

Portfolio

October 2025

Market overview and positioning

An exciting, opportunity-laden investment year is drawing to a close. Financial markets have remained remarkably resilient in the face of geopolitical turbulence and a hyperactive US administration. Economic momentum is subdued, yet companies are doing well. Equities remain our no. 1 choice.

US themes in spotlight

US economic data have shown a clear trend in recent weeks, even before the government shutdown. Leading indicators for service-sector companies as well as manufacturing reflected a subdued state of affairs and a stable overall picture. The service sector continues to face major cost pressures, while manufacturing is experiencing a slight improvement in conditions. Meanwhile, the slight fall in consumer confidence reflects dwindling optimism about the labour market and the economic climate. In the US, the spotlight was on four themes: the temporary unease surrounding the private credit market, the ongoing government shutdown, the Fed's interest-rate decision and the third-quarter corporate reporting season.

First Brands – credit shock in October

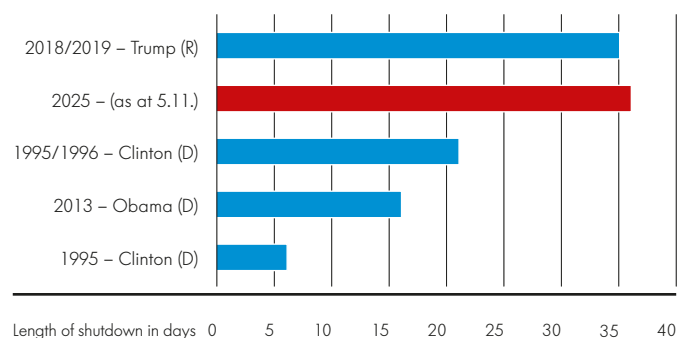
The collapse in October of First Brands – a manufacturer of car parts – shone a light on the market for leveraged loans. Investors instantly began to doubt the due diligence undertaken in relation to credit quality in this rapidly growing market. Although these loans are usually packaged as CLOs and sold to insurance companies and large-scale investors, the debacle surrounding First Brands raised concerns as to whether there was a sufficient degree of risk diversification. In addition, the market lacks transparency. Fortunately, equity markets experienced only a brief bout of turbulence: Solid results from a string of US regional

and major banks helped calm the situation and dispelled fears of a financial meltdown. For the moment, we consider the insolvencies of First Brand and Tricolor (car retailer) to be one-off incidents.

Budget dispute hits government employees

The current US government shutdown began at the start of October and has now been in effect for a number of weeks, making it the lengthiest shutdown in the country's history (see chart). The shutdown was triggered by Congressional disunity over the budget. Around 750,000 government employees are consequently either on unpaid leave at the moment or working without pay. A large number of federal authorities, national parks and museums are closed.

Longest government shutdowns by comparison



Source: Zuger Kantonalbank

Market overview and positioning

US shutdown curbing growth

The forced government shutdown is also impacting on the US economy, with gross domestic product falling by an estimated 0.1 to 0.2 percentage points. Confidence among consumers and companies is increasingly being hit. The degree of damage done ultimately depends on how long the political stand-off continues. At the time of publication, there was no end in sight.



"A turbulent and to date encouraging investment year enters its final phase: We expect the benign back-drop for risky investments such as equities to continue."

Alex Müller, Chief Investment Officer

Rate cut despite gaps in data

The Fed Open Market Committee (FOMC) decided on 29 October 2025 to cut interest rates by a further 25 basis points to a band of between 3.75% and 4.0%. The decision is based on continued modest economic growth coupled with a softening labour market and consequently is in line with the comments made by Fed chief Jerome Powell in Jackson Hole a few months ago. Meanwhile, the pressure on prices is contained – if still above the Fed's target level. In truth, the headwinds could have been expected to be stronger given the myriad tariffs. We expect an additional rate cut in December 2025.

Strong companies

US companies are performing very well, notwithstanding the political uncertainty. Donald Trump's tweet on tariffs in the trade dispute with China plus heightened nerves over the debts of regional banks only briefly slowed the upward momentum on equity markets. The US and China have now agreed a tentative truce, and the US equity market has reached multiple new highs. Provided US companies meet the high expectations and earnings growth remains

strong, these high valuations will be supported. Future prospects are intact thus far, with earnings likely to expand further. US equities therefore remain an important component of the portfolio.

Europe and Switzerland subdued

European economic indicators have been stable of late. We expect headwinds from US tariffs and the strong euro. Private consumption remains supportive: Rising real wages and a lower propensity to save on the part of households are stabilising consumer spending and underpinning growth at a modest level. Inflation is running within the expected framework, and we expect it to settle at close to the 2% target set by the European Central Bank. The Swiss economy, meanwhile, is experiencing a period of modest growth: The domestic economy is supportive, but the export sector is suffering noticeably as a result of the trade conflicts.

Optimism about the 2026 investment year

Although there are gaps in the latest economic data due to the US shutdown, an encouraging scenario is already emerging for the 2026 investment year. While "driving on sight" remains advisable, overall conditions increasingly favour a stabilisation and even a tailwind in the medium term. Recent – unofficial – labour market data continue to point to a weak labour market. At the same time, declining inflation rates in the service sector indicate an easing of price pressures – particularly in terms of housing costs.

This therefore creates new scope for the US Federal Reserve: We continue to expect an easing of monetary policy over the coming months, especially as the new Fed chair will undoubtedly want to head in a pro-growth direction. All in all, therefore, we are looking towards the 2026 investment year with optimism: Stay invested!

"We continue to recommend a high equity allocation, with a focus on US stocks. We are sticking with gold and real estate. Government bonds remain unattractive."

Alex Müller, Chief Investment Officer

What does this mean for investors?

US equities still attractive

The backdrop for US equities remains favourable. An easing of the trade conflict with China is likely to brighten sentiment. The OBBBA fiscal package should provide a tailwind as of 2026, providing an investment fillip that will reinvigorate economic activity and corporate earnings. Together with the expected interest-rate reductions, this bodes well for risk assets. Long-term, improvements in productivity due to the use of artificial intelligence remain a key growth driver. We are therefore retaining our overweight stance on US equities.

Hopes founded on infrastructure package

In Germany, we expect a stimulus from the EUR 500 billion infrastructure investment package. Even so, the troubled start for the new federal government, geopolitical situation and worries about job losses are having a negative impact. At the same time, higher real incomes should ensure a slight improvement in sentiment. We expect modest growth in consumer spending but not a boom in consumption.

Swiss equities lack impetus

The Swiss equity market actually offers an attractive risk premium and high-quality companies. However, US tariffs are a “sword of Damocles” hanging over the Swiss market, given that the tariff burden is significantly higher than for Switzerland’s European competitors. This is compounded by the ongoing stagnation of the European manufacturing

sector. The stronger Swiss franc also creates challenges, and we therefore think the support for Swiss equities remains limited for the time being.

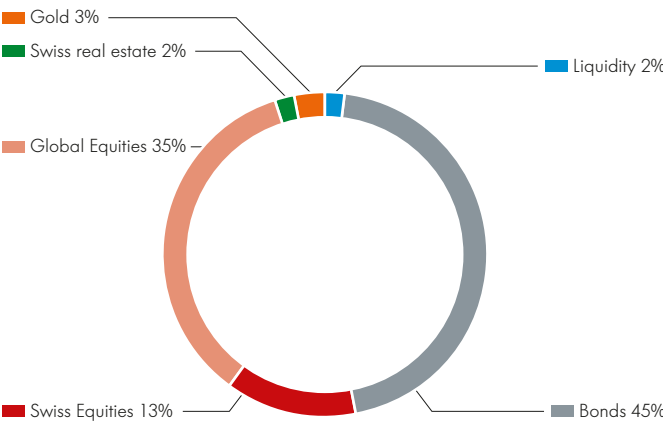
Gold: price setback offers opportunity

Gold remains an attractive portfolio building block despite the recent price correction. The precious metal is favoured by multiple fundamental factors, even after the recent setback. First, we expect a further cut in US interest rates. Since gold does not generate a regular income, falling interest rates mean the opportunity cost of investing in gold is reduced. Second, gold is supported by the demand from central banks buying gold in order to diversify their reserves. China, too, is increasing its gold reserves. Third, ongoing geopolitical tensions are boosting the demand for tangible assets. We are therefore sticking with our gold overweight.

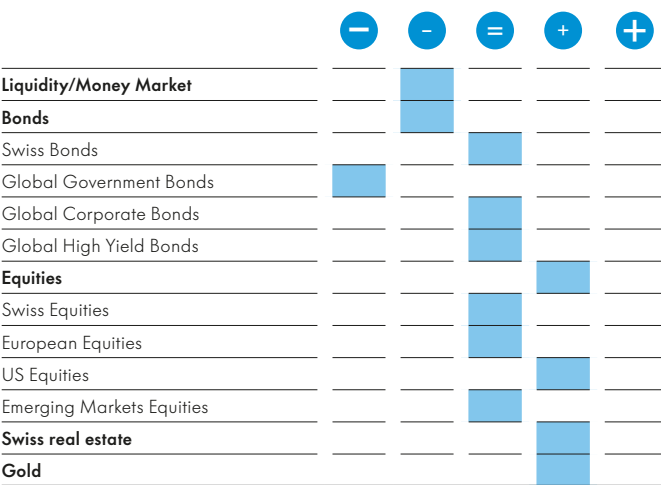
Attractive Swiss property

The Swiss property market looks robust despite a slight cooling of growth. A persistent demand overhang – notably in the residential segment – coupled with insufficient construction activity is supportive to prices. Zero interest rates create an attractive financing environment, while continued immigration ensures structurally based demand. Institutional investors continue to show strong interest in property; overall, therefore, Swiss property remains an important investment building block in the current environment.

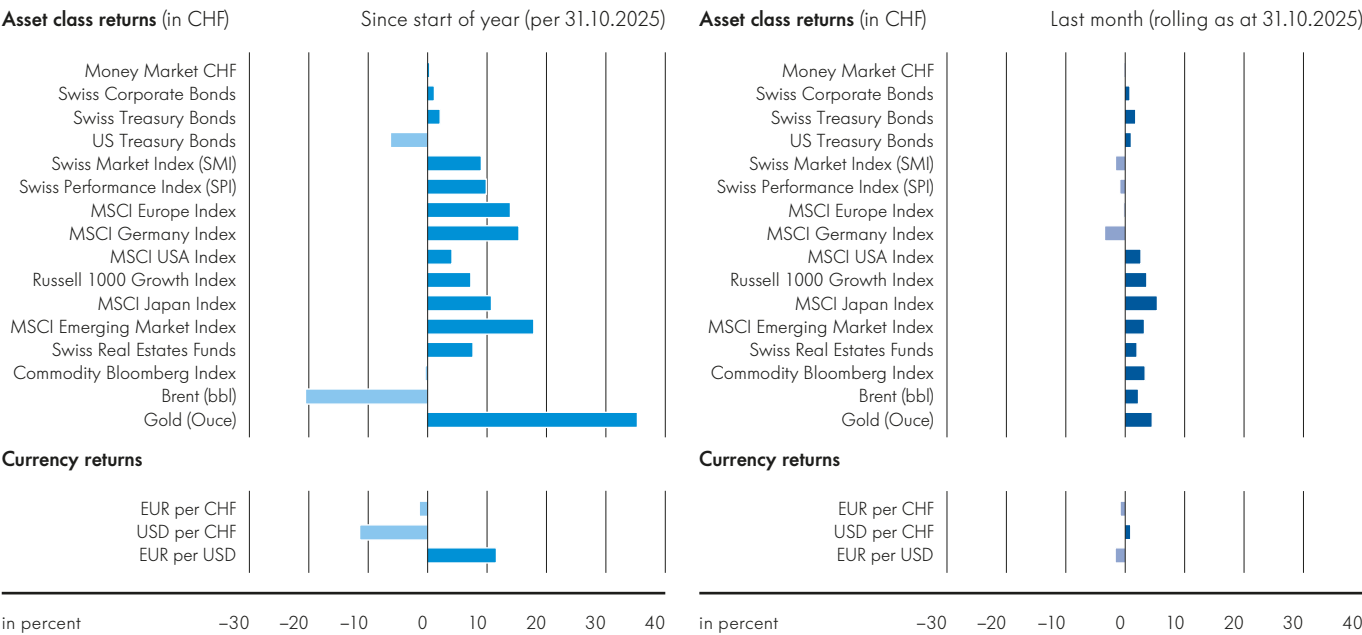
Strategic Allocation (Source Balanced Mandate)



Tactical Allocation



Market data (exchanges & markets)



Swiss equities SMI (from start of the year to 31.10.2025)

Holcim 65.9% / CHF 71.34	Logitech 30.7% / CHF 96.68	Swiss Life 30.2% / CHF 872.4	ABB 24% / CHF 59.66	Swisscom 21.9% / CHF 589.5
Richemont 17.4% / CHF 158.7	Geberit 16.8% / CHF 587	Swiss Re 16.7% / CHF 146.6	Novartis 15.9% / CHF 99.27	UBS 14.4% / CHF 30.73
Zurich 9.2% / CHF 559	Nestle 6.4% / CHF 76.88	Roche 4.7% / CHF 258.9	Lonza 4.2% / CHF 554.2	Givaudan -15.3% / CHF 3298
Partners Group -17% / CHF 982.4	Alcon -22% / CHF 59.8	Kühne&Nagel -22.4% / CHF 154	Sonova -24.9% / CHF 218.6	Sika -26% / CHF 157.2

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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