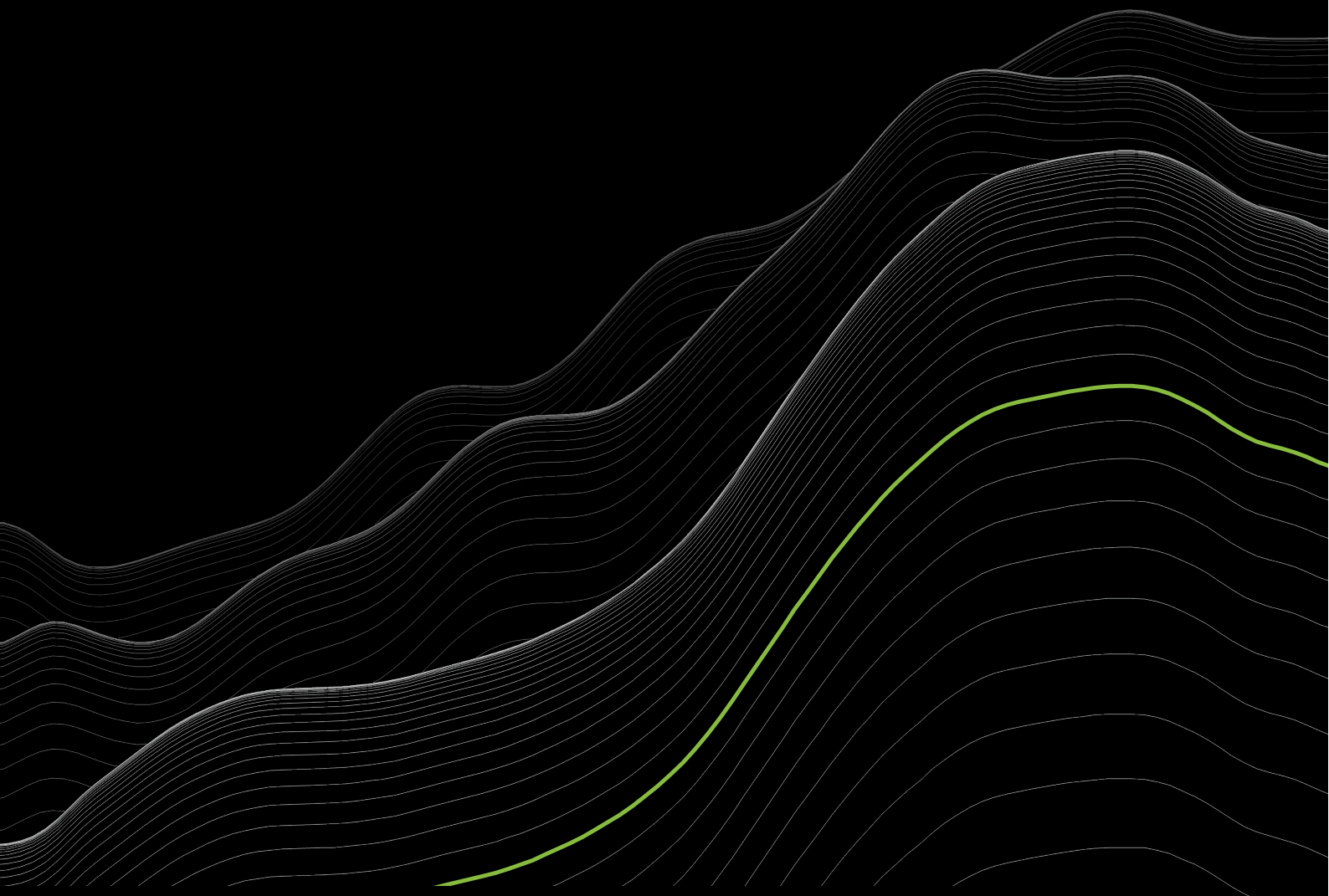
Quarterly Pensions Investments Review

Expected Investment Performance - Q2 2026



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Introduction

The Quarterly Pensions Investments Review is a comparison in expected risk and investment return.

Key Findings

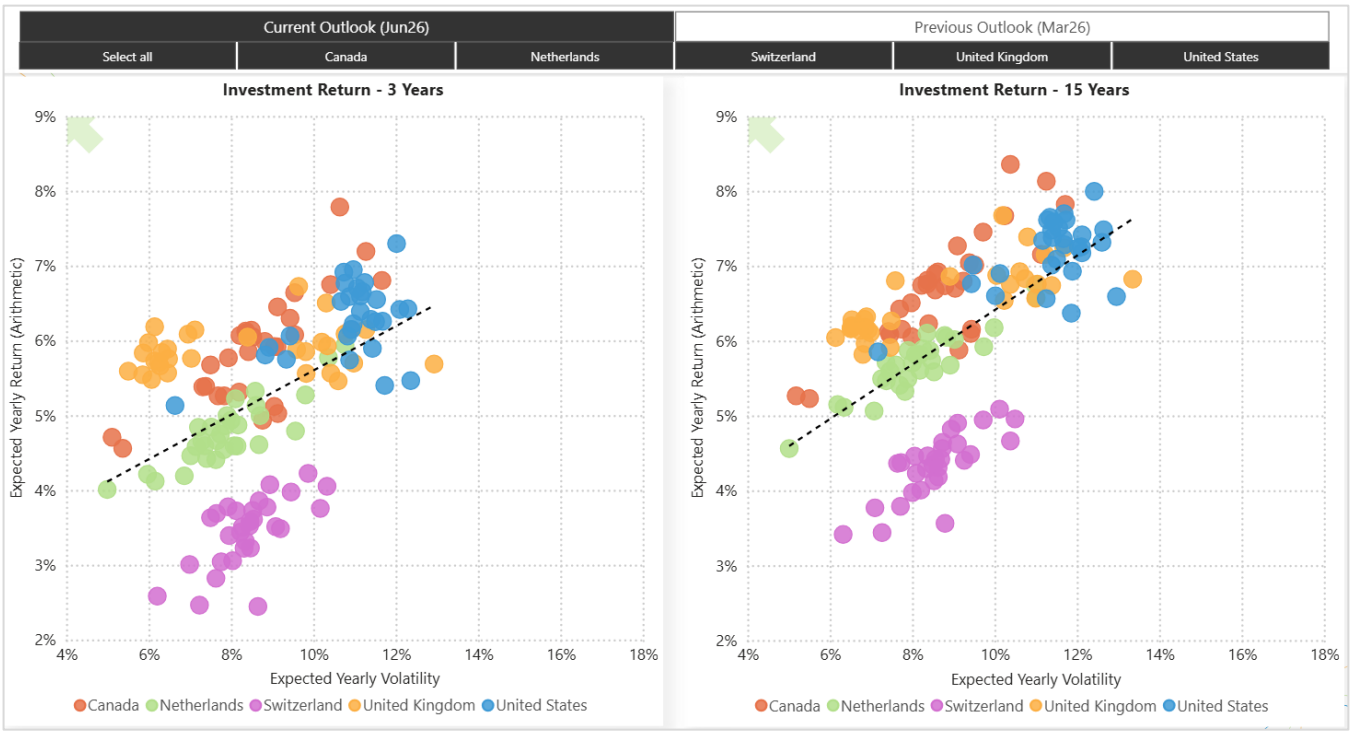
- ✓ **Comparing pension funds and regions:** Given the low, fixed, and sticky discount rate used by Swiss pension funds, there is no immediate need to construct high-return, high-risk portfolios. As a result, overall fund returns in Switzerland tend to be lower than in other regions.
- ✓ **Quarter-on-quarter outlook comparison:** The short-term outlook softens as resilient but uneven global growth is increasingly constrained by inflationary pressures from the energy shock, higher-for-longer policy rate expectations, and ongoing geopolitical uncertainty; after strong Q2 equity gains and tighter credit spreads supported by improved risk sentiment, the outlook for equities and corporate credit deteriorates due to stretched valuations, lower credit carry, weaker confidence, and downside risks from renewed energy price disruptions, broader inflation persistence, slower growth, and fiscal sustainability concerns, while long-term interest rates are expected to remain elevated relative to pre-pandemic levels.
- ✓ **Climate risk should be managed through a forward-looking investment lens**, as transition policy and physical climate impacts can materially reshape returns across sectors, regions and asset classes—creating both downside risks, such as stranded assets and weaker sovereign/private asset performance, and opportunities linked to renewable technologies, policy support and economic transition winners.
- ✓ For details, please see below.

If you're interested in learning how your pension fund is performing relative to others, please contact us for more information.

Expected Investment Performance – Risk and Return Results

The charts below show the expected investment return vs. the expected investment risk - from the top 30 largest pension funds per region.

Comparing pension funds and regions



Looking at general trends, the difference in expected returns between regions is stark. Expected returns and volatility among pension plans in North America and the UK are relatively high, while pension plans in Switzerland and the Netherlands show more moderate expectations.

This quarter, we focus our attention on Switzerland.

The chart shows that **Swiss pension funds** cluster around a relatively low expected return of just under 5%. In Switzerland, funds use a fixed discount rate, typically ranging between 1% and 2.5%, which is significantly lower than in other regions. This feature is a key driver of the asset-side strategy.

A low discount rate creates a relatively low hurdle for assets to outperform liabilities. As a result, there is no immediate need to construct high-return, high-risk portfolios — unlike in regions such as the US. Moreover, since the discount rate is fixed, liability valuations are not sensitive to interest rate movements. This reduces the need for significant allocations to fixed income, in contrast to markets like the UK and the Netherlands, where liability-driven investment (LDI) strategies and matching portfolios are common.

One explanation for the fixed and static discount rate lies in the structure of benefit payments. Swiss defined benefit (DB) pension schemes function similarly to cash balance plans: individual savings accounts are accrued over time and, at retirement, converted into a life annuity using a fixed conversion rate. Since the discount rate and the conversion rate are (indirectly) connected, changes to the discount rate can influence how attractive the annuity appears to retirees. Changes to the conversion rate are politically sensitive and subject to lengthy processes, which makes these parameters particularly "sticky."

In addition, **Swiss pension funds** show a strong home bias, with approximately 70%, 30%, and 95% of fixed income, equity, and real estate portfolios, respectively, invested in domestic assets. However, they are well-diversified in the alternatives space. Due to low required returns and high currency hedging costs, international investments need to be significantly more attractive to be considered.

When it comes to asset classes, allocation to real estate is notably higher than in other regions (20% versus a 9% average), primarily due to the highly stable Swiss property market — as evidenced by the near-perfect diagonal trend in the KGAST Immo-Index. Since liabilities are not interest rate sensitive, real estate offers a strong defensive position with higher yields than traditional fixed income.

In summary, due to the low, fixed, and sticky discount rate, there is no urgent need to chase high returns through risky portfolios. This structural setup contributes to lower overall fund returns in Switzerland compared to other regions.

The short-term outlook softens, reflecting inflationary pressures, higher policy rate expectations, and ongoing geopolitical risks



Market developments and other events

Global equities posted solid gains in the quarter, recovering from the Q1 geopolitical shock sell-off and reaching new record highs. Resilient economic activity, stronger-than-expected corporate earnings, continued momentum in AI-related investment, and the de-escalation of the U.S.-Iran conflict supported investor sentiment. U.S. and EM equities outperformed, led by tech- and semiconductor-related sectors.

Government bond long-term yields were volatile in Q2, rising in April driven by higher oil prices, firmer inflation expectations, and a repricing of the monetary policy outlook, before partially retracing later in the quarter as energy prices fell and geopolitical risks eased. Global IG and HY corporate credit spreads tightened, supported by resilient corporate fundamentals, strong investor demand for carry, and improved risk sentiment following the ease of geopolitical tensions.

Commodity prices, led by oil, surged early in the quarter on supply disruption concerns, before reversing most of the early gains as the interim U.S.-Iran agreement was signed. Precious metals weakened as geopolitical risk premia and safe-haven demand eased, while the USD appreciated supported by resilient U.S. growth, sustained investor demand for U.S. assets, and expectations of higher-for-longer policy rates.

Global growth remained resilient but uneven. The US economy outperformed, driven by strong business investment in technology and continued fiscal support, while other developed economies saw modest growth, constrained by higher energy prices and weaker domestic demand.

Headline inflation re-accelerated across most advanced economies in Q2, largely reflecting higher energy prices following supply disruptions through the Strait of Hormuz. Although energy prices have come down significantly, a broader resurgence in underlying price pressures cannot be ruled out and will largely depend on whether a permanent U.S.-Iran agreement is reached.

Outlook for growth, inflation, and interest rates

The short-term outlook for global growth is below trend, as the risk of broader inflationary pressures stemming from the energy shock, elevated interest rates and ongoing geopolitical uncertainty, weaken business and consumer confidence and weigh on global demand and investment. Over the medium-term, continued investment in AI, automation, energy infrastructure, and defense could provide a boost to global productivity growth, potentially offsetting the negative impact of increased geopolitical fragmentation.

Short-term expected inflation remains above target but moderates, reflecting base effects from elevated current inflation and expectations of a gradual normalization of shipping through the Strait of Hormuz. Over the medium to long term, inflation is expected to stabilize modestly above central bank targets, amid expansionary fiscal policy, elevated public debt levels, increased exposure to supply-side shocks and a partial reversal of the structural disinflationary forces that characterized the pre-2020 period. Inflation uncertainty remains elevated with the balance of risks tilted to the upside.

The outlook for long-term interest rates in developed economies is for rates to remain higher relative to pre-pandemic levels, reflecting higher term premia, expectations of a higher policy rate path, and higher estimates of neutral rates. Elevated inflation uncertainty, public debt levels, and ongoing geopolitical uncertainty have contributed to higher term premia. At the same time, higher inflation has pushed policy rate expectations upward, while estimates of neutral rates have moved higher, reflecting stronger investment demand associated with AI, automation, energy infrastructure and defense, alongside persistent fiscal deficits, and geopolitical fragmentation.

Outlook for financial assets

The current and short-term economic cycle deteriorates, largely reflecting inflationary pressures from the energy supply shock, that erode real wage growth, weigh on household purchasing power, and in combination with tighter financial conditions from higher-for longer rate expectations soften business investment sentiment. The outlook balances, on the one hand, the downward pressure from elevated geopolitical and policy uncertainty and, on the other hand, the potential for robust growth amid technological advances and accommodative fiscal policy.

The short-term equity outlook deteriorates following strong equity gains in Q2, as higher energy prices have pushed up inflation, weighing on consumer and business confidence. This comes against a backdrop of stretched equity valuations, particularly in the technology sector.

The short-term outlook for government bond returns is mixed. The outlook for U.S. Treasuries improves due to higher carry from slightly elevated initial yields, while the outlook for U.K. gilts deteriorates as lower initial yields reduce carry. The short-term outlook for corporate credit IG and HY returns deteriorates, due to lower carry from tighter initial spreads.

The outlook for financial assets exhibits downside risks, reflecting the potential for broadening inflationary pressures stemming from the energy shock, a higher-for-longer rate environment, risks of a growth slowdown, stretched valuations and fiscal sustainability concerns. Conversely, ongoing investments in technology, defense, and infrastructure, along with continued fiscal support, could provide upside for the outlook.

De Climate Transition Opportunities

In the second quarter of this year, the European central bank published a report on good practices for climate and nature-related risk stress testing. Besides the statements in the report that climate risk is being underestimated in the financial system, simply excluding high emission sectors might not be enough to manage climate risk throughout the economic system. The ECB encourages financial institutions to see the energy transition as something that can generate return. From the Ortec Finance climate scenarios, the model explicitly allows economies to operate outside equilibrium and recognizes that policy measures can create friction but also stimulate economic growth. Transition policy is represented through a policy mix that includes carbon pricing, subsidies, efficiency standards, technology phase-outs, and investments. As a result, the transition can generate both winners and losers: some regions and sectors benefit from increased demand for renewable technologies, while others face structural declines in demand and stranded assets. From this perspective, financial institutions should not manage climate risk solely by excluding high-emission sectors but should adopt a forward-looking approach that identifies both the risks and investment opportunities arising from the energy transition, as policy-driven economic changes will create both winners and losers across sectors and regions.

For more information or business inquiries, please reach out to Maurits van Joolingen.

Methodology and assumptions

This analysis is based on publicly available data, such as investment policy statements and annual reports, from the top 30 largest pension funds in Canada, the Netherlands, Switzerland, the UK, and the US.

The projections are made with Ortec Finance's GLASS, a forward-looking Asset-Liability Management platform for institutional investors. Plan modeling is based on strategic asset allocations, mapped to public and private benchmarks, and rebalanced annually. For simplicity, active hedging strategies and derivatives are not included in the Quarterly Pension Review.

Returns shown are gross of management fees and expressed in the local currency of the relevant country.

The projections in this analysis are driven by the Ortec Finance Economic Scenario Generator.

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More information?

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