Zuger Kantonalbank

Portfolio

June 2025

Market overview and positioning

Equity markets experienced a rollercoaster ride in a turbulent first half of the year. The tension is set to continue as the impact of tariffs hits home, the economic slowdown continues, and the US administration's tax package is on the home straight. For Swiss investors, opportunities are few and far between right now.

Tariff shock and consolation

President Trump's announcement of import tariffs on 2 April 2025 prompted a sharp slide on equity markets around the globe. The only areas to escape the sell-off were safe havens such as gold and Swiss real estate. Markets calmed again when a 90-day pause on tariffs, coupled with various exemptions, was swiftly agreed owing to the pressure of events; indeed the recovery was rapid and significant (see chart). The tariff issue nevertheless remains unresolved, and import tariffs are still high by historical standards. Trump will probably move markets again in the weeks ahead. The tariff pause ends in July – and then there's the OBBBA.

One Big Beautiful Bill Act – really?

The Trump administration spent the first half of the year focused mainly on the trade deficit and immigration, before turning its attention to fiscal policy matters. The One Big Beautiful Bill Act ("OBBBA") is, in fact, on the home straight. Trump's tax package promises measures to boost growth – the retention of low corporate taxes and bigger tax breaks for private individuals being just two of them. At the same time, there will be cuts in sustainable investment and healthcare provision. In brief, OBBBA combines permanent tax cuts with massive welfare reductions and high spending on the military and border security with less money for climate protection.

US debt pile is growing

The OBBBA is likely to entail the risk of a ballooning deficit. That's why it also includes a USD 4 trillion hike in the debt ceiling – a proposal that has not gone down well with a number of fiscally conservative Republican senators. Nevertheless, a narrow majority in the House of Representatives is in favour of the programme. The vote is scheduled to take place on the Fourth of July (US Independence Day). At the time of writing this newsletter, a compromise solution appeared to be in the offing. In particular, the urgently needed increase in the debt ceiling is adding to the pressure to agree a deal. However, this will exacerbate the US debt issue further in the medium term. It remains to be seen how financial markets and the US Federal Reserve will respond.

"Despite war in the Middle East and the global tariff dispute, equity markets have held up well since Liberation Day: the US equity market's recovery was rapid and significant. However, the USD is squeezing investment returns for CHF investors."

Alex Müller, Chief Investment Officer

Wir begleiten Sie im Leben.

Market overview and positioning

Tweets from the White House with minimal shelf life

Despite a few grandiose pronouncements emanating from Washington, Trump and Xi Jinping have so far been unable to reach a deal on US-China tariffs. Announcements made on the X platform to date have not been followed up by any lasting agreement. Beijing has so far reacted with caution to the constant verbal attacks from Washington, since China itself faces a number of challenges including a weak real estate sector, low consumer confidence and surplus industrial capacity. US tariffs are also weighing on its exports. China's economic growth is likely to slip below 4.5% in 2025. We expect relations between the US and China to remain tense.

> "Following the SNB decision on interest rates in June 2025, Switzerland is on the verge of negative interest rates: investment alternatives are again becoming increasingly few and far between for Swiss investors. Swiss equities, bonds and real estate investments remain attractive in 2025."
>
> Alex Müller, Chief Investment Officer

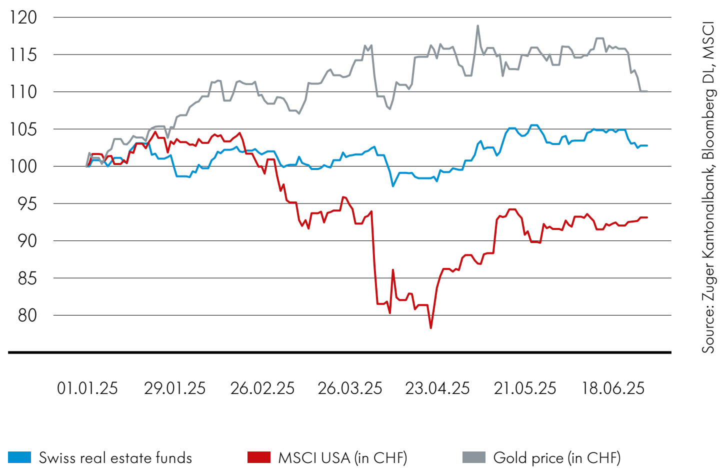
US economy in equilibrium

The passing of the One Big Beautiful Bill Act in the US is likely to boost investor sentiment. Starting in mid-July, quarterly company reports will provide further clues as to the impact of erratic policy-making. This could be a test of strength for high equity market valuations, even if the earnings growth bar is already lower. The weak US dollar is likely to boost exports and increase companies' foreign earnings. Developments on the labour market, a flagging real estate market and falling inflation rates nevertheless constitute grounds for caution. Opportunities and risks are therefore evenly balanced – we recommend a neutral positioning on US equities.

Europe: economy lacks momentum

Growth across Europe's economies has been fairly subdued thus far in 2025. Leading indicators for manufacturing have recovered slightly, yet remain below the growth threshold. The European service sector is flagging, and the hoped-for upturn has failed to materialise despite multiple weak quarters. We do not expect to see a wave of reform and deregulation in Europe – even in Germany. The European Central Bank (ECB) lowered its deposit rate to 2% in June for the eighth time in succession. Real wages are rising, while the savings ratio is falling. Favourable valuations and more expansionary monetary policy could give the markets further support. European equities remain in the portfolio. We recommend a neutral positioning after April's profit-taking.

Development of gold, real estate and equities indexed



Switzerland once again a country of low interest rates

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. Dividend stocks in particular are likely to benefit. The uncertainty surrounding the regulation of UBS is off the table, while US regulatory risks are already priced into shares of the big Swiss pharmaceutical firms. We believe the Swiss equity market is fairly valued and therefore consider Swiss equities to be very attractive.

Political uncertainty persists

Markets often recover quickly from politically induced turbulence, as was the case in May 2025. US economic policy will be heavily dependent on the fate of the Trump administration in the period to 2029; whether the administration remains as aggressive following the mid-terms in 2026 is unclear. China – for many years a growth driver – remains a factor of uncertainty. However, geopolitical conflicts have less impact.

What does this mean for investors?

Neutral equity allocation and focus on Switzerland

We have continuously aligned our positioning with the new situation in recent weeks. We recommend a neutral overall positioning on equities with a differentiated view on Switzerland and emerging-market equities. In the latter segment we remain underweight; by contrast, we accord a greater weighting to Switzerland. We are sticking to our positive view on gold and Swiss real estate investments.

Weak US dollar

Exchange rate developments have created headwinds for Swiss investors. During this period the US dollar in particular has fallen by over 10% against the Swiss franc. This currency weakness has added to the pressure on dollar-based investments. We recommend hedging the bond segment fully against currency fluctuations.

Switzerland: zero interest rates create opportunities

Swiss equities continue to offer an attractive risk premium. This is especially true following the ECB's introduction of zero interest rates and the fact that capital market interest rates are close to zero. Dividend stocks are likely to be the main beneficiary. We consider the stock market to be fairly valued. Switzerland offers potential thanks to its defensive sector mix and attractive risk premiums versus bonds.

Gold and real estate

Gold continues to prove itself as a portfolio component and is benefiting from structural and cyclical factors: Geopolitical tensions, protectionist tendencies and a fragmented world order are boosting demand. Central banks – especially in emerging market countries – are continuing to diversify into gold. Falling real interest rates and a weaker dollar are providing additional support for price increases. In uncertain times, gold remains a tried-and-tested means of spreading risk.

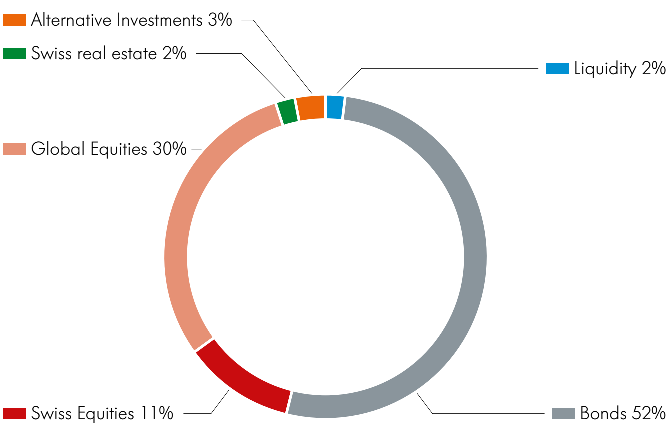
Zero interest rates are good for real estate

We are retaining our Swiss real estate investments due to the current situation on interest rates. These investments have outperformed Swiss bonds. The indirect real estate market remains fairly valued and offers attractive dividend yields of around 2.5%. That is particularly true compared with the money market, which is weighed down by the SNB's zero rates policy. The structural shortage of residential property and steady population growth will ensure persistently high demand for real estate.

Staying put pays off

What does the market turbulence of recent months have to tell us? Once again it is the realisation that it is worth staying true to your basic strategic principles. With a daily return of over 10%, the Nasdaq technology index showed investors once again on 9 April 2025 that a few missed days in the investment year can greatly reduce returns. To this day, staying invested remains the most important principle of investment success.

Strategic Allocation (Source Balanced Mandate)



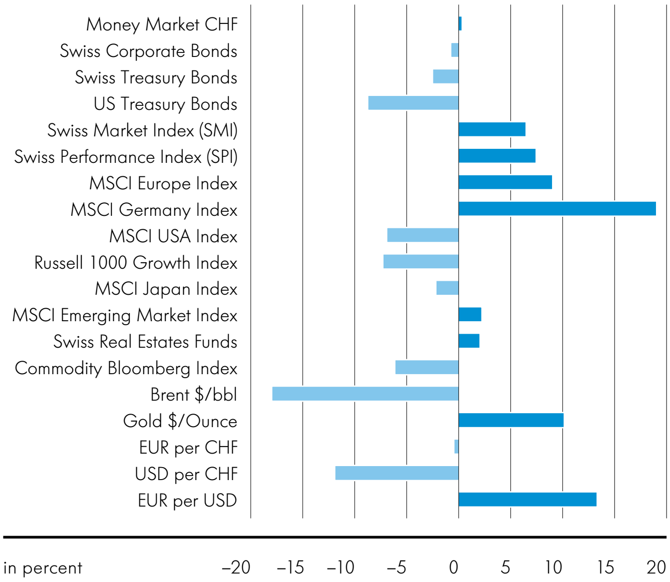
Tactical Allocation

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

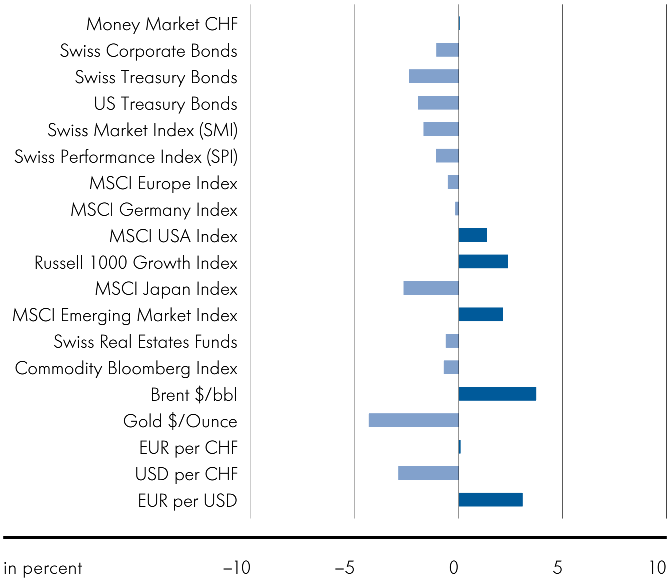
Source: Zuger Kantonalbank

Market data (exchanges & markets)

Asset class returns (in CHF) Since start of year (as at 27.06.2025)



Asset class returns (in CHF) Last month (rolling as at 27.06.2025)



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

Swiss equities SMI (from start of the year to 27.06.2025)

Holcim 38.4% / CHF 59.48	**Geberit** 25% / CHF 628.4	**Swiss Life** 19.8% / CHF 802.8	**Swisscom** 16.5% / CHF 563.5	**Novartis** 12.3% / CHF 96.18
Nestle 9.7% / CHF 79.29	**Swiss Re** 9.3% / CHF 137.35	**Zurich** 8.5% / CHF 555.2	**Richemont** 8.4% / CHF 149.55	**Lonza** 6.5% / CHF 566.6
Roche 5.8% / CHF 261.6	**Sika** 3.5% / CHF 219.9	**Givaudan** 0.3% / CHF 3907	**UBS** −0.3% / CHF 26.78	**ABB** −0.7% / CHF 47.79
Logitech −4% / CHF 72.04	**Alcon** −8.2% / CHF 70.36	**Kühne&Nagel** −12% / CHF 174.6	**Partners Group** −13% / CHF 1030	**Sonova** −18% / CHF 238.7

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.