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STRATEGY UPDATE

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Eriya AG • Schifflände 22 • CH-8001 Zurich • info@eriya.ch • www.eriya.ch

REVIEW

THE FINANCIAL MARKETS IN JULY

July is usually a quiet month on the markets, thanks to the summer holidays. Yet the old adage “Sell in May and go away, but remember to come back in September” proved true once again — no sign of a summer lull. Two themes kept markets on edge: the renewed escalation in the Middle East and the growing fear that AI investments and valuations have been pushed too high. Neither is new, both remain unresolved — and that is precisely why they produced such sharp swings.

June’s ceasefire lasted about as long as the average summer holiday. After Iran had spent weeks harassing commercial vessels in the Strait of Hormuz to force through fees and control over the waterway, three ships were attacked in early July — for President Trump, the end of the truce. In parallel, the Iran-backed Houthis threatened to block the Bab al-Mandeb, the second major oil artery, and attacked ships in the Red Sea.

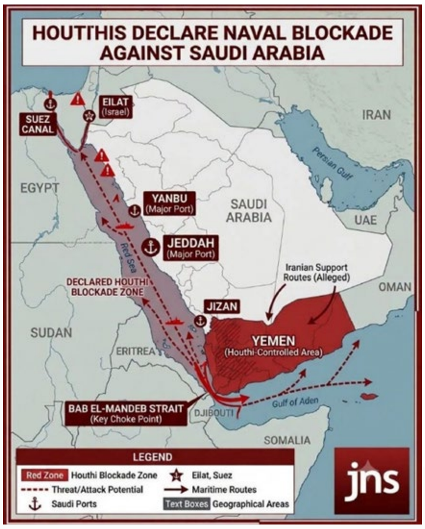
The consequence on energy markets was a lesson in fragility: while Brent was still trading at around 72 US dollars on 1 July, by 23 July the price had climbed back above 100 US dollars for the first time since May — five straight trading days of gains. At month’s end came another ceasefire. Yet we remain far from a lasting resolution of the conflict.

The second big move was driven not by a war but by a language model. In mid-July, at the World Artificial Intelligence Conference in Shanghai, the Chinese startup Moonshot unveiled its “Kimi K3” — the largest openly available AI model to date, which by its own account rivals the top models from Anthropic and OpenAI, and at a fraction of the cost. The reaction was brutal: within days, global semiconductor stocks lost around 3.3 trillion US dollars in value. The Philadelphia Semiconductor Index slid more than 20 percent below its June high and into a bear market — the worst weekly rout for chipmakers since the DeepSeek shock of early 2025. Nvidia temporarily ceded its title as the world’s most valuable company to Apple.

This “fun fact” is a reminder that, for all its billions, the industry is still in its infancy: independent tests attributed a hallucination rate of around 51 percent to the wonder model “Kimi K3” — meaning, roughly speaking, that every second answer is simply made up.
Investors are increasingly asking whether the gigantic AI outlays will ever pay off. When Alphabet raised its 2026 capital spending to 205 billion US dollars and reported a negative free cash flow for the first time since its IPO, the stock plunged seven percent — despite cloud growth of over 80 percent.

To finish, some good news — of all places, from the tariff dispute. After the US Supreme Court declared Trump‘s reciprocal tariffs illegal in February, Washington is paying it back: more than 86 billion US dollars worldwide since April. Swiss companies, which at times had to fork out 10 to 39 percent, are benefiting too — and the money is flowing back surprisingly fast, often within four weeks. Breitling, for instance, reports a 100 percent refund. One bitter note remains: no one recovers the business that was lost. Swissmem estimates tariff-related export losses in 2025 at around one billion francs. The money comes back; the customers do not always.

Market Review as of	28.07.2026	Performance (in local CCY)		
		actual Price	July	YTD
Currencies	EUR/CHF	0.9337	1.02	0.21
Performance in %	USD/CHF	0.8194	1.32	3.34
	EUR/USD	1.1394	-0.31	-3.06
	USD/JPY	163.5200	0.80	4.56
Money Market - Yields	CHF Saron 3M	0.0	0.00	0.04
Yield Trend	EUR Euribor 3M	2.4	0.12	0.42
	USD SOFR 3M	3.8	0.10	0.18
Government Bond - Yields	CH Govt 10Y	0.4	0.12	0.09
Yield Trend	DE Govt 10Y	3.1	0.24	0.25
	US Govt 10Y	4.6	0.14	0.44
Corporate Bond - Yields	EU Corp	3.7	0.22	0.45
Yield Trend	US Corp	5.4	0.21	0.60
Spreads	US Yield Spreads (10Y-2Y)	0.32	0.03	-0.37
	EU Yield Spreads (10Y-2Y)	0.36	0.02	-0.38
	CH Yield Spreads (10Y-2Y)	0.29	0.06	-0.08
	Credit Markup Italy (to GE)	0.80	0.03	0.10
Equities	SMI	14'553	2.66	13.05
Performance in %	SPI Extra	6'517	-0.59	8.29
	EuroStoxx 50	6'251	-0.49	11.14
	DAX	25'369	1.87	3.98
	S&P 500	7'429	-0.88	9.21
	NASDAQ 100	27'763	-8.28	10.34
	TOPIX	3'974	-0.78	17.66
	MSCI EM	1'583	-7.91	14.18
Commodities	GOLD	4'034	0.54	-6.71
Performance in %	Erdöl WTI	82	14.04	38.04
Traded Volatility	VIX (Volatility S&P 500)	18	10.70	21.81



Source: Survista Financial Advisors

OUTLOOK

A MARKET THAT HAS ALREADY TICKED THE RISKS OFF

July delivered a rare picture: two of the world economy's chokepoints are blocked at the same time. The Strait of Hormuz remains closed — and in the Red Sea the Houthis are attacking the very tankers that would normally be the alternative route. It has been decades since both oil arteries were hit at once — usually one route serves as the emergency exit for the other. You would expect turmoil. The opposite is the case — and that is exactly what gives us pause.

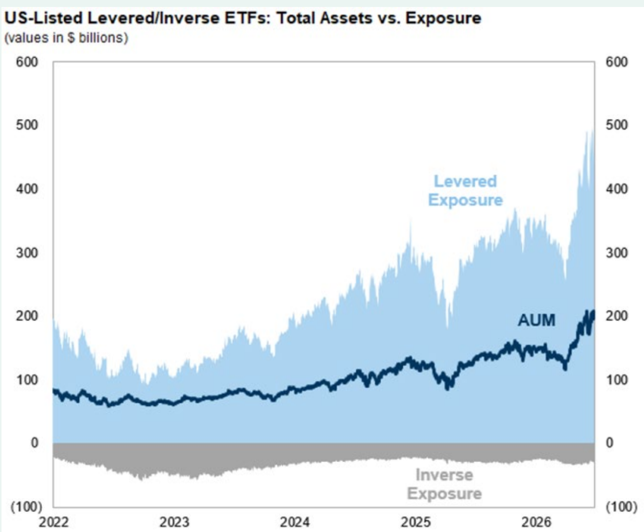
For this is not merely about headlines, as the physical market confirms: across the entire commodity complex, a premium is being paid for immediate over later delivery, led by energy. Whoever can deliver a barrel today is paid extra for it — the classic signature of genuine scarcity, not of speculation. And as long as the chokepoints stay narrow, so does this premium.

All the more astonishing, then, is how calmly the market looks past it. The oil futures curve prices in a swift return to lower prices — an assumption, not a forecast, because historically, fast and clean declines after a real supply shock are the exception, not the rule. The same picture in the bond market: traded inflation expectations barely move. In our view they reflect less a belief in low inflation than trust in the central bank — comfortable, until that trust breaks. The rates market, for its part, again expects slightly rising rates over the next twelve months.

So much for the skepticism — in fairness, earnings season is proving the optimists right for now. US profits keep rising, and across the sectors far more companies are beating expectations than missing them. Estimates for 2027 are being revised steadily upward, too. The catch: there is no sign of higher energy costs in them. Someone will have to correct — the analysts or the price. On top of that, valuation and interest rates have decoupled. Equities are expensive even though rates have risen. The extra return for equity risk — the risk premium — has shrunk to almost nothing.

That said, comparing valuations over time is increasingly difficult, because it is no longer the same index. The largest US corporations today are higher-margin, less capital-intensive and less energy-intensive than 25 years ago. That does justify a higher valuation — but it does not abolish the risk; it merely shifts it from the balance sheet into the valuation.
What makes us cautious in all of this is the foundation of this confidence: it is increasingly bought on credit. The volume of leveraged equity ETFs is hitting record highs. Leverage is wonderful on the way up and merciless on the way down — it thins the buffer for the first disappointment.

The overall picture is therefore clear: the scarcity is real, the market prices it as an episode, the cushion is thin and borrowed. We see no reason to turn our backs on equities — the profits are real, and corporate quality has genuinely improved. But the risk premium no longer pays for the risks on the table. For us that means: stay invested, but selective; keep real assets and inflation protection; and treat hedging as what it is — cheap insurance in a market that prices the risks as if they were already solved.



Source: Survista Financial Advisors

FOCUS

HOW CLOs FIT INVESTORS PORTFOLIOS IN THE CURRENT MARKET ENVIRONMENT

GUEST ARTICLE – YMER: For years structured credit has been one of the most stigmatised corner of credit markets, this is despite thriving in very different credit markets over many years. In 2008, the word "CDO" became shorthand for everything that had gone wrong in structured finance. Eighteen years on, the instrument most often confused with it, the CLO, has quietly compounded through multiple market shocks thanks to strong performance, stable structural features and credit selection. We think the data, not the headline, deserves the final word.

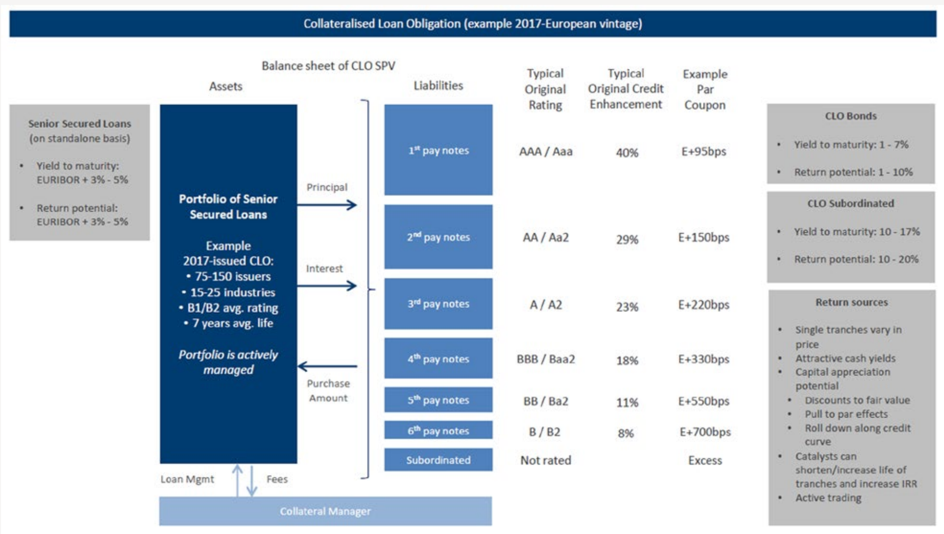
CONVICTED BY ASSOCIATION

There is often some confusion among non specialist investors that CDOs and CLOs are the same. The CDOs that suffered in 2008 were, for the most part, pools of subprime mortgage-backed securities with highly correlated, frequently re-securitised and largely opaque structures to the investors holding them. Often very little thought would go into selecting the appropriate collateral backing these bonds. A CLO is a different proposition: it offers a diversified pool of over 150 senior secured loans extended to real and often well-known operating companies, profitable and performing, across dozens of industries, actively managed within strict concentration and quality limits from day one. All loans in a CLOs must be to medium and large sized companies and must be rated individually by one or two rating agencies like Moody's, S&P or Fitch. The loans backing CLOs are also broadly syndicated and with an active secondary market that provides transparency on pricing. A European CLO moreover is diversified across countries where companies operate. The two products share an acronym but in terms of credit exposure, which is what truly drives performance, almost nothing else.

The track record bears this out starkly. According to S&P Global Ratings, no senior CLO tranche (generally AAA rated) has ever defaulted in the history of the market, dating back to 1996, a span that includes the Global Financial Crisis ("GFC") itself, the European Sovereign Crisis, the COVID shock, the 2022 rate-hiking cycle and others. The global CLO market has grown to be in excess of $1.3 trillion outstanding today.

STRUCTURE EVOLVED, STIGMA NOT

The historical performance of CLOs has been solid. In addition to that, the CLO market has learned from the sustained stress test to issue even more conservative transactions.



Source: Survista Financial Advisors

The CLOs issued today have benefited from the GFC in the sense that the post-crisis generation of deals, known in the market as CLO 2.0, carries less structural leverage, more subordination beneath every rated tranche, shorter reinvestment periods, and meaningfully stricter collateral quality and diversification tests.
Risk-retention rules introduced after the GFC require managers to keep skin in the game, aligning their interests directly with noteholders. The result: across nearly 19,000 tranches rated by S&P between 2010 and 2024, BB-rated CLO debt defaulted at an average annual rate of just 0.04%, and B-rated debt at 0.16%. Far below the default rates of similarly rated corporate bonds over the same period.

STABLE CASHFLOWS

The underlying collateral in CLOs are first-lien, senior secured loans that sit at the very top of a borrower's capital structure, ahead of unsecured bonds, ahead of subordinated debt, ahead of Private Equity. Historically, the vast majority of first-lien loans have performed well.

Over time, CLOs are expected to experience some loans running into issues and in some cases even default. This is where the Equity capital in the company, i.e. the Private Equity investment, would be in serious trouble and take a large hit or be fully written down. Even in the case where a small minority of loans run into such issues, senior secured loans have recovered in the region of 65-70% of invested capital following default. Investors must remember that CLOs are vehicles that at times are able to purchase loans at discount, the ability to do so acts as counterbalance to periods of volatility. The net effect of loan losses in contrast to purchases of loans at discount is what drives performance of the CLO Equity investment.

CLO EQUITY VS. PRIVATE EQUITY

Professional investors frequently compare CLO Equity with private equity when constructing alternatives allocations. The underlying exposures are not similar, but both asset classes target comparable net return profiles (low-to-mid teens) and the loans backing CLOs are often extended to PE owned companies. The structural differences, however, are fundamental and have significant implications for cash management, liquidity planning, and portfolio construction.
CLO Equity is not a promise of capital appreciation realised someday at exit. It is a cash-generating instrument from the outset. CLO Equity holders receive quarterly distributions funded by the excess spread between what the loan portfolio earns and what the CLO's own liabilities cost, historically translating into a high-teens annualised cash yield.

European CLO equity has averaged 4.3% in quarterly cash-on-cash distributions, or 17.2% annually paid in EUR on the Par amount of the CLO Equity, since 2014, ahead of the 3.6% average for the US market over the same period, equivalent to 14.4% annually in USD.

	CLO 1.0		CLO 2.0		Default %	
Original Rating Category	Original Rating Count	Default Count	Original Rating Count	Default Count	CLO 1.0	CLO 2.0
AAA	1,540	0	5,210	0	0%	0%
AA	616	1	3,996	0	0%	0%
A	790	5	3,349	0	1%	0%
BBB	783	9	3,394	0	1%	0%
BB	565	22	2,497	13	4%	1%
B	28	3	486	12	11%	2%
Total	**4,322**	**40**	**18,932**	**25**		

Source: S&P (May 2025)

Source: Survista Financial Advisors

Europe has out-distributed the US market in 42 of the last 49 quarters. In our experience the average European CLO Equity in a primary transaction has historically returned 100% of the invested capital within the 5th year of investment.

Across the full history of the European CLO 2.0 market, the median realised IRR on redeemed deals has been approximately 10%, with 93% of all deals delivering a positive return and roughly one in five exceeding 15%.

Unlike private equity or private credit, CLO Equity does not require a buyer, an IPO window, or a sponsor's blessing to return capital. For the patient investor, the structure self-liquidates as the underlying loans amortise and repay. CLO Equity has no redemption queue and no gate mechanism written into its structure, a difference that is becoming more apparent as the alternatives come under strain.

STIGMA PERSISTS

We don't think the reputational drag is irrational, it's just outdated. Fifteen-plus years of CLO 2.0 performance should have eventually convinced market participants that CLOs are an interesting asset class that can offer interesting risk-adjusted returns to investors.

- Senior secured collateral: first-lien loans, senior in company capital structure.
- Zero AAA defaults: every vintage, every crisis, since the market's inception in 1996.
- CLO Equity has high cash-on-cash yield: mid-to-high-teens annualised distributions, paid quarterly, not promised at exit.
- No exit dependency: the structure self-liquidates, no mark to market triggers, no IPO window, no redemption gate.
- Structurally improved: CLO 2.0 reforms mean today's deals are not the deals of 2007.

To date, CLO Equity remains a market of few active participants, which requires familiarity with complex documentation, the build out of proprietary data to evaluate transactions and market expertise to source the right deals. Alpha accrues to investors who can execute well across these different points, can actively drive liability optimisation solutions and has the right capital for the product to take advantage of period periods of market uncertainty.

CURRENT ENTRY POINT

Two distinct shocks compressed CLO Equity marks at the end of 2025 and in the first quarter of 2026. AI-driven disruption fears triggered a broad repricing of the software and technology loan sectors. In this context, the following onset of US/Israeli military operations in Iran pushed credit spreads wider across risk assets.

The Morningstar LSTA European Leveraged Loan Index fell from a price of 96.66 to price of 94.48 approximately in Q1 2026, creating mark to market volatility in the CLO Equity space. For long-horizon investors, these conditions have historically created attractive entry points that drove subsequent vintage outperformance.

The combination of 2025 spread widening and the Q1 2026 dislocation has meaningfully repriced CLO Equity marks versus the compressed environment of late 2024. Investors entering at lower marks capture both the discount and the normalised carry trajectory as spreads recover.

As an increasing number of deals exit their non-call periods - typically 1.5 to 2 years from issuance - CLO Equity holders gain access to the refi/reset toolkit. AAA liability spreads, while they widened modestly in Q1 2026, are recovering making certain resets accretive to the CLO Equity holders.

Euribor remains north of 2% which is a relatively elevated level, providing an attractive base for floating-rate carry on the collateral pool. It is a constructive environment with limited borrower stress and with sustained CLO Equity distributions.

Source: Survista Financial Advisors

CONTACT

Eriya AG
Schifflände 22, CH-8001 Zurich
info@eriya.ch
+41 43 544 11 90
www.eriya.ch