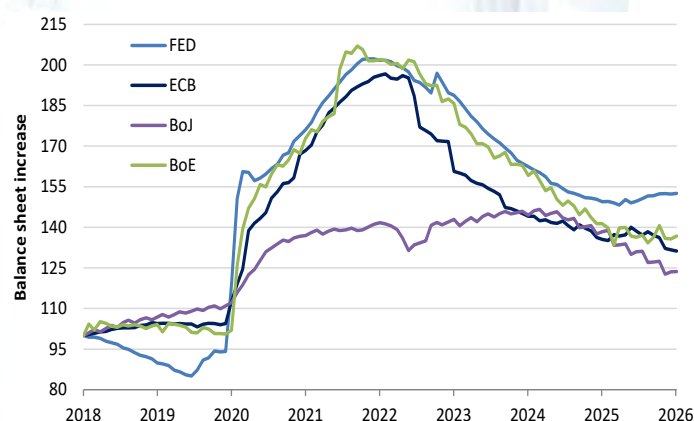
United Kingdom: The Economy Avoids a Contraction Despite Shocks

Despite the ongoing conflict in the Middle East and the price of Brent crude oil remaining above \$90–95 per barrel, the British economy managed to avoid the scenario of severe stagflation that had been feared in June. The adjustment was achieved through a rapid reorganization of industrial supply chains and temporary fiscal support designed to ease companies' energy bills. Although natural gas and fuel prices remain extremely high, weighing on factories' operating margins, business activity stabilized over the summer months. Retail sales showed a moderate recovery in July and August, buoyed by a resilient labor market and wage increases that are now offsetting current inflation.

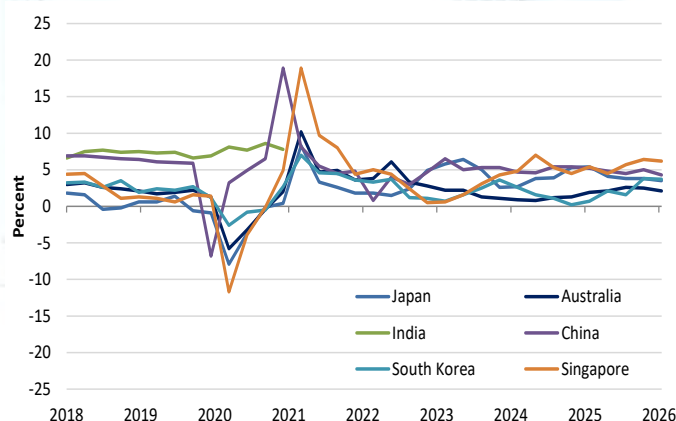
Real growth of the global economy



Global liquidity



Growth rates of Asian economies (GDP)



Baltic Dry Index

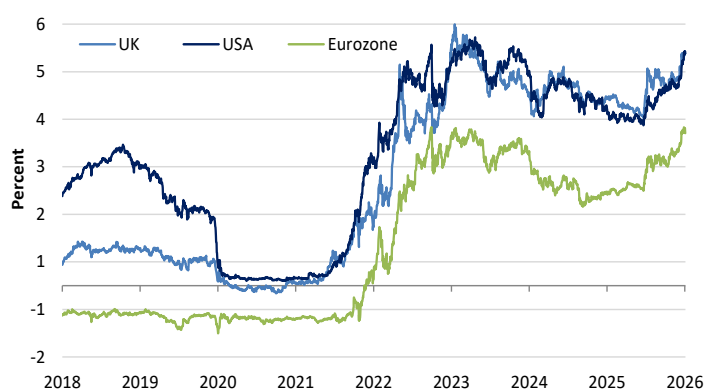


Rising import costs continue to erode the manufacturing sector, but the impact on final prices has been more gradual than expected. International logistics bottlenecks have stabilized without causing the major disruptions feared in Q2. Forecasts for Q3 call for modest growth of +0.2%, once again driven by the engineering, finance and auditing services sector. While the environment remains undeniably constrained by high borrowing costs and targeted fiscal austerity policies, the immediate threat of a technical recession has receded for the second half of 2026. The trajectory more closely resembles a pattern of weak but positive growth, fluctuating between +0.2% and +0.3% per quarter through the end of the fiscal year. High-frequency tracking data confirm that aggregate demand has shown remarkable resilience in the face of the energy supply shock. The absence of a contraction in Q2 can be attributed to companies' strategic use of cash reserves to absorb input price volatility, rather than implementing massive budget cuts. The 12-month recession risk index has thus fallen from 45% in May to 25%, reflecting expectations that are more firmly anchored than previously estimated.

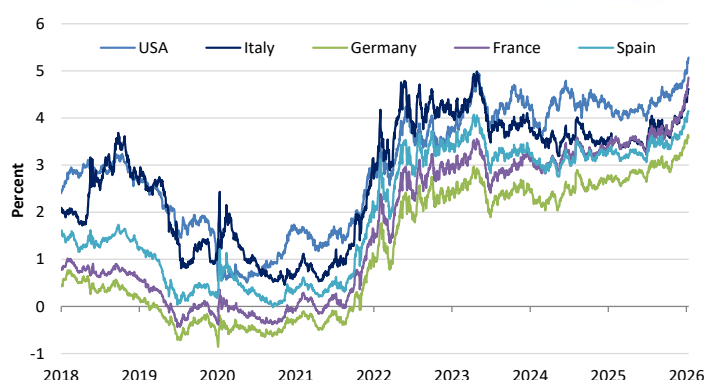
Japan: Q3 stabilizes amid domestic recovery and external risks in Q4

The lingering effects of geopolitical instability and input price volatility continue to shape Japan's economic trajectory in Q3. Japan, which remains sensitive to global markets, is beginning to absorb the effects of technology-driven demand. For Q3 2026, the key challenge lies in whether consumer spending can take the lead. The gradual stabilization of service prices is reassuring households, but the macroeconomic picture remains tempered by caution in fixed investment. Gains in purchasing power, now evident in the service sector, provide welcome support for household spending. We anticipate, however, a moderation in manufacturing activity over the quarter, constrained by adjustments to export inventories. Continued investment in digitization and automation by companies to address the labor shortage should nevertheless support the capex component, preventing a sharp decline in GDP, which is likely to come in at around +0.2% on a quarterly basis. On the monetary front, the BoJ's dilemma remains very much in evidence. Faced with a yen undergoing erratic adjustments and fluctuating below 155 JPY/USD due to residual interest rate differentials, the BoJ is continuing to gradually raise its rates.

2-years government rates



10-year government rates

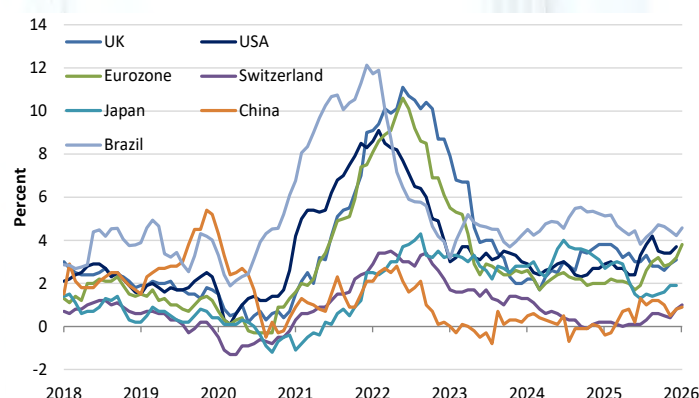


It seeks to anchor inflation expectations over the long term without stifling the credit recovery or undermining private demand. The fragile balance seen in the middle of the year is giving way to a cautious economic policy. The Japanese government is adjusting its targeted energy support measures, limiting the direct impact on household budgets while keeping debt under control. At the same time, the sustained momentum in semiconductor shipments to Asia is providing a key growth driver for major corporations, cushioning the slowdown in overall demand. The outlook for Q3, however, remains dependent on external economic conditions. If international demand weakens further, the slowdown in foreign industrial orders will weigh on operating margins, hampering the recovery in capital formation. The economic trajectory thus hinges on a decisive race between the consolidation of self-sustaining domestic demand and the resilience of regional export channels. Growth is expected to stabilize at +0.3% in Q3 and Q4.

China: H2 GDP supported by fiscal spending

The consensus now expects GDP to come in at around +4.5% to +4.6% for the full 2026 fiscal year, a result that will only be possible through a massive acceleration of the central government's fiscal spending in the second half of the year. Recognizing the relative limitations of monetary policy alone, the Ministry of Finance finalized over the summer the issuance schedule for a massive 1,300 billion yuan in special ultra-long-term government bonds to directly inject liquidity into the real economy. This direct support is accompanied by a marked acceleration in public consumption, which directly offsets the moderation in private household consumption in the aggregate GDP calculation. Ultimately, while the net contribution of exports to GDP is expected to gradually erode in Q4, the active deployment of the central government's balance sheet appears to be the last line of defense enabling China to stem the decline in economic activity and prevent GDP growth from falling below +4.2% in Q4.

Inflation - CPI indices



Inflation - PPI Index

