Market Outlook

H2·2025

DANCING ON THIN ICE

Syz PRIVATE BANKING

Source: Adobe Firefly AI

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H2·2025

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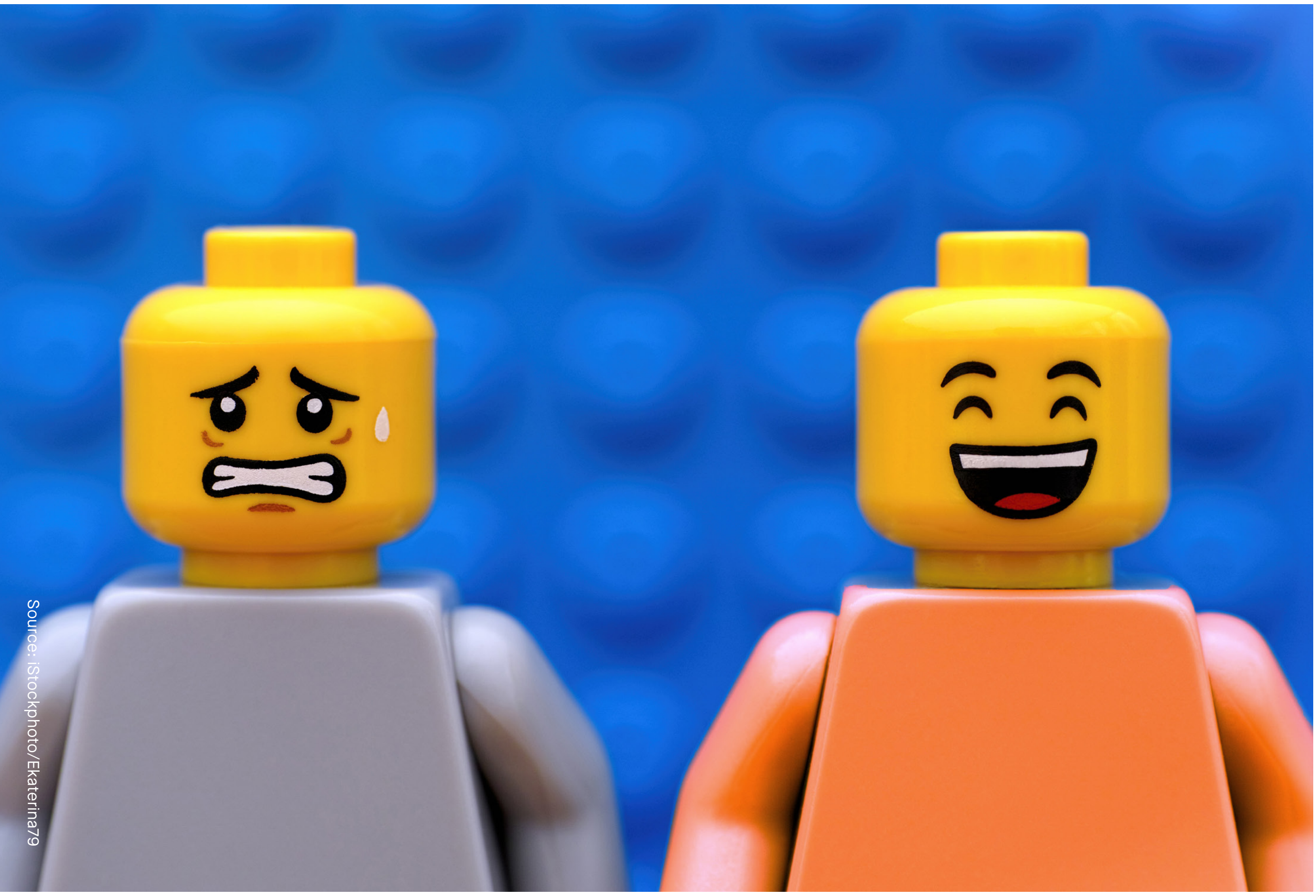
INTRODUCTION

Reasons to be fearful, reasons to be cheerful



It was an eventful first half of the year, to say the least...

In January, the rise of DeepSeek was a wake-up call for the world, demonstrating that China is a major competitor to the US in AI and technology. The new US administration rapidly reordered geopolitical and economic relationships, implementing aggressive trade policies and tariffs.

On April 2, 2025—a date President Donald Trump proclaimed "Liberation Day"—the US administration announced the most sweeping tariff hike since the 1930s. This took the world (and markets) by surprise and led to retaliatory measures, fears of a global trade conflict and financial markets turmoil. However, the US administration, under the pressure of the US Treasury market, decided to scale back on some of their plans. In early May, after talks in Geneva, China and the US agreed to lower tariffs, triggering a relief rally in financial markets.

On the geopolitical front, Russia's war in Ukraine continued with no resolution in sight. NATO leaders agreed to increase defence spending to 5% of GDP in June 2025, signalling heightened concerns about Russia's belligerence. The Israel-Iran conflict escalated, with a US bombing of Iran's nuclear sites reported on June 23, 2025, injecting uncertainty into global markets and inflation outlooks.

The combination of trade tensions, geopolitical conflicts, and policy shifts created a volatile environment for financial markets. It is however remarkable to see the MSCI all Country index and the Nasdaq 100 both hitting a new all time high by the end of June. The resilience of earnings and the economy, coupled with the retro-pedalling by the US on tariffs helped financial markets to record strong gains during the second quarter.

Still, the biggest loser of this first half of the year is the dollar. Another major development has been a shift in performance leadership with international equity markets, value style and emerging markets debt outperforming US equity markets, growth style and US bonds. As in 2024, gold remains the best performing traditional asset class.

As we enter the second half of 2025, what lies ahead? We believe there are reasons to be fearful, but also reasons to be cheerful.

The downside risks

Tariffs are paused, not removed — we're not out of the woods. The 90-day pause ends in July, China's lower tariffs expire in August, and both collide with the US debt-ceiling showdown. We expect volatility to remain elevated.

Rising global bond yields are another concern — pushing up mortgage rates, pressuring equity valuations, and threatening a carry trade unwind.

And geopolitical risks remain high, with tensions and conflicts ongoing in the Middle East and Ukraine.

Reasons to be cheerful

In the US, lower tariffs, lower taxes and lower rates could become the investors playbook for the second half of the year.

A trade deal with Europe and Japan looks likely, with some easing on China also possible.

In the US, the One, Big Beautiful Bill could pave the way for tax cuts.

Inflation is easing, giving the Federal Reserve room to cut rates. There is also room for the ECB to lower rates.

First quarter earnings beat expectations. Profits remained resilient, with companies holding on to staff and already approved capital spending.

In this context, G7 economies should avoid a recession.

How do you position portfolios amid global uncertainty?

Overall, in this environment, we believe bouts of volatility can be used as opportunities to add quality investments at better prices. We continue to favour diversification and broadening leadership as key investment themes. Peak trade tensions and volatility may be behind us, but don't expect a smooth ride till the end of the year.

Our main recommendations to investors are the following:

First, stay invested, timing the market is risky. Those who tried to time the market in April and sold at the trough realised losses and were underinvested during the rebound.

Two, keep some international diversification, but US exceptionalism is NOT dead. The strongest companies are US-listed, tariffs and a weaker dollar also pressure regions like Europe.

Three, focus on quality and diversify across styles, sectors, and asset classes.

To conclude here are our top investment themes

Artificial Intelligence. Lower AI costs will drive adoption. Which stocks are going to benefit? Software firms and companies building AI infrastructure.

Innovation beyond the Magnificent 7. Disruption is everywhere: robotics, autonomous vehicles, cybersecurity. And it's global. DeepSeek shows China is a serious tech competitor to the US.

Stores of value. Assets that hold purchasing power amid inflation. Gold and bitcoin are top performers year-to-date. In a world of rising debt and inflation, scarcity matters. We believe this theme will remain valid in the years to come.

On behalf of the entire investment team at Syz Bank, we wish you a relaxing summer and a successful second half of the year - with many reasons to be cheerful along the way.

The first half of 2025 in 10 charts

Source: iStockphoto/asbe

The first half of 2025 was shaped by a volatile mix of cooling inflation, diverging monetary policy paths, and intensifying geopolitical and trade tensions. A pivotal moment came in April, when the Trump administration announced a sweeping new round of tariffs on imports from all over the world—particularly from China—reigniting fears of a broader decoupling between the world's two largest economies. These developments, along with growing political uncertainty in the US, began to erode investor confidence in US assets—most notably Treasuries and the US dollar.

Global equity markets managed moderate gains, despite turbulence. The April tariff announcements triggered a sharp risk-off episode, leading to strong declines in equity markets, particularly in Asia and emerging markets. However, in most regions, markets demonstrated resilience, fully recovering from the April drawdown by May and early June.

The fixed income landscape grew more unsettled: while falling inflation supported a gradual decline in yields, the bond market began to react to increasing concerns over the long-term sustainability of US debt levels, exacerbated by renewed fiscal expansion under the Trump administration, and signs of political interference in central bank independence. Treasury auctions in May and June saw tepid demand from foreign investors, contributing to upward pressure on term premiums despite dovish Federal Reserve signalling.

Commodities experienced crosswinds. Oil prices weakened temporarily in April due to fears of slowing trade and economic growth. However, prices stabilised amid OPEC+ supply discipline and rose again in June, driven by renewed geopolitical tensions in the Middle East. Gold rose significantly, driven by safe-haven demand, falling real yields, and growing doubts about US policy credibility.

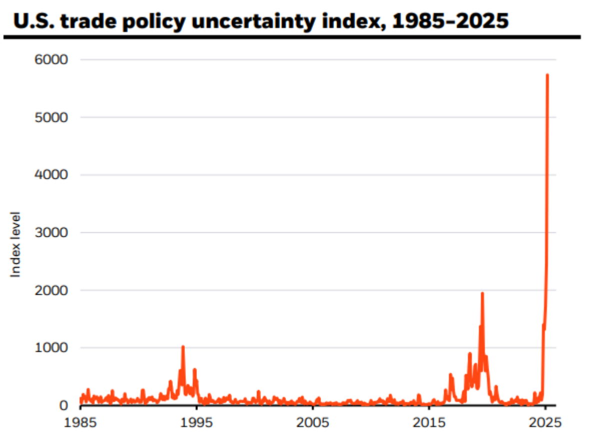
In Foreign exchange (FX) markets, the US dollar came under pressure. The combined effects of protectionist policies, rising twin deficits, and eroding central bank credibility led to a loss of confidence among global reserve managers. Meanwhile, the Swiss franc and gold gained on rising demand for stability.

Please find below a review of this eventful start of the year in 10 charts.

Chart #1

US trade policy uncertainty hits unprecedented levels

By mid-April, the US Trade Policy Uncertainty Index surged to a record high, exceeding by far previous peaks. The combination of escalating tariff tensions, abrupt policy shifts, and heightened global trade friction has driven uncertainty around US trade policy to levels never seen before. The magnitude of this spike reflects both the volatility of the current environment and the growing sensitivity of global markets to trade-related developments. In May, the Uncertainty Index began to sharply decline after President Trump reversed course on tariffs.



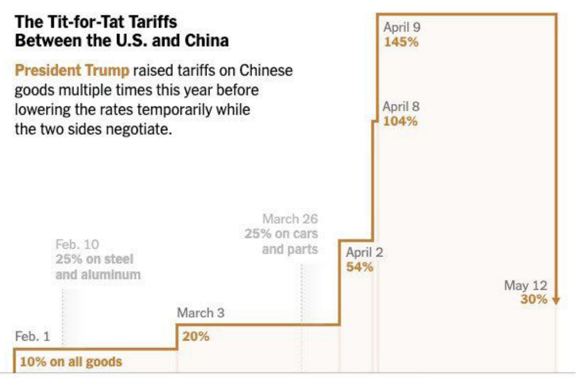
Source: BlackRock Investment Institute, with data from Matteo Iacoviello and LSEG Datastream, April 2025. Note: the trade policy uncertainty (TPU) index is based on automated text searches of the electronic archives of seven newspapers. The measure is calculated by counting the monthly frequency of articles discussing trade policy uncertainty (as a share of the total number of news articles) for each newspaper. The index is normalised to a value of 100 for a 1% article share.

Chart #2

Trade truce triggers global relief rally

The long-awaited US-China trade truce was announced mid-May in Geneva, with both countries agreeing to roll back tariffs. The United States reduced tariffs on Chinese goods from 145% to 30%, while China lowered its own from 125% to 10%.

Markets reacted strongly: the Dow Jones jumped over 1,200 points, while the S&P 500 and Nasdaq officially entered bull markets, rising more than 20% from recent lows. The removal of this major headwind brought immediate relief across risk assets.

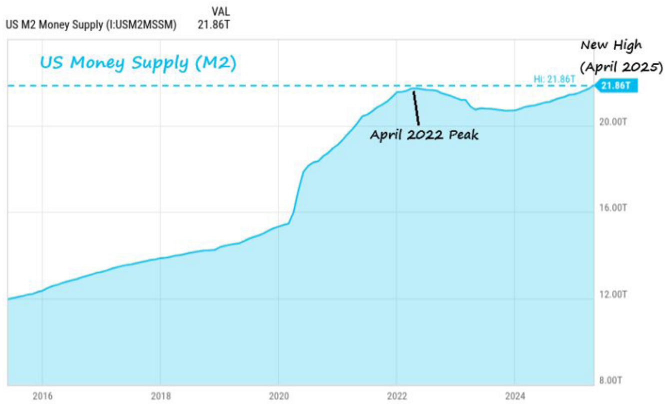


Source: Global Markets Investor

Chart #3

US money supply hits new all-time high

US money supply (M2) reached a fresh record high in April 2025, resuming its expansion after a period of stabilisation in 2024. This renewed growth reflects the ongoing accommodative fiscal stance, with strong government spending contributing to liquidity conditions. The expansion of M2 underscores that overall financial conditions remain loose, even as inflation risks remain an active concern for policymakers. Moreover, the renewed growth in liquidity needs to be monitored, as elevated money supply levels can impact investments.

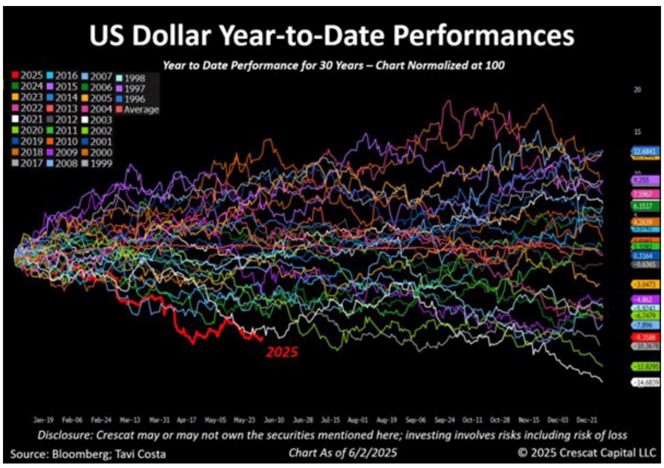


Source: CharlieBilello

Chart #4

The US dollar decline has been truly remarkable

The US dollar's fall in 2025 has been nothing short of remarkable. The Bloomberg US Dollar Index has erased nearly all of its gains from the previous year, down over 8% year-to-date and back to levels last seen in mid-2023. This abrupt retreat reflects a shift in capital flows, with foreign investors increasingly repatriating funds amid easing US rate expectations and signs of stabilisation in global growth, challenging its recent cycle of persistent strength.



Source: Bloomberg, Crescat, Tavi Costa

Chart #5

The world equity index hits a new all-time-high

The MSCI ACWI Index reached a new all-time high in June 2025, extending its long-term bull run. Despite repeated episodes of macro volatility over recent years, global equities continue to climb, marking new records level. The steady upward trajectory highlights how global markets have repeatedly managed to recover from setbacks and push to fresh highs.

Source: Blackrock

Chart #6

The big rotation

The first half of the year saw a significant rotation in asset class and style leadership. While international stocks have trailed their US counterparts by a wide margin over the last decade, they outperformed meaningfully in the first five months of the year. Gold emerged as the top-performing traditional asset in 2025, followed by equities in Europe, emerging markets, and Asia. Value stocks outpaced growth stocks, while emerging market bonds outperformed both US high-yield and government bonds. Overall, assets sensitive to a weaker dollar emerged as the winners of the first six months of the year.

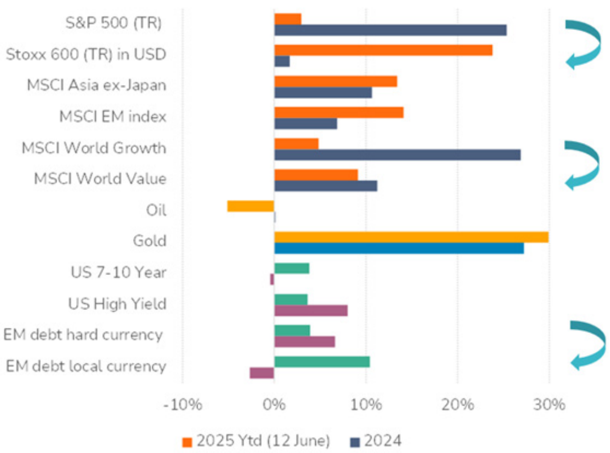


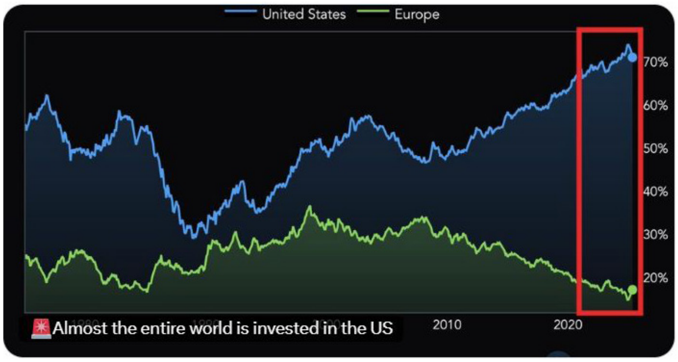
Chart #7

US exceptionalism is being tested

The US stock market's share of global equity indices remains historically high, now accounting for nearly 70% of total market capitalisation—close to an all-time peak. In contrast, Europe's share has declined to near-record lows, at around 18%.The degree of concentration highlights the huge dominance of US markets and mega-caps compared to its counterparts. Almost the entire world is invested in the US.

However, political uncertainty such as tariffs and fiscal policy combined with rising debt to GDP level and fear about further dollar weakness are now testing US dominance. Even a small repatriation of capital from the US to foreign markets could extend the length and amplitude of the "great rotation".

Weight in the MSCI World Developed Index

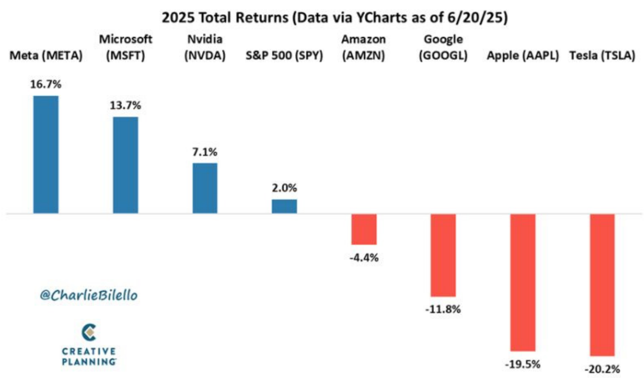


Source: CharlieBilello

Chart #8

The Magnificent Seven stocks are no longer moving in lockstep

The once-uniform leadership of the Mag7 fractured in 2025. As of June, returns within the group showed extreme dispersion: Meta (+16.7%), Microsoft (+13.7%) and Nvidia (+7.1%) remain in positive territory, while Apple (-19.5%), Tesla (-20.2%) and Google (-11.8%) are much lower. The divergence underscores shifting market narratives around valuation, growth durability, and AI monetisation. The S&P 500 itself is up just 2% year-to-date, increasingly driven by a narrowing set of winners.



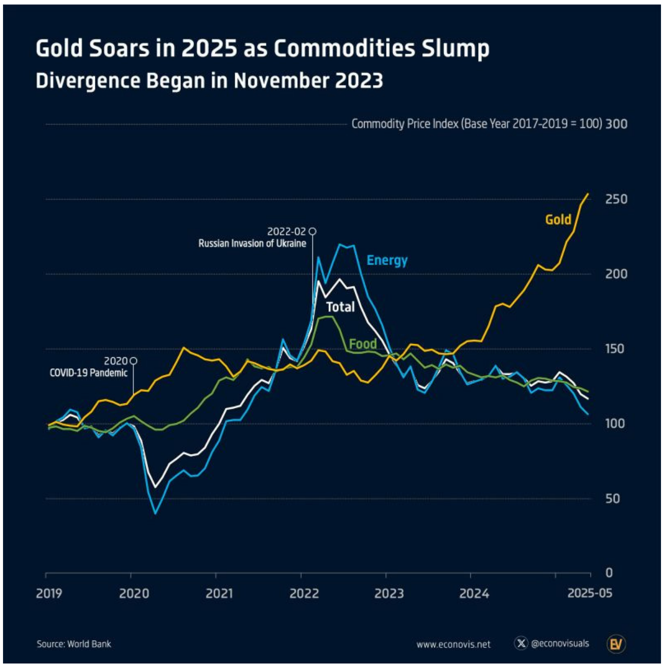
Source: CharlieBilello

Chart #9

Gold surges while broader commodities stall

Gold prices climbed 25.0% since the beginning of the year, marking a stark divergence from the broader downturn in commodity markets. The general commodity index declined by 9.0%, driven by a 12.9% drop in energy prices, and a 5.9% decrease in food prices. Compared to pre-pandemic levels, gold traded 153% higher, significantly outperforming the overall commodity index by 117%, energy by 138%, and food by 109%.

The yellow metal has surpassed the euro to become the second most significant reserve asset globally, now making up 20% of official reserves. Meanwhile, the euro's share has declined to 16%. The US dollar continues to lead, comprising 46% of global reserves. This rise in gold's share is driven by record-high prices and strong buying activity by central banks.



Source: Econovis on X

Chart #10

SNB cuts rate to zero for the first time since 2022

The Swiss National Bank lowered its policy rate to zero in 2025, marking another step in its cautious easing cycle. Despite this move, the SNB emphasised its reluctance to reintroduce negative interest rates, citing their adverse side effects. With inflation falling near the lower end of the SNB's target range of 0%-2% and global uncertainty persisting, the central bank is expected to maintain rates at zero for the foreseeable future, carefully balancing growth support with inflation risks.

Source: HolgerZ, Bloomberg

MACRO ECONOMIC OUTLOOK

Dancing on thin ice


Source: Adobe Firefly AI

Have you ever danced on thin ice?

It feels just like dancing on thick ice—until it doesn't.

At first, you might hear faint, muffled cracks beneath the glassy surface. Subtle signs. Easy to miss. Especially if there's a dusting of snow covering the warning signals.

Sometimes, there's no sound at all—no hint that the ice is weakening. Then suddenly, the fractures appear. And by the time you see them, it's often too late to get off the frozen lake before the surface gives way and you plunge into the icy water. Still, if you pay close attention—to the air temperature, the warmth of the water below, the daily sunlight, and the thickness of the ice at key points—you can often sense when the risk is rising.

You may not be able to predict the exact moment the ice will give way. But at the very least, you'll know when it's becoming too dangerous to keep dancing—no matter how solid the surface may still appear.

Checking the ice sheet

That's exactly what we aim to do here—monitor key economic indicators to assess just how thick (or thin) the ice beneath the global economy really is.

In particular, we'll focus on the US consumer. With US consumption accounting for more than a quarter of total global spending—roughly USD 23 trillion out to a total of USD 80 trillion—it remains the single largest driver of demand in the world economy.

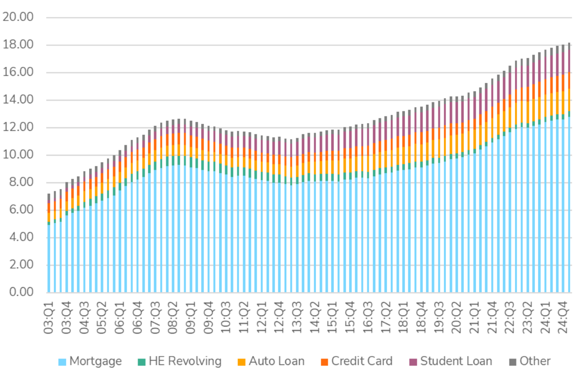
As the dancing of the US consumers seems to go on, we need to check the stability of the economic ice layer they are standing on – or, in other words, check the economic and financial conditions among US households.

It seems that the economic fundamentals are getting weaker and the ice sheet thinner, but for now, the ice should hold – at least for the remainder of the year and as long as our baseline scenario materialises. However, the first potential fault lines are becoming visible, and we will try to point them out and discuss potential implications for investors.

The underlying ice layer: why do we think the ice got thin for the US consumer?

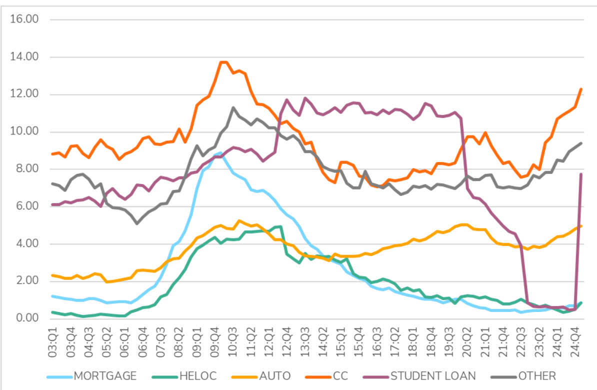
Overall US household debt just reached a new record high of USD 18.2 trillion (1 trillion equals 1,000 billions). Of this total, housing-related debt accounts for over USD 13 trillion, while non-housing debt has risen to USD 5 trillion. 20 years ago, these numbers were as low as USD 7.1 trillion for housing debt and USD 2.2 trillion for non-housing debt (see chart 1). Due to the elevated interest rates, a rising share of debtors are drifting into serious delinquencies (+90 days), particularly for credit card debt (6.5% of total household debt). Lately, student loans delinquencies have surged, while auto loans are also on the rise, both approaching the highs they reached just after the Great Financial Crisis in 2010 (see chart 2).

Chart 1: Overall household debt in the US is climbing higher and higher



Source: NY Federal Reserve, FactSet

Chart 2: Delinquencies are rising swiftly for several loan buckets, but still slowly for mortgages (percentage into serious delinquencies in % of total balance, +90 days)



Source: Federal Reserve Bank of NY

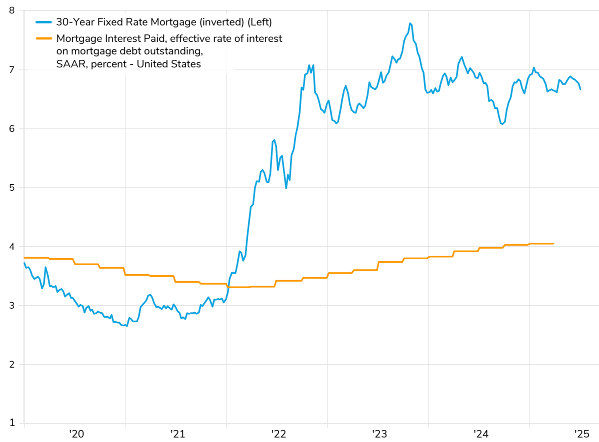
Of course, mortgages remain the big elephant in the room (i.e. housing debt), with more than 13 trillion, which equals 73% of total household debt in the US. So far, we do not see significant cracks in this area but only small increases of delinquencies since the low in mid-2022.

This is remarkable, given the sharp rise in mortgage interest rates. For example, the average 30-year fixed rate jumped from just below 3% in 2021 to above 7% in 2023, and it's still hovering above 6.5% in 2025.

What helps explain this resilience is that many borrowers locked in low rates during the so-called "refinancing boom" of the COVID period. Between 2020 and 2022, nearly 50% of US mortgages were either refinanced or reset during home sales, allowing many homeowners to secure favourable long-term rates.

Thus, the surge in the Federal funds rate (US key rate) from around 0% up to just above 5% in 2022/3 and down to 4.3% today, did not translate into drastically higher interest effectively paid on mortgages in the US as this average rate climbed from just below 3.5% in 2022 to a little bit above 4% in 2025 (see chart 3).

Chart 3: The 30-year mortgage rate is at high levels but not yet the average effective mortgage rate



Source: Federal mortgage agency, FactSet

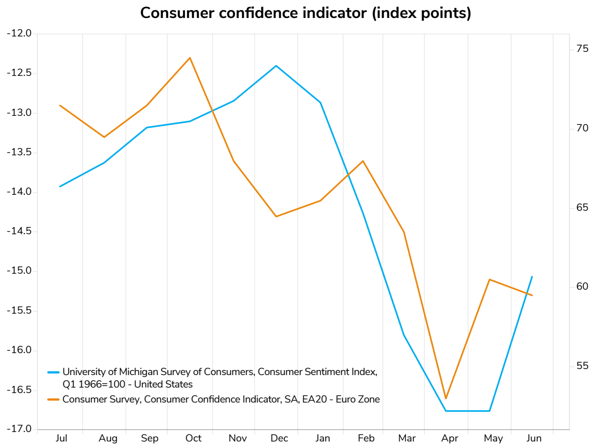
However, the sharp rise in mortgage rates for new or refinanced loans has significantly cooled the US existing home sales market, pushing activity below even the levels seen during the COVID crisis. The key reason is that homeowners who sell their house and need to secure a new mortgage today face much higher rates—above 6.5% for a 30-year fixed mortgage, compared to previous rates below 3%. As a result, many homeowners are reluctant to sell, even if they intend to move, due to the increased cost of financing their next home. As a result, many home prices have effectively frozen near all-time highs, with fewer transactions to push them up or down. The big question is: what happens if mortgage rates remain elevated because the Federal Reserve keeps key rates high and, at some point, homeowners eventually need to refinance at these much higher levels as they have to sell their current home, for example, to relocate for a new job? The moment when this thaw gains momentum may still be some way off, but as time passes with rates staying high, the ice beneath the housing market is set to thin.

Weak sentiment, weak ice surface: from the US consumer to a global view

The US-consumers not only had to face higher interest rates on their increasing debt burden, but also a chaotic communication of new trade tariffs. The current trade tariff exercise led by President Donald Trump seems to have culminated on “Liberation Day” on 2 April 2025, when he announced broad-based import tariffs. The shock from an escalation in global trade policy led the stock exchange tumble, fixed income yields surge and US-consumer sentiment to crash to an almost all-time low in April 2025.

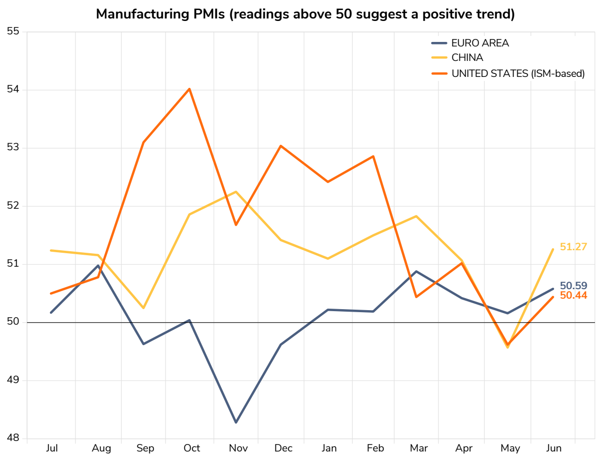
Later that month, President Trump recalled the tariffs. However, the strong increase in trade uncertainty since the beginning of the year weighed not only on consumer confidence in the US or in Europe but also on business sentiment (see charts 4 & 5). Companies reported that they became hesitant to invest and hire new staff in such an environment. A weakness in global business sentiment usually translates into weaker trade and industrial production. Additionally, the US government’s threat to massively increase import tariffs created a wave of upfront orders around the globe to avoid higher tariffs. It also partially distorted supply chains and economic data. Be aware that in the coming months, media reports and statistics may show large swings, both positive and negative—due to the timing of upfront orders placed before tariffs take effect, followed by a slump right after. These fluctuations create strong waves in trade data, but they don’t necessarily reflect underlying economic strength or weakness.

Chart 4: Consumer confidence is hit by the current uncertainty in the system



Source: Statistical offices USA and EU, FactSet

Chart 5: Business sentiment is currently weak given the high trade uncertainty



Source: S&P Global, FactSet

Finally, the threat of higher tariffs and more scrutiny for high-tech exports from the US to China prompted the Asian country to stop its own exports of rare earth metals, which are of crucial importance for key sectors of the US industry. Several large automobile and aircraft makers published warnings that they would need to shut down some production lines if access to these rare earths were not reopened in the next weeks. The room for mistakes got smaller, the ice got thinner. This is also true from a geopolitical perspective, as long as geostrategic hot spots are around – think of the war in the Ukraine or the conflict between Iran and Israel – the “margin for error” is smaller and the probability to crack the ice elevated.

What could make the ice thicker?

In the

Fiscal stimulus: First and foremost, the coming US fiscal stimulus package, President Trump’s Big Beautiful Bill, is set to support the US economy and particularly the lower income classes with additional monetary support. We expect the Bill to boost demand by approximately USD 300 to 400 billion—equivalent to around 1% of US GDP. However, because of various side effects of the bill, its net impact on US GDP growth is expected to average around 0.2% annually over the next three years. The Bill is carefully structured to strengthen the foundation of the US consumption: exemptions for qualified tips and overtime pay, along with the child tax credit, provide meaningful support to typical low-skilled and low-income US consumers. It will help alleviate the debt burden of these households, and since these income groups tend to have a high propensity to spend, putting additional dollars in their pockets will boost US consumption and further strengthen the economic “ice” they are dancing on.

Additionally, potential deductions to prevent double taxation between federal and state taxes (SALT) will provide relief to US taxpayers, putting more money back into their hands. The extension of President Trumps former Tax Cut and Jobs Act from 2017/8 will make lower taxes for households and for companies permanent and help improve the consumer, but also the business sentiment.

For US-companies, the new expected changes to tax rules, such as immediate expensing for domestic R&D activities or a favourable bonus depreciation for short-lived expenses, will likely lift business spirits. And finally, the Big Beautiful Bill also shed its most problematic provision for global investors: the so-called “revenge tax.” Introduced by the Trump administration to allow taxation of foreign holdings of US investments, its removal is a significant positive for global investors’ appetite for US assets.

De-regulation: Another factor set to improve business sentiment is the expected new trend to deregulate the US by narrowing the regulators leeway, lowering the bar for companies to challenge regulation in court or simply petering out regulatory bodies. The current government seems to focus less on environmental regulation likely leading to more energy projects and increasing energy supply. Similarly, lighter banking regulation, with more lenient stress testing and more favourable supervisory ratings, should lead to more credit supply by US banks. Of course, this might come at some point with the costs of a less stable financial system, but this isn’t a concern at the moment. Additionally, the anticipated changes to the supplementary leverage ratio for US banks—which will enable them to purchase more US Treasuries—are likely to support the Trump administration’s efforts to lower Treasury interest rates, at least in the short term, while also aiding fiscal funding.

Outside the

As in the US, fiscal stimulus remains the main priority globally: The NATO countries' pledge to increase their defence spending to 5% of GDP was the latest sign that Europe is not flirting with austerity at all. Earlier this year, the new coalition government in Germany announced a new fiscal package that includes more leeway for debt policies to enable greater spending on defence, as well as a EUR 500 billion infrastructure fund. In June, the German cabinet approved a high-borrowing draft budget, paving the way for a significant spike in government spending, e.g. more than doubling the defence spending by 2029 to reach more than EUR 150 billion. The German parliament is expected to pass the draft budget in September.

China's fiscal stimulus also appears to be expanding, with public spending by local governments expected to increase significantly. Overall, this could be the first year since 2022 to see a notably positive impact of public spending on China's GDP growth, with an estimated contribution exceeding 2% of GDP. From a global trade perspective, the US pressure on its trade partners could lead to a growing number of trade deals between countries outside the US, trying to shield themselves from the tough tactics of the US-government. Such a development would make the "ice" stronger and more resilient against any trade shocks triggered by the new US trade policies. And last but not least, any de-escalation of geopolitical hotspots, e.g. the conflict between Russia and Ukraine or between Israel and Iran, would help thicken the global ice for economic dancers. As long as tensions remain high in certain parts of the world, the ice is thin, and the probability of severe mistakes is elevated.

What could make the ice thinner?

Trade tariff escalation: If the chaotic communication surrounding the trade tariff policies led by President Trump does not become more consistent—or worse, if it intensifies and triggers further retaliation from US trading partners—global uncertainty for businesses and consumers could reach unprecedented levels, potentially causing a "sentiment crash (see chart 6). Usually, such a crash would occur in financial markets as they are faster moving and more sensitive to such announcements than the real economy. However, if business and consumer sentiment tank, the potential drop in consumption by confused households, and the reduction in capital expenditures and new hirings by bewildered companies could hit the US as well as many other economies such as Europe and China. As tariffs are usually shocks that hamper economic growth while increasing pressure on prices (i.e. stagflationary shocks), such a scenario could worsen if central banks are forced to maintain restrictive interest rates or even resume a rate-hiking cycle, further dampening economic growth.

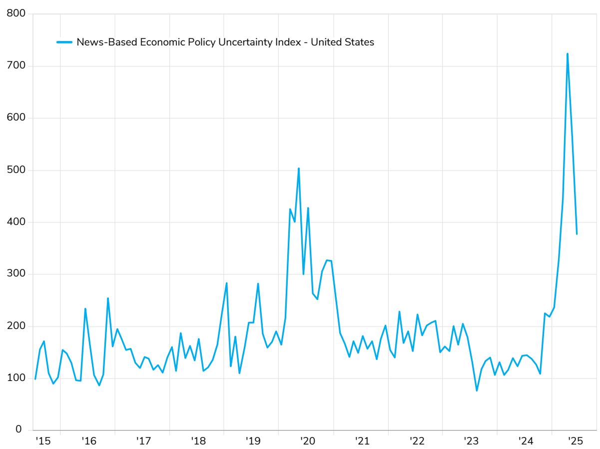
In the

Trade tariff escalation: Such a scenario could cause the ice to break, triggering not only immediate declines in consumption and investment and a likely (partial) sentiment crash in financial markets, but also an unbearable debt burden for many US households due to an even higher interest rate environment. In addition, the escalation in global trade disputes could further lead to a massive undersupply with certain crucial raw materials – such as rare earths from China – that could be used by US trade partners to retaliate against the new US-tariff regime. If, as in the case of rare earths, the dependence on such goods or services is strong enough, the US industry could have to cut production (as Ford or Boeing just warned regarding parts of their production).

Fiscal spending: Any disappointment regarding the Big Beautiful Bill would be subject to a potential first crack in the ice sheet. Particularly the underlying ice layers could get melted away by a diluted bill with an economic fire-power that is significantly lower than expected. Particularly missing support for low- to middle-income classes would likely lead to a tangible reduction in consumption. Despite the bill now signed into law, we could still experience less impact by the bill due to administrative frictions or other factors reducing the economic benefit of the measures, particularly in the short-run.

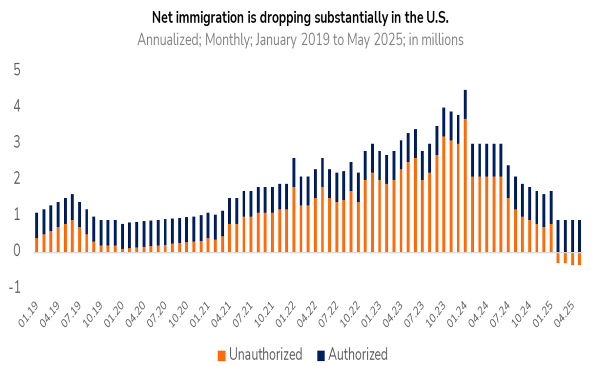
US labour markets: Similarly, the scarcity of labour supply, potentially induced by a much tougher immigration and deportation policy of the Trump administration, would lead to less consumption, as there will be less consumers in the USA. (see chart 7). On the other side, a smaller labour force usually leads to higher wages in a positive growth environment (i.e. when labour demand stays positive) but also to less production of goods and services, i.e. hampering supply. Although it is very difficult to judge the final net effect of less immigration and more deportations, several studies show, based on various assumptions, that the effects on growth are tangibly negative (around 0.1%-0.4% less annual growth) as well as moderately inflationary (additional 0.2-0.4% of annual inflation). Something that could add to a rather stagflationary environment in the US, particularly over the medium term and into 2026.

Chart 6: Global economic uncertainty is at very high levels



Source: Economic Policy Uncertainty Index, FactSet

Chart 7: Net immigration dropped substantially under the Trump administration



Source: Oxford Economics, CBO, DHS

Outside the

Besides the discussed negative sentiment shock of a trade policy escalation to consumers and companies, the EU could hamper its own economic growth projections by not delivering on the promises of more public spending, particularly in the defence space, e.g. by not adding fresh money, but instead money earmarked originally for other parts of the budget. Likewise, the EU could curtail its growth and innovation capabilities by a further increase of tough regulation. In China, we could imagine the government to reinforce its geopolitical rhetoric and aspirations, leading to elevated tensions around Taiwan and other neighbours in the South China sea, leading to an even stronger reaction by the US and its geopolitical allies like the EU, resulting in a further reduction in its high-tech exports to China.

Our baseline scenario:

In our baseline scenario, we expect the ice to get a bit thicker during H2, particularly in the US but also in the EU and China, so that the economic dance can continue. Therefore, we assume US consumers and companies to benefit from the Big Beautiful Bill, which was signed into law by President Trump on July 4. Particularly the low-income classes that need it most, should be supported, alleviating our concerns about thin ice and cracks stemming from elevated interest rates, potentially leading to debt service problems and delinquencies of households. Similarly, we anticipate the EU—particularly the German government—to meet expectations for a substantial fiscal stimulus by passing the necessary legislation and ensuring timely implementation of projects to inject funds into the economy. Meanwhile, China is projected to follow through on its announcement to boost fiscal stimulus through increased spending by regional government bodies. Regarding regulation, we expect the US-administration to achieve many of its de-regulation objectives with a focus on environmental and banking regulation, reducing potential energy price pressures and supporting access to credit and funding for household and companies.

On the other hand, after what happened on "Liberation Day," we don't believe President Trump and his administration will overreact again on trade tariffs. While we do expect to see further verbal wrangling with the trade partners, we think the US-President and his staff will stay on course and avoid any substantial derailment. Of course, risks to the downside will remain throughout the negotiation processes. Also, regarding immigration and the labour market, we do expect some upward pressures on inflation and wages, particularly in the low skilled sectors, but do not forecast any wage-price spirals, and foresee only a modestly negative impact on growth due to this factor.

At the geopolitical level, our base case remains, unfortunately, that the conflicts between Russia and Ukraine, as well as Israel and Iran, will not be resolved in 2025. However, we do not anticipate any significant escalation—this also applies to other geopolitical hot spots, such as the tensions between China and Taiwan.

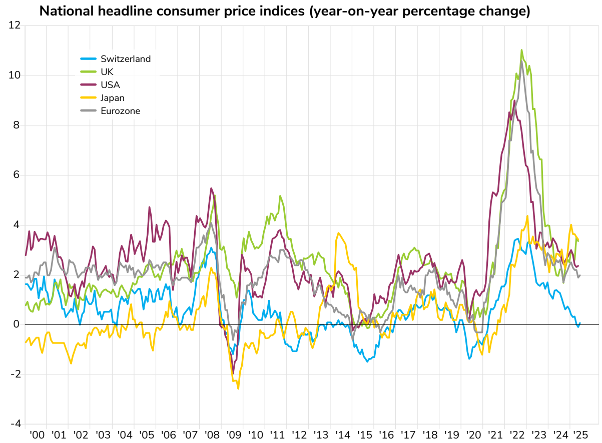
That said, we must acknowledge that the ice is still thinner than it was a year ago. The margin for political and economic error has narrowed during the first half of 2025. And while we believe the ice to firm up somewhat in the second half of the year, the risk of cracks remains.

Effects on inflation and central banks

Given our baseline scenario of a continued economic balancing act on thin—though slightly thickening—ice, we project US inflation to remain above the Federal Reserve's 2% target for the remainder of the year. As a result, we anticipate only one rate cut in the US, likely in the fourth quarter of 2025. For the Eurozone, we believe inflation to be well tamed, and the new fiscal stimulus won't increase inflation expectations significantly (see chart 8).

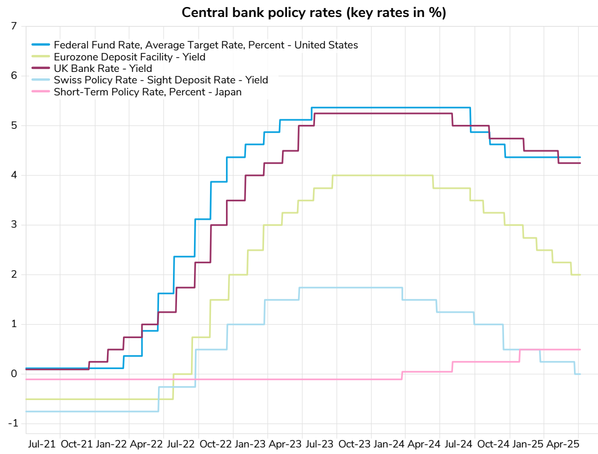
In Europe, we assume the European Central Bank (ECB) will cut key rates a last once in the second half of the year and then to stay on a deposit rate of 1.75% (see chart 9). The Bank of England (BoE) continues to grapple with elevated inflation but also weakening growth prospects, while maintaining its policy rate in firmly restrictive territory. We expect 2 rate cuts by England's central bank during the next 6 months, maybe even less, depending on inflationary developments. The Bank of Japan is the only major central bank where we anticipate one further rate hike, but only if the wage growth keeps pace with the inflation picture. In Switzerland, given that the ECB is almost done with its rate cutting cycle and the Federal Reserve is also not yet continuing its cycle towards a significantly lower key rate, we pencil in no further rate cuts and a Swiss National Bank policy rate of 0% for the rest of the year.

Chart 8: Inflation rates across the globe still tend to fall



Source: National statistical offices, FactSet

Chart 9: Central banks in the major currency regions are still looking lower, not the Bank of Japan



Source: National central banks, FactSet

EQUITIES

Earnings resilience so far

Source: iStockphoto/Torsten Asmus

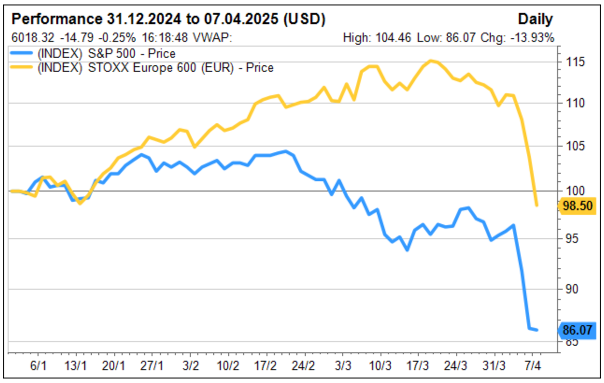
The first half of 2025 felt like a long and eventful period. We began the year with excitement about the potential positive impact of a second Trump administration on the US economy and equity markets. However, the optimism was soon met with significant challenges: Liberation Day and the resulting disruption of global trade due to tariffs, a much weaker US dollar, and, more recently, renewed tensions in the Middle East. As a result, equity markets have been volatile and investors are closely monitoring signs of further economic slowdown. While corporate earnings have remained resilient so far, a deceleration in the coming quarters is likely as inventory levels normalise. Meanwhile, investment in Artificial Intelligence remains strong, driven by accelerating enterprise adoption but the durability of US consumer spending is a key area to watch. In an environment of ongoing currency debasement, investors should stay invested in equities and prioritise diversification as macroeconomic uncertainties persist.

Region, sectors and style

Concerns about the US fiscal situation have weighed on the dollar, benefiting ex-US equities as investors seek greater diversification and reallocated funds to other regions. This doesn't imply an exodus from US assets, but even modest reallocations can have a significant impact given the size of the US equity market. To put it in perspective, the combined market capitalisation of the 10 largest US companies is roughly USD 20tn while the top 10 companies' market capitalisation in Europe is slightly above $2tn. A 10:1 ratio.

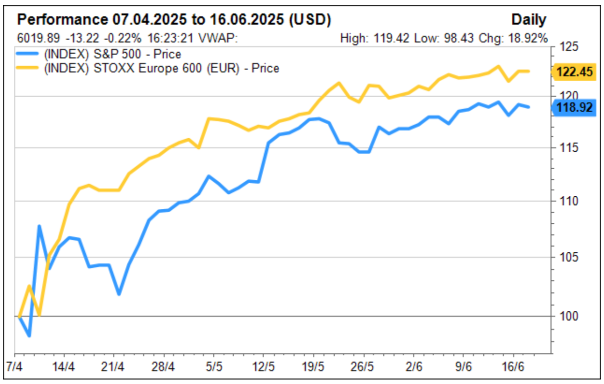
As a result, ex-US equities—including those in Europe and emerging markets—have performed well as investors reallocated to international equities. This sharp divergence in performance has played out over the first four months of the year. However, since April 8, US and European equities have risen in tandem indicating investors are not "avoiding" US equities at this stage. We believe the US hegemony, particularly in technology, is here to stay but maintaining a diversified portfolio is essential in today's uncertain environment.

Equity performance US and EU in USD - 31.12.24 to 7.04.25



Source: FactSet

Equity performance US and EU in USD – 7.04.25 to 16.6.25



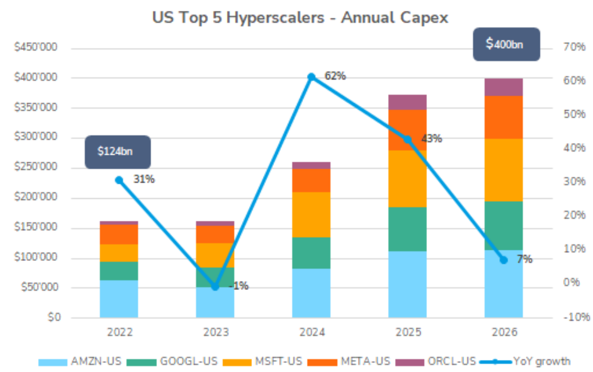
Source: FactSet

Despite being less magnificent lately, the Magnificent 7 remains a key focus among investors. The group has performed well over the past two years, but year-to-date performance has been mixed, with four of the seven stocks currently in the red. Until recently—aside from Tesla—most of the investment stories were fairly straightforward, driven largely by AI enthusiasm. However, several companies now face more nuanced, idiosyncratic challenges:

- **Apple:** "Apple Intelligence" has yet to become a must-have for consumers, and the upcoming iPhone 17 is unlikely to benefit meaningfully from it. Additionally, Apple remains highly exposed to the tariff risk.
- **Google:** its core search business is under pressure from chat-bot competition, and regulatory uncertainty persists.
- **Tesla:** Continues to lose market share amid intensifying competition, while robotaxi is still in early days.
- **Amazon:** Issued soft Q2 guidance, citing macroeconomic headwinds and tariffs.

Investment in AI remains robust, despite the uncertainty triggered by the DeepSeek event in February. Following last year's results, the top five US cloud providers were expected to increase capital expenditure by +23% year-on-year (YoY) in 2025. While DeepSeek cast some doubt on these projections, first quarter earnings results dispelled concerns, and capex growth for 2025 is now expected to reach +43% YoY! Moreover, Microsoft's strong cloud growth, seen with its latest quarterly results, reinforces the view that enterprise AI adoption is accelerating, supporting the broader AI investment narrative. AI capex will normalise at some point, but 2025 will be another year of strong investments in AI infrastructure.

Total investments in cloud infrastructure by the largest player in the US



Source: Companies, research providers, Syz Equity Research

Earnings – resilient despite tariff impact, but upcoming season faces scrutiny

The first-quarter earnings season was better than expected, supported by several factors: a pre-buy effect as companies anticipated tariffs and stockpiled ahead of implementation, robust investment in AI, and a resilient US consumer. Looking ahead, some normalisation is expected as tariffs are implemented, and inventories adjust.

We anticipate continued strong growth in AI investment throughout the year, driven by accelerating enterprise adoption. However, the second and third quarters' earnings seasons will be scrutinised as soft data (outcomes of consumer and corporate surveys) significantly diverge from hard data (published economic data). The former indicates cautiousness ahead while the latter proves the economy remains resilient. During the coming earnings season we will be closely monitoring three key areas:

1. The resilience of the US consumer
2. Signs of a manufacturing recovery
3. Any change in the pace of AI investments

From an aggregate, bottom-up perspective, earnings expectations have been adjusted since Liberation Day, but the scale of revisions remains relatively contained for both 2025 and 2026:

- **S&P 500:** Only a 2% downward revision to 2025 Earnings per Share (EPS), although US dollar depreciation should be considered
- **STOXX 600:** A 6% downward revision for 2025 and 3% for 2026 EPS
- **Hang Seng:** A 1% upward revision for both 2025 and 2026 EPS

This leaves US equities with projected EPS growth of 9.4% in 2025 and 13.6% in 2026 – both figures are above the long-term average of 7%. Consensus forecasts also anticipate a broader acceleration in earnings growth in 2026, led by cyclical sectors such as technology, industrials, financials and regions like Europe. If realised, these growth rates are tailwind for equities but we know these figures can be susceptible to meaningful revisions.

CY+1 refers to 2025 calendar year and CY+2 refers to 2026 calendar year

Regions	EPS CY0	EPS CY+1	Gr yoy	EPS CY+2	Gr yoy
S&P 500	240.2	262.7	9.4%	298.5	13.6%
STOXX Europe 600	35.1	35.7	1.7%	39.9	11.7%
Hang Seng Index	2'096.8	2'177.8	3.9%	2'338.5	7.4%

Source: Factset

Source: FactSet

The Mag7 continues to be resilient but only four (Tesla, Nvidia, Amazon and Microsoft) are expected to grow faster than the S&P 500 in 2026. Of the remaining three, Apple Intelligence is not yet exciting consumers while investments are impacting the growth rate of profits at Alphabet and Meta.

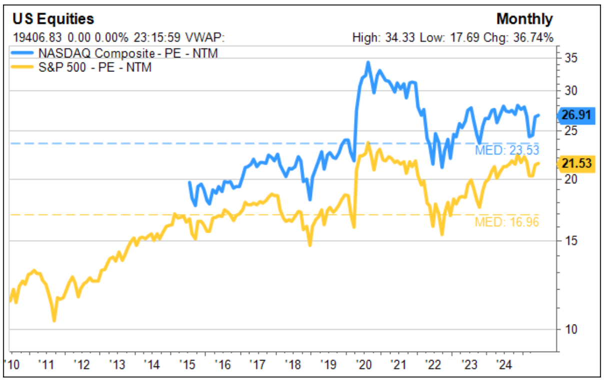
CY+1 refers to 2025 calendar year and CY+2 refers to 2026 calendar year

Mag 7	EPS CY0	EPS CY+1	Gr yoy	EPS CY+2	Gr yoy
Apple Inc.	6.75	7.17	6.3%	7.78	8.5%
NVIDIA Corporation	2.99	4.34	45.3%	5.72	31.7%
Microsoft Corporation	11.80	13.39	13.5%	15.15	13.1%
Amazon.com, Inc.	5.53	6.19	11.9%	7.26	17.2%
Tesla, Inc.	2.42	1.93	-20.4%	2.94	52.3%
Alphabet Inc. Class A	8.04	9.58	19.2%	10.16	6.1%
Meta Platforms Inc Class A	23.86	25.60	7.3%	28.30	10.6%
Average Mag7			11.9%		19.9%

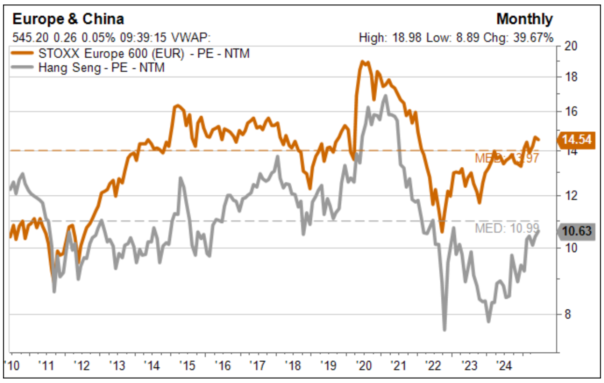
Source: FactSet

Valuation – US large cap equities are expensive

Equity valuations for US large-cap stocks remain elevated. While international equities offer more reasonable valuations, the equity risk premium is low across global markets. We recognise that ongoing monetary debasement tends to support equities as an asset class; however, certain segments of the market leave little margin for error. In contrast, areas such as emerging market equities present more attractive valuations and compelling growth prospects. This reinforces the case for maintaining a well-diversified portfolio.



Source: FactSet



Source: FactSet

FIXED INCOME

Harvest the carry in medium-term credit and emerging market debt

Source: iStockphoto/Douglas Rissing

In the complex and fast-changing environment of 2025, the fixed income market is living up to what can be expected of this asset class. The positive performance recorded so far this year has mostly been driven by the yield carry. Credit spreads have logically been sensitive to changes in risk appetite, essentially around the US tariff news flow. In the meantime, yield curves have steepened, and bonds have generally played their role of safe-haven assets in turbulent times, even if lingering inflation fears and public debt dynamics continue to weigh on longer maturities.

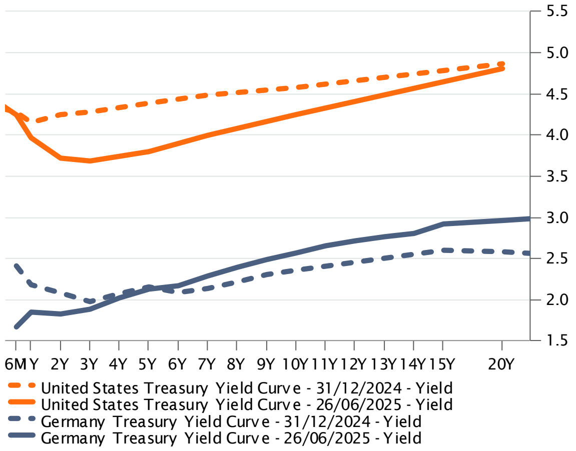
As we enter the second half of the year, this environment can be expected to last for some time yet, until there is more visibility on the three major factors of uncertainty that keep fixed income investors on their toes for now: the economic growth outlook with the risk of a pronounced slowdown, price dynamics with fears of an inflation resurgence, and government debt supply with large and rising fiscal deficits across all key regions. Some of the fears around those key drivers of bond markets will possibly be alleviated by the end of 2025, providing opportunities to reposition portfolios. But as long as uncertainty prevails on the growth, inflation and public debt fronts, sticking to the selective approach held so far this year is warranted. This approach is centred around collecting attractive yield carry on short-dated bonds and in favouring medium-term high-quality bonds for buffering portfolios against bouts of risk aversion.

Depending on macroeconomic developments, opportunities to raise exposure to longer-term bonds may appear in the coming months, with the potential to add another source of return to the yield carry, but we believe those opportunities are not there yet. The good news for bond investors is that they are currently being fairly well compensated for staying patient and maintaining a cautious stance.

A more favourable environment for fixed income investment

The range of outcomes for economic developments this year has been and remains unusually broad around our central scenario described earlier in this document. This likely explains why long-term rates in USD and in EUR have been stuck in a range since the beginning of the year, hovering around 4.4% for US Treasury 10y and 2.5% for German 10y yields. Upward pressures on yields stemming from inflationary risks and loose fiscal policies have been balanced by downward pressures from growth slowdown risks and declining short-term rates. Central banks have been cutting rates in Europe for a year, reversing part of the rise in rates implemented in 2022 and 2023, and markets are pricing in a resuming of the Federal Reserve's rate cut cycle, on hold since the beginning of the year. With stable long-term rates and lower short-term rates, yield curves have steepened, and 10-year yields are now above short-term yields after a long period of inverted or flat yield curves. This concretely means that investors get some compensation for extending maturities, a healthier situation for approaching fixed income portfolio construction.

The US and German government yield curves have become steeper this year.



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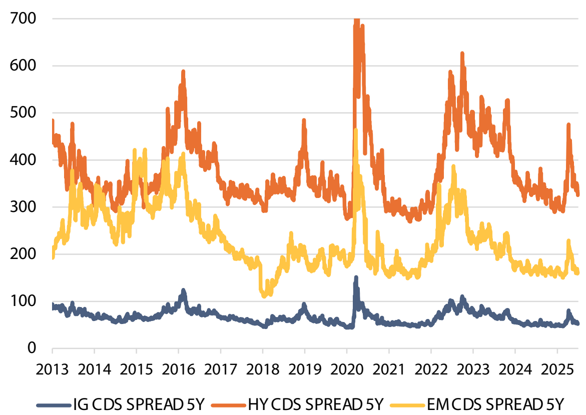
However, the slope of the yield curve, i.e. the difference between long-term and short-term yields, is not yet very significant. There is a 0.53% difference between 10y and 2y US Treasury yields, and a 0.74% difference between 10y and 2y German government yields. Given the uncertainties still surrounding the inflation outlook, and the resulting volatility likely to characterise long-term bonds, this excess yield doesn't appear attractive yet to improve the return of bond investments.

Carry harvesting with contained volatility

In the current context, exposure to credit and emerging market (EM) spreads is a more attractive proposition to benefit from a higher yield in a bond portfolio. Credit and EM spreads are generally tight from a historical perspective and therefore cannot be deemed very attractive from a valuation standpoint. But they offer the possibility to benefit from higher overall yields without having to reach for long maturities and bear the volatility attached to long-duration bonds.

Spreads are tight across the entire credit and EM spectrum.



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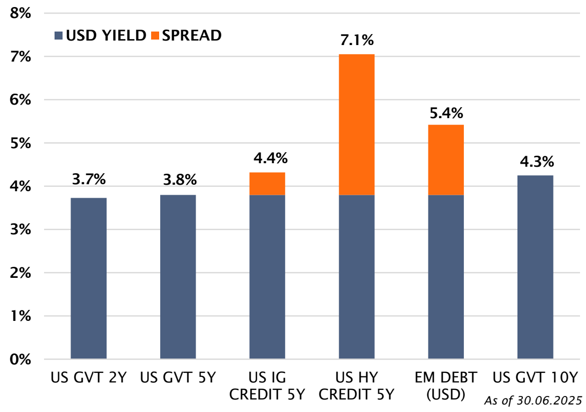
Importantly, the attractiveness of short-to-medium term credit and EM debt investments lies in the income stream from the carry that they still offer, with a contained sensitivity to interest rate and economic growth risks. Given their durations, those segments of the market would not benefit much from a potential decline in interest rates if it were to happen. They are also unlikely to benefit much from spread tightening, as credit and EM spreads are already tight and unlikely to tighten much further.

High-quality credit with medium maturities

In US dollar, investing in high quality Investment Grade corporate bonds with a medium maturity of 5y can offer a yield around 5% depending on the issuer, with a moderate risk profile in terms of sensitivity to interest rate and credit spread movements. Equivalent investments in euro-denominated bonds offer a yield around 3%, compared to less than 2% for 2-year German government bonds. Those are interesting propositions to secure medium-term income with contained volatility and overall risk.

Current yield by segments of the USD bond market (5y CDS levels used as credit and EM spread proxies)



Source: ??

Short-dated high-yield with solid fundamentals

The high yield segment of the market is also an attractive opportunity to capture elevated yields in a portfolio in the current context. While default risk and volatility are obviously more important for those issuers, there are ways to significantly mitigate risks. Firstly, focusing on short-dated bonds with maturities around 2 years reduces the volatility of the investment and allows for better visibility on the risk of default of a company. Projecting the evolution of cash flows and debt dynamics over a 2-year horizon can be done with reasonable confidence, while such projections over a longer-term horizon are subject to larger uncertainties. Secondly, being selective in the choice of issuers is key. Focusing on companies with ratings in the upper part of the High Yield space (close to Investment Grade ratings) and avoiding the riskier part of the spectrum still allows to capture yields above 7% per annum. Two-thirds of the EUR high-yield market and half of the US high-yield market are now rated BB. Overall credit quality has improved, as many CCC-rated issuers have exited the market—either defaulting during the pandemic or turning to private credit for financing. For these reasons, short-dated High Yield investments are an attractive solution to navigate fixed income markets in the coming months.

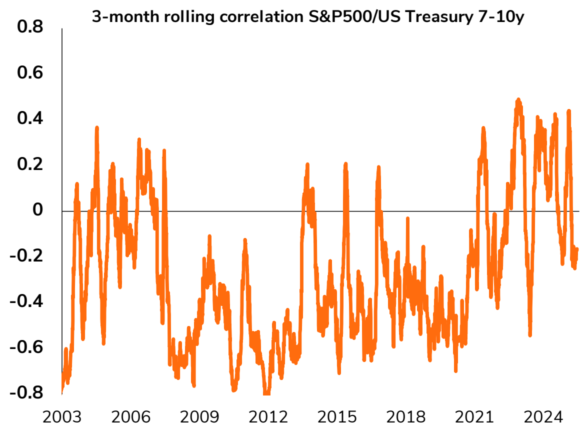
Selective emerging market debt exposure

Emerging market debt is another segment with attractive characteristics but, here too, selectivity is key when building a portfolio or selecting a EM debt fund. Similarly to credit, EM spreads are rather tight from a historical perspective and do not offer a compelling valuation argument. However, a careful selection of issuers and diversification in the allocation can offer value within a fixed income allocation. Substantial inflows into EM debt have been fuelled by a weak dollar and EM corporates' solid credit metrics. If the dollar remains subdued, carry opportunities from careful credit selection. The context of a weaker US dollar, generally a positive development for EM issuers, and of likely lower short-term US dollar rates ahead can be expected to support the asset class.

Government bonds for portfolio risk management, too soon for extending duration

As discussed above, opportunities in Credit and EM debt are sufficiently attractive in short-to medium maturities to generally favour them over government bonds in a fixed income portfolio. However, government bonds still have value from a portfolio construction point of view as they would likely be resilient in a scenario of rising risk aversion, materialised by credit spread widening and equity market decline. In the government bond space, favouring bonds with maturities between 7 and 10 years offers an attractive combination of interest rate sensitivity and volatility. The 7-10y maturity segment would be the most sensitive to slower growth and falling inflation, triggering faster and larger central bank rate cuts than are currently expected. In times of market stress, the long duration of these bonds means that a 'flight to quality'—and the resulting drop in yields—could significantly boost their prices, providing a helpful lift to portfolio performance. In recent years, government bonds have not always played their historical role of portfolio diversifier, with bond/equity correlations having turned positive with high inflation from 2022 to 2024 (i.e. bond prices rising or declining in tandem with equity prices). So far in 2025, the correlation has been unstable as the inflation outlook remains uncertain. But it can be expected to turn back decisively in negative territory if economic growth drops and equity markets fall, as investors would seek safe havens.

For three years, government bonds have ceased to be efficient diversifiers for multi-asset portfolios, but negative correlation might return in case of a sharp growth slowdown.



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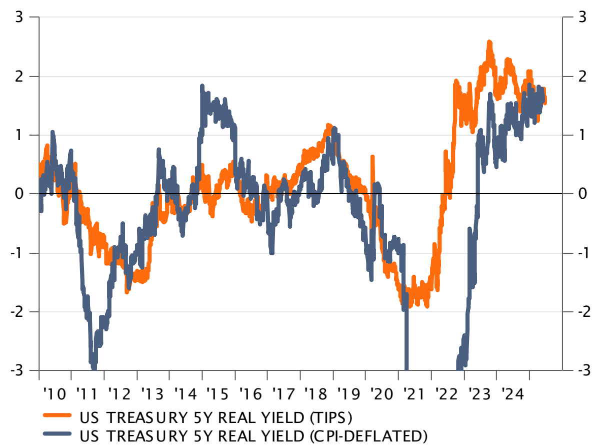
As mentioned above, the fact that yield curves have steepened recently has improved the relative value of long-term government bonds compared to shorter maturities. However, if uncertainties remain around the impact on inflation of US tariffs, oil prices fluctuations and fiscal policy changes, bonds with maturities beyond 10 years present an unattractive risk/reward profile. Elevated volatility on long-term yields can be expected to persist in the coming months. Long term yields would become attractive if or once tangible signs of limited inflation dynamics and economic growth slowdown become apparent. With the inflationary impact of US tariffs expected to become visible during the summer, an opportunity to invest in long-term government bonds could appear during H2. But for this segment of the bond market, patience is warranted in the current uncertain and volatile economic environment.

Conclusion - Harvest the carry for now, stay alert for tactical opportunities

As we move into the second half of 2025, the fixed income market offers an interesting setup that allows to continue benefiting from yield carry without taking undue risks in terms of interest rate volatility and credit quality. While the broader macroeconomic outlook remains clouded by uncertainty, the current environment still offers attractive income opportunities, particularly in medium-term high-quality credit and well-selected emerging market debt. These segments provide compelling yield profiles with moderate risk, allowing investors to stay invested without extending duration excessively. Short-dated High Yield bonds with strong fundamentals also remain a valuable tool for enhancing returns while maintaining visibility on credit risk. At the same time, government bonds in the 7–10-year maturity range should retain their role as a strategic portfolio hedge against renewed market volatility. Until visibility improves on inflation dynamics, growth trajectories, and fiscal policy, patience and selectivity remain essential. Encouragingly, today's yields across the fixed income spectrum reward patience. Being above the current and projected inflation rates, they allow investors to capture positive real returns with contained volatility, until tactical opportunities arise for extending bond maturities and duration exposure.

Real yields (nominal bond yield minus inflation) are positive, whether looking at actual inflation or inflation expected by financial markets.



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ASSET ALLOCATION INSIGHT

We maintain a constructive view on equities

THE WEIGHT OF THE EVIDENCE

Our asset allocation preferences are based on 5 indicators, including 4 macro and fundamental indicators (leading) and 1 market dynamics (coincident). The weight of the evidence suggests maintaining a constructive view on equities (neutral). Below we review the positive and negative factors for each of them.

Pillar 1: Macro cycle (NEUTRAL)

As highlighted in our macro section, global growth is expected to stall. There is no recession in sight, but many uncertainties remain (e.g. tariffs, energy, geopolitics, fiscal policy, etc.)

In the US, the economy is expected to bend but should not break. Most real-time economic indicators point to slowing economic growth since the beginning of the year, but there are no signs of contraction yet. Downside risks prevail (e.g. tariff, energy prices, fiscal policy).

In the Eurozone, economic growth stalls as US tariffs, the euro and higher energy prices dampen confidence.

In Switzerland, we expect stabilisation ahead, at a soft growth pace, supported by lower rates. However, the Swiss franc's strength and global trade uncertainties create short-term headwinds.

In China, the tariff impact is somewhat balanced by more domestic demand supported by additional fiscal stimulus.

With regards to inflation, it has been slowing down on both sides of the Atlantic. Inflation has been below expectations in the US. But the tariff impact is yet to be seen, and the recent rise in energy prices brings an additional layer of uncertainties around its outlook.

Pillar 2: Liquidity (POSITIVE based on forward-looking factors)

Central bank's monetary policy remains restrictive in the US, but no longer in Europe. The European Central Bank (ECB) and Swiss National Bank (SNB) might have completed their rate cut cycle, subject to future foreign exchange and energy price developments, while the Federal Reserve (Fed) and the Bank of England (BoE) have room to cut rates dependent on growth and inflation dynamics.

The Fed is still in "wait-and-see" mode for more visibility, as economic activity faces downside risks that could warrant rate cuts, while inflation faces upside risks that may limit the Fed's room for manoeuvre in cutting them.

The ECB rate cut cycle is almost completed, uncertainties loom large and warrant flexibility.

In Switzerland, interest rates have returned to zero, and no further decline in inflation is expected. While the SNB hopes to avoid reintroducing negative rates, it may be forced to do so if the Swiss franc continues to strengthen. The liquidity backdrop is positive for risk assets with prospects of monetary policy easing, fiscal support, liquidity injections and a weaker US dollar pointing to supportive liquidity dynamics in the months ahead.

Pillar 3: Earnings (POSITIVE - upgraded from neutral)

2025 global earnings expectations have been revised downward over the past two months (US -1.8%, EU -5.8%, JP -3%, China +1.4%) factoring in the short-term impacts of tariffs.

Earnings per share (EPS) growth remains positive and is expected to accelerate across the board: US +9.4% in 2025/+13.6% in 2026, EU +1.7%/+11.7%, CN +3.9%/+7.4%

During the upcoming 2Q25 earnings season, the market will scrutinise the resilience of the consumer, corporate guidance, investments and the extent to which demand is normalising after earlier pre-buys, especially as macroeconomic data remains noisy.

EPS growth is expected to accelerate in 2026, particularly in Europe and among smaller-cap stocks, driven in part by base effects.

Pillar 4: Valuations (NEUTRAL)

We maintain a neutral stance on valuations. While equities appear expensive overall—largely due to stretched valuations in US large caps—other segments and regions offer more reasonable multiples.

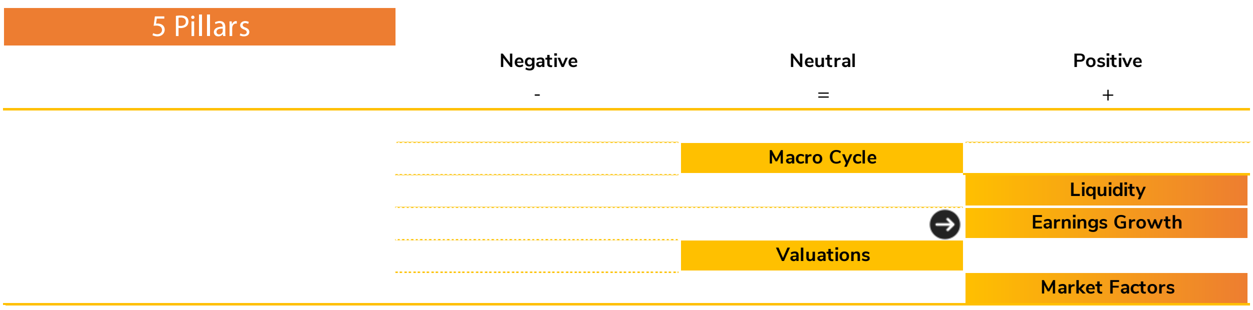
Pillar 5: Market Dynamics (POSITIVE)

Since the last Tactical Asset Allocation meeting (May), the aggregate market factors' signal has been downgraded from 100% to 75%, although the outlook remains positive across key metrics. Both the US and Europe's score exceeds 70%, thereby maintaining a positive stance.

Indicators review summary - our five pillars

The earnings pillar has been upgraded to positive.

With 3 pillars (liquidity, earnings and market factors) signalling an overweight and 2 in neutral (macro, earnings and valuations), the weight of evidence is neutral to positive for equities.



TACTICAL ASSET ALLOCATION (TAA) DECISIONS

Positive market effects have pushed the equity allocation slightly above neutral in the TAA grids. However, we maintain our neutral stance in the asset allocation grid at this stage, as we expect volatility to stay elevated in the months ahead.

We are upgrading our view on emerging markets equities from neutral to overweight. Emerging market equities are attractive due to their faster growth prospects, cheaper valuations, supportive monetary conditions, structural reforms, strong sectoral growth (especially in China technology), easing trade tensions, and diversification benefits—all of which underpin a positive fundamental outlook for these markets in 2025 and beyond.

In foreign exchange, we are upgrading our stance on CHF (against USD) from neutral to overweight as we expect more dollar weakness ahead, while Swiss fundamentals remain strong. The unpredictability and erratic policies of the US administration, particularly under President Donald Trump, have unsettled investors, prompting them to move funds out of the dollar and into safer assets like the Swiss franc. The SNB has actively managed the currency by selling foreign reserves to buy francs to control inflation and stabilise the economy. Despite interventions, the franc remains strong due to global demand for a stable currency.

ASSET ALLOCATION GRID

Tactical Asset Allocation - 25.06.2025

	Underweight -	Neutral =	Overweight +
ASSET CLASSES			
		Cash	
		Equities	
		Fixed Income	
		Alternatives	
FIXED INCOME			
			Govies 1 - 10 (local)
	Govies 10+ EUR	Govies 10+ (USD, CHF & GBP)	
		Corporate IG (local)	
		High Yield (local / global hdg)	
		EM Debt	
EQUITY			
		United States	
		Eurozone	
		UK	
		Switzerland	
		Japan	
			Emerging Markets
ALTERNATIVES			
		Hedge Funds	
COMMODITIES			
			Gold
		Commodities	
FOREX (vs. USD)			
			EUR
		CHF	
		GBP	
		JPY	
		EM Currencies	

INVESTMENT CONCLUSIONS

As of the end of June, the US stock market hit a fresh all-time high, with the S&P 500 and the tech-focused Nasdaq both climbing approximately 5% year-to-date. International equity markets are also showing strong performance. Meanwhile, credit spreads continue to tighten, and market volatility is on the decline.

What's fuelling this rally?

Three main factors are driving the current market upswing:

1. Easing geopolitical tensions: reduced global conflicts have helped push oil prices lower, easing cost pressures.
2. Federal Reserve signals: the Fed continues to indicate that interest rates are likely to decrease gradually, supporting market confidence.
3. Earnings resilience: corporate earnings, especially from mega-cap technology firms, remain robust, underpinning investor optimism.

Looking ahead: key market catalysts

While near-term momentum favours investors, several important developments lie ahead that markets will need to navigate, including:

1. Updates on tariffs and trade policies
2. The positive and less positive effects of the "Big Beautiful Bill"
3. The possibility of softer economic data in the upcoming quarter

Our outlook

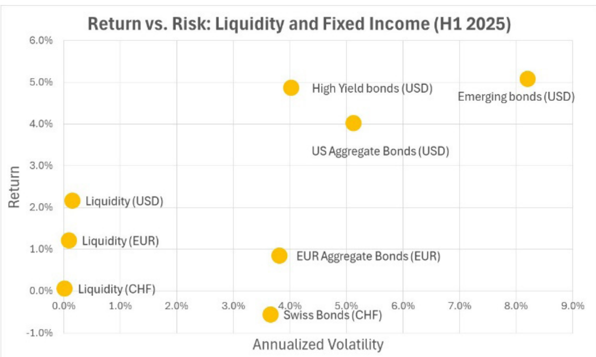
We believe the fundamental support for equities remains solid, though market volatility is expected to persist. Pullbacks should be viewed as attractive buying opportunities. For now, we maintain a neutral stance across equities, fixed income, and alternative investments, while continuing to hold an underweight position in the US dollar.

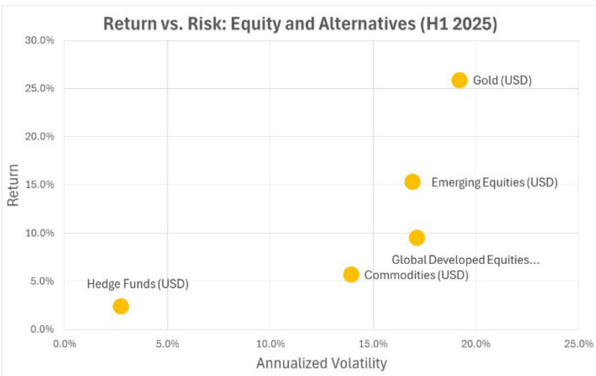
DISCRETIONARY PORTFOLIO MANAGEMENT

Discipline over reaction: staying invested through uncertainty

The first half of 2025 was shaped by a volatile mix of cooling inflation, diverging monetary policies, and renewed geopolitical tensions—most notably a new wave of US tariffs on China. These developments triggered bouts of risk aversion, contributing to broader market instability. Despite this, global equities proved resilient, and commodities and safe havens like gold and the Swiss franc outperformed amid mounting concerns over US policy credibility.

The charts below report performance and risk figures (in the relevant currencies) for the first half of 2025 for the main asset classes we are exposed to in our discretionary mandates.





Data as of 30/06/2025. Volatility figures estimated over a 180-day window - Source: Bloomberg

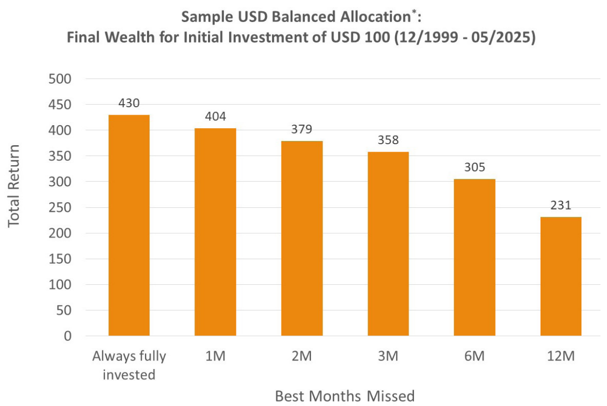
As we move into the second half of the year, uncertainty and erratic market behaviour are expected to remain prevalent. The primary challenge lies in mitigating the adverse effects of this volatility while sustaining return expectations at a satisfactory level.

From an asset allocation perspective, we believe it remains essential to stay invested, maintaining a globally diversified, multi-asset exposure.

Especially in periods of heightened uncertainty—or outright market turmoil—investors should resist the impulse to make emotional, sweeping tactical decisions, such as shifting large portions of their portfolios into cash.

The chart below illustrates the cost of being out of the market during the strongest-performing months for a diversified multi-asset allocation. Between December 1999 and May 2025, a $100 investment in a representative USD Balanced allocation—part of our discretionary portfolio management offering—would have grown to $430, reflecting an annualized return of 5.9%. Missing just the single best-performing month, April 2020—coinciding with the early rebound after the COVID crisis—would have reduced final wealth to $404, or an annualized return of 5.6%. This underscores the risks of panic-driven timing decisions during periods of crisis.

More starkly, missing merely six of the best-performing months out of the 305 in the sample would have wiped out more than one quarter of the performance, with a final wealth just above $300, corresponding to an annualized return of 4.5%. Such extreme timing errors can substantially erode long-term performance.



USD Balanced Allocation: 2% cash, 37% fixed income, 47% equities, 2% commodities, 12% hedge funds

Source: Bloomberg, own calculations, based on monthly data between 31/12/1999 and 31/05/2025.

To inform tactical asset allocation decisions, we follow a disciplined investment framework that considers five key dimensions: the economic cycle, liquidity conditions, asset valuations, earnings trends, and technical/systematic indicators. Recognizing the inherent difficulty of perfect market timing, we permit only moderate deviations from strategic asset allocation targets. This measured approach helps guard against overreaction and missed opportunities.

Equally important in the second half of the year will be the continual pursuit of diversification—particularly through the inclusion of alternative asset classes such as hedge funds, commodities, and option-based yield enhancement strategies.

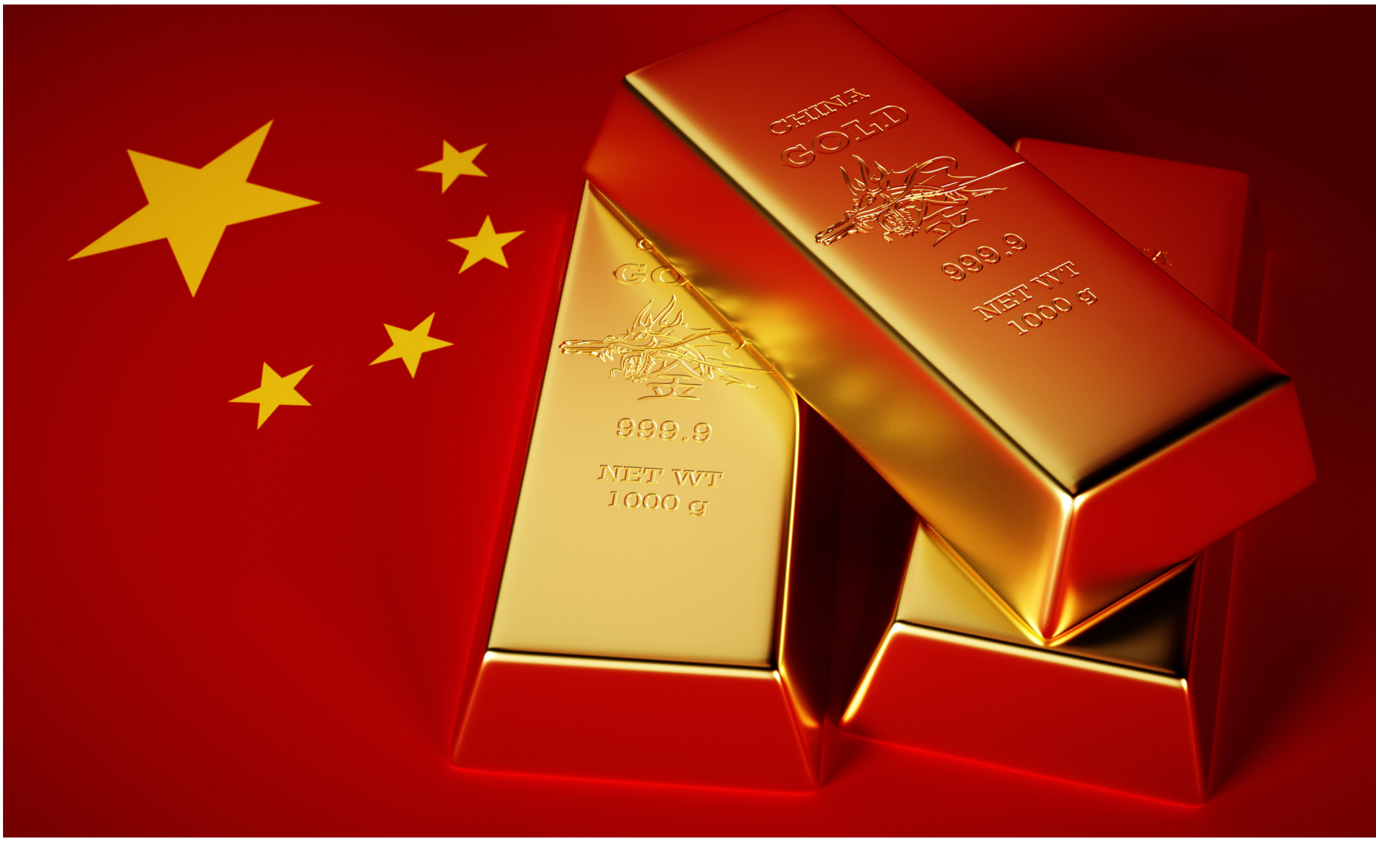
Within equities, maintaining broad geographic and sector diversification remains vital. While the theme of US exceptionalism continues to hold merit, a modest reduction in US equity exposure appears prudent. Focus should remain on sectors where the US maintains global leadership—such as technology and communication services. Conversely, in sectors like pharmaceuticals or consumer staples, where high-quality alternatives exist in Europe, a US overweight may be less compelling.

Concerning option-based yield enhancement on equities, covered call strategies present an effective way to enhance portfolio income. By systematically harvesting option premiums, investors can materially boost returns—though at the cost of capping upside participation. These strategies tend to perform particularly well in range-bound or sideways markets.

Instrument selection will play a crucial role in optimizing the fixed income component of the portfolio. The traditional safe-haven status of government bonds—particularly US Treasuries—has diminished. In this context, selectively increasing exposure to emerging market or high-yield bonds can offer enhanced return potential. Emphasizing shorter maturities helps reduce interest-rate sensitivity while capturing attractive levels of carry.

GEOPOLITICS

China's gold strategy and de-dollarisation



Source: iStockphoto/petmal

While the recent Geneva trade agreement signalled an ease in US-China trade tensions, Beijing continues to quietly pursue a deeper strategic shift, building gold reserves and promoting the yuan to reduce dollar dependence and reshape the global monetary landscape on its own terms.

Introduction

As global power dynamics shift, China is steadily advancing a long-term financial strategy aimed at reshaping the international monetary order. Central to this effort is a decisive move away from the US dollar, a currency that has dominated global trade, reserves, and finance for nearly a century. In its place, China is betting on a dual foundation: gold and the yuan.

This strategy is not driven by ideology alone, but by pragmatism. Holding trillions in dollar-denominated assets has long made China vulnerable to US financial pressure, sanctions, and market volatility. By accumulating massive gold reserves and quietly internationalising the yuan through initiatives like the Shanghai Gold Exchange, Beijing is building a parallel financial architecture, one that enhances its autonomy while reducing exposure to the dollar-centric system.

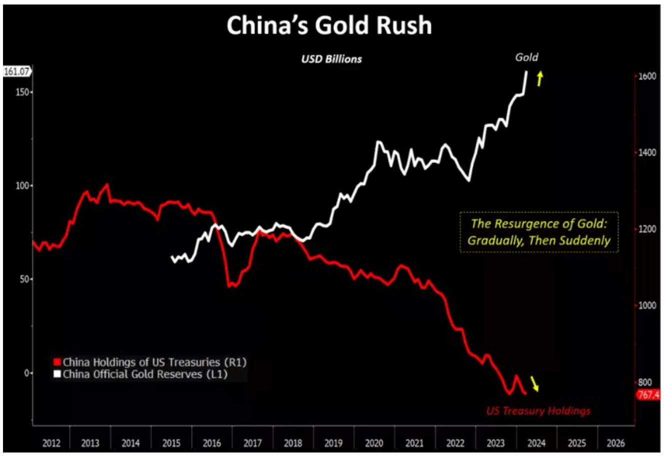
Rather than provoking direct confrontation, China's approach is calculated, gradual, and deeply strategic. Gold serves not only as a hedge against currency risk but as a symbol of monetary sovereignty. Meanwhile, the yuan, still constrained by capital controls, is gaining legitimacy through trade and bilateral agreements. Together, gold and the yuan are emerging as pillars of a broader Chinese ambition: to assert greater influence in global finance on its own terms.

Moving away from the dollar

For decades, China has maintained significant holdings of US Treasuries, once peaking at over $1.3 trillion. But in recent years, Beijing has been slowly unwinding this position. By Q1 2025, China held approximately $759 billion in US debt, reflecting a broader strategy of diversifying its reserves. In parallel, its gold holdings have risen sharply, reaching 2,292.31 tonnes, now accounting for 6.5% of its total official reserves.

This pivot is not merely a matter of portfolio balance. Gold is seen by Chinese policymakers as a strategic asset that offers insulation from geopolitical risks—especially US sanctions and financial coercion. The idea, echoed in a 2009 US Embassy cable released by WikiLeaks, is that the West has long suppressed gold prices to maintain dollar supremacy. According to the cable, "China's increased gold reserves will thus act as a model and lead other countries towards reserving more gold. Large gold reserves are also beneficial in promoting the internationalisation of the RMB."

Some analysts believe China's actual gold holdings far exceed official numbers. Reports suggest the People's Bank of China (PBoC) may be buying five times more gold than it discloses to the IMF, with real reserves potentially surpassing 5,000 tons. This opacity is deliberate—by quietly shifting reserves from dollars into gold, China avoids alarming markets while progressively building leverage.



Source: Bloomberg, Tavi Costa

What makes this strategy effective is its subtlety. Unlike dumping Treasuries, which could trigger market panic and backfire economically, buying gold is a quiet, cumulative tactic. It exerts downward pressure on the dollar over time, especially if other nations follow suit. By transforming some of its surplus dollars into gold, China reduces global demand for the greenback while building a monetary buffer that reflects real value.

Moreover, gold provides China with strategic optionality. It can be mobilised in times of currency instability, geopolitical shock, or trade disruption, without relying on dollar liquidity. In a system still dominated by the US currency, this kind of flexibility is power.

Stabilisation, symbolism, and strategy

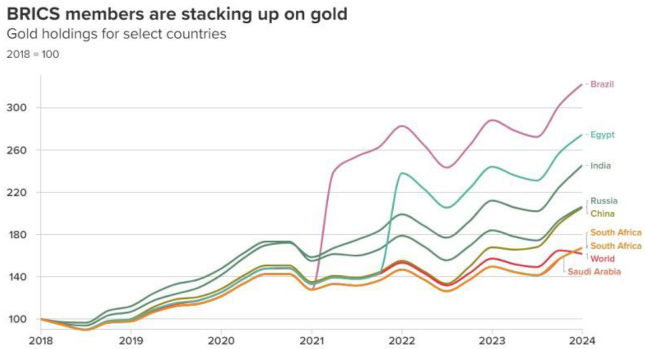
Beyond weakening the dollar, China's gold policy plays a central role in managing and projecting the strength of the yuan. As global interest in de-dollarisation grows, especially among countries subject to Western sanctions, China is positioning the renminbi as a viable alternative and gold is a key part of this effort.

Domestically, the People's Bank of China uses gold purchases to help stabilise the yuan, particularly during periods of external stress such as escalating tariffs or capital outflows. The recent tariff war, reignited in 2025 under President Trump with tariffs reaching 145% on Chinese imports and 125% retaliatory tariffs from China, exposed the fragility of trade-linked monetary flows. In May 2025, a temporary 90-day deal reduced tariffs to 30% and 10%, respectively. Even in this reprieve, the yuan remained under pressure.

Internationally, China promotes yuan-denominated gold trading through platforms like the Shanghai Gold Exchange. This not only strengthens China's influence over regional gold pricing but also encourages trading partners to settle transactions in yuan. In doing so, it boosts the currency's credibility without the need to fully liberalise it.

The symbolic dimension of gold also matters. While fiat currencies are backed by trust in government policy, gold is seen as universally valuable, immune to manipulation. By tying its monetary policy closer to gold, China appeals to countries and institutions wary of US monetary dominance and the perceived weaponisation of the dollar.

The potential for a partially gold-backed yuan is often discussed, particularly in alternative financial circles. While a fully gold-backed currency is impractical given global trade volumes and limited gold supply, a hybrid system that enhances the yuan's appeal via gold reserves is not beyond reach. It would be especially attractive to nations in the Global South or sanctioned states like Russia and Iran, which are increasingly turning to alternative clearing systems and bilateral trade agreements.



Source: World Gold Council

Treasury sales and de-dollarisation

While China's pivot to gold is quiet and calculated, the idea of weaponising its US Treasury holdings is more explosive, and controversial. With hundreds of billions still held in American debt, China theoretically holds leverage over US financial markets. Some speculate that, in times of high tension, Beijing could suddenly sell off Treasuries to destabilise the dollar.

Indeed, during the 2025 escalation of the US-China trade war, some analysts noted signs that China may have begun selling Treasuries. Yields on long-term US bonds surged in early April, prompting speculation that Beijing was subtly retaliating against Trump's new wave of tariffs. However, data from Bloomberg and analysts at TD Securities suggest otherwise. If China were truly offloading its holdings, short-term yields should have spiked as well, but they didn't.

Even if China has the capability, the risks of dumping Treasuries are substantial. Such a move would drive down the value of China's remaining dollar-denominated assets and strengthen the yuan, making Chinese exports more expensive and threatening domestic growth. As Treasury Secretary Scott Bessent noted in April 2025, selling Treasuries would ultimately hurt China's own economic interests. "If they sell Treasuries, then they would have to buy RMBs, and it would strengthen their currency. And they've been doing just the opposite," he said.

The message from Chinese policymakers seems clear: financial confrontation with the US is not the goal. Beijing prefers to erode dollar dominance gradually, through market mechanisms and strategic diversification, not financial shock therapy.

A gold-backed Yuan?

Among the boldest ideas circulating is the possibility that China might eventually roll out a gold-backed digital yuan. Such a move would signal a dramatic shift in global finance, the return of a currency linked to a physical commodity but updated for the blockchain era.

While the symbolic impact would be enormous, the practical hurdles remain daunting. A gold-backed currency would constrain monetary policy, reduce flexibility in times of crisis, and require immense reserves to back even a modest share of the yuan in circulation. Additionally, the yuan still operates under strict capital controls, limiting its liquidity and convertibility.

Nonetheless, even without formal backing, China's growing gold stockpile enhances confidence in the yuan. It signals discipline, stability, and long-term vision, qualities often lacking in fiat regimes that rely heavily on quantitative easing or debt monetisation. For countries looking to diversify away from the dollar, a gold-supported yuan, even unofficially, may become an increasingly attractive alternative.

Moreover, countries like Russia, Iran, and others facing Western sanctions have already increased gold and yuan usage in bilateral trade. As digital currencies evolve and central bank digital currencies (CBDCs) gain traction, a yuan with strong gold backing could play a leading role in an emerging multipolar financial system.

Conclusion

China's monetary evolution is not a revolution, but a rebalancing. Through calculated gold accumulation and the slow elevation of the yuan in global trade, Beijing is building leverage, not detonating it. The aim is not to topple the dollar overnight, but to reduce exposure, hedge against financial coercion, and quietly offer the world another option.

Gold is more than a hedge in this strategy; it is a diplomatic tool, a stabiliser, and a message to the international community. Coupled with a disciplined, state-controlled currency, it allows China to challenge the dollar-based order without destabilising its own economy or inviting retaliation.

The world may not be ready to abandon the dollar, but it is increasingly prepared to consider alternatives. As inflation, sanctions, and debt reshape global finance, China's gold-and-yuan strategy positions it not just as a rival to US economic power, but as an architect of the next monetary era, a system less reliant on trust and more grounded in value.

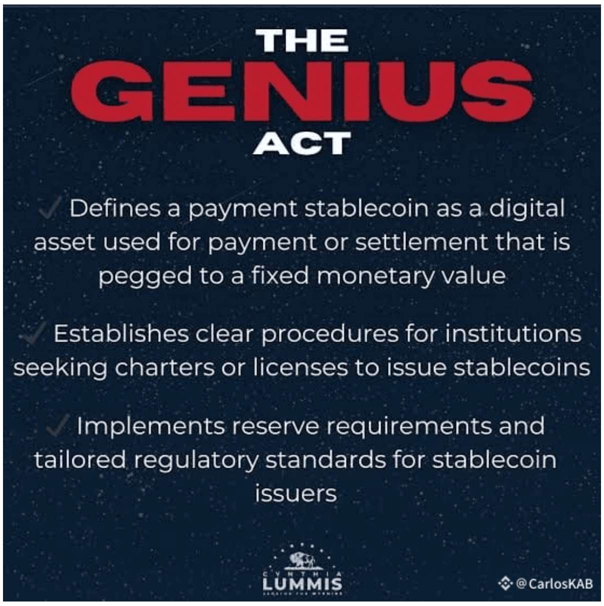
Whether that transition accelerates or unfolds over decades, one thing is clear: China is no longer just a participant in the global financial system—it is quietly rewriting its rules.

DIGITAL ASSETS

A deep dive into Circle & stablecoins Genius Act

Source: iStock/Gri-spb

Circle's rapid rise as a stablecoin issuer, highlighted by a record-breaking IPO and expanding institutional adoption, mirrors a broader shift toward regulated digital finance. The GENIUS Act, passed in June 2025, reinforces this momentum by introducing strict standards for transparency, reserves, and consumer protection, positioning stablecoins as core components of the future financial system.



Source: CarlosKab

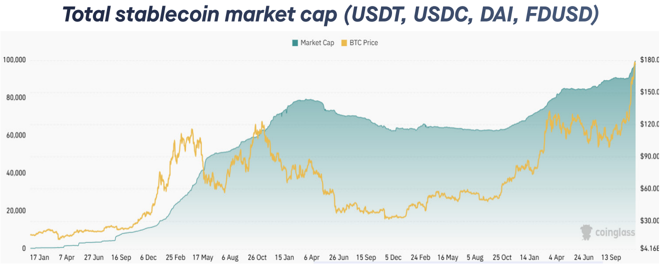
Introduction

In recent years, stablecoins have become one of the fastest-expanding sectors in digital finance, surpassing $238 billion in circulating value by mid-2025. As cryptocurrencies faced volatility and scepticism, stablecoins offered a bridge to fiat currencies, unlocking new possibilities in payments, remittances, and decentralised finance. At the heart of this transformation stands Circle Internet Group, issuer of USD Coin (USDC), now a major player in global payments infrastructure. As stablecoins gain prominence, USUS lawmakers introduced the bipartisan GENIUS Act, aiming to bring regulatory clarity through strict reserve requirements, transparency, and oversight. Circle's rapid ascent and the sweeping regulatory shift introduced by the GENIUS Act, signal a pivotal moment that could reshape the stablecoin landscape for years to come.

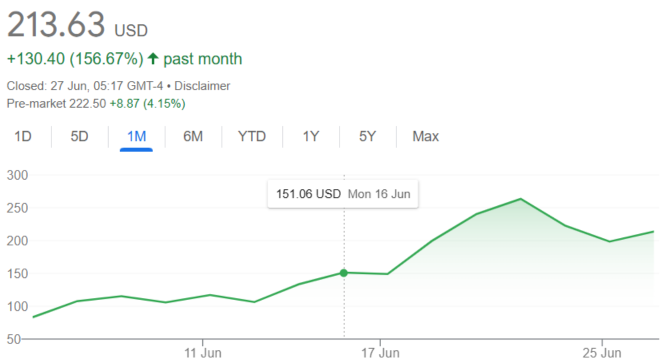
Circle Internet Group: leading the stablecoin revolution

Founded in 2013 by Jeremy Allaire and Sean Neville, Circle initially focused on peer-to-peer payments before fully pivoting to stablecoins, recognising their transformative potential in global finance. Today, USDC ranks as the second-largest dollar-backed stablecoin globally, with a market share around 30%, posing as the main competitor with industry leader Tether (USDT). Circle's ability to integrate with legacy financial systems and offer scalable, enterprise-grade infrastructure has helped it secure attention from institutional partners and traditional payment networks, enabling expansion well beyond the crypto-native environment.

Total stablecoin market cap (USDT, USDC, DAI, FDUSD)



The company's IPO on June 5, 2025, marked a historic milestone for the stablecoin sector as it is the most explosive IPO for any USUS company raising $500 million or more since 1980. Priced at $31 per share, Circle's stock soared to around $270 within days, briefly pushing its market capitalisation close to $60 billion. The Senate's passage of the GENIUS Act just days after Circle's IPO added further momentum, signalling that USUS regulators were moving toward providing the legal clarity long sought by stablecoin issuers and their investors. Analysts at Seaport Global highlighted Circle as a "top-tier crypto disruptor," projecting 25% to 30% annual revenue growth for Circle, and the stablecoin market capitali-Sation potentially reaching $2 trillion over the long-term, from roughly $240 billion today.



Part of the optimism around Circle stems from its success in positioning USDC as more than just a crypto trading tool. Through partnerships with traditional payment processors like Fiserv, Circle is developing stablecoin-enabled solutions for financial institutions and merchants. This collaboration will integrate Circle's platform with Fiserv's digital banking and payments infrastructure to expand global access to digital dollars and improve payment experiences. Shopify has already announced plans to support USDC payments by the end of 2025. Meanwhile, Amazon and Walmart are reportedly testing stablecoin-based systems for loyalty programmes and digital checkouts.

If these pilots scale, USDC could emerge as a core infrastructure for next-gen payments, reducing transaction costs, enabling instant cross-border settlements, and introducing programmable money into corporate finance. Early pilots with multinational retailers suggest stablecoins could save billions in annual credit card fees while enhancing operational efficiency.

Moreover, Circle's aggressive expansion strategy includes courting the corporate treasury market, where stablecoins could play a role in liquidity management, supply chain finance, and yield optimisation. With programmable smart contracts, corporates can automate complex financial transactions, reduce reconciliation delays, and improve capital efficiency. This convergence of stablecoins and tokenised real-world assets is also fuelling Circle's efforts to serve corporate treasury functions, providing new tools for liquidity management, automated payouts, and cross-border capital flows in a globalised economy.

Yet not all market observers share the same enthusiasm. While some remain bullish, other analysts have expressed caution. Compass Point's Ed Engel, for instance, placed a neutral rating on Circle shortly after its IPO rally, warning that the stock was trading nearly 20% above fair value. He set a price target of $205, significantly below Circle's post-rally highs, citing valuation concerns, most notably forward earnings multiple nearing 180x compared to an S&P 500 average of around 22x. Such lofty multiples reflect enormous investor expectations for both revenue growth and eventual market dominance.

Indeed, some institutional investors have begun trimming positions. Cathie Wood's ARK Investment Management notably sold a portion of its Circle holdings, causing the stock to pull back roughly 7.7%, signalling wariness about short-term overvaluation. Despite these cautionary moves, broader institutional interest remains robust, fuelled by the possibility that stablecoins, under a clear regulatory framework, may soon integrate into the core of global payment networks. BlackRock, Fidelity, and several sovereign wealth funds have all reportedly taken stakes in Circle, betting on its long-term growth story.

Circle's growth also raises important questions about its role in broader financial markets. According to a June 2025 Reuters report, approximately 80% of the $256 billion stablecoin market is already allocated to US Treasury bills and repurchase agreements, representing around $200 billion in demand for short-term government debt. As Circle issues more USDC to meet payment and liquidity demand, it must hold a matching amount in safe, liquid reserves, primarily short-term Treasuries, thus becoming an increasingly influential buyer in the sovereign debt market. As stablecoins like USDC grow, their consistent purchases of short-dated Treasuries help absorb supply. However, this also creates potential vulnerabilities: a sudden contraction in stablecoin circulation, could trigger unexpected volatility in Treasury markets.

The GENIUS Act: regulatory clarity and the future of stablecoins

The bipartisan GENIUS Act, short for "Guaranteed and Enforceable Neutrality in Issuance and Use of Stablecoins," represents the most ambitious federal effort to date to regulate stablecoins. Passed by the US US Senate in June 2025, the legislation aims to bring legal clarity, financial stability, and consumer protection to an industry that has rapidly scaled without uniform oversight. The bill creates a foundational framework to legitimise stablecoins as integral components of the USUS payments system, while aiming to prevent systemic vulnerabilities seen in past failures like with Terra-Luna.

To ensure that stablecoins maintain a stable value, the Act mandates full 1:1 backing in US dollars or equivalent highly liquid assets and requires issuers to publish monthly reserve disclosures alongside annual third-party audits. This introduces a new level of transparency and accountability to an industry that, until now, has operated with broad discretion and limited regulatory oversight. By requiring strict transparency and reserve backing, the Act aims to prevent crises akin to the Terra-Luna collapse of 2022, where opaque reserves and flawed design led to a $60 billion market wipeout, thereby reinforcing market confidence and systemic resilience.

The GENIUS Act also introduces tiered oversight based on issuer size. Stablecoin issuers with over $10 billion in market cap fall under federal regulation, while smaller ones may opt for state-level oversight, if the state's standards align with federal rules. This flexible framework fosters innovation while imposing stricter scrutiny on systemic players. It also prohibits non-financial public companies from issuing stablecoins.

Consumer protections are strong: holders can redeem tokens at par, with claims prioritised in bankruptcy. Courts must expedite redemptions, and issuers are barred from using reserve leverage or suggesting federal backing (e.g., FDIC insurance). The aim is to ensure stablecoins function like cash without exposing users to undue risk.

Internationally, the bill's passage signals that the US is asserting leadership in setting global digital asset norms. It aligns conceptually with the European Union's MiCA framework and requires foreign issued stablecoins seeking access to the US market to meet comparable standards. This provision not only protects domestic consumers but also sets a benchmark that could influence how stablecoin policy develops across jurisdictions. Foreign firms wishing to serve US customers will now need to match these high thresholds or be effectively excluded.

Ultimately, the GENIUS Act transforms stablecoins from speculative crypto instruments into tightly regulated financial products. It promises to reshape how digital dollars are issued, governed, and used, ushering in an era of safer, faster, and more transparent digital payments. For investors, regulators, and innovators alike, it establishes the US as a global standard-setter in a space long marked by regulatory ambiguity.

For the Trump administration, legitimising stablecoins could help America fulfil 3 very important objectives:

First, increase the demand for US Treasury bills (T-bills). In fact, stablecoins such as USDT (Tether) and USDC (Circle) are increasingly linked to the market for short-term US T-Bills. In practical terms, to guarantee their 1:1 parity with the dollar, stablecoin issuers invest a large proportion of their reserves in liquid, secure assets - foremost among which are T-Bills. Between them, Tether and USDC currently hold almost $175 billion in US government debt, mainly in the form of T-Bills. This figure is already significant: it represents almost 3.0% of the total T-Bill market, which will amount to almost $6,000 billion by 2025. When the capitalisation of a stablecoin increases, its issuer buys more T-Bills. Some projections estimate that stablecoin market capitalisation could reach between $1,500 and $3,000 billion by 2030. If a significant fraction of these assets remains invested in T-Bills, this would create structural upward pressure on demand for these securities. Combined with the growing financing needs of the federal government, this dynamic could lead to an expansion of the T-Bills market.

Second, enhance the dollarisation in emerging markets. Indeed, stablecoins have emerged as a compelling option for cross-border payments and wealth preservation in non-dollarised economies. As high inflation rates erode savings, a common strategy is to rely on the US dollar. However, banks and other financial institutions often provide limited solutions in these economies, making stablecoins a vital alternative for the average person in emerging markets. Regulating stablecoins – especially those pegged to the dollar – should help to safeguard dollar dominance in the East and the South.

Third – and this echoes what was explained above – there is an urgency for the US to act ahead of the arrival of e-Yuan. Indeed, China is also ramping up efforts on the digital yuan, or e-CNY, with the central bank's current governor pledging to establish an international operation centre for the currency in Shanghai. The goal is to create a "multi-polar" global currency system that is not overly reliant on the dollar.

If successfully implemented, the GENIUS Act could restore public trust in digital assets, attract institutional participation, and solidify the US dollar's dominance in the digital financial era. While critics caution that high compliance burdens may limit innovation to well-capitalised players, supporters counter that such safeguards are necessary to avoid repeating the costly mistakes of the past. Either way, the legislation marks a turning point: stablecoins are no longer in legal limbo, they are stepping into the regulated financial mainstream.

Conclusion

As stablecoins gain traction in global finance, Circle's rapid growth and the passage of the GENIUS Act mark a turning point. Circle has met rising demand for trusted, interoperable stablecoins across retail, corporate, and institutional markets. At the same time, the GENIUS Act provides long-awaited regulatory clarity, positioning stablecoins as credible, scalable financial instruments.

Together, they pave the way for systemic integration. From faster payments to potential shifts in sovereign debt markets, the impact could be profound. Stablecoins may soon evolve from a crypto-fiat bridge into a foundational layer of global finance.

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