Zuger Kantonalbank

Portfolio – Update

7 April 2025

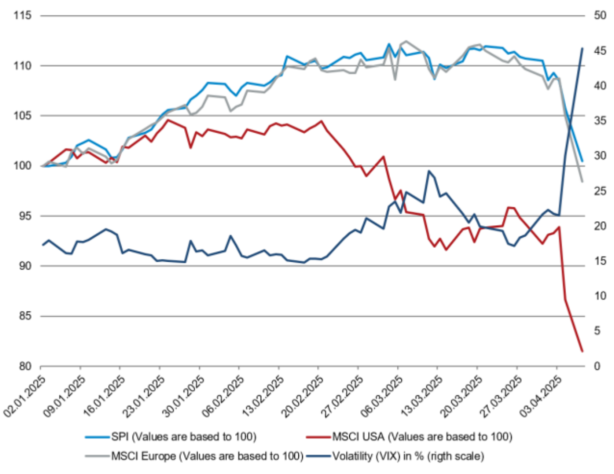
The announcement of new tariffs by US President Donald Trump triggered sharp falls on the equity markets. Initially the US stock market above all was badly affected by the sell-off. But last Friday the European bourses and Swiss stocks also took a beating. The sell-off has been continuing today, and the past months' encouraging gains have vanished into thin air. We had already reacted to the growing economic and political uncertainties by aligning ourselves more defensively. Currently we are continuing to take profits and reducing our equity exposure.

Background

The announcement of hefty import tariffs on goods deliveries to the United States heightens the risk of an appreciable slowdown in economic growth and of a renewed upturn in inflation. The recent share price falls are beginning to reflect a stagflationary scenario for the US economy, i.e. a slowdown accompanied by rising prices.

Amid this growing uncertainty, investors on the global stock markets look set to remain nervous. By Friday evening, global equities had corrected sharply, while (implicit) volatility had risen significantly (see chart).

Stock Market and Volatility Trends



Source: BloombergDL, MSCI, ZugerKB

The downturn begins in the mind

The new US administration's rough-and-ready approach is putting an ever-increasing strain on investors' confidence. In recent weeks this growing uncertainty has clouded economic forecasts, with trade- and foreign-policy developments as the overriding factors. The imposition of tariffs came faster and was more extreme than expected, especially with regard to China, Mexico and Canada. The situation worsened with the additional tariffs announced on "Liberation Day".

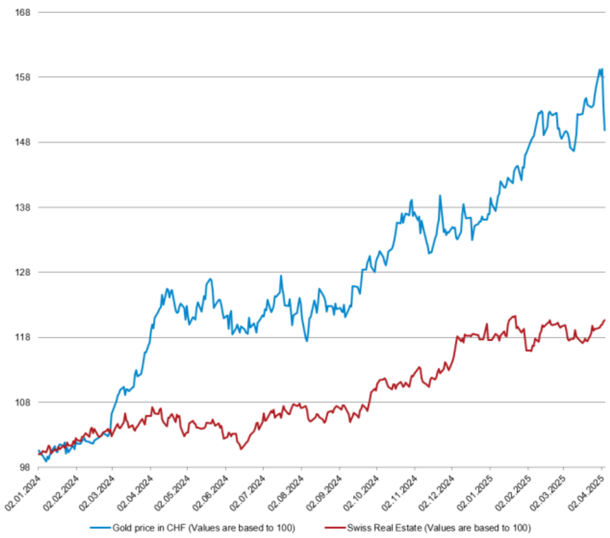
"Unguided missile"

With the new tariffs – some of which are based on dubious figures – Donald Trump's administration is achieving one thing above all: heightened uncertainty. With his bold approach, the US President has now probably soured relations with all of America's trading partners. The current US policy will continue to cause uncertainty among companies and could thus delay investment decisions. The new ideas formulated over the weekend by Elon Musk, Trump's billionaire advisor, to create a free trade area with Europe is unlikely to inspire much confidence.

Broadly diversified – more defensive

Even prior to the tariff announcements, we had proactively aligned the portfolios more defensively in several steps. The first step was profit-taking on European equities. In a second step, we neutralised the US equity allocation at the beginning of last week, thereby switching all equity holdings to neutral. At the same time, we took this opportunity to build up gold holdings again while buying into Swiss real estate investments. These investment classes act as a buffer in the portfolio (see chart). Furthermore, we are now cutting back our holdings of high-interest bonds in the portfolios while slightly increasing the allocation to US government bonds.

Development of Gold Price and Real Estate Investments



Source: BloombergDL, ZugerKB

Swiss real estate as an anchor

Overall, the indirect real estate market is fairly valued, but continues to offer attractive dividend yields of around 2.4%. In the real estate market, structural developments – such as a persistent undersupply with a simultaneously growing population – ensure robust demand, especially in the residential segment. The decline in mortgage rates adds further support to this development.

Gold – further purchases

Gold continues to benefit from a range of structural and cyclical support factors. A key argument is the increasing diversification of central bank reserves – especially in emerging countries – which is bolstering gold's role as a strategic store of value. Political drivers and ongoing geopolitical fragmentation, including the escalation of global trade conflicts and America's protectionist tariff policy, are additionally boosting demand for safe assets.
The current macroeconomic environment also favours gold: falling real interest rates and a weaker US dollar are helping to keep the precious metal's price high. In addition, the momentum remains intact: given the nervousness in the capital markets, investors are relying increasingly on gold to help stabilise their portfolio.

Eyes on Europe

Europe has recently been showing signs of a slight recovery, notably due to more stable consumer spending. In the last few weeks, political factors in particular have given the financial markets a boost: expectations of a possible more expansive fiscal policy in Germany and the EU have provided support.

After realising gains in European equities a few weeks ago, we are now reducing our positioning to a neutral weighting. Nervousness triggered by the new tariffs threatens to stifle the tentative economic upturn. Though support might come from the aforementioned fiscal programmes along with low inflation (and the associated prospect of further rate cuts by the ECB), we are reducing our positioning slightly in light of these risk considerations.

Outlook

Based on these assessments, we recommend slightly underweighting equities. Precisely in this environment, however, bond holdings should help to hedge the portfolio. We also see the development of gold and real estate as a further buffer in a broadly diversified investment portfolio.

We are convinced that these adjustments will stand us in good stead for the next few months, which are likely to see high levels of volatility.