

Portfolio

August 2025

Market overview and positioning

It was a hot summer – for financial markets and geopolitics alike. US companies delivered good first-half numbers, while the Trump administration hit the headlines on an hourly basis. Swiss National Day was a total wash-out, however: 39% tariffs on exports to the US came as a shock, and this autumn the economy is expected to cool alongside the weather.

US economic policy producing unclear trends

US economic data were mostly weaker than expected in the period to July. Leading indicators for service-sector companies as well as manufacturing painted a subdued picture. On the other hand, data on incoming orders for durable industrial goods were somewhat better than expected. The sole exception was the transport sector, which continued to suffer from sluggish order intake from airlines. Meanwhile, consumer confidence fell slightly due to two key factors: first, prospects for the labour market dimmed slightly; second, inflation expectations increased. In both cases, concerns about the new tariffs were the primary reason. Given the US administration's tariff policy, we expect data to remain volatile going forward.

US central bank remains under political pressure

Chairman of the Federal Reserve Jerome Powell has so far resisted White House pressure to finally lower key interest rates, with the expected inflationary pressure resulting from the tariffs and weak US dollar having played into his hands. But with the economy now slowing, the arguments for a rate reduction are growing. At the annual meeting of central bankers in Jackson Hole, Powell also emphasised that labour market risks should now be weighted more heavily than the one-time jump in inflation resulting from new tariffs. Financial markets reacted positively to the news, and we expect a rate cut in September. By removing Fed Governor Lisa Cook, however, President Trump signalled that he intends to exert pressure on the Fed in future too.

Solid earnings reports

US companies have continued to perform well, notwithstanding the political uncertainty. Most CEOs can only dream of the figures released by Nvidia after close of trading on 27 August. Although the results were adversely affected by restrictions on export to China, the AI-driven boom remains intact. Overall, the US equity market has performed well so far.



"We recommend giving the portfolio a new strategic focus. Accordingly, we are reducing foreign government bonds and concentrating more heavily on Swiss franc issues. Overall, we are increasing our exposure to equity investments. We are sticking with gold and real estate."

Alex Müller, Chief Investment Officer

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Market overview and positioning

Corporate America sparkles

US companies turned in an impressive performance in the last quarter, beating forecasts for sales as well as earnings – in some cases significantly. Future prospects are intact as well, with earnings likely to continue growing. US equities therefore remain a key component of the portfolio. Looking ahead, the US equity market is likely to confirm the dominance it has shown over the past 10 years (see chart).

Some optimism for Europe

The European economy has proved resilient so far in 2025. We expect potential headwinds from US tariffs and the strong euro. Private consumption will nevertheless remain supportive. Rising real wages and reduced saving propensity among households are likely to stabilise consumer spending and underpin growth at a modest level. Inflation is running within the expected framework, and we expect it to settle at close to the 2% mark. We think the European Central Bank (ECB) will reduce key interest rates further, which should give an additional boost to business activity and lending.

Germany in transition

In Germany we expect a stimulus from the EUR 500 billion infrastructure investment package. However, consumer sentiment deteriorated again in August against the backdrop of a difficult start for the new government, the geopolitical situation, as well as worries about job losses. We do not expect a consumer boom, in other words. At the same time, the rise in real disposable incomes is likely to ensure a slight improvement in sentiment as the year progresses and facilitate modest growth in consumption.

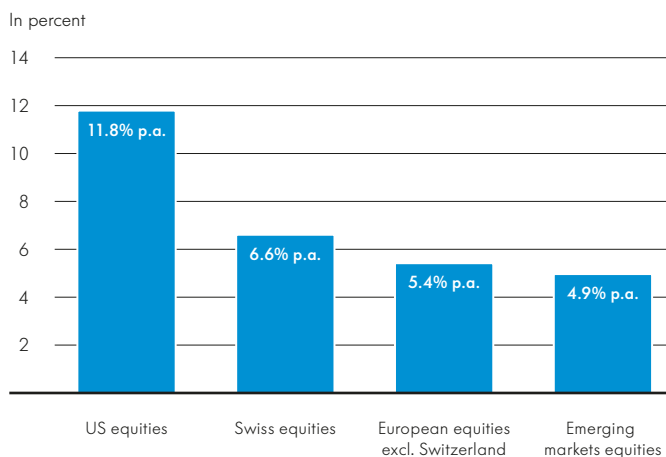
Switzerland hit by tariff hammer blow

The thunderbolt from the US administration hit Switzerland on the National Day public holiday. A 39% tariff will be levied on certain products, affecting exporters in particular. As things stand, only the pharmaceutical industry is exempt from the tariffs. The US tariff strategists were also forced to backtrack on gold. The fact that Switzerland itself does not levy any import tariffs on industrial goods did not bring any benefits in the negotiations. It can only be hoped that a better solution will be found soon.

SNB in holding pattern

The Swiss National Bank (SNB) reduced its policy rate by 0.25% to 0% on 19 June, though avoided going into negative territory. Inflation fell sharply in 2025 and was negative again in May for the first time in four years. Base effects mean the pressure on prices is likely to stabilise or increase slightly in the months ahead. The SNB also pointed to various obstacles to negative interest rates. As we see it, negative interest rates are unlikely for now. We do not expect any change to the SNB's policy rate following September's monetary policy assessment.

Returns for selected equity markets over last 10 years, in Swiss francs



Source: Zuger Kantonalbank, MSCI, Bloomberg L.P. / DL

Slower growth in China

After a few months of strong growth, China grew at a more modest pace in July. In particular, the balance of trade deteriorated significantly due to falling net exports. This development contrasts with the robust expansion seen in the fourth quarter of 2024 and first half of 2025. The budget deficit is likely to widen this year. We expect China's expansionary fiscal policies to cushion some of this weakness. Although the government will continue to support economic activity, the backdrop remains challenging: the outlook is marred by the uncertainty surrounding potential new US tariffs and persistently weak consumer confidence. We expect economic growth of around 4% for China in 2025, in line with the market consensus.

What does this mean for investors?

Strategic adjustment

We have adjusted our strategic asset allocation for the coming years. Government bonds are continuing to lose their appeal due to rising debt, political risks and waning confidence in institutions. With overall conditions becoming increasingly accentuated, we are reducing the positions in global bonds and increasing the equity allocation. The increase in the equity allocation is concentrated on Switzerland and the US – a portion of which is hedged. The positions in Swiss real estate investments and in gold are unchanged.

Fewer bonds

For Swiss investors, the exchange-rate situation has brought constant headwinds in recent years and 2025 is no exception. The US dollar in particular has steadily lost ground against the Swiss franc and its decline in 2025 already amounts to over 10%. Swiss bonds appear relatively attractive due to high hedging costs in relation to the US dollar and the euro. In the future we will be focusing more strongly on the domestic market and reducing exposures in global government and corporate bonds. We are sceptical about US government bonds on account of political uncertainties, inflation concerns and currency risks.

Swiss equities

The Swiss equity market continues to offer an attractive risk premium as well as high-quality companies. In line with our strategic adjustment we recommend a higher weighting

for the years ahead. At the same time, we are more cautious in tactical terms. Tariffs – the sword of Damocles hanging over the Swiss market – and the cost of tariffs are significantly higher versus European competitors. The rise in the value of the Swiss franc versus the US dollar is weighing on corporate earnings. This is compounded by Europe’s persistently weak automotive and industrial sectors. Sentiment towards Swiss equities will be slightly affected by this in the short term.

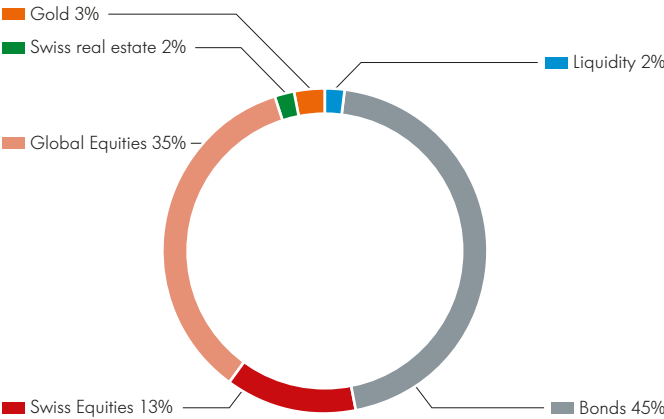
Pharmaceuticals should be afraid

Pharmaceutical exports will not be to be subject to tariffs for the time being. However, the US is demanding lower drug prices, and companies have until the end of September to respond. New tariffs on drugs would tend to result in higher prices – either directly for customers in the US or indirectly via price adjustments along the supply chain. The outlook for the Swiss pharmaceutical sector remains beset by uncertainty, even if this is already reflected in current valuations to some extent.

Gold and real estate

Gold continues to prove itself as a portfolio component. It is benefiting from structural and cyclical factors: geopolitical tensions, protectionist tendencies and a fragmented world order are boosting demand. The introduction of zero interest rates by the SNB and capital market interest rates close to zero also provide good support for real estate investments.

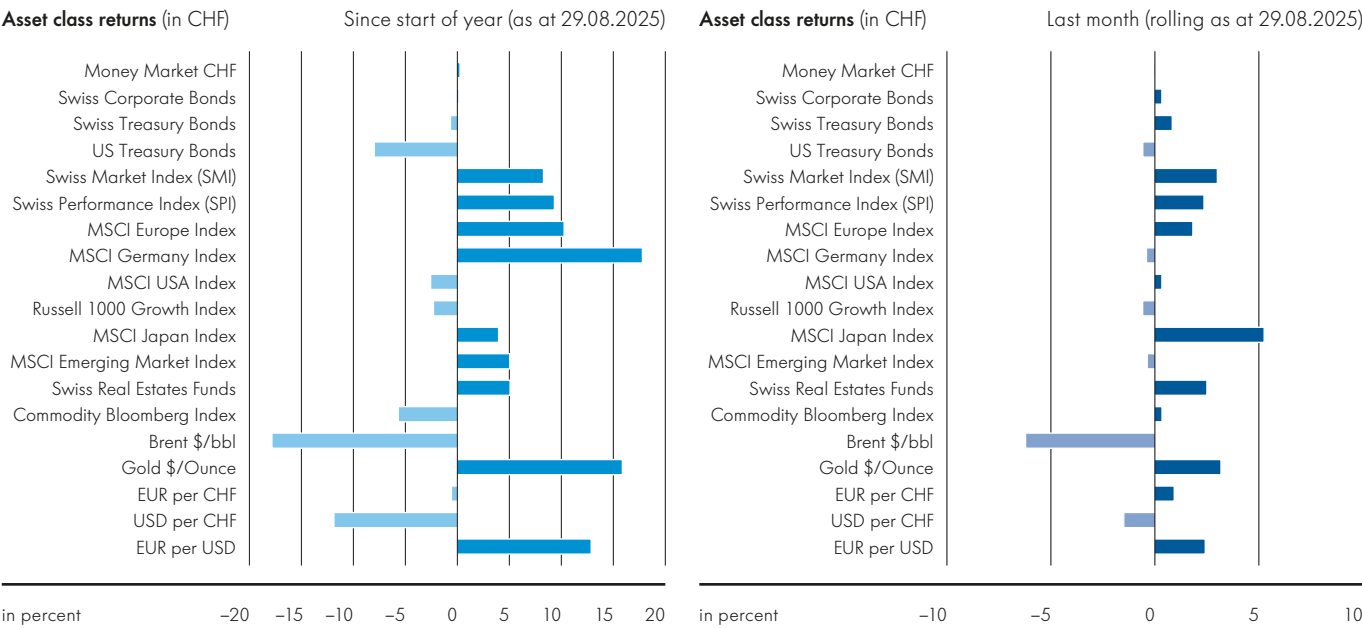
Strategic Allocation (Source Balanced Mandate)



Tactical Allocation

	-	-	=	+	+
Liquidity/Money Market					
Bonds					
Swiss Bonds					
Global Government Bonds					
Global Corporate Bonds					
High Yield Bonds					
Equities					
Swiss Equities					
European Equities					
US Equities					
Emerging Markets Equities					
Swiss real estate					
Gold					

Market data (exchanges & markets)



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

Swiss equities SMI (from start of the year to 29.08.2025)

Holcim 55.9% / CHF 67	Swiss Life 28.9% / CHF 864	UBS 20.5% / CHF 32.38	Swisscom 19.5% / CHF 578	Novartis 18.1% / CHF 101.16
Geberit 16.6% / CHF 586.2	Swiss Re 15.3% / CHF 144.9	Zurich 14.2% / CHF 584.4	ABB 11.5% / CHF 53.68	Logitech 10.1% / CHF 82.62
Lonza 6.6% / CHF 567	Roche 5.2% / CHF 260.3	Nestle 4.3% / CHF 75.39	Richemont 1.3% / CHF 139.75	Partners Group -7.3% / CHF 1097.5
Sika -12.7% / CHF 185.5	Givaudan -13.5% / CHF 3370	Alcon -16.9% / CHF 63.66	Kühne&Nagel -18% / CHF 162.8	Sonova -20% / CHF 232.9

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.

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