



TARENO
INDEPENDENT WEALTH &
ASSET MANAGER

Tareno View

October 2026

The Hidden Bear Market

The major stock indices are near their record highs. But beneath the surface, rising interest rates worldwide have left a clear mark. Large segments of the stock market have corrected, while a few large-cap tech stocks are propping up the indices. This suggests that the recalibration of interest rate expectations has now been largely priced in. At the same time, the economy and corporate earnings remain robust. These are not bad conditions for rising stock prices. In our view, however, the challenging environment calls for greater selectivity in stock picking and a broader asset allocation.

Macroeconomic Environment

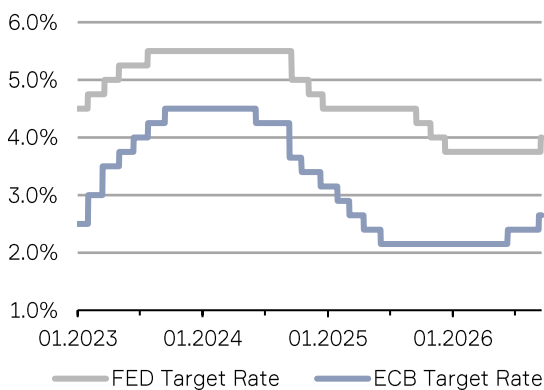
Inflation and Debt Are Driving Interest Rates

The yield on 10-year U.S. Treasury bonds rose from 4.4% to 5.3% in the third quarter, reaching its highest level in many years. A significant portion of this rise in interest rates is homegrown: The U.S. budget deficit is projected to reach just under 6% of GDP in 2026, which is an exceptionally high figure for an economy that continues to grow. At the same time, energy prices—which have surged sharply as a result of the Iran conflict—have reignited inflation.

The U.S. is not alone in facing this problem. European gas prices have more than doubled since the beginning of the year. The longer energy markets remain tight, the greater the risk that the initially energy-driven price surge will spread to broader goods and services prices and that inflation expectations will rise.

To prevent such second-round effects, central banks are adopting a more restrictive stance once again. In September, the Federal Reserve raised its benchmark interest rate for the first time since 2023. The European Central Bank raised its benchmark interest rates for the second consecutive time.

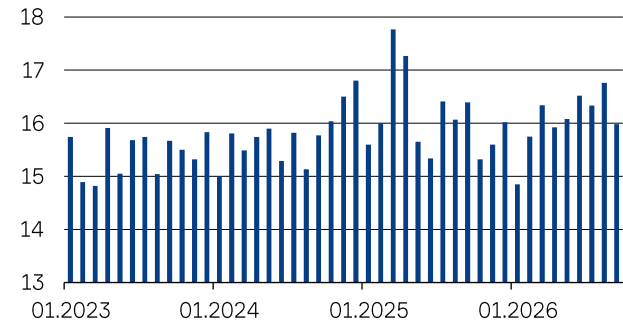
Key interest rates or 10-year government bonds



Economy Remains on Track

Despite high interest rates and energy prices, the real economy is holding up remarkably well. The majority of leading economic indicators continue to signal expansion. In the eurozone, industrial production grew in September for the third consecutive month, and the Purchasing Managers' Index reached 52.9—its highest level in more than four years. In the U.S., consumer spending—which is particularly important there—is also proving surprisingly resilient. Car sales are a prime example: despite higher vehicle prices, financing costs, and gasoline prices, sales figures remain robust.

U.S. Auto Sales



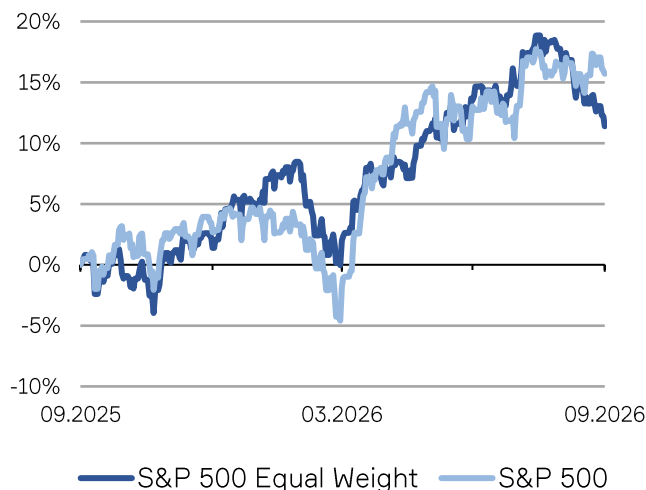
The expansion of AI infrastructure continues to be a key driver of growth. At the same time, growth is broadening. By mid-year, positive revenue and profit trends were evident across numerous regions and sectors. The upcoming earnings season will show whether this trend continues and whether companies can defend their margins despite higher energy and financing costs.

Market Commentary

The Bear Market Lurking Beneath the Surface

At first glance, the stock markets seem to be taking the rise in interest rates with surprising calm. The global stock market remained near its all-time high at the end of September. One might conclude from this that investors are largely ignoring the higher interest rates.

However, a look beneath the surface reveals a different picture. This is particularly evident in the U.S.: While the market-capitalization-weighted S&P 500 declined only slightly in September, its equally weighted counterpart lost 4.4%. 78% of the index's constituents posted price losses over the course of the month, and 42% were trading more than 20% below their respective 52-week highs at the end of September.



The “bear market” is thus not taking place at the index level, but rather “hidden” across large parts of the stock market. The strength of the major indices is concentrated in a few heavy-weight technology companies. Their structural growth, high margins, and strong balance sheets make them less vulnerable to rising financing costs. Smaller companies, highly indebted firms, and interest-rate-sensitive business models, on the other hand, are feeling the impact of higher cost of capital much more acutely.

Much of the headwind has already been priced in

The weakness of the broader stock market shows that investors are by no means ignoring the changed conditions. The interest rate market is also already pricing in several rate hikes.

At the same time, earnings estimates have continued to rise. The combination of broad-based price declines and higher earnings expectations has therefore led to a noticeable valuation correction. In the S&P 500, the expected price-to-earnings ratio has fallen from just over 22 to around 19 since the beginning of the year.

This has strengthened the foundation for the coming months. If energy prices and interest rates stabilize and the earnings season confirms the positive profit trend, there is potential for a rebound, particularly in market segments that have recently lagged behind.

Weak Swiss Franc as an Opportunity

The particularly sharp rise in U.S. yields has widened the interest rate disadvantage of the Swiss franc. This increases the attractiveness of the U.S. dollar in the short term and has recently weakened the franc.

This does little to change our long-term cautious assessment of the U.S. dollar. High budget deficits, higher inflation than in Switzerland, and the still-ambitious valuation point, in our view, to long-term upward pressure on the franc. We therefore see the current strength of the dollar as an opportunity to partially hedge USD risks and increase the CHF allocation in the portfolio. Especially during periods of heightened market uncertainty, the franc is likely to prove once again to be a valuable stabilizer.

Positioning

Confident, but selective

In summary, we continue to view the risk-reward ratio in the stock markets positively. A significant portion of the interest rate hike has now been priced in, while corporate earnings continue to grow and gain breadth. We are also encouraged by the fact that we continue to find numerous high-quality companies in attractive business sectors at reasonable valuations.

However, the environment has become less forgiving. Rather than betting on a broad market rally, stock selection, valuation, and diversification are becoming increasingly important to us.

Quality Over Beta

Higher interest rates are creating a sharper distinction between robust and vulnerable business models. High-quality companies have solid balance sheets, strong free cash flows, and pricing power. They are less reliant on cheap refinancing and are better able to absorb rising costs.

After years in which growth and size were the primary drivers of returns, we therefore see favorable conditions for greater differentiation based on quality and valuation. This is precisely where the focus of our stock selection lies.

Take Advantage of the Concentration

The pronounced divergence between a few index heavyweights and the broader market presents opportunities. We recommend taking advantage of this to reduce dependence on individual technology stocks and sectors and to invest selectively in attractive companies outside the traditional winners.

For us, diversification does not mean holding as many stocks as possible, but rather incorporating different sources of return into the portfolio.

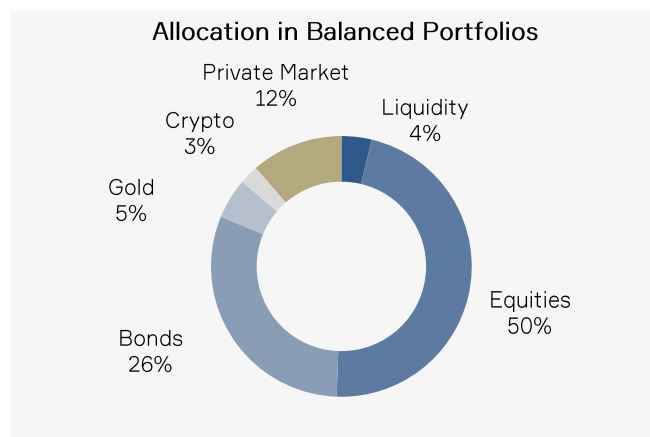
Bonds Are Back

Following the sharp rise in yields, bonds are once again an attractive addition to balanced portfolios, particularly for investors with EUR and USD as their reference currencies. In our view, medium-term corporate bonds with high credit quality combine an attractive current yield with limited interest rate risk.

Alternative Investments as a Shock Absorber

Our base scenario remains a robust global economy with rising corporate earnings. However, a resilient portfolio must also be able to withstand scenarios in which high energy prices persist for longer, inflation regains a foothold, or growth slows more sharply.

Here, we see added value in carefully selected alternative investments. Infrastructure benefits from inflation-linked returns, gold offers stability during confidence, inflation, and currency shocks, and a small allocation to cryptoassets promises asymmetric potential.



Our conclusion: Recent market shifts present an opportunity to reduce concentration risks in technology and the U.S. dollar and to tap into additional sources of return outside the stock market.



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The charts were created using publicly available market data.

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