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Sharp Divergences – Between Hope and Uncertainty

Investment report – 31st March 2025

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Sharp Divergences – Between Hope and Uncertainty

The year 2025 began with a remarkable political development that captured global attention: Donald Trump's return to the White House not only marked a political turning point in the United States, but also sparked far-reaching debates on tariffs, deregulation and tax reforms. While stock market participants on Wall Street responded with enthusiasm, European market participants looked across the Atlantic with scepticism – the new geopolitical situation resulted in mixed market reactions among investors worldwide.

Almost simultaneously, investors' attention turned to Germany, where political events also made headlines. Following a government crisis triggered by the break-up of the coalition, new elections were held in February, which resulted in an agreement between the CDU and SPD on a historically large investment and debt package. Under the slogan "Whatever it takes", the designated Federal Chancellor Friedrich Merz announced a "special-purpose fund" worth billions to strengthen infrastructure and defence, which will drive up Germany's national debt. This raises a provocative question: can debt now simply be labelled as a "special-purpose fund"? Investors on the European stock markets initially reacted with optimism and the business sentiment improved notably. However, both experts and investors will soon be faced with the question of whether these massive investments can generate a sustainable growth impulse. For long-term impact, structural reforms would also need to be implemented in parallel.

Against this backdrop, the global financial markets started 2025 characterised by a mixture of cautious optimism about global growth and increasing economic policy risks. On a positive note, the slight easing of tensions in the Ukraine conflict should be emphasised. After a period of silence between the US and Russia during the Biden era, dialogue between the two superpowers has now resumed with the inauguration of Donald Trump.

Market review 1st quarter 2025

The first quarter of 2025 was characterised by mixed developments. While some markets showed encouraging resilience, political uncertainties and macroeconomic challenges underscored the ongoing fragility of capital markets. In particular, developments in the United States had a significant impact on global market dynamics. Meanwhile, the first signs of recovery emerged in Europe, supported by expected and actual interest rate cuts by the European Central Bank. European markets gained considerable momentum, driven by Germany's massive infrastructure and defence spending programme, which holds significant investment potential for companies. As a result, European stock markets benefited from rising expectations of an improved economic environment and the prospect of fiscal stimulus with cross-border effects.

Inflation remains a central theme in market discussions, especially in connection with the threat of US tariff policies. The recent rise in yields on European government bonds may also reflect expectations of higher issuance volumes: The sharp rise in the supply of new bonds requires more attractive conditions in order to generate sufficient demand. Yields on 10-year German government bonds increased, reaching 2.9 %, driven by the newly announced special debt measures by the incoming Chancellor Merz.

Asset classes in review

Equities
Sentiment in the US was dampened by uncertainty, declining consumption and rising unemployment. While shares in large corporations continued to outperform small caps, value stocks outperformed growth stocks for the first time in years. Overall, the US equity market closed the quarter with a clear negative performance (S&P 500 -4.3 %).

In contrast, Europe performed surprisingly robustly. The Stoxx Europe 600 gained around 5.8 %, driven by the German DAX (+11.3 %) (both in EUR). Key drivers included Rheinmetall (+140.6 %), infrastructure companies such as Siemens and Heidelberg Materials, and banks including Commerzbank and Deutsche Bank. However, political concerns and increased volatility prevented a more sustained positive sentiment. Technically, the European market remains on an upward trend, although a certain cooling is expected.

In Switzerland, the SPI rose 8.6 % in the first quarter. Large caps performed particularly well, gaining 10.0 % (SPI21). The main contributors were Nestlé (+19.3 %), Novartis (+10.3 %), Richemont (+11.4 %), and Roche (+13.7 %). Fundamentally, the Swiss market remains neutral in valuation terms but technically well supported.

The emerging markets had a positive start to the year (+2.9 % in USD), with Latin America (+12.7 % in USD) and Hong Kong (+16.1 % in HKD) standing out. Chinese authorities introduced several measures to stimulate the economy, though the long-term effectiveness and sustainability of these policies remain uncertain. Despite the strong start, emerging markets remain volatile in the short term, although the recent weakness of the US dollar had a partially supportive effect.

Alternative investments
Alternative asset classes showed mixed results. Precious metals, particularly gold as a safe-haven asset and silver, continued their positive performance (gold +19.0 %, silver +17.9 %). By contrast, cryptocurrencies (-31.7 %) came under intense pressure. Cat bonds experienced valuation corrections following wildfires in Los Angeles, although the AXA Cat Bond Fund used in our portfolios proved a positive exception.

Outlook and conclusion

The latest industrial PMI data indicate initial signs of improvement, with the global index having remained above the growth threshold of 50 points since January.

That said, the environment for investors remains challenging and difficult to predict. President Trump's political decisions could continue to drive volatility in the capital markets. Inflationary pressure and uncertainty surrounding interest rates will likely persist as key concerns. The double-digit import tariffs announced by Trump on what he termed Liberation Day (2 April 2025) significantly increase the likelihood of stagflation in the United States. We are monitoring these developments closely, and should recession forecasts in the US deteriorate further, we will act swiftly to reduce risk and scale back our overweight in equities. The current environment is particularly unfavourable for highly valued growth stocks, which is why we are taking a critical view of this segment.

Nonetheless, we also believe that the current environment presents opportunities. In particular, alternative asset classes can help to strike a balance between robust and opportunistic portfolio strategies. We remain positive about our current underweight position in the US relative to the MSCI World Index in light of the European upturn.

Performance of the equity markets since the beginning of the year:

In an international comparison, Switzerland performed particularly well, followed by Europe, supported by fiscal stimulus. While Asia ex Japan recorded moderate gains, Japan clearly trended negatively. US equities came under significant pressure, with the MSCI USA recording noticeable losses over the quarter, reflecting investor caution amid economic policy uncertainty under President Trump. The MSCI World Index also ended the quarter negatively, illustrating the ongoing global divergences.

		December 2024	March 2025	Change
Asia ex Japan	MSCI AC Asia ex Japan	578.4	588.9	1.8 %
Europe	DJ STOXX 600	1'236.8	1'308.1	5.8 %
Japan	MSCI Japan	3'762.6	3'592.2	-4.5 %
Switzerland	SPI	15'472.3	16'800.3	8.6 %
USA	MSCI USA	16'804.3	16'030.5	-4.6 %
World	MSCI World Index	11'731.2	11'520.9	-1.8 %
Hedge Funds	CS Hedge Fund Index	853.5	874.1	2.4 %

Development of index in local currency. Exceptions Asia ex Japan and World in USD. MSCI-Indices are net total return.

Since the beginning of the year, yields on 10-year government bonds increased almost everywhere:

Switzerland, Germany, and Japan saw notable increases. The UK also experienced a slight uptick. Only in the US did yields decline – following a significant rise in late 2024, a correction set in.

	December 2024	March 2025	Change
Switzerland	0.33 %	0.58 %	0.25 %
Germany	2.37 %	2.74 %	0.37 %
United Kingdom	4.57 %	4.68 %	0.11 %
USA	4.57 %	4.21 %	-0.36 %
Japan	1.10 %	1.49 %	0.39 %

Since the beginning of the year, the selected foreign exchange rates have performed as follows:

The US dollar depreciated significantly in Q1, giving back most of its gains from the fourth quarter of 2024. By contrast, the euro and the pound sterling gained slightly against the Swiss franc.

	December 2024	March 2025	Change
Euro / CHF	0.9401	0.9564	1.7 %
USD / CHF	0.9074	0.8843	-2.5 %
GBP / CHF	1.1356	1.1423	0.6 %
CHF / Yen	173.2420	169.6090	-2.1 %
USD / EUR	0.9659	0.9245	-4.3 %
USD / Yen	157.2000	149.9600	-4.6 %

Average growth and inflation forecasts from the "Bloomberg Composite Contributor Forecast" poll of economists:

While moderate growth is expected for the US and the EU, Germany is likely to experience weaker growth initially, before recovering in 2026. China slightly misses its official growth target but remains globally relevant.

Core inflation remains comparatively high in the US and Europe, whereas Switzerland continues to benefit from low inflation rates.

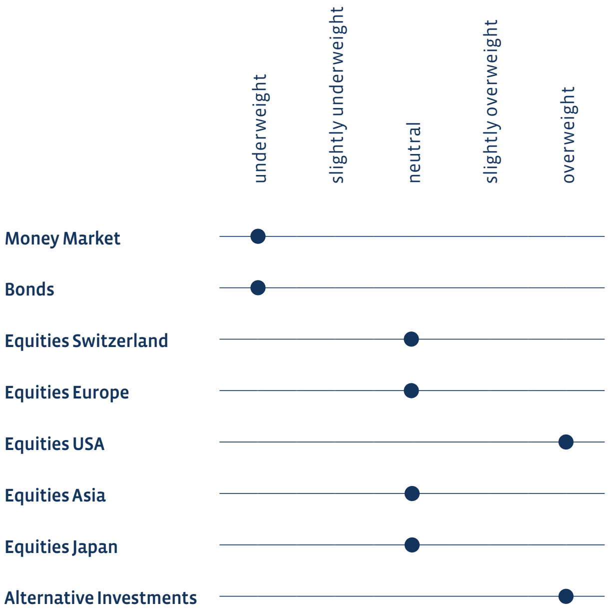
	Real GDP Growth		Core-Inflation	
	2025	2026	2025	2026
China	4.5 %	4.2 %	0.6 %	1.2 %
Germany	0.2 %	1.2 %	2.3 %	2.1 %
EU	1.3 %	1.6 %	2.3 %	2.1 %
United Kingdom	1.0 %	1.4 %	3.1 %	2.4 %
Japan	1.2 %	0.9 %	2.6 %	1.9 %
Switzerland	1.3 %	1.5 %	0.5 %	0.8 %
USA	1.9 %	1.9 %	3.0 %	2.6 %

Our asset allocation: overweight equities and the inclusion of real estate

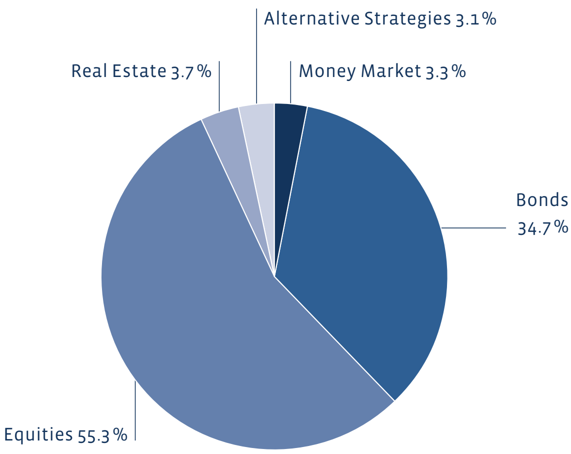
In our latest investment committee meeting, we agreed on the following asset allocation for a balanced CHF portfolio with medium risk and no client restrictions. Mandates in other reference currencies may have different allocations – your client advisor will gladly provide details.

Our tactical asset allocation has changed only marginally since the previous quarter. We remain slightly overweight in equities relative to our strategic allocation. In addition, we have added the UBS "Sima" Property Fund, which invests in Swiss residential and commercial properties, to our alternative investments and are now also slightly overweight in this asset class. As a result, the money market and bonds are currently moderately underweighted.

Current positioning of our CHF portfolio:

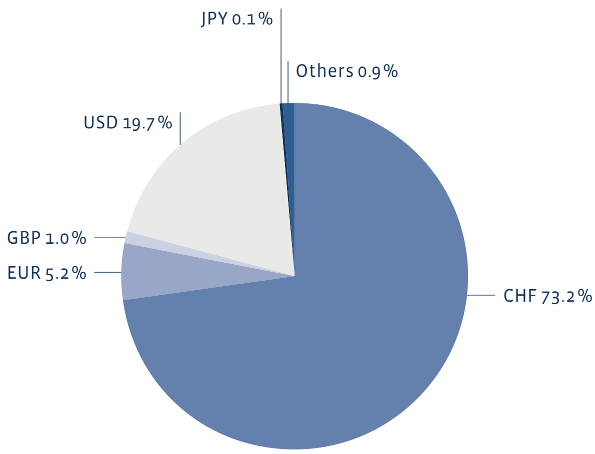


Tactical asset allocation by asset class:



Based on reference currency Swiss Franc.

Current allocation by currency:



Closing words

We would like to thank you for your trust and remain at your disposal for any questions or comments regarding this investment report or any other financial matters.

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