Zuger Kantonalbank

Portfolio

April 2025

Market overview and positioning

The new US Administration under President Donald Trump has ushered in a turbulent market environment. Equity markets initially breathed a sigh of relief following the postponement of the planned tariffs, but there are plenty of reasons to anticipate a continuation of the uncertain environment and headwinds for the economy. Our positioning remains defensive for the time being.

Deterioration of sentiment

The US Administration's rough-and-ready approach has put a huge strain on investors' confidence. Since our last publication, sentiment has deteriorated noticeably both in the services sector and in manufacturing. The latest data released in April 2025 points to a clear growth slowdown. With his brash approach, US President Trump has repeatedly antagonised key trade partners as well as close political allies since 2 April 2025.

Sell-off in response to "Liberation Day"

The tariffs announced by Trump on his self-styled "Liberation Day" increased the uncertainty and prompted a slump in financial markets. Only safe havens such as gold and Swiss real estate were able to avoid the sell-off (see chart). A 90-day tariff deferment announced shortly afterwards along with special rules for products such as smartphones have had the effect of calming equity markets in the short term. Nonetheless, the envisaged measures can be expected to fuel inflation and act as a further drag on what is already weakened economic development. This spectre of stagflation is looming large.

Fundamental data at a glance

It makes sense to look at the fundamental data in a situation like this. The US economy had already cooled noticeably at the start of the year. The economic policy uncertainty is now weighing on the investment and employment outlook. The labour market is starting to show cracks. It is unclear how heavily this inconsistent policy will impact on companies. The US is manoeuvring itself into an economic situation that is tensely balanced between modest growth and incipient stagflation. We continue to perceive inflationary pressure as modest. The watering-down of certain measures, lower demand, and falling commodity prices are likely to compensate somewhat for the price rises triggered by the tariffs themselves.

"The tariff war is leaving its mark: The US economy faces stiff headwinds in 2025. The investment environment can be expected to remain challenging."

Alex Müller, Chief Investment Officer

Company reports as barometer

The information gleaned from the corporate reporting season will be particularly important now. For once the emphasis will be less on the current earnings situation, and more on the positivity of company statements regarding expected future development.

Wir begleiten Sie im Leben.

Market overview and positioning

Guidances as pointer for the financial markets

In particular, export-oriented companies and businesses with strong international interdependencies face considerable challenges. The high tariffs and regulatory obstacles are likely to have a direct impact on margins, as well as on investment decisions and supply chains. Company guidances will therefore be a crucial pointer to the development of the financial markets. With this in mind, we believe a more defensive positioning of the portfolio remains appropriate.

Direction-less Europe

In the wake of the tariff dispute with the USA, we have advised profit-taking in respect of European equities in recent weeks. The uncertainties in connection with the new tariffs are trampling on the timid economic recovery here. Economic momentum in the Eurozone once again exhibited weakness in April. This is hardly surprising in view of the turbulent environment. Indicators for the manufacturing sector remained stable at a low level, while sentiment deteriorated among service providers. The temporary tariff pause has alleviated some of the uncertainty but only for the time being.

Helping hand from monetary policy?

The European Central Bank (ECB) is planning to cut interest rates further in 2025. Where the Swiss National Bank (SNB) is concerned, the zero mark is almost within touching distance. Swiss rates of inflation are very low, which gives the SNB the leeway to cut rates further. We expect both the ECB and the SNB to continue the global rate-cutting cycle in order to support economic growth and factor in the decline in inflation. Over in the US, by contrast, Fed Chairman Jerome Powell is likely to wait a while longer. We continue to expect him to pursue a cautious monetary policy course, despite constant criticism from the White House.

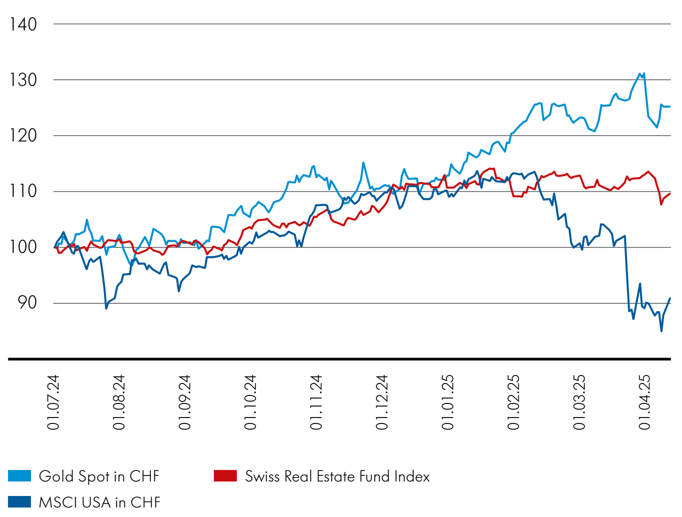
The quiet dragon

Despite the belligerent tone coming out of Washington, Beijing has demonstrated restraint so far. This may also be attributable to the fact that the Middle Kingdom continues to struggle with its own internal challenges. Of particular importance is how China goes about tackling its three major structural problems: an ailing real estate sector, weak consumer confidence, and significant excess capacity in manufacturing. Consumer demand is weak. The National People's Congress recently approved a number of additional fiscal measures to improve the situation. The massive US import tariffs are now clouding the outlook for Chinese exporters. As a result, we expect Chinese economic growth to fall below 4.5% in 2025.

Opportunities on the horizon

European equities should regain their appeal as the year progresses. For investors willing to take on a certain amount of risk this will present opportunities. The Old Continent has recently been showing signs of a slight recovery, notably due to more stable consumer spending. In the last few weeks, political factors have given the financial markets a boost: Germany is investing up to EUR 1 trillion in defence and infrastructure over the coming years, which will strengthen both economic growth and competitiveness. Higher government expenditure is increasing demand for technology, machinery, and construction materials. The obvious beneficiaries here include the construction economy, manufacturing, and armaments. The expected economic upturn will light a fire under corporate earnings and provide the equity market with long-term support. By contrast, political uncertainties in the US can be expected to force investors down the road of diversification. This could see capital flows into Europe rise as a result.

Performance of gold, real estate and equities
Indexed



Source: Bloomberg DL, Zuger Kantonalbank

Defensive allocation the order of the day

We have continuously adjusted our positioning to the evolving situation in recent weeks. Where equities are concerned, we recommend a neutral position in Switzerland, Europe, and the US. We are continuing to underweight the equities of emerging market countries. By contrast, we have increased our positions in both gold and Swiss real estate.

What does this mean for investors?

Weak US dollar

For Swiss investors, developments on the foreign currency front have caused problems. In particular, the US dollar weakened significantly against the Swiss franc, at times being as much as 10% down on the year. This turbulent currency situation has had an additional impact on investments denominated in US dollars. We therefore recommend that investors continue to hedge themselves fully against currency fluctuations for the bond holdings in their portfolio.

Real estate investments shine

Broadly speaking, the indirect real estate market looks fairly valued, and continues to offer attractive dividend yields of around 2.5%. In view of the current scarcity of supply – particularly in the residential segment – and a growing Swiss population, demand for real estate will remain strong. This fundamental disequilibrium should continue to ensure a stable income situation. Furthermore, the recent decline in mortgage interest rates is conducive to both price stability and a higher number of real estate transactions.

Gold back in the spotlight

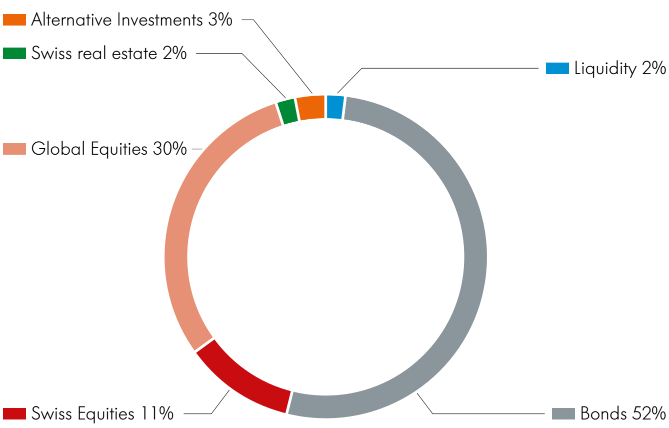
Gold remains a strategically important building block in the portfolio. This precious metal is currently benefiting from a combination of structural and cyclical support factors. The ongoing diversification of central bank reserves – particularly in emerging markets – is strengthening the role of gold as a stable repository of value. At the same time, geopolitical tensions, protectionist trends in global trade, and a fragmented world order are buoying demand for safe haven investments. From a macro-economic perspective, falling real interest rates and a weaker US dollar are additionally fuelling the price development of gold. In an environment characterised by great uncertainty in the capital markets, this precious metal remains a key instrument of risk diversification and stabilisation in the portfolio.

> "Gold and real estate belong in any portfolio. Over the course of the year, buying opportunities are likely to appear once again in equities, particularly in Europe and Switzerland."
>
> Alex Müller, Chief Investment Officer

Sitting out turmoil pays off

What are the takeaways from the turbulence of the last 30 days? What sticks out first and foremost is that the old truism of sticking to one's fundamental strategic positioning remains valid. With its remarkable surge of more than 10% in just one day (9 April 2025), the US technology index Nasdaq once again made it clear to investors that missing out on just one or two days in the investment year can reduce overall returns painfully. Remaining invested is the key principle of investment success. Once the current uncertainty lifts, equity investments are likely to regain favour with the investment community. This prospect now opens up exciting opportunities.

Strategic Allocation (Source Balanced Mandate)



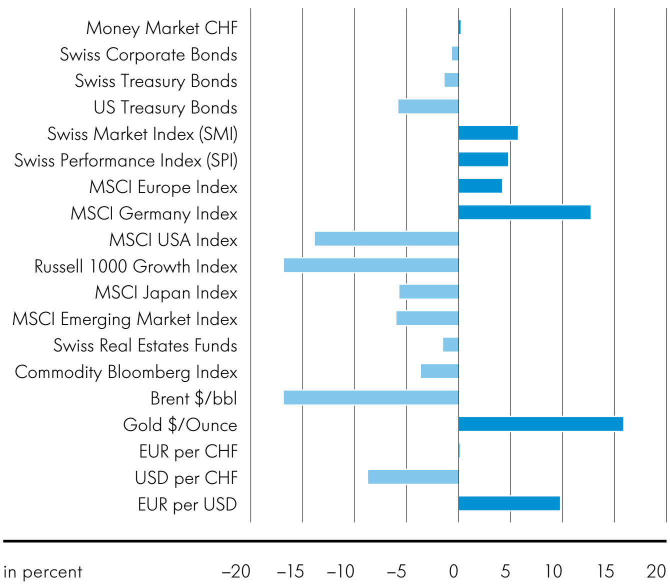
Source: Zuger Kantonalbank

Tactical Allocation

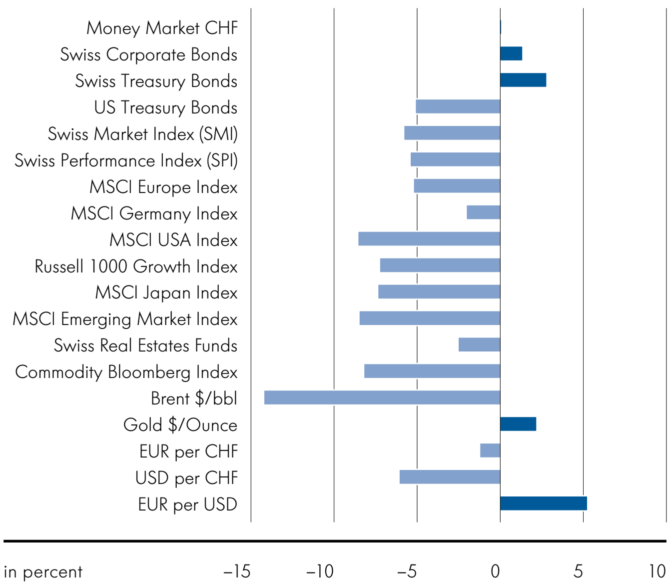
	−−	−	=	+	++
Liquidity/Money Market					x
Bonds	x				
Swiss Bonds			x		
Global Bonds		x			
High Yield Bonds		x			
Equities		x			
Swiss Equities			x		
Global Equities ex Switzerland			x		
Emerging Markets Equities		x			
Swiss real estate				x	
Alternative Investments				x	

Market data (exchanges & markets)

Asset class returns (in CHF) Since start of year (as at 25.04.2025)



Asset class returns (in CHF) Last month (rolling as at 25.04.2025)



Source: Zuger Kantonalbank, Bloomberg L.P., MSCI Inc., SIX Index AG, Frank Russell Company

Swiss equities SMI (from start of the year to 25.04.2025)

Swiss Re 15.2% / CHF 144.8	**Swiss Life** 14.7% / CHF 802.6	**Nestle** 14.5% / CHF 85.74	**Swisscom** 11.3% / CHF 538.5	**Zurich** 11.1% / CHF 568.8
Geberit 8.2% / CHF 556.6	**Novartis** 8.1% / CHF 92.54	**Lonza** 7.1% / CHF 573.8	**Richemont** 6.2% / CHF 146.5	**Roche** 5.9% / CHF 261.9
Holcim 5.2% / CHF 91.9	**Alcon** 2.1% / CHF 78.52	**Givaudan** –0.5% / CHF 3875	**Sika** –3.2% / CHF 205.5	**UBS** –7.7% / CHF 24.79
Kühne&Nagel –9.3% / CHF 188.45	**ABB** –10.1% / CHF 43.25	**Partners Group** –10.7% / CHF 1098.5	**Logitech** –15% / CHF 63.76	**Sonova** –15.3% / CHF 250.9

Source: SIX Index AG, Zuger Kantonalbank

Do you have any questions or thoughts on the current portfolio?

Contact us by email (alex.mueller@zugerkb.ch) or call us on 041 709 11 11.