PROBUS PLEION

Monthly Newsletter

November 2026

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Emerging market assets: A wake-up call from Brazil



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CIO (Switzerland)

The historic turmoil in the Brazilian market

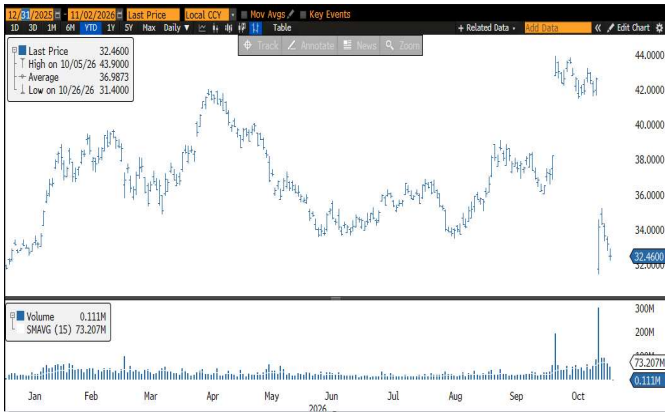
A quick recap of the facts: The Brazilian presidential election took place in two rounds, on Sunday, October 4, and Sunday, October 25.

After the first round, candidate Bolsonaro, the "favorite" of the financial markets, came out on top with 47% of the vote, while incumbent President Lula garnered only 45.2%. Although neither of the two frontrunners secured a majority of the vote, the Brazilian stock market immediately "celebrated" this result as a victory, knowing that no candidate leading after the first round had ever failed to win the final election.

The very next day, the Ibovespa index rose 7.7%, while the real surged 4%. The Brazilian market ETF denominated in U.S. dollars and listed in New York (EWZ) mirrored both of these movements, surging 12.5% that day. Finally, sovereign bond yields fell sharply, propelling all Brazilian assets to record highs.

But three weeks later, following a campaign by Bolsonaro that was deemed poor and a masterstroke by Lula that pushed the boundaries (and even crossed them) of what is considered fair play, the incumbent candidate literally "turned the tables" by achieving what no one had ever done before.

The ETF EWZ in 2026



Source: Bloomberg

The "hangover" of October 26

After such an electoral surprise, Monday's market opening turned into a "bloodbath," with the EWZ ETF down by… -25.5%!

Panic reigned across the board, with the stock market down 18%, the currency in free fall by 8%, and bond yields up 2.4%!!!

Such a collapse is by no means unprecedented in emerging markets and is reminiscent of the 1997 Asian financial crisis or the 1998 Russian financial crisis. But above all, it comes at a time when Brazilian assets were considered the most promising in the emerging markets, whether in terms of stocks, bonds, or the currency.

What can we expect next?

Even the infamous Black Monday on Wall Street on October 19, 1987, resulted in "only" a 22.4% decline, whereas in Europe, declines that day were generally in the range of 10% to 12%.

The same was true during the COVID crisis, with declines of a similar magnitude. Even if, in hindsight, some might consider Brazilian assets to be "cheap," there is no doubt that (very) many investors will not be returning to this market anytime soon.

What consequences can we expect for the markets?

The much higher volatility of emerging markets—and, above all, liquidity that tends to dry up at the slightest shock—can trigger market movements that are not suitable for the vast majority of investors.

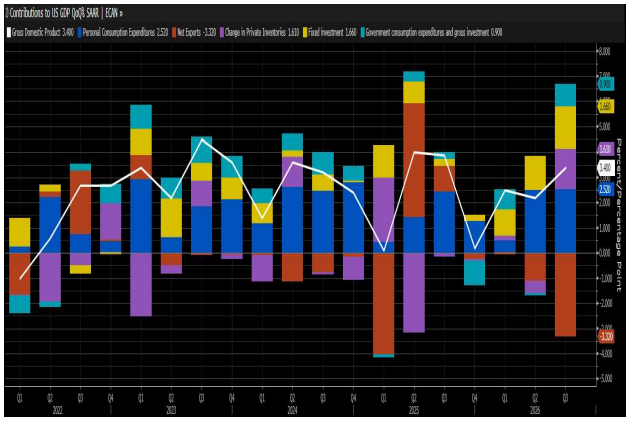
It is important to keep this in mind when building portfolios and not to become complacent about this asset class. After such a "wake-up call," the pool of investors in Brazil will shrink significantly.

Assessment of the economic situation

Economic growth remains solid and resilient, with GDP rising 3.4% in the third quarter. Private consumption remains at a high level, while the balance between exports and imports is strongly negative (imports > exports). In Europe, the picture is less robust, as the lockdown in France over the past month has weighed on economic activity. Energy prices continue to rise, while inflation further erodes the purchasing power of households in the eurozone.

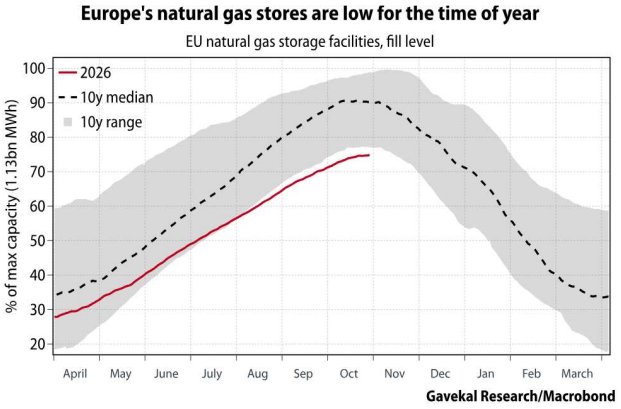
U.S. GDP rose 3.4% in Q3 compared with an expected 3.2%

Once again, the U.S. economy is demonstrating its strength and resilience, driven by private consumption and a boom in AI infrastructure investment. Government spending provided additional support during the quarter, while the trade balance—which is heavily weighted in favor of imports—once again shows that much of the equipment needed for AI deployment comes from abroad. With a stable labor market nearing full employment, coupled with inflation driven by soaring energy prices, there is currently no immediate reason for the Fed to change its stance. However, we can reasonably expect the Fed to avoid overreacting, given that the burden of debt service remains a politically sensitive issue.



Europe is "playing for time" with its natural gas reserves

Historically (and quite logically), natural gas consumption in Europe has always been highly seasonal, with demand peaking in the run-up to winter. This year, accumulated reserves are at their lowest level, at just 75% of total capacity, whereas on average they should be approaching 90% at this time of year. The reasons for this shortfall are clear: market participants remain cautious in the face of European gas prices at their highest levels since 2023. They are likely hoping for both a mild winter and potential (though highly hypothetical) resolutions to the conflicts in Iran and Ukraine. This remains a risky bet, given that the last major cold snap in Europe occurred in February 2018.



The ECB (and France) are looking for a new President

It would be an understatement to say that Christine Lagarde's early (premature?) resignation from her post as ECB president has been the subject of much discussion. Lagarde, who was set to remain in office until the end of October 2027, will officially step down on February 7, so that, as she put it, she can "have the freedom to pursue new opportunities." With less than six months to go before the first round of the French presidential election, some speculate that she has her sights set on the nation's highest office and are already dreaming of a second round that would pit her against Marine Le Pen. As for the ECB, her successor will likely be Dutch or Spanish.



What about the SNB's monetary policy?

The SNB reported a profit of 44.2 billion francs for the first three quarters of 2026. Foreign currency positions generated a profit of 43.3 billion francs. Interest income totaled 10.7 billion francs, dividend income 2.3 billion, and interest expense 0.7 billion. Interest-bearing securities and interest-rate instruments incurred market losses of 22.6 billion francs, while equity securities and equity instruments recorded market gains of 23.7 billion. Finally, foreign exchange gains totaled 29.8 billion francs. A dividend of at least 2 billion appears certain.

Financial markets during the month

Stock markets showed mixed performance, with those exposed to the technology sector falling sharply and those with a defensive bias rising significantly. After coming under heavy pressure early in the month, bond markets recovered somewhat thereafter. Energy continued its upward trend, while precious metals fell fairly sharply.

Nasdaq under pressure, SMI in the spotlight

After "sucking the oxygen" out of nearly all other sectors, the technology sector—and especially the semiconductor sector—saw significant sell-offs over the course of the month. At the same time, the healthcare sector—and the consumer staples sector in particular—regained favor with investors; the latter had been neglected for months, and even since the start of the conflict in Iran, by investors in U.S. consumer staples stocks.

Given the sharp rebound in these two sectors, it's no surprise that the Swiss market ended the month at the top, considering they account for 58% of the SMI's weighting. For the sake of completeness, the energy sector should also be included among the month's winners, a performance that further solidified its position as the year's top performer.

SMI (red) & Nasdaq 100 (blue) over the month



Source: Bloomberg

Long-term interest rates are easing slightly but remain high

A highly volatile start to the month, followed by repeated but unsuccessful attempts to break through resistance around 5.30–5.35%, ultimately put an end to the medium-term uptrend that had been in place since late June. During this period, the yield on the 10-year Treasury note jumped from 4.365% to 5.364%—exactly 100 basis points.

While the upward long-term trend in yields remains intact, the market currently appears reassured about the Fed's ability, in the medium term, to bring inflation back close to its target. Evidence of this is that the strong correlation between Treasury yields and fuel prices has broken down in this latest phase. Finally, the market is awaiting the results of the midterm elections to assess whether they are likely to ease tensions in the Middle East.

10-Year UST (red) & Bund (blue) Over the Past Month



Source: Bloomberg

Gold and silver are hovering near their danger zone

It is well known that precious metals are sensitive to changes in interest rates and the dollar's exchange rate. Given that both had appreciated in recent months, the downward trend in precious metals seemed, all things considered, quite logical. But since mid-October, both interest rates and the greenback have pulled back, suggesting that gold and silver might finally get a "breather" and rebound somewhat. Unfortunately, this has not been the case, and both gold and silver have continued their downward trend. When attempting to identify the reasons behind these latest movements, we hear only arguments that were already in place even before the declines in gold and silver began to accelerate. On the flow side, it appears that Asian investors are the ones selling, either to meet margin calls on their exposure to tech stocks or to raise cash to pay their tax arrears to the Chinese tax authorities.

Gold and Silver end the month at year lows



Source: Kitco.com

Our convictions

OUR CONVICTIONS · NOVEMBER 2026

◆ Current view ◇ Previous view (October 2026) ▲ ▼ change

		Underweight	Neutral	Overweight	Change	Comments
EQUITIES	US Equity			◆		Strong dispersion. Large caps favored
	EU Equity		◆			Energy prices are weighing on the market trend
	Swiss Equity			◆		Defensive stocks back in favor
	Japanese Equity			◆		Yen remains attractive
	Chinese Equity		◆			Disappointing market despite attractive valuations
	Asian EM		◆			Too much dependend on semis
FIXED INCOME	Cash & Short term debt			◆		In USD, extend duration to 3 years
	US Long term debt	◆				The correlation with stocks does not work in its favc
	EU long term debt	◆				Avoid French debt, yet again
	DM High Yield	◆				Credit spreads offer little value
	EM Debt (Local)		◆	◇	▼	The Brazilian crash is a wake up call
	EM Debt (Hard)		◆			Did well in recent bond turmoil
ALTERNATIVES	Precious Metals & Miners			◆		Strong supports are tested
	Commodities			◆		Oil = hedge against political risk
	REITs (EU + CH)	◆				Rising yields are weighing on the asset class
	Hedge Funds		◆			
	Private Markets		◆			Beware private debt

FX	Currency pairs	EURUSD	EURCHF	EURGBP	USDCHF	GBPUSD	USDJPY
		→	→	→	→	→	↓

COMMENTS ON INVESTMENT DECISIONS

The overall trend for the indices has been somewhat bearish, particularly for those heavily exposed to the semiconductor sector. In contrast, defensive and energy sectors have performed well, benefiting from significant sector rotations. Long-term bonds have rebounded, despite oil prices remaining near their highs. Gold and silver are under pressure.

Equities

Without changing our asset allocation—and thus remaining slightly overweight—we reduced our exposure to Asia and the energy sector and took the opportunity to reduce our underweight position in the technology sector.

In the short term, our timing was not ideal, but we remain confident that the investment boom in the deployment of artificial intelligence will continue. Despite strong quarterly results, the technology sector has seen significant sell-offs, but we may well be nearing the end of this downtrend in the sector.

Bonds

We have backed up our words with action by purchasing five-year U.S. dollar-denominated bonds to slightly extend the duration of our bond portfolios. The major central banks all opted to maintain the status quo in October, while leaving the door open to one or two additional rate hikes in the coming months. In absolute terms, bond yields now offer sufficient returns to avoid taking on unnecessary duration risk. Finally, when it comes to emerging-market bonds denominated in local currency, the Brazilian crash should serve as a lesson.

Precious metals, listed real estate (REITs)

As mentioned earlier, precious metals have taken a beating in recent weeks, even as the rise in yields and the U.S. dollar has temporarily stalled. What has not changed, however, is the worrying trajectory of budget deficits in major developed countries, which are eroding the value of major currencies a little more each day.

The downward trend in European REITs appears to be bottoming out and stabilizing, but it is still too early to speak of a price rebound. We remain on the lookout for a confirmed reversal of the trend.

Currencies

While some commentators were still suggesting, just a month and a half ago, that the rising dollar and euro might trigger inflationary pressures in Switzerland—comments that at least had the merit of making us smile—it's clear that the debate over the rise of the euro has quickly come to an end.

In the wake of the turmoil in OAT bonds, the EUR/CHF pair very quickly erased all of its annual gains and is now down 1% this year. Although less volatile and on a more positive trend, the greenback has nonetheless lost 1.4% against the franc over the past month.

Performance summary

Equity Indices	Last	1m	YTD	1y
Swiss Market Index	14 810.7	+7.1	+15.1	+24.8
Stoxx Europe 600	646.8	+2.0	+12.4	+16.7
CAC 40	7 969.4	+0.2	+0.7	+1.3
DAX	25 818.2	+2.5	+5.4	+7.8
FTSE 100	10 729.8	+1.3	+10.9	+13.9
Euro Stoxx 50	6 131.3	-2.1	+8.7	+11.5
Dow Jones Industrial	51 770.3	+1.8	+9.1	+10.6
S&P 500	7 580.1	-0.9	+11.7	+12.1
Nasdaq Composite	25 437.0	-5.3	+10.0	+7.9
Russell 2000	2 811.8	+0.6	+14.5	+15.0
Topix	3 965.1	-3.5	+18.8	+21.7
FTSE China A50	12 891.0	-8.0	-13.9	-13.3
Global Index	1 115.6	-1.6	+11.6	+12.8

Performance of bonds, currencies and commodities

Fixed Income Indices	Last	1m	YTD	1y
SBI AAA-BBB (CHF)	138.1	+0.8	-0.2	-1.4
Bloomberg Euro Aggregate	242.9	+1.0	-1.6	-2.1
Bloomberg US Aggregate	2 336.1	+2.4	-0.5	-0.1
Bloomberg Global Aggregate	494.8	+1.4	-1.3	-0.8

Currencies	Last	1m	YTD	1y
CHF	0.8250	-1.3	+4.1	+2.1
EUR	1.1160	-1.5	-5.0	-3.1
DXY	101.88	+0.4	+3.6	+2.1
GBP	1.3391	+0.9	-0.6	+1.9
JPY	157.56	+0.1	+0.5	+2.2
CNY	6.6543	-0.8	-4.8	-6.6
CAD	1.3974	-1.8	+1.8	-0.6
AUD	0.7032	+1.2	+5.4	+7.6
BRL	5.4376	+5.1	-1.1	+1.0
INR	94.96	-0.9	+5.7	+7.0
MXN	18.79	+4.0	+4.3	+1.6
EURCHF	0.9204	-2.8	-1.1	-1.1

Commodities	Last	1m	YTD	1y
Gold	3 874.6	-6.8	-10.3	-3.2
Silver	49.10	-18.7	-31.5	+2.1
WTI	104.1	+15.2	+81.3	+70.7
Copper	648.2	-2.1	+14.1	+27.4
Industrial Metals	173.2	-2.0	+6.0	+12.6
Agriculture	57.82	-5.6	+8.2	+3.4

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