Investment Outlook 2nd Quarter 2025

The uncertainty surrounding potential tariffs and the isolationist geopolitical stance of the U.S. government continues to create significant market volatility. In this environment, a cautious investment approach is advisable. Equity exposure should remain neutral, while bond maturities should be kept relatively short. Additionally, the U.S. dollar may face depreciation, whereas gold prices are likely to benefit from heightened uncertainty.

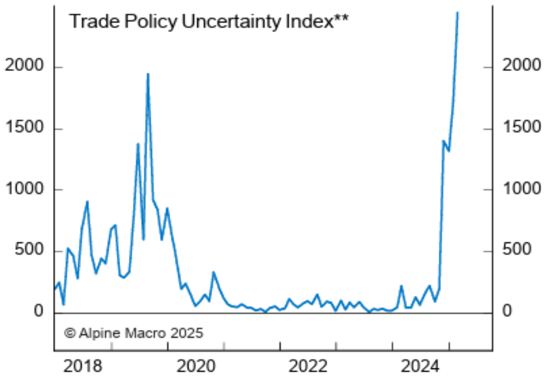
Political Environment

The implementation of tariffs by the U.S. government, along with retaliatory tariffs from trade partners, has overshadowed recent deregulation efforts. President Trump is also advocating for a paradigm shift in U.S. security policy, seeking to move the country away from ‘soft power’ and toward a more assertive ‘hard power’ approach. This shift is particularly evident in his annexation demands regarding Canada and Greenland, while simultaneously signaling to Russia and China that such annexations are permissible.

In response, European nations must significantly increase their defense spending to ensure their own security. In this regard, Germany has announced plans to substantially boost its defense budget.

Meanwhile, China is set to raise government spending to stimulate domestic demand and consumption.

Market Volatility



Uncertainty in the financial markets increased significantly in February.

Economic Outlook

The imposition of higher tariffs is expected to negatively affect global economic growth. Both consumers and producers will face rising prices and increased costs. Furthermore, the disorganized implementation of tariffs is contributing to heightened uncertainty, which may delay business investments.

In the United States, while solid economic growth is anticipated, it is likely to be dampened by the higher tariffs, although a recession is not currently expected. The trade conflict is also expected to slow economic growth in both Europe and China. However, the announced government spending programs in these regions could provide significant support to their economies.

In the long term, a reduction in global free trade is likely to result in slower growth, as tariffs lead to the misallocation of capital. Should the trade conflict escalate further, global economic growth could experience a substantial slowdown.

Interest Rates and Fixed Income

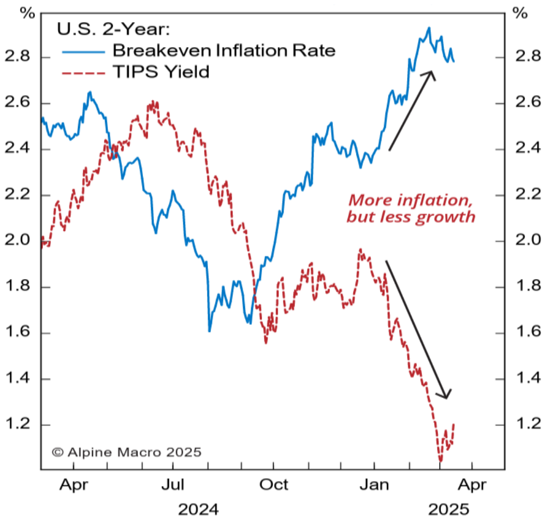
In the short term, tariffs are expected to drive inflation while simultaneously slowing economic growth, thereby creating a risk of stagflation. Given that the U.S. Federal Reserve (Fed) is unable to fully assess the broader economic impact, it is unlikely to implement significant interest rate cuts soon—especially as inflation may continue to rise in the short term. Additionally, the current inflation rate of 2.8% remains well above the Fed's target of 2%, and consumer inflation expectations have also risen.

However, in the long term, tariffs could contribute to falling prices due to weaker economic growth.

The fiscal stimulus packages announced in Germany and other countries are expected to support

economic growth in Europe, thereby reducing the potential for interest rate cuts in the eurozone.
In Switzerland, interest rates are already at historically low levels. Further rate cuts are unlikely unless the European Central Bank (ECB) enacts additional reductions.

Inflation and growth in the US



Expected inflation (breakeven inflation) has risen on the markets, while growth (TIPS yield = growth rate) is falling.

Equities

Despite the price decline on Wall Street in March, U.S. equities remain expensive by both historical and international standards. While slightly higher valuations in the U.S. may be justified by its dynamic economy, current market prices are based on optimistic expectations, which could lead to potential disappointment. The escalating trade conflict is a primary factor attracting market attention.
Conversely, Chinese and European equities may now present more attractive opportunities. After years of lackluster performance, these markets are currently trading at depressed levels, positioning them for a potential rebound.
Swiss equities offer a degree of protection against the impact of the trade war. The defensive giants—Roche, Novartis, and Nestlé—are likely to be less affected by tariffs or a potential recession.

Currency Outlook

The fiscal packages are expected to foster higher growth and maintain stable interest rates in Europe, which could strengthen the euro relative to both the U.S. dollar and the Swiss franc.

However, in the event of a recession triggered by the trade war, traditional safe-haven currencies such as the U.S. dollar, the Swiss franc, and the yen would likely benefit. It is important to note, however, that the U.S. government is actively implementing measures to weaken the dollar to gain a competitive advantage.

Asset Allocation

Given high valuations and the shift in economic growth from the United States to Europe and China, it is advisable to reallocate equity exposure away from the U.S. and towards China, Europe, and Switzerland (for risk diversification purposes).
Overall, however, equity holdings should be reduced.
The bond allocation and the maturities of bonds should remain neutral. Gold continues to serve as a hedge against geopolitical risks.