

ANALYSIS REPORT

Switzerland and Japan

Two systemic-risk regimes and their investment opportunities

UBS, banking regulation, the Takaichi revolution and the JGB market

Integrated analysis of two dossiers — the UBS capital compromise and the normalisation of Japan's rate regime — with a unified risk/opportunity reading for CHF-denominated portfolios

Analysis report — 2 September 2026

Table of contents

Table of contents	2
Executive summary	4
1. The common thread: the end of an old equilibrium	5
1.1. Two systemic-risk regimes	5
1.2. From the Credit Suisse rescue to the UBS capital compromise	5
1.3. From Japan's deflationary regime to a new bond regime.....	6
2. Switzerland: UBS as concentrated systemic risk	7
2.1. Capital, regulation and leverage.....	7
2.2. Three scenarios for UBS equity	7
2.3. Opportunities and risks for the UBS shareholder.....	8
2.4. Swiss equity beyond UBS.....	8
3. Swiss fixed income.....	10
3.1. Government bonds: an insurance function.....	10
3.2. Swiss AT1s: the real point of attention	10
4. Japan: the Takaichi revolution and the new bond regime	11
4.1. From the reflation trade to the fiscal-risk trade.....	11
4.2. The dynamics of public debt	11
4.3. Opportunities in Japanese equities	11
4.4. The equity risk loop	12
5. JGBs: yield, duration and opportunity.....	13
5.1. Decomposing the yield	13
5.2. Duration and price scenarios.....	13
6. Global chain reaction and the role of the yen.....	14
6.1. The capital-repatriation mechanism	14
6.2. JPY: the discriminating signal	14
7. Direct comparison: Switzerland vs Japan	15
7.1. Equity.....	15
7.2. Government bonds.....	15
8. Scenario construction for macro outcomes	17
9. Hierarchy of opportunities and portfolio construction.....	18
9.1. Hierarchy of opportunities	18
9.2. Four exposures for building the portfolio	18
10. Monitoring indicators.....	19
11. Two forms of "systemic leverage"	20
11.1. UBS: too big to fail	20
11.2. Japan: too much debt to ignore	20

11.3.	The tail risk: fiscal dominance	20
12.	Final risk/opportunity matrix	22
13.	Conclusions.....	24
Appendix — Formulas and methodological notes		25

Executive summary

Switzerland and Japan are the protagonists of two seemingly distant dossiers — the parliamentary negotiation over UBS's capital requirements and the break above 3% in Japan's ten-year yield — which, seen through an investor's eyes, share the same underlying question: **how much risk can a system take on before state intervention becomes necessary?** In Switzerland, the risk is concentrated in the balance sheet of a single systemic bank; in Japan, in the sovereign balance sheet and the government bond market. It is the difference between the «*too big to fail*» problem and the «*too much debt to ignore*» problem.

Table 1 — summary comparison of Switzerland and Japan by asset class and risk factor.

Dimension	Switzerland	Japan
Equity	● relatively attractive	● attractive but more cyclical
Government bonds	● defensive, limited yield	● growing opportunity, high duration risk
Financial bonds	● particular caution on AT1s	● selectively attractive
Macro risk	low / moderate	high
Policy risk	concentrated on UBS / regulation	very high
Currency	CHF = defensive element	JPY = potential upside, high volatility
Main catalyst	resolution of the UBS dossier	BoJ normalisation + reflation
Main risk	regulatory / systemic misstep on UBS	fiscal dominance + bond sell-off

Legend

- positive / favourable assessment
- neutral or mixed assessment — requires attention
- negative assessment / high risk

In risk/return terms, Japan currently looks more attractive for an investor willing to take on macro risk; Switzerland remains more attractive as a defensive, quality portfolio component.

The distinction that matters most for portfolio construction, however, is this: **in Japan the bigger risk is that the bond market forces the government to revisit fiscal policy; in Switzerland the bigger risk is that regulatory policy fails to find the balance between system safety and UBS's competitiveness.**

1. The common thread: the end of an old equilibrium

The two dossiers tell, on the surface, two opposite stories. In Switzerland: Credit Suisse runs into crisis, is absorbed by UBS, the state responds by raising capital requirements, UBS negotiates, Parliament brokers a compromise. In Japan: decades of deflation and zero rates, the Bank of Japan (BoJ) buys government bonds on a massive scale, artificially compressing yields, inflation returns, the BoJ is forced to normalise monetary policy and JGB (Japanese Government Bond) yields surge. The underlying economic mechanism, however, is the same: a long period of apparent stability breaks when the market once again demands a price for a risk that had, one way or another, been compressed or underestimated.

1.1. Two systemic-risk regimes

Japan has public debt above 200% of GDP; UBS has a balance sheet exceeding \$1.7 trillion, larger than the entire Swiss economy. These are two distinct forms of systemic leverage, but both pose the same question about the system's capacity to absorb an unforeseen loss without direct state intervention.

The problem, in both cases, is one of tail risk: not how much risk exists today, but how much risk the system — banking in Switzerland, fiscal in Japan — can absorb before extraordinary public action becomes necessary.

1.2. From the Credit Suisse rescue to the UBS capital compromise

The 2023 Credit Suisse crisis is the starting point of the Swiss dossier. The rescue, which involved writing down roughly CHF 16-17bn of AT1 bonds, made UBS an even more systemic bank: its balance sheet now exceeds the entire Confederation's GDP. Hence the federal government's proposal to strengthen capital requirements on foreign subsidiaries, UBS's pushback — which estimates an incremental need of between \$13bn and \$20bn depending on the version of the proposal — and the ongoing parliamentary mediation through the WAK-S committee.

From the Credit Suisse rescue to the UBS capital compromise

How a banking-crisis event turns into a multi-year regulatory dossier
feedback loop / systemic risk

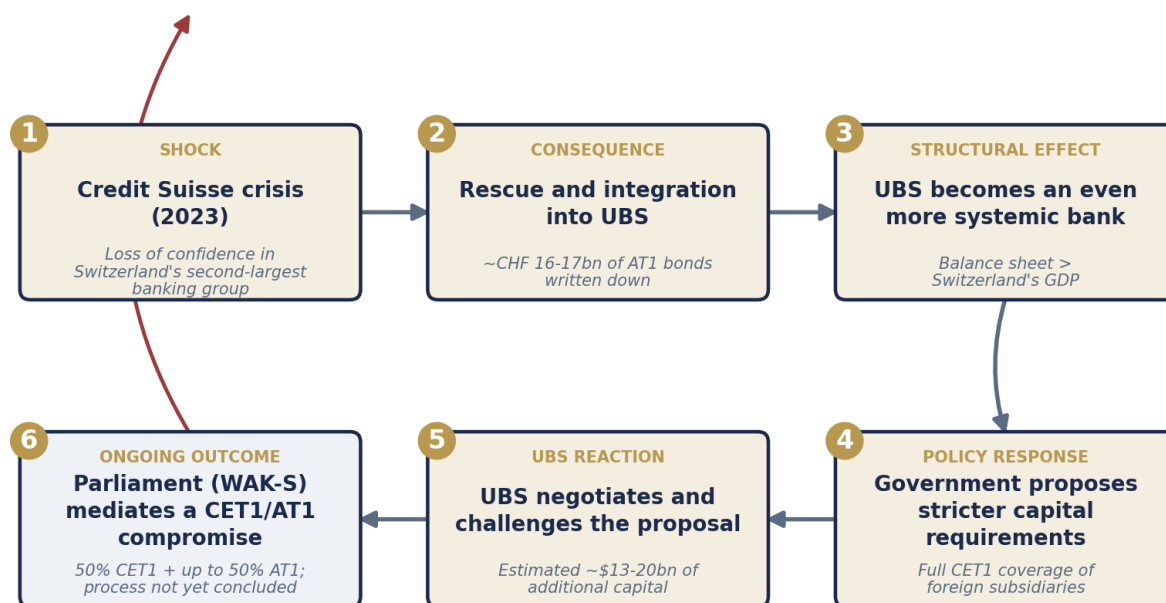


Figure 1 — from the Credit Suisse rescue to the UBS capital compromise, with the risk of a systemic feedback loop should the compromise prove insufficient.

1.3. From Japan's deflationary regime to a new bond regime

Japan's path is symmetrical and equally long. Decades of deflation and zero rates led the BoJ to buy JGBs on a large scale, artificially compressing yields through explicit yield curve control. The return of inflation — accelerated by Prime Minister Sanae Takaichi's expansionary fiscal policy — made that regime unsustainable: the BoJ began a gradual monetary normalisation, and the ten-year JGB yield broke through 3% in early September 2026, the highest level since 1996, with 20- and 30-year yields rising even more.

From Japan's deflationary regime to a new bond regime

The macro-monetary transition behind the Takaichi revolution

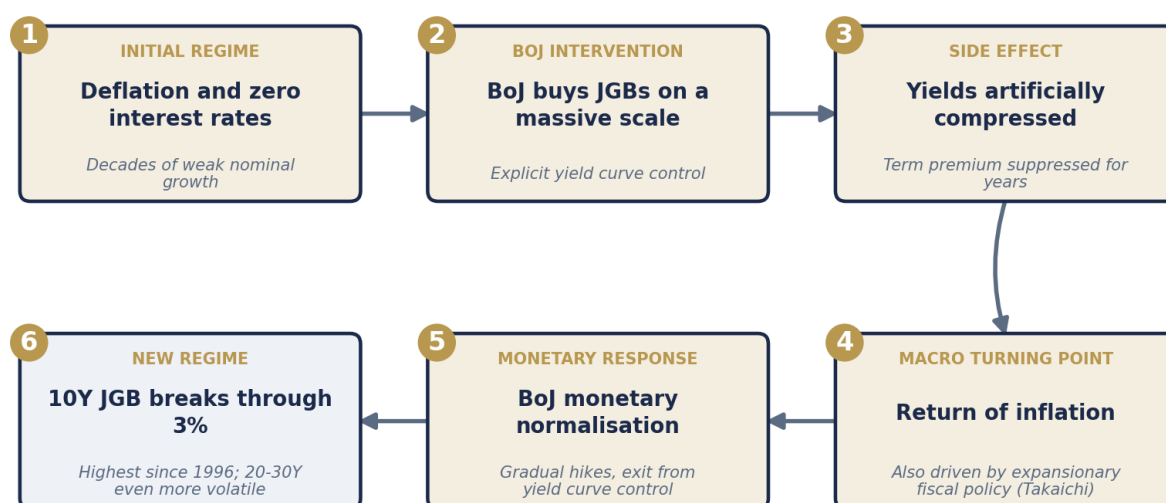


Figure 2 — Japan's macro-monetary transition, from yield curve control to the new bond regime.

2. Switzerland: UBS as concentrated systemic risk

2.1. Capital, regulation and leverage

The crux of the Swiss dossier is how much quality capital should sit upstream of a systemically important bank. According to UBS, the WAK-S parliamentary committee's proposal would require foreign subsidiaries to be backed by 50% CET1 and up to 50% AT1, versus the current regime allowing 45% CET1 and 15% AT1: an incremental Tier 1 need estimated at around \$13bn, potentially met largely through AT1 rather than new equity. The government's initial proposal, which called for full CET1 coverage, would have implied around \$20bn of additional capital: the parliamentary compromise is therefore already a significant softening, though the process is not yet concluded.

From the shareholder's standpoint, being able to use AT1 instead of new CET1 reduces dilution risk and improves capital efficiency. From a systemic standpoint, however, CET1 remains the primary loss-absorption buffer: less CET1 means higher economic leverage for the same balance sheet.

$$ROE = \frac{\text{Net Income}}{\text{CET1}}$$

Equation 1 — return on equity (ROE) is, by construction, inversely related to the amount of CET1 held.

The very decision that raises the shareholder's potential return therefore also raises the investment's tail risk: less capital tied up means higher leverage and a reduced capacity to absorb a new shock.

$$\text{Leverage} \uparrow \Rightarrow \frac{\text{CET1}}{\text{Assets}} \downarrow \Rightarrow ROE \uparrow \Rightarrow \text{Loss} - \text{absorption buffer} \downarrow$$

Equation 2 — the leverage–capital–profitability–resilience chain: every reduction in the capital buffer translates, all else equal, into higher potential returns and a lower capacity to absorb losses.

The issue is particularly sensitive after Credit Suisse: in the 2023 rescue, around CHF 16-17bn of AT1 bonds were written down, and the matter remains in litigation. That precedent made the regulatory and political risk of AT1s a distinct investment variable from ordinary credit risk — one to be priced explicitly, not simply inferred from the spread.

2.2. Three scenarios for UBS equity

The outcome of the capital dossier can be summarised in three scenarios, with very different implications for shareholders.

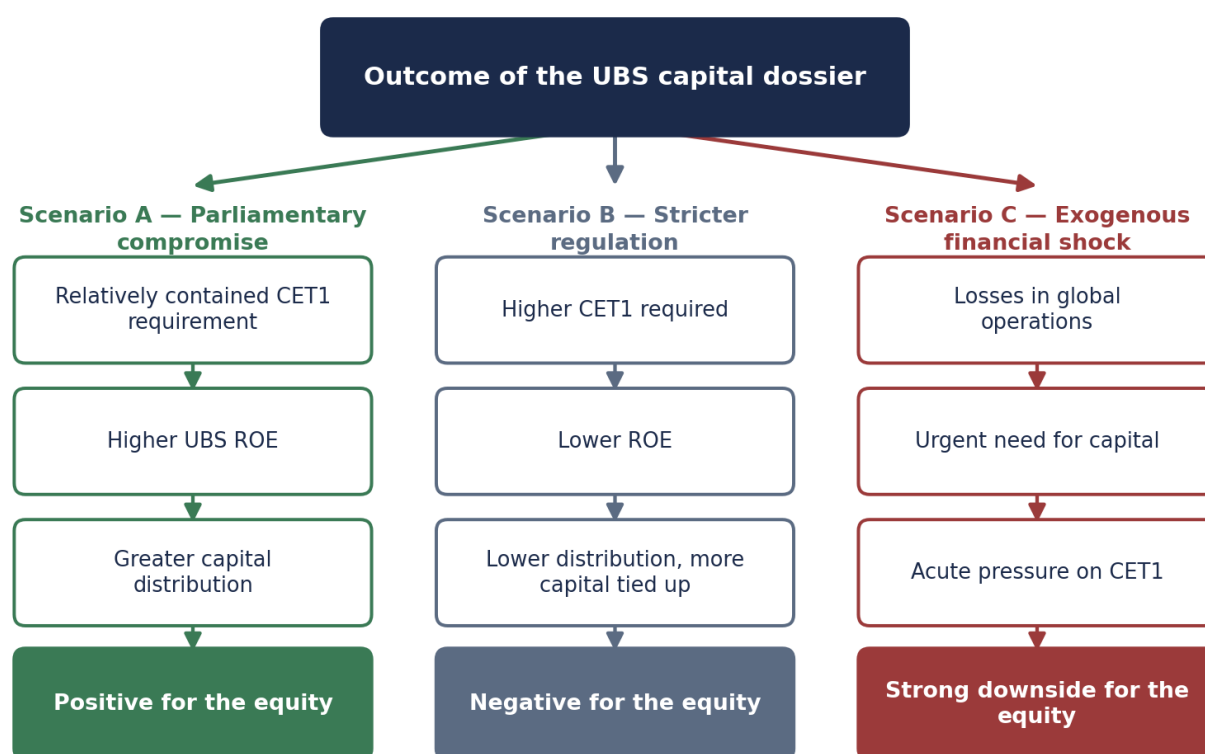


Figure 3 — the three scenarios for the UBS capital dossier and their impact on the equity.

The important point is that Scenario A (compromise) and Scenario C (exogenous financial shock) are both plausible over the same time horizon: the Swiss National Bank continues to argue that full CET1 coverage of foreign subsidiaries is necessary precisely because the Credit Suisse crisis exposed the vulnerability of the previous framework. The UBS equity investor is therefore also being compensated for the risk that the bank remains a point of systemic concentration.

2.3. Opportunities and risks for the UBS shareholder

The main drivers of the UBS opportunity can be summarised in four points:

- lower CET1 requirement and therefore lower dilution risk for existing shareholders;
- greater capital-structure efficiency, with more room for AT1;
- potential ROE improvement at unchanged operating profitability;
- greater visibility on capital return should the regulatory framework stabilise.

UBS should nonetheless be treated as a **tactical** rather than a structural position: the implicit premium also compensates for the risk that regulation, litigation or politics reshape the picture again before the current compromise is finalised.

2.4. Swiss equity beyond UBS

The UBS case should not be generalised to the entire Swiss equity market. Outside the financial sector, the Swiss equity universe retains its traditional combination of pricing power, solid balance sheets, high cash flow and global exposure — qualities that, in risk-off scenarios, come alongside the franc's role as a safe-haven currency.

Table 2 — segments of Swiss equity outside UBS: catalysts, risks and profile.

Segment	Catalysts	Risks	Profile
Healthcare / pharma	Pricing power, global demand	Valuation, regulation	Quality / defensive
Consumer staples	Cash flow, brand strength	Valuation, strong CHF	Defensive
Industrials	Automation, global cycle	Cycle, international trade	Cyclical quality
Financials / UBS	Capital return	Leverage, systemic / regulatory risk	Tactical

A valuation issue remains, though: Switzerland's defensive qualities are well known and normally already priced in. The relevant question for the investor is not whether Switzerland is «safe», but how much one is paying for that safety.

3. Swiss fixed income

3.1. Government bonds: an insurance function

With the SNB's policy rate at 0% and the central bank explicitly ready to intervene in currency markets to counter excessive franc appreciation, Swiss Confederation bonds mainly serve a protective, liquidity function rather than an absolute-return one. In a scenario of geopolitical crisis, global recession or a new banking crisis, flows into the Swiss franc tend to support demand for Swiss government bonds and compress their yields further, generating capital gains (on bond prices) precisely when the rest of the portfolio needs it most. In effect, Switzerland would still be able to provide the negative correlation between bond and equity prices that, in every other context, appears to have broken down (and has for quite some time now¹).

Swiss government bonds = portfolio hedge, not necessarily a total-return investment.

The flip side is that, in a period of global reflation² with rising international yields, the potential for capital gains on Swiss bonds remains structurally limited: the modest nominal yield is the price paid for the insurance function.

3.2. Swiss AT1s: the real point of attention

Swiss AT1s can offer an elevated yield, but they are not comparable to senior bonds. The risk includes trigger thresholds that force conversion into equity or the write-down of the bond's face value, coupon suspension and — especially after Credit Suisse — direct regulatory intervention. The 2023 precedent made explicit that the risk of these instruments is not only issuer default, but also a regulatory change that alters their treatment in a crisis. The yield premium on offer today should therefore also be read as compensation for a political-regulatory risk distinct from ordinary credit risk, not simply as compensation for subordination of the instrument.

¹For those in the industry, 2022 should still be quite fresh in memory.

²Reflation is the process by which an economy exits a period of deflation or excessively low growth/inflation and returns to healthy nominal growth with moderate, positive inflation. It is the current phase of the Land of the Rising Sun's economy, which we will discuss further below.

4. Japan: the Takaichi revolution and the new bond regime

4.1. From the reflation trade to the fiscal-risk trade

Japan is moving from a regime of deflation, extremely low rates and tight curve control to a regime of monetary normalisation, positive inflation and greater market sensitivity to fiscal risk (*reflation*). Prime Minister Takaichi's fiscal spending can initially support growth and corporate earnings; but if the economy is already running with positive inflation, that same spending raises the odds of further BoJ hikes, and higher rates in turn raise the marginal refinancing cost of an already very large debt stock.

4.2. The dynamics of public debt

With debt above 200% of GDP, even persistent and seemingly small changes in the gap between the cost of debt and nominal growth can produce material effects on the fiscal trajectory.

$$\Delta\left(\frac{D}{Y}\right) \approx (r - g) \cdot \frac{D}{Y} - PB$$

Equation 3 — dynamics of the debt/GDP ratio: D/Y is debt over GDP, r the effective average cost of debt, g nominal growth, and PB the primary balance over GDP.

The 3% level on the ten-year is therefore not just a more attractive yield for investors: it is also a test of the fiscal trajectory's sustainability. If market yields settle durably above the assumptions built into the public budget, debt service becomes a growing political constraint, not merely an accounting variable.

4.3. Opportunities in Japanese equities

The most interesting aspect of the current regime is that Japanese equities can benefit from the regime shift precisely while fixed income suffers from it. The main drivers are:

- reflation and pricing power³ after decades of deflation;
- capex⁴ supported by automation, semiconductors and industrial policy — corporate investment grew 1.6% y/y in the second quarter of 2026, with recurring profits up 24.6% and a record ¥44.7 trillion;
- potential benefit for banks and insurers from a more normal rate curve, with an improving net interest margin;
- corporate governance, buybacks⁵ and greater discipline in capital allocation.

The risk arises when rate normalisation becomes disorderly and multiple compression, driven by higher real rates, outpaces earnings growth.

³A company's ability to raise the prices of its products/services without customers stopping buying them.

⁴Capex (capital expenditure) is spending on fixed-capital investment — durable assets a company will use for years — as opposed to opex (operating expenditure), i.e. ongoing running costs (salaries, rent, raw materials). A company that increases capex is betting on its own future: it is expanding its productive capacity, not merely paying today's bills.

⁵When a company uses its own cash to repurchase its shares on the market, thereby reducing the number of shares outstanding to improve per-share profitability, or to distribute profits. Japanese companies — historically famous for hoarding unused cash on their balance sheets — are starting to return more capital to shareholders through buybacks, an important cultural shift also driven by the Tokyo Stock Exchange in recent years.

4.4. The equity risk loop

The same fiscal stimulus that generates reflation and earnings growth can, if not managed gradually, trigger a disorderly normalisation loop that ends up weighing on equity valuations.

The risk loop for Japanese equities

The same stimulus that drives reflation can trigger a disorderly normalisation cycle

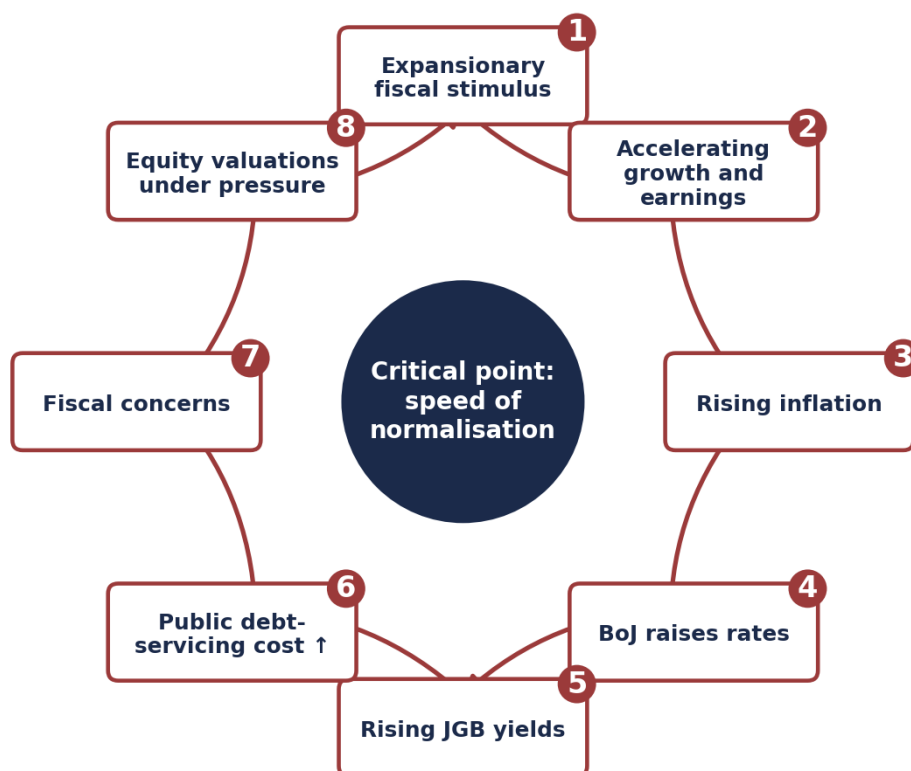


Figure 4 — the risk loop for Japanese equities: the same fiscal stimulus can generate either reflation or instability.

5. JGBs: yield, duration and opportunity

5.1. Decomposing the yield

At a ten-year yield close to 3%, the JGB is no longer a simple marginal-yield instrument: **duration** is once again a significant source of both return and loss. The yield level can be broken down into three components, all three currently rising:

$$y_{10} \approx E[r_{BoJ}] + E[\pi] + TP$$

Equation 4 — decomposition of the ten-year JGB yield into BoJ rate expectations (first term of the equation), expected inflation (second term of the equation), and the term/fiscal risk premium (TP).

If the market is overestimating the pace of BoJ hikes, expected inflation or fiscal risk, 3% could represent an attractive entry point; if instead the market is beginning to correctly price a structural fiscal risk, 3% could be only an intermediate stop rather than the terminal level of the move — as flagged by several analysts cited by Reuters.

5.2. Duration and price scenarios

The approximate relationship between a change in yield and a change in price, for a bond with modified duration D_{mod} , is:

$$\frac{\Delta P}{P} \approx -D_{mod} \cdot \Delta y$$

Equation 5 — approximate duration-price relationship (ignores convexity, carry and changes in the shape of the curve).

With an indicative modified duration of 8, a decline in yield from 3.0% to 2.5% implies, to a first approximation, a price gain of about 4%; a rise from 3.0% to 4.0% implies a loss of about 8%, before carry and convexity:

$$\frac{\Delta P}{P} \approx -8 \times (-0.005) = +4\%$$

Equation 6 — rally scenario: a 50-basis-point decline in yield with duration 8.

$$\frac{\Delta P}{P} \approx -8 \times (+0.01) = -8\%$$

Equation 7 — stress scenario: a 100-basis-point rise in yield with duration 8.

Table 3 — price scenarios for a JGB with a modified duration of 8.

Scenario	10Y yield	Price at D≈8	Reading
Rally	2.50%	≈ +4.0%	Less hawkish BoJ / falling term premium
Base	3.00%	≈ 0%	New market equilibrium
Stress	4.00%	≈ -8.0%	Fiscal risk / disorderly repricing

This asymmetry suggests building duration exposure gradually, initially favouring the intermediate segment (7-10 years) over 20-30 year maturities, where the term premium and fiscal premium can be structurally higher and harder to forecast.

6. Global chain reaction and the role of the yen

6.1. The capital-repatriation mechanism

Japan's risk can spread to global markets through a relatively direct channel: higher domestic yields and currency-hedging costs make repatriating capital from Japanese investments abroad more attractive. In 2026, Japanese investors sold roughly ¥3 trillion net of foreign bonds, and a J.P. Morgan survey of 82 corporate pension funds showed the strongest interest in increasing domestic bonds since 2008 — a signal that Japan could reduce its historic role as a marginal buyer of global bonds.

Japan's capital-repatriation mechanism

How Japan can export its own bond shock to global markets

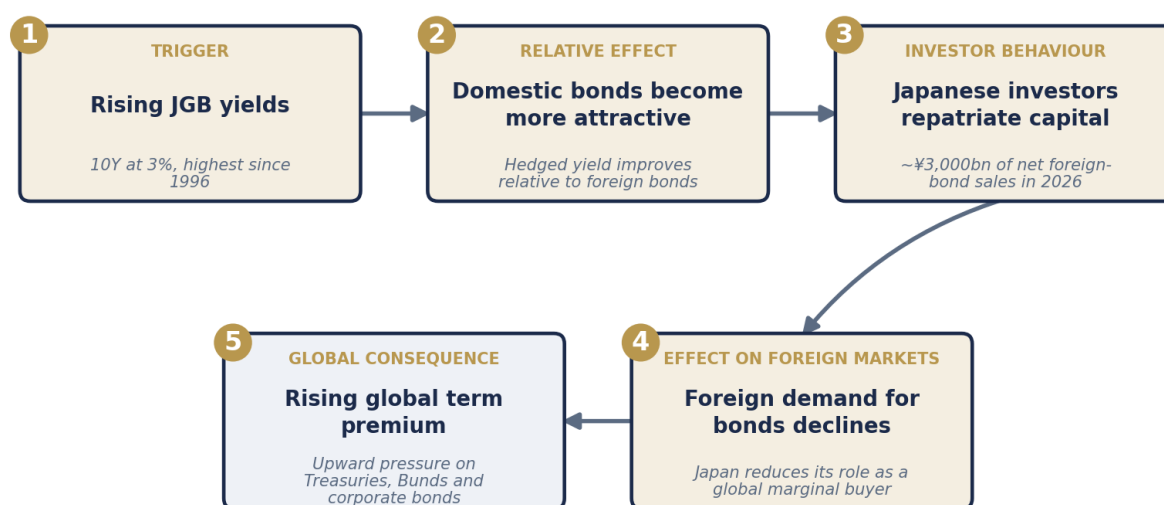


Figure 5 — the mechanism through which Japan can export its own bond shock to global markets.

6.2. JPY: the discriminating signal

The most important combination to monitor is not simply «JGB yields are rising», but the relationship between yields and the currency. Rising yields accompanied by yen appreciation signals credible monetary normalisation; the same rise accompanied by yen depreciation instead signals possible fiscal stress — a market beginning to doubt fiscal sustainability rather than rewarding higher real rates.

Table 4 — the JGB yields / JPY matrix as a discriminating signal between normalisation and fiscal stress.

JGB yields	JPY	Interpretation	Implication
↑	↑	Credible normalisation	Constructive
↑	→	Tightening without a strong FX move	Intermediate
↑	↓	Fiscal stress / risk premium	Dangerous
↓	↓	Risk-off / weak growth	Negative

7. Direct comparison: Switzerland vs Japan

7.1. Equity

Table 5 — direct comparison of Swiss and Japanese equity across the main macro and corporate dimensions.

Dimension	CH Switzerland	JP Japan
Growth	low / moderate	potentially accelerating
Inflation	very low	structurally higher
Corporate margins	high	improving
Politics	relatively stable	much more aggressive
Currency	strong CHF	weak JPY
Fiscal risk	low	high
Banking risk	systemic UBS	more distributed
AI / capex ⁶	medium	high
Risk / reward	medium	high

Japan > Switzerland on capital-appreciation potential. Switzerland > Japan on predictability.

7.2. Government bonds

Table 6 — direct comparison of Swiss and Japanese government bonds.

Dimension	CH Switzerland	JP Japan
Yield	very low	≈ 3% at 10 years
Default risk	extremely low	low
Inflation risk	low	medium / high
Duration opportunity	low	high
Currency hedge	defensive CHF	volatile JPY
Fiscal risk	very low	high
Capital gain potential	low	potentially high
Tail risk ⁷	low	high

⁶A shorthand label for "capital investment linked to artificial intelligence" — i.e. how much companies in a given country are investing in (or benefiting from investment in) AI-related infrastructure: semiconductors, data centres, servers, automation systems, specialised chips, etc.

⁷"Tail risk" refers to the risk of rare events with a very severe impact.

On this dimension the result is almost the opposite of equities: Japan is far more attractive in terms of yield and capital-gain potential, but also far riskier in terms of duration and fiscal risk. The possible summary is: Switzerland is bought for quality and protection; Japan is bought to participate in a regime transition.

8. Scenario construction for macro outcomes

The matrix below is qualitative: it represents relative sensitivities across asset classes and scenarios, not a point forecast of returns. UBS risk and JGB risk remain distinct in their origin, but in a global shock they can interact through liquidity, funding and *repricing* channels across financial assets.

Table 7 — qualitative sensitivity of the main exposures under five macro scenarios.

Scenario	Swiss equity	Swiss govt	UBS equity	Swiss AT1	Japan equity	JGB 7-10Y	JPY
Soft landing / stability	↑	→	↑	↑	↑↑	↑	↑
Inflation normalisation	→ / ↑	↓	↑	→	↑↑	↑ / →	↑
Japan fiscal stress	→	↑	→	→	↓	↓↓	↓
Global risk-off	↓ / →	↑↑	↓	↓↓	↓	↑	↑ / ↓
UBS: eased regulation	→	→	↑↑	↑	→	→	→

9. Hierarchy of opportunities and portfolio construction

9.1. Hierarchy of opportunities

Table 8 — hierarchy of opportunities in order of priority, with rationale and main risk.

Priority	Exposure	Rationale	Main risk
1	Japanese equity	Earnings upside + rerating	Macro / BoJ / valuation
2	JGB 7-10Y	Yield + potential capital gain	Duration / fiscal risk
3	Swiss quality equity	Quality, cash flow, resilience	Valuation / strong CHF
4	UBS equity	Regulation + capital-return optionality	Systemic / regulatory
5	Swiss govt bonds	Hedge + liquidity	Low carry
6	Swiss / UBS AT1	High carry	Write-down / trigger / regulation ⁸

9.2. Four exposures for building the portfolio

Rather than a simple split «X% Switzerland + X% Japan», it is preferable to build four distinct exposures, each with a precise function in the portfolio.

A — Swiss defensive equity

Global Swiss companies with solid cash flow and pricing power. **Function:** quality, defensive component of the portfolio.

B — UBS equity

A smaller, tactical position, with position sizing that explicitly reflects the residual systemic risk. **Function:** regulatory resolution, capital return, banking rerating.

C — Japanese equity

Preference for industrials, automation, robotics, semiconductors, financials and companies benefiting from capex. **Function:** reflation, capex, nominal growth.

D — Japanese government bonds

Initial preference for intermediate duration (7-10 years) rather than immediately concentrating risk in 20-30 year maturities: the short end mainly prices in expectations of BoJ *tightening* (monetary restriction), the very long end mainly prices in fiscal risk, while the 7-10 year segment is where one can benefit from the stabilisation of the monetary cycle without taking on the full fiscal premium. **Function:** tactical yield and potential capital gain, built up gradually.

⁸A write-down is the reduction of an AT1 bond's value to zero.

10. Monitoring indicators

Nine indicators make it possible to track the evolution of the two dossiers quarter by quarter, distinguishing an orderly normalisation path from a deterioration that would require revising the hierarchy of opportunities presented earlier.

Table 9 — *monitoring indicators for the Swiss regime and the Japanese regime.*

Indicator	Positive signal	Warning signal
JGB 10Y	Stabilisation	Break above 3.5-4%
JGB 30Y	Stable term premium	Acceleration at long maturities
JPY	Orderly appreciation	Depreciation alongside rising yields
Core inflation	Moderation	Acceleration
BoJ	Gradual hikes	Forced tightening
Fiscal balance	Consolidation	Unfunded stimulus
UBS CET1	High buffer	Aggressive reduction
UBS regulation	Stable rules	Litigation / reversal
CHF	Stable / moderately strong	Excessive appreciation

11. Two forms of "systemic leverage"

This is, probably, the most important conclusion from reading the two dossiers together: UBS risk and Japan risk are two different forms of the same phenomenon — systemic leverage — but with opposite trigger dynamics.

11.1. UBS: too big to fail

TOO BIG TO FAIL

UBS is so important to the Swiss financial system that a problem specific to the bank would, in all likelihood, become a problem for the state. The risk is concentrated in a single balance sheet, of a micro-financial and regulatory nature, with spillovers primarily onto the financial system.

11.2. Japan: too much debt to ignore

TOO MUCH DEBT TO IGNORE

The Japanese state is so heavily indebted that a relatively contained change in the average cost of debt can substantially alter the fiscal trajectory. The risk is spread across the sovereign balance sheet and the government bond market, and is of a macro-fiscal and monetary nature, with spillovers primarily onto the global bond market.

11.3. The tail risk: fiscal dominance

The real threat to Japan is not the yield level itself, but the triggering of a loop in which fiscal policy ends up dominating monetary policy.

The tail risk: fiscal dominance

The risk that markets start pricing fiscal instability rather than normalisation

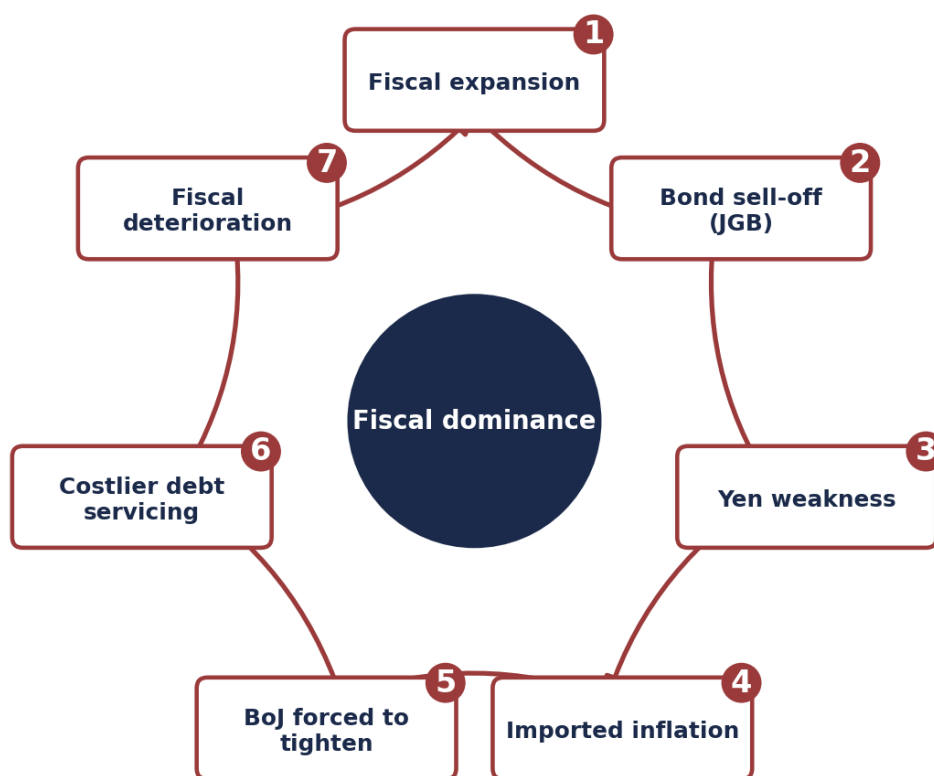


Figure 6 — the tail risk of fiscal dominance: were this loop to take hold, Japan would become a major generator of global systemic risk.

It is precisely on this terrain that the Japanese case meets the UBS case: in both instances, the decisive point is not how much risk exists today, but how much risk the market remains willing to finance tomorrow.

12. Final risk/opportunity matrix

The following three tables summarise the entire analysis with complementary readings: the first by asset class with a traffic-light rating, the other two with a star score⁹ on return, volatility, systemic risk and risk/reward.

Table 10 — traffic-light rating by asset class, Switzerland versus Japan.

Asset class	Switzerland	Japan	Opportunity	Risk
Equities	● Quality, global reach	●/● Reflation, cyclical nature	●	●
Government bonds	● Low yield, hedging function	●/● Opportunity at the 7-10Y maturity	●	●/●
UBS equity	●/● Regulatory optionality	—	●	●
Swiss / UBS AT1	● High carry	—	●	●
Currency	● CHF, safe-haven currency	● JPY, sensitive to the monetary regime	●	●/●

Legend

- positive / favourable assessment
- neutral or mixed assessment — requires attention
- negative assessment / high risk

Table 11 — star score on potential return, volatility, systemic risk and risk/reward.

Exposure	Potential return	Volatility	Systemic risk	Risk / Reward
Japanese equity	★★★★★	★★★★☆	★★★★☆	★★★★★
JGB 7-10Y	★★★★☆	★★★★☆	★★★★☆	★★★★☆
Swiss quality equity	★★★★☆	★★★★☆	★★★★☆	★★★★☆
UBS equity	★★★★☆	★★★★☆	★★★★★	★★★★☆
Swiss govt bonds	★★☆☆☆	★★☆☆☆	★★☆☆☆	★★☆☆☆
Swiss / UBS AT1	★★★★☆	★★★★★	★★★★★	★★☆☆☆

Table 12 — star score per individual asset, with a final summary verdict.

Asset	Opportunity	Risk	Verdict
CH Swiss quality equity	★★★	★★	BUY / HOLD
CH UBS equity	★★★★	★★★★	TACTICAL
CH Swiss government bonds	★★	★	DEFENSIVE

⁹Maximum value: ★★★★★; minimum value: ★.

Asset	Opportunity	Risk	Verdict
CH Swiss AT1	★★★★	★★★★★	SELECTIVE / HIGH RISK
JP Japanese equity	★★★★★	★★★★	Selective BUY
JP 2-5Y JGB	★★★	★★★	INTERESTING
JP 7-10Y JGB	★★★★★	★★★★	OPPORTUNITY
JP 20-30Y JGB	★★★★	★★★★★	SPECULATIVE
JPY	★★★★	★★★★	ASYMMETRIC

13. Conclusions

The convergence between the two dossiers runs deeper than it first appears. Switzerland and Japan represent two cases of concentrated systemic risk, but at different levels: in the Swiss case the crux is UBS, i.e. how much quality capital should sit upstream of a systemically important bank; in the Japanese case the crux is the relationship between fiscal policy, inflation, the BoJ and the JGB market.

A CET1/AT1 compromise on the UBS front can improve capital efficiency for shareholders and support ROE, but it introduces greater reliance on instruments already exposed to regulatory risk in a crisis. The break above 3% on the ten-year JGB signals that the market no longer treats Japanese rates as a purely administered variable: nominal growth, monetary policy, the term premium and fiscal risk are all being priced in.

For the investor, the key difference is this: **Switzerland is primarily a quality-and-protection strategy, with a tactical opportunity on UBS; Japan is a regime-transition strategy, with higher return potential but a wider distribution of outcomes.** The decisive variable over the coming quarters will be the quality of the move in Japanese rates: JGB yields rising alongside JPY appreciation and inflation under control would signal a constructive normalisation; JGB yields rising alongside JPY depreciation and accelerating inflation would instead signal a transition towards fiscal stress.

Final hierarchy of opportunities

1. Japanese equity — best return potential if reflation translates into nominal growth and real productivity gains.
2. JGB 7-10Y — the tactically more attractive position in risk/reward terms, to be built up gradually.
3. Swiss quality equity — a structural, defensive component of the portfolio.
4. UBS equity — potentially profitable should the parliamentary compromise prevail, with a genuine systemic-risk component.
5. Swiss government bonds — a portfolio-insurance function more than a return one.
6. UBS AT1 / Swiss banks — maximum caution: the Credit Suisse precedent demonstrates a risk that is also regulatory and political, not only credit-related.

The real opportunity in Japan is not «JGBs at 3%, so buy», but the possibility that the country moves from thirty years of deflation and financial repression to a regime of moderate inflation, nominal growth and positive real rates without losing control of its fiscal dynamics. In that case, both Japanese equities and Japanese fixed income could offer exceptional returns; should the fiscal-dominance loop instead prevail, Japan would become one of the leading generators of global systemic risk.

Appendix — Formulas and methodological notes

The formulas presented in this report are simplified representations for interpretive use. The duration-price relationship ignores *convexity*, *carry* and changes in the shape of the yield curve. The debt-dynamics equation is an approximate first-order linearisation and does not constitute a point fiscal forecast. The decomposition of the JGB yield into BoJ rate expectations, expected inflation and the term premium is an analytical breakdown useful for interpretive purposes, not a formal econometric estimate.

The market information cited in this report has been verified against public sources current as of 2 September 2026, including communications from UBS, the Swiss National Bank (SNB), the International Monetary Fund (IMF) and Reuters, together with two Financial Times articles used as the basis for the initial discussion. The flow diagrams and feedback loops presented in the text are qualitative representations of the economic mechanisms described, not calibrated quantitative models.

Disclaimer

This report expresses the personal opinion of the Custodia Wealth Management contributors who prepared it. It does not constitute investment advice or recommendations, personalised advisory services, and should not be regarded as a solicitation to carry out transactions in financial instruments.