

Review & outlook

July 2025

Review of 2025

New global order

The new investment year started turbulently – at least where geopolitical developments are concerned. The pace in this trend was set by the US. The new US administration under President Donald Trump implemented a large number of “America First” measures. In the first half of the year, Trump focused on import tariffs and cost-cutting measures in respect of public administration. He then insisted – initially unsuccessfully – on a solution to the Russia-Ukraine conflict. Generally speaking, he geared his actions clearly to the interests of the US. These are aimed primarily at achieving a geopolitical weakening of China and a stronger role for Europe in NATO. The approval of an enormous fiscal package after the new elections in Germany is representative of the rude awakening that Europe faces. That tension would ensue was clear.



“Seldom have financial markets been so turbulent in the space of six months. Trump’s policy provided uncertainty on an almost daily basis, sending stock markets onto a rollercoaster ride.”

Alex Müller, Chief Investment Officer

Economic momentum easing

The US economy has cooled steadily since the start of the year. The important services sector lost momentum, and the manufacturing industry also lost ground. Front-runner effects with regard to imports, in anticipation of import tariffs, led to a widening of the trade deficit. Overall, growth in the US in 2025 is likely to be below that of the previous

year. Various factors had a dampening effect: policies targeting tariffs and spending cuts provided headwind. The high prices for goods and services and high costs for financing owing to higher interest rates weighed on consumer sentiment. The more restrictive immigration policy could likewise act as a drag on economic growth in the longer term. In 2024 and in early 2025, the US labour market was still very robust. However, towards the end of the first half, growing uncertainty resulting from the Trump Cabinet’s measures and persistently high capital market interest rates led to a pronounced slowdown in the creation of new jobs and to a rise in initial jobless claims.

Liberation Day as a turning point

The tariffs announced by President Trump on 2 April 2025 fuelled the existing uncertainty and brought about a collapse on global stock markets. Whereas US stocks plummeted, safe havens such as gold or Swiss real estate escaped the sell-off. This was not the case for bonds: concerns over the US budget caused yields to rise, resulting in valuation losses on these seemingly safe investments. A 90-day pause in tariffs and special rules – decided shortly thereafter – calmed the stock markets. The rally was rapid and clear, although the topic of tariffs remains unresolved, and import tariffs are still high in a historical comparison, despite the postponement. Swiss investors incurred a loss of 6.8 percent on US investments in the first half, owing to the weak currency.

Europe bucking the headwind

Nervousness triggered by the new tariffs impacted the tentative economic upturn in Europe. However, economic momentum in the Eurozone benefited from a tailwind: firstly, sentiment indicators in the course of the first six months improved slightly. Consumer spending was also stronger, boosted by real income growth and a declining savings rate. The loosening of the debt brake in Germany also put the spotlight on fiscal policy: Infrastructure and defence spending will rise significantly. Both the European and Swiss stock markets made clear advances in the wake of these developments. By contrast, there was a sharp rise in European interest rates, driven by the clear widening of the trade deficit, resulting in valuation losses (bond prices and yields are running counter to each other). Yields on Swiss Confederation bonds, known as Confs, followed a similar trend despite a lack of fundamental support.

Helping hand from monetary policy in Europe

The European Central Bank (ECB) lowered the deposit rate in June for the eighth time in 12 months to 2 percent. The ECB thus took account of the inflation trend, which eased substantially. However, this step by the ECB also reflected the economic risks that arise from a tariff dispute with the US. We expect the ECB to continue its rate-cutting cycle as needed in order to counter a possible decline in economic growth and to take account of declining inflation.

Zero interest rates

At its meeting on 19 June, the Swiss National Bank (SNB) decided to lower interest rates by 0.25 percent to zero percent for the first time. This did not bring it back to within negative-interest territory. Inflation rates declined sharply in Switzerland in 2025, triggered by the strong Swiss franc and falling prices for commodities and goods. In May 2025, the inflation rate was negative again for the first time in four years. The SNB reacted with four rate cuts in 2024 and a further two in 2025. In economic terms, the tariff dispute is impacting on Swiss industry in particular: in April, there was a clear downturn in leading indicators in the manufacturing industry. Nevertheless, owing to the above-mentioned front-runner effects for exports to the US – especially for pharmaceutical products – economic growth remained very strong. A reversal of this trend is expected.

China in a holding pattern

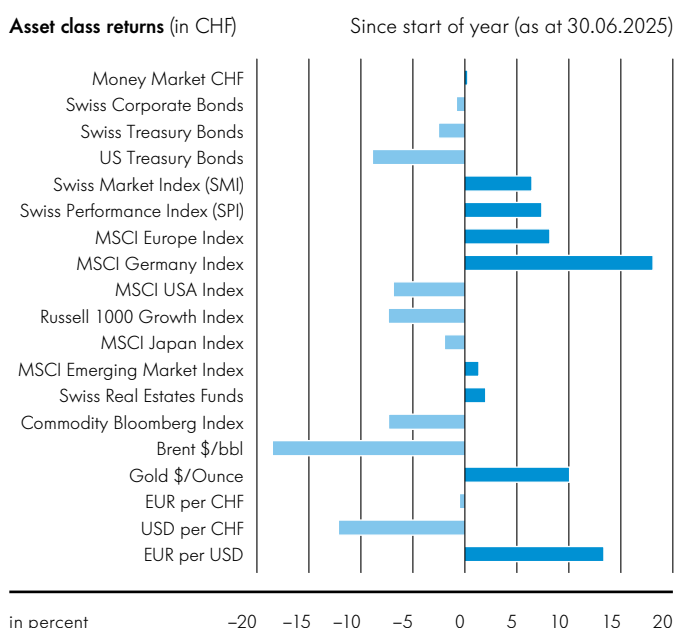
Despite clear announcements, Washington has not succeeded so far in achieving a definitive agreement with Beijing that both presidents can sign. To date, Beijing has reacted cautiously to the stream of attacks from Washington. This is also due to a number of challenges: a weak real estate sector, low consumer confidence and surplus industrial capacity are the main factors. US tariffs are also weighing on exports. Economic growth is likely to drop below 4.5 percent in 2025. We expect the relationship between the US and China to remain tense.

Safe havens in demand

Safe havens were in demand in the first half of the year as a result of the overall trend. For instance, investments in Swiss real estate rose by 2 percent. The indirect real estate market remains fairly valued and offers attractive dividend yields of around 2.5 percent, especially when compared to the money market, owing to the SNB's zero interest-rate policy. A shortage of residential properties and population growth are shoring up demand.

Gold sparked in first half

Gold proved its worth as a portfolio component. It 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 in gold. Falling real interest rates and a weaker dollar are also shoring up the price trend. In uncertain times, gold remains a tried-and-tested means of spreading risk.



Outlook for 2025

“One Big Beautiful Bill Act” – really?

In the first six months, the Trump administration focused mainly on the trade deficit and immigration. Towards the end of April, fiscal policy topics came into the spotlight. The One Big Beautiful Bill Act is on the home stretch. The comprehensive fiscal package includes a number of growth-stimulating measures: the retention of low corporate taxes and higher deductions for individuals are just two of them. Although the package includes savings on sustainable investments and in healthcare, it can be summarised as follows: it combines long-term tax cuts with massive welfare cuts, high expenditure for the military and border protection, and savings in the area of climate protection.

Debt mountain is growing

From the above-mentioned measures it can be deduced that the planned campaigns will result in an enormous deficit risk. The package therefore also provides for raising the debt ceiling by USD 3–5 trillion, which made fiscally conservative Republican senators sit up and take notice. The package gained a narrow majority in the House of Representatives. The plan is to approve it on 4 July 2025, which is Independence Day in the US. At the time of going to press, a compromise solution was on the cards. The urgently needed increase in the debt ceiling alone will ensure the corresponding pressure. The debt problem of the US will thus become accentuated in the medium term. It remains to be seen how the financial markets and the US Federal Reserve will react to these developments.

US: A look at fundamental data

Approval of the One Big Beautiful Bill Act is likely to boost investor sentiment in the short term. As regards the further course of the US stock market it is worth taking a closer look at fundamental corporate data. It is not clear to what extent the inconsistent US policy is affecting companies. The quarterly figures to be published in mid-July will show how companies are doing in this environment. At least in the US, this is likely to be a test of strength for the high stock valuations, although the benchmark for profits is lower than at the beginning of the year. The latest developments on the labour market and falling interest rates militate in favour of caution. In our view, opportunities and risks are balanced at the moment. We therefore recommend taking a neutral stance on US stocks for the time being.

“There is unlikely to be a lack of tension in the second half of the year either: the consequences of the tariffs are becoming clear, and it remains to be seen how consumers and companies will react to them. The US administration’s fiscal package is on the home stretch. The economic slowdown is likely to persist, which favours investment in diversified portfolios.”

Alex Müller, Chief Investment Officer

Europe: economy growing slowly

Europe’s economies remain dogged by subdued growth in 2025. The leading indicators from industry have recovered somewhat since the start of the year but are still below the growth threshold. The services sector is ailing. Accordingly, the economic engine in the EU has not picked up speed, even after several disappointing quarters. We do not expect a wave of reforms and deregulation in Europe – and in Germany in particular – under the new government. However, attractive valuations and a less restrictive monetary policy could provide equity markets with further support. Real wages are rising against a backdrop of declining inflation. Savings rates will probably decline. European equities should continue to play a role in investor portfolios. After profit-taking in April we recommend adopting a neutral position.

Looking at Germany

We still see specific opportunities in both Germany and Switzerland. Opportunities are opening up for risk-tolerant investors. In recent months, politicians have given the financial markets a boost. Germany is investing up to EUR 1 trillion in defence and infrastructure over the next few years, which is likely to strengthen both economic growth and competitiveness. Higher government expenditure is increasing demand for technology, machinery and construction materials. The construction economy, industry and armaments will benefit in particular.

Switzerland: zero interest-rate environment is an opportunity

Swiss equities continue to offer an attractive risk premium. This situation has been further accentuated by the introduction of zero interest rates by the SNB and with capital market interest rates close to the zero mark. Dividend stocks in particular should benefit. We consider the stock market to be fairly valued. The uncertainty relating to the regulation of UBS is no longer an issue, and the major pharmaceutical stocks are adequately reflecting regulatory risks from the US, in our view. But Switzerland is still dependent on the global situation.

Political challenges remain

Markets usually recover quickly after political turmoil, and this was the case in May 2025 too. Financial markets are currently indicating that everything is in order. But we believe that the current geopolitical conflicts have more profound consequences. US economic and geopolitical policies will be shaped greatly by what happens in the Trump administration's remaining term of just under four years. It is too early to tell whether it will be able to act as aggressively after the mid-term elections in 2026. This in turn will have an impact on financial markets. At the same time, the major source of stimulus for global export activity – China – continues to falter.

Opportunities during the rest of the year

We continued to adapt our position to the new circumstances. We recommend a neutral position for equities, to be implemented with an overweighting in Switzerland and an underweighting in emerging-market equities. We have expanded our position in gold as well as our investments in Swiss real estate.

A wait-and-see stance pays off

What is left of the turbulence seen in the first half? Firstly, the established maxim that it is worth remaining true to one's basic strategy. With a daily return of over 10 percent, 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. Remaining invested is the key principle for investment success. The aim is therefore to stay on course for the next six months, even if the waters are choppy. For investors, this means: remaining invested and taking advantage of the opportunities arising in financial markets. A robust and broadly diversified investment strategy is the best recipe for success.

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