

Cham, April 8th 2025

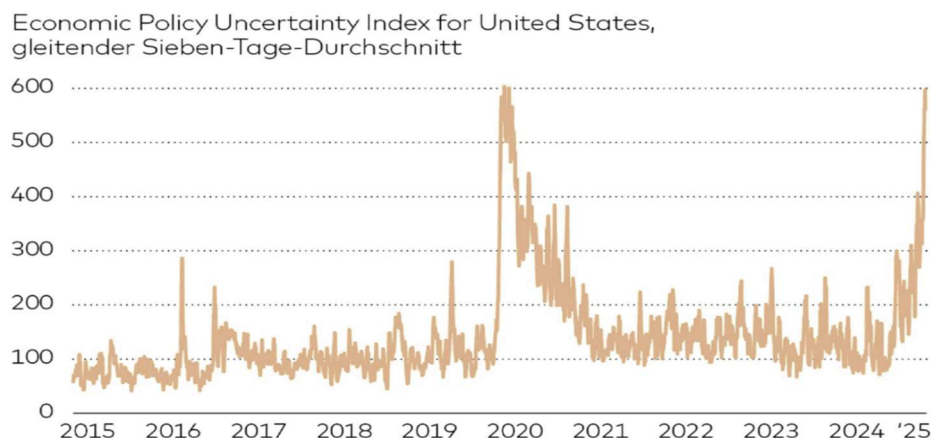
Outlook into the 2nd Quarter 2025

Intentional uncertainty as a political program

The daily threats from the White House now dominates the financial and business news. The new US President's simplistic political style is bringing unrest to global trade. The entry into the second quarter of 2025 therefore requires market participants to maintain a steady nerve. Starting in mid-April, investors' attention will increasingly be drawn to corporate results for the first quarter. Expectations are high, and after the stock market correction of recent weeks, stock valuations appear neutral in comparison to bond yields. Recently, the high stock valuations have to be justified by rising profits. The current market is not driven by corporate profits, but the near future outlook.

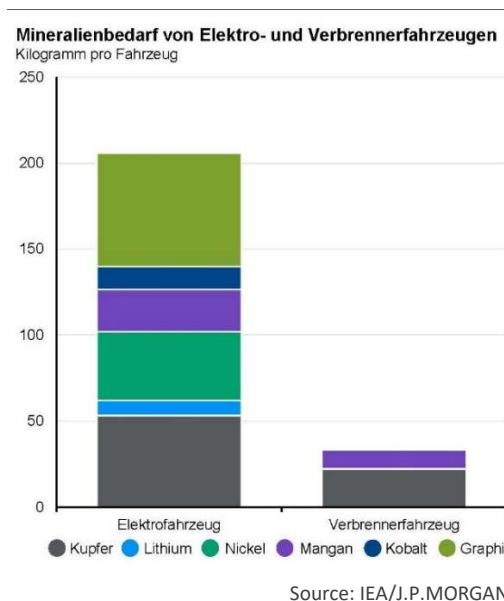
Since 1976, the US has run an annual trade deficit. In 2024, it reached around USD 920 billion, with approximately USD 148 billion in the last quarter alone - this figure covers goods only. Meanwhile, services like those in the IT sector are traded less transparently. The US President aims to reduce the deficit, with tariffs targeting goods from the country's 15 main trading partners. Whether this trade war can reverse a 50-year trend remains to be seen. The first effect is likely to be a surge in prices, or more precisely, an inflationary surge for the US consumer. If the world's consumption engine reacts cautiously, all the prerequisites for stagflation would be in place: higher inflation combined with a simultaneous decline in purchasing behaviour. In such a scenario, apart from damaged globalisation, balancing the US budget becomes unattainable. American consumer sentiment is therefore under scrutiny. The repatriation of large manufacturing capacities to the US is questionable given the current employment situation. New investments often take one to two years or more to begin production. Tariff-disrupted global supply chains could stall output, and Trump's bold goals may soon clash with reality. Meanwhile, White House turmoil is undermining the Fed's anti-inflation efforts, complicating control of the M1 money supply.

This deliberate uncertainty as a political programme is not only poison for stock market sentiment, it is also evident in the following chart from the Fed's source:

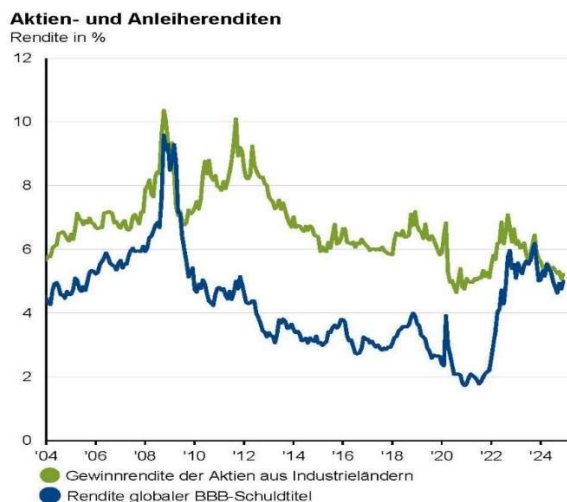


The shifting winds in the global economy are mainly targeting European and Asian carmakers, which make up 45% of new US vehicle registrations. For now, investors may want to avoid auto stocks and their suppliers. China has already responded and could benefit from its image of stability. Under the radar, it's also negotiating fixed exchange rates with its top 10 Asian trading partners - a kind of Bretton Woods 2.0 that could cover around 60% of the world's population.

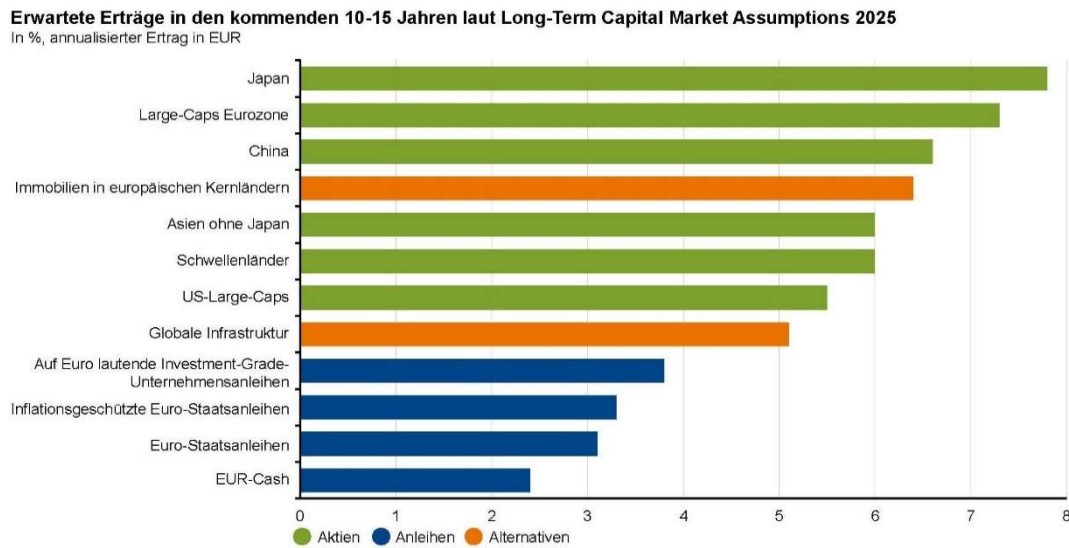
The green investment sector also needs to be reassessed. A new, cautious subsidy policy by governments will cause companies dependent on subsidies to suffer massive losses. ESG financial products are particularly exposed. Electric mobility, in particular, is under scrutiny. A look at mineral expenditure provides an interesting overview:



Aside from the one-off impact of the Lehman Brothers crash in 2009, the yields of triple-B bonds and equity returns have converged for the first time in decades. Thus, both asset classes are affected by the current market trend. The world's largest fund manager, BlackRock, implements a new 50/30/20 investment structure (equities/bonds/cash products). This is leading to highly volatile movements and selling pressure in the equity markets.



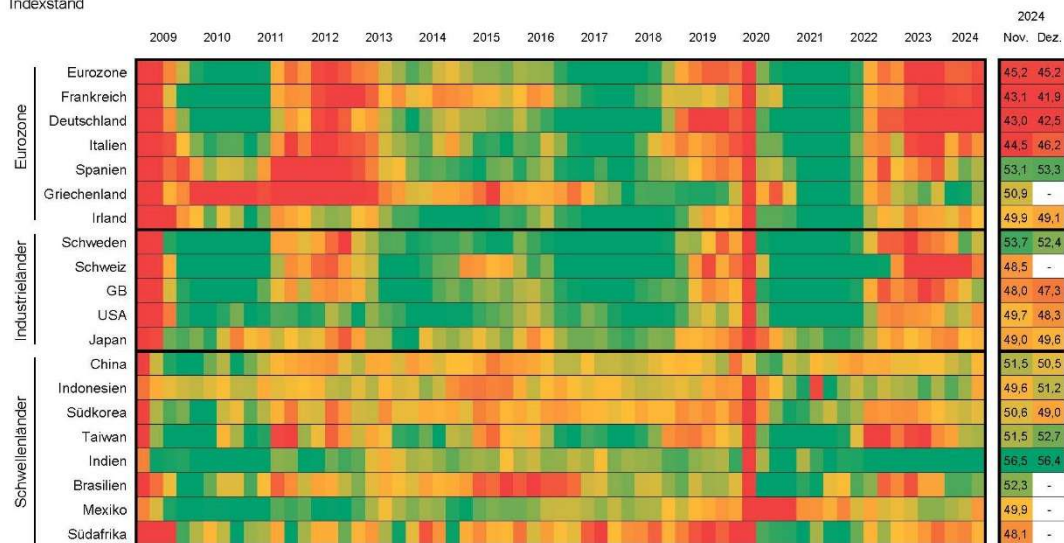
In the long run, investments in the capital markets as an addition to an equity portfolio should outperform the unsurprisingly rising core inflation. The US dollar appears stable, and the euro is weakening after the abolition of the debt ceiling. Thus, investments with a view to long-term returns are on the diversification radar:



Source: J.P.Morgan Asset Mgt.

In the coming months, the classic leading indicator - the PMI for manufacturing - offers a mixed picture, diverging from volatile consumer sentiment. France and Germany rank lowest internationally, however, in Germany, consumer spending rose 4.9% by the end of March. In the US, personal consumption increased 2.7%, while housing sales dropped 4.9%.

Globaler EMI für das verarbeitende Gewerbe
Indexstand



Source: S&P Global/J.P.Morgan

This survey captures the opinions of industrial managers at the turn of the year 2024/25. This data is likely to have changed now. The new tone regarding tariffs is making industrial planning significantly more difficult. Apart from Sweden and, due to tourism-related factors, Spain and Greece, growth has shifted to emerging markets. China operates with a special, orchestrated role and state-imposed zero inflation.



Source: Bloomberg/S&P Global/J.P. Morgan

The above graphic clearly shows the different trends in the manufacturing and service sectors in the USA.

Tectonic shifts are taking place in Europe's economy. The stock markets are already reacting in anticipation of the new enormous debt, the magnitude of which even exceeds the Marshall Plan of the post-war period. Furthermore, a massive rethinking is being observed in the hallowed halls of the EU in Brussels. The strict merger regulations are being relaxed. Overregulation shouldn't stifle industry. Europe has recognized that, in competing internationally with the US and China, the approval of large-scale mergers must be more effective than in the past the recently approved Siemens-Alstom merger is an example of this. A look at the list of the world's largest companies shows the Saudi Arabian Aramco and nine US companies among the top 10. Compared to the 1990s, European companies now lag behind. SAP, a German firm, ranks 27th, while Swiss companies Nestlé and Roche sit at 37th and 38th, respectively.

We are seeing another shift in the issue of ESG (Environmental Social Governance) ratings. Aside from criticism of greenwashing and misleading labelling, the moral aspects of environmental and defence are being reassessed. For example, some large ESG funds are investing in defence stocks, and in some cases even in nuclear energy. Besides a rethink, performance pressure is also possible. The regulator's gradual retreat from these issues is hardly surprising given the expected long-term trend.

The swan song for Europe's economy seems exaggerated to us. We expect a moderate economic upturn by the second half of the year at the latest. The infrastructure, defence, and manufacturing sectors will benefit from the wave of investment. Undeniably, the automotive industry is struggling not only with Trump's tariff demands, but primarily with dynamic competition from China. This writer still remembers 2005, when he was enthusiastically shown the first Chinese car in China. Europe clung to its technological lead for 20 years, giving away market share in the process. Citing paralysing bureaucracy is insufficient. European entrepreneurs are often accused of pursuing vested rights

instead of reforms. The innovation flow from small and medium-sized enterprises to large companies, coupled with global competitive pressure, will spark a wave of growth.

The long-term forecasts for a globally diversified portfolio remain in place, unless stagflation is triggered. The long-term economic cycle indicates the low point of the wave movement for the four largest EU industrialised countries, particularly Germany. The European Central Bank (ECB) will inevitably counteract this with an interest rate cut. Falling bond yields are expected worldwide anyway.

The consensus views of economists regarding growth in the context of inflation are nevertheless cautious for 2026: the harsh tone from Washington could lead to inflation exceeding economic growth. China, India, and Switzerland are likely to avoid such stagflation:

Growth						Inflation					
Gross domestic product, real, % year-on-year						Consumer price index, % year-on-year					
Year average	2022	2023	2024E	2025E	2026E	Year average	2022	2023	2024	2025E	2026E
World	3.5	3.3	3.2	3.0	3.0	World	8.1	5.6	4.2	3.7	3.3
United States	2.5	2.9	2.8	2.0	2.3	United States	8.0	4.1	3.0	3.5	2.6
Eurozone	3.6	0.5	0.8	0.8	1.3	Eurozone	8.4	5.4	2.3	2.1	1.8
Germany	1.4	-0.1	-0.2	0.0	1.6	Germany	6.9	5.9	2.3	2.0	1.6
France	2.6	1.1	1.1	0.7	1.2	France	5.9	5.7	2.3	1.1	1.8
Italy	5.0	0.8	0.5	0.7	0.9	Italy	8.7	5.9	1.1	2.1	1.6
Spain	6.2	2.7	3.2	2.4	1.8	Spain	8.3	3.4	2.9	2.3	1.9
United Kingdom	4.8	0.4	1.1	0.9	1.5	United Kingdom	9.1	7.3	2.5	2.9	2.4
Switzerland	3.1	0.7	1.3	1.3	1.8	Switzerland	2.8	2.1	1.1	0.4	0.7
Japan	0.9	1.5	0.1	1.6	1.0	Japan	2.5	3.3	2.7	2.3	1.9
Brazil	3.1	3.2	2.9	1.7	1.5	Brazil	9.3	4.6	4.4	4.2	3.8
Russia	-0.6	3.3	3.9	2.1	-0.3	Russia	13.8	5.9	8.5	9.4	6.0
India	7.1	8.7	6.8	6.2	6.9	India	6.7	5.7	4.9	4.5	4.6
China	3.0	5.2	5.0	4.2	3.8	China	1.9	0.3	0.2	0.5	1.0
Australia	4.1	2.1	1.0	2.0	2.5	Australia	6.6	5.6	3.2	2.6	2.6

Source: Macrobond / Julius Baer

This long-term outlook also explains the currency trend. By the end of 2026, the Swiss franc is expected to appreciate slightly against all currencies. The US dollar will likely weaken against the euro, reaching €0.90. This consensus leaves room for speculation over the next two years. After all, monetary policy is a form of economic policy, and power struggles are possible here too.

In the second quarter of this year, the economic policy agenda in Europe will be redefined. This is driven by pressure from neo-imperialist “Trumponomics”. We generally refrain from evaluating political views. However, the fact that a single individual can shake the global economy and geostrategic structures is more than a black swan situation and must raise questions about the global financial system.

Instead of focusing on companies, day-to-day speculators in the stock markets hang on to every word from the U.S. President. Long-term investors should not mingle with the traders. During such periods, short-term forecasts become obsolete within days. Nevertheless, the exceptionally high volatility in the financial markets, with the corresponding fluctuations in portfolio valuations, remains a challenge. A calm strategy based upon years of perspective and experience will yield success during such times.

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