smzh

Investment Guide

European Revival

CIO House View
APRIL 2025

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European Revival

The agenda of President Donal Trump, under the old slogan “Make America Great Again,” aims to strengthen the U.S. economy and emphasize national sovereignty. Paradoxically, his rhetoric and aggressive trade policies have led to stock markets in every region where he has threatened tariffs, such as Canada, Mexico, China, and Europe, to outperform their U.S. counterparts during the year so far.

In Europe, Trump’s tough policies are finally seen as a wake-up call to position themselves independently on the global stage. As a reaction, meaningful economic stimulus measures in many European countries have been announced, with increased defence spending playing a central role. Not only Germany, but numerous European countries are responding with heightened investments in their defence industries and innovative technologies, aiming to solidify their geopolitical standing and act more independently from external influences.

This dynamic indicates that Trump’s policies, although intended to strengthen the U.S. position, can also provide strategic advantages to competitors. By compelling them to respond to global competitive dynamics, the international community can benefit from enhanced economic and military coordination. Current developments suggest that the Trump administration’s tough approach may yield more benefits than harm to its competitors, as they become stronger and more innovative in response to new global conditions.

Even though Russia may not pose an existential threat to Europe, nor would the U.S. abandon its support entirely, the perception of a paradigm shift may stimulate reforms and integration in Europe. Therefore, Trump’s policies have the potential to unite Europe and act as a catalyst for the region to become a coherent geopolitical entity.

For investors, this environment presents challenges and opportunities. Maintaining a diversified portfolio remains essential for navigating volatile markets. Structural changes continue to generate opportunities that persist regardless of short-term developments. By identifying key investment opportunities amid geopolitical shifts, investors can benefit from the evolving global economic order.

We hope you find this edition of our smzh Investment Guide inspiring.

Best regards,

Gzim Hasani
CEO

Bekim Laski, CFA
Chief Investment Officer

Global Economy

- Despite latest downward revisions, global real GDP growth is expected to be close to 3% in 2025.
- Further monetary easing by major central banks is expected to continue, albeit to varying degrees.
- Inflation continues to decline globally, with risks of stubborn inflation in the USA.
- After the interest rate cut in March, the SNB is expected to have ended its easing cycle.

US economy is slowing, but recession fears look overdone

President Donald Trump's aggressive trade policy has begun to significantly impact both domestic and global economies. Most of President Trump's tariff plans have been delayed until April 2, a date he has repeatedly described as "liberation day in America." On this day, each country will receive a number that he believes represents fair tariffs. However, what exactly will happen after this date remains uncertain, with the risk of retaliatory actions from trading partners looming large. This climate of unpredictability has caused businesses, consumers, and central banks globally to apply greater caution, affecting overall sentiment and actions. Some market participants have even gone so far as to warn of heightened recession risks in the USA, even though such concerns seem currently overdone.

In the meantime, the US Federal Reserve (Fed) left its policy rate unchanged but lowered its growth forecast for 2025 to 1.7% from 2.1%, with inflation rising to 2.7%. However, while Fed Chair Jerome Powell highlighted challenges from tariffs and stressed a cautious approach, he believes tariff-induced inflation will be transitory and noted that despite deteriorating survey data, hard economic data remain resilient, allowing the Fed to wait for more evidence before acting. The Fed indicates two 0.25% interest rate cuts this year, while market participants expect rather three.

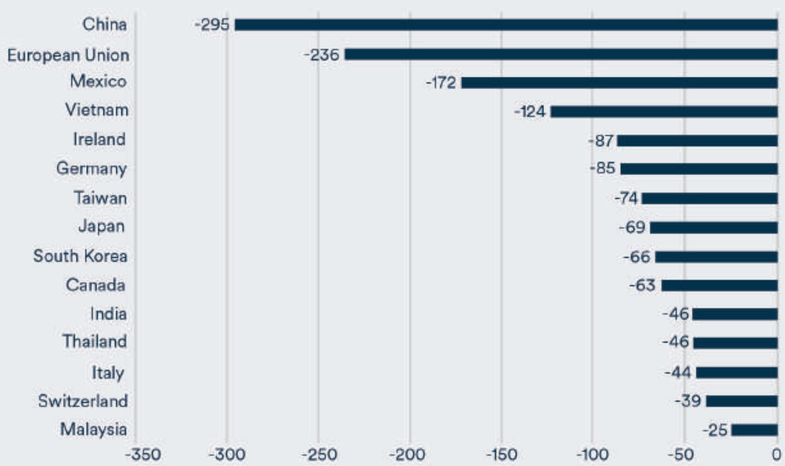
ECB with further cuts, SNB most likely done with easing cycle

The European economy is on a cautious path to recovery, although growth expectations have been slightly revised downward due to ongoing uncertainties in global trade and geopolitical tensions. However, initiatives by various countries, led by Germany, to increase defence spending and infrastructure investments are anticipated to generate long-term positive spillover effects across the European economy. The ECB is expected to implement 2-3 additional rate cuts in 2025.

In contrast, the Swiss National Bank (SNB) is expected to hold the policy rate steady for the remainder of the year after having reduced it from 0.5% to 0.25% in March, marking its fifth consecutive cut since March 2024. This move reflects the SNB's assessment that current monetary conditions are appropriate given slightly higher inflation forecasts and the effectiveness of previous cuts in maintaining price stability

FIG.1

Largest US trade deficits with major trading partners in 2024 in billion USD



Source: U.S. Census Bureau, Reuters

Fixed Income

- Investment-grade corporate bonds keep their slight appeal over government bonds.
- Quality high-yield bonds offer reasonable total return opportunities despite low credit spreads.
- Private debt and real estate investments are attractive alternatives to bonds.

Volatility in government bonds is likely to persist

Major US and European bond markets have experienced mixed performance throughout the year. The strong uptick in US Treasury yields seen earlier this year has since faded, with yields retreating amid growth concerns and softer economic survey data. However, uncertainties regarding persistent inflation and trade policies may lead to further volatility in the coming months.

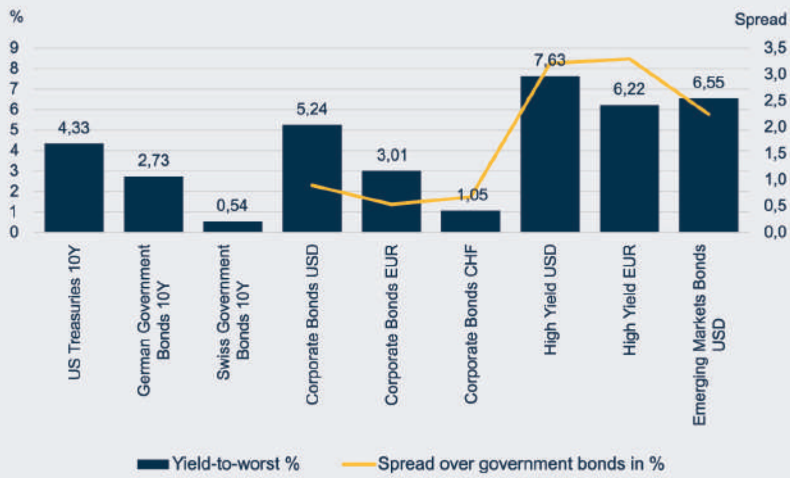
Unlike in the US, government bond yields in Europe have increased significantly in March, leading to falling bond prices. Following Germany's announcement of its fiscal package, 10-year German government bond yields have risen by around 0.4% in March. This increase is due to the expected rise in new government debt issuance and simultaneously higher economic growth, which affects long-term interest rates. The rise in yields on German government bonds, which are considered the benchmark for the Eurozone, has also led to an increase in bond yields in Switzerland, as the interest rate markets of various countries are often correlated with each other.

This volatility is also affecting corporate credit markets. While spreads on US Investment Grade (IG) have widened, European IG spreads have tightened and are now trading at similar levels as US IG for the first time since 2022. In the US, fears that higher trade barriers could affect corporate margins and consumer demand have created caution. In contrast, sentiment in Europe has improved, supported by expansionary fiscal measures that bolster confidence in the region's growth prospects.

Challenges for Swiss investors persist

In a portfolio context, a combination of investment-grade bonds, quality high-yield bonds, and selective emerging-market bonds remains appealing, especially compared to government bonds in low-yielding regions such as Switzerland. Despite growing concerns about economic growth, corporate fundamentals still look solid. Unless there is a major shift in overall risk sentiment, the total return outlook appears decent. Sophisticated investors who can withstand illiquidity risks may unlock value through alternative strategies such as private debt, private equity, or real estate investments, both direct and indirect.

FIG.2
Comparison of major bond markets by yield-to-maturity and credit spreads



Source: Bloomberg, smzh ag
Past performance is no indication for future results
Latest data point: 27.03.2025

Equities

- A diversified approach to U.S. equities still seems the most attractive approach.
- Tailwinds for European equities are broadening despite ongoing challenges from US trade policies. A resolution to the war in Ukraine could further improve sentiment. Focus on small and mid-caps.
- Swiss equities provide a blend of growth potential and stability, with income strategies like defensive dividends looking particularly attractive.
- Spikes in volatility offer interesting opportunities to explore derivative strategies.

US equities saw their first 10% correction since 2022

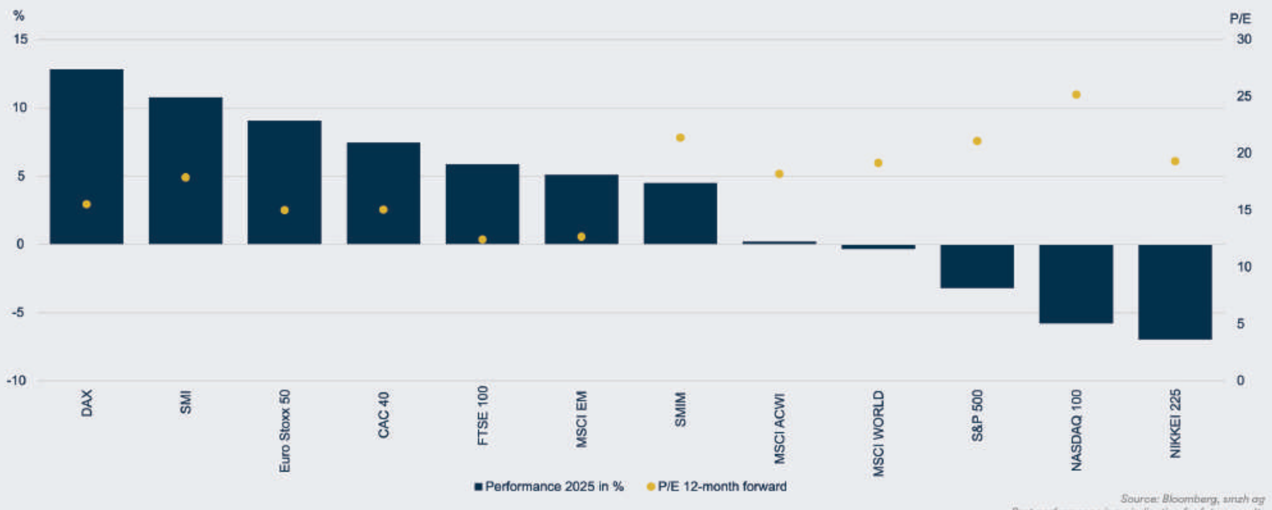
One of the strongest investment trends this year has been the reallocation of capital from US equities to markets overseas. Major US indices such as the S&P 500 and the Nasdaq experienced their first 10% correction from recent peaks – the biggest retreat since the equity sell-off in 2022. One of the key drivers of this sell-off has been the unwinding of crowded positions and the waning dominance of the market's key drivers of technological innovation, the so-called Magnificent-7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla). Even though revenues, earnings, and margins of tech companies are holding up and the sector still shows the fastest expected growth this year according to the latest Bloomberg consensus expectations, as we argued last month, the case for a more diversified investment approach in US equities away from the Magnificent-7 still looks reasonable. Still, this does not imply that investors should avoid the S&P 500 index altogether. Rather, it presents an opportunity to explore alternative index exposures, such as equal-weight strategies, which offer more balanced market participation.

European and Swiss equities surging ahead

Europe has been a particular beneficiary of these flows, and Germany's historic fiscal policy shift has attracted additional attention of international investors. The equity markets in Europe and Switzerland had already experienced a revival over the course of the year, outperforming their global counterparts. Increased optimism regarding corporate profits, supportive central bank policies, and the valuation discount compared to US equities have led market participants to favour these prospects over the risks of potential US tariffs. Additionally, the possibility of a ceasefire in Ukraine is boosting sentiment in Europe. This strengthening of positive factors suggests that European and Swiss equities have the potential to outperform other markets even in a challenging macroeconomic environment. While the broad equity indices in Europe, particularly in Germany, may enter a consolidation phase after their strong performance, the outlook for small and mid-cap stocks still appears intact, as they can benefit more directly from an economic recovery. In terms of valuations, the Eurozone forward P/E ratio has increased from the lows of 11x two years ago to the current level of 15x, compared to the historical average of 13x.

FIG .3

Comparison of major equity markets by their 2025 year-to-date returns and valuation multiples as defined by their 12-month forward price / earnings ratios (P/E)



Source: Bloomberg, smzh ag
Past performance is no indication for future results
Latest data point: 27.03.2025

Currencies and Gold

- USD dollar strength is challenged, with volatility set to stay elevated.
- The Swiss franc is caught between expensive valuations and its safe-haven status.
- Gold strength is expected to continue in 2025, even though a healthy consolidation may be due.

USD – Quo Vadis?

President Trump and his administration have repeatedly expressed their desire to weaken the dollar aimed at increasing the competitiveness of US exports. Among the proposals discussed by government advisors to achieve this, one notable idea is the issuance of long-term government bonds with maturities of 100 years, known as century bonds. These bonds would potentially offer the US government cheaper long-term funding while simultaneously making dollar holdings more risky and less attractive to foreigners, thereby weakening the dollar. Another proposal under consideration is the imposition of a “user fee” on US government bond holdings. This fee would add an extra cost for foreign investors, further discouraging them from holding dollar-denominated assets and contributing to a depreciation of the dollar. Not surprisingly, however, critics warn that such measures could undermine the confidence of foreign investors and weaken the position of the U.S. dollar as the global reserve currency.

CHF stabilizing but risks to the downside prevail

The euro has appreciated sharply in recent weeks, rising from 1.02 in January to almost 1.10 against the US dollar and from 0.92 to 0.96 against the Swiss Franc, respectively, before paring some of the gains. The biggest increase followed the announcement of the German fiscal package. While a lot may now be priced in the Euro short-term, including the unwinding of short-EUR positioning in recent weeks, the German and broader European fiscal packages are expected to lift sentiment data first and then bolster stronger hard economic data, mitigating downside risks.

The reaction of the Swiss Franc to the SNB cut was rather muted, as the cut was broadly anticipated. More broadly, nominal interest rate differentials have been weighing on the Swiss franc since the beginning of the year, but its safe-haven characteristics amid prevailing uncertainty have supported the currency. US Tariff risks to Europe continue to be an unknown preventing a broader CHF weakness. In that respect, consensus expects the EURCHF to stabilize around 0.95, though positive tariff developments for Europe or the implementation of a peace deal in Ukraine would lead to a stronger EUR and weaker CHF.

Gold continues to shine

After its stellar performance of over 27% in USD last year, gold has gained another 15% so far this year, exceeding the price of USD 3’000 for the first time ever. With macro uncertainties on the rise, flows into exchange-traded funds (ETFs) have accelerated in recent weeks as investors seek defensive investments. This demand comes in addition to the structural drivers of gold prices over the past years, with central banks being net buyers of gold for 15 years. There is good reason to believe this trend will continue, supporting further upside in gold, even though a healthy consolidation may be due, potentially offering more attractive entry opportunities.

Swiss Real Estate

- Low interest rates and high capital availability are supporting demand and revitalizing the transaction market.
- Strong demand coupled with a limited supply of suitable properties is intensifying competition and driving up prices.
- Restrictive financing conditions and increasing rent regulations pose additional challenges for many investors.

Low interest rates spark demand amidst supply challenges and regulatory constraints

The recent interest rate cut by the Swiss National Bank (SNB) is bolstering demand for real estate investments. Listed real estate funds and stocks have surged significantly, with their indices trading near all-time highs. The low-interest rate environment, coupled with macroeconomic uncertainty, makes Swiss real estate particularly attractive to institutional investors. Many are pursuing active growth strategies and are aiming to build full acquisition pipelines. Consequently, the transaction market is likely to experience a noticeable boost this year.

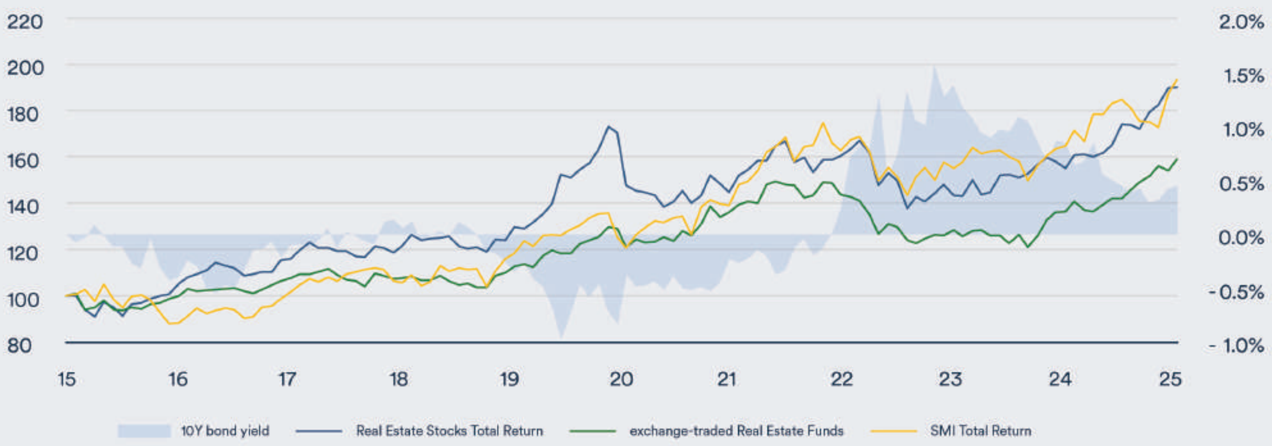
However, implementing these strategies remains challenging. Demand for high-quality properties in prime locations significantly exceeds available supply. Additionally, acquisition potential is closely tied to capital raising.

Funds and pension foundations were already active last year, and numerous capital increases are planned for 2025, often with very short subscription periods, indicating growing pressure to raise funds quickly.

Despite lower interest rates, financing, especially for construction projects, remains difficult. Stricter lending standards, lower loan-to-value ratios, and lengthy approval procedures complicate project execution. Furthermore, growing political pressure in the residential sector, particularly through increased rent regulations, adds uncertainty and may dampen investment activity in the affected regions.

FIG.4

Performance of Indirect Real Estate Investments



Source: SIX Group AG, IAZI, Refinitiv Eikon, smzh ag
Latest data point: 27/03/2025

Bitcoin

- Trump's Executive Order on establishing a strategic Bitcoin reserve has had no immediate impact on the market but represents a significant long-term milestone for Bitcoin adoption.
- Despite sharp corrections in U.S. equity markets, Bitcoin remains stable above USD 80'000, although it currently lags gold in terms of performance.
- The Bitcoin price remains in a consolidation and accumulation phase and requires clear catalysts for a sustained upward breakout.

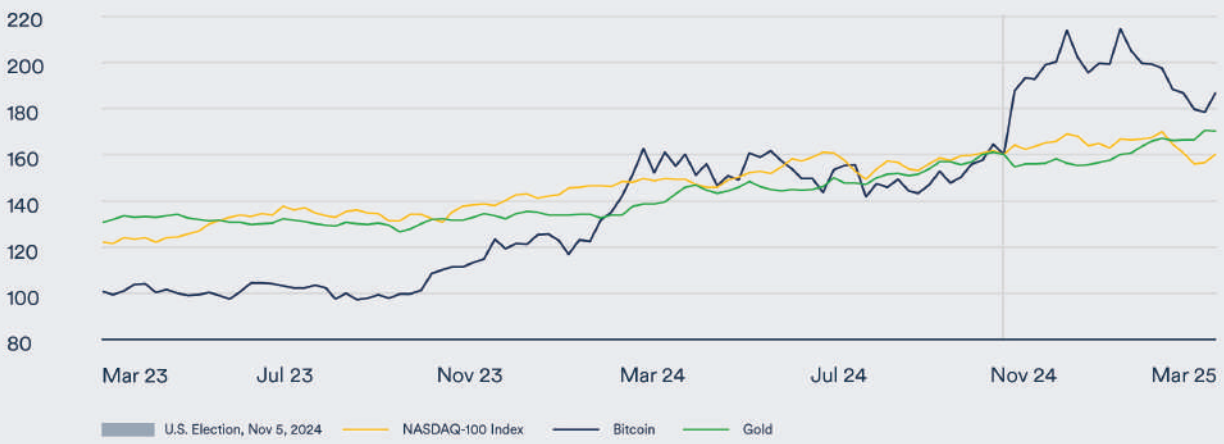
U.S. Government forms Bitcoin reserves

On March 6, Trump signed an Executive Order establishing a strategic Bitcoin reserve and a federal digital asset stockpile. The Bitcoin reserve is intended to serve as a permanent store of value and will be built using confiscated Bitcoin. These holdings are not to be sold; instead, the Treasury is exploring budget-neutral strategies to potentially expand the reserve. The digital asset stockpile includes other cryptocurrencies as well, with no additional purchases planned beyond confiscated assets. Unlike Bitcoin, the Treasury has full discretion over the management of these assets, including potential liquidations.

While the creation of a U.S. Bitcoin reserve marks an important milestone, the market initially reacted with disappointment: Bitcoin's price declined following the announcement, as many had anticipated that the government would begin actively purchasing Bitcoin. Since then, however, the price has stabilized above the USD 80'000 mark, despite sharp declines in U.S. equity markets.

The cryptocurrency market's sensitivity to geopolitical developments has been evident, with Bitcoin's price movements closely linked to news on trade policies. However, official recognition by government authorities is likely to contribute to the long-term legitimization and institutional acceptance of Bitcoin.

FIG.5
Correction in U.S. equity markets also weighs on Bitcoin



Source: Refinitiv Eikon, smzh ag
Past performance is no indication for future results
Note: The NASDAQ-100 Index based on total return. All indices are rebased to 100 as of 5 November 2024
Latest data point: 27/03/2025

Performance Scoreboard

Government Bond Yield	Currency	Last Value in %	Change	
			MTD bps	YTD bps
USA: 2 Years	USD	4.03	2	-23
USA: 10 Years	USD	4.34	14	-23
USA: 30 Years	USD	4.69	20	-9
Germany: 2 Years	EUR	2.12	10	4
Germany: 10 Years	EUR	2.80	39	43
Germany: 30 Years	EUR	3.14	44	54
Switzerland: 2 Years	CHF	0.16	4	21
Switzerland: 10 Years	CHF	0.63	24	39
Switzerland: 30 Years	CHF	0.73	25	45

Equity Indices	Currency	Last Price	Change	
			MTD%	YTD%
Global (MSCI ACWI)	USD	853	-1.10	1.45
Global Developed World (MSCI World)	USD	3'747	-1.54	1.05
USA (S&P 500)	USD	5'757	-3.32	-2.12
USA (Nasdaq 100)	USD	20'071	-3.90	-4.48
Switzerland (SPI)	CHF	17'167	0.10	10.95
Switzerland (SMI)	CHF	12'962	-0.33	11.73
Switzerland (SMIM)	CHF	2'754	-0.95	5.15
Eurozone (EURO STOXX 50)	EUR	5'432	-0.57	10.95
Germany (DAX)	EUR	22'931	1.68	15.18
France (CAC 40)	EUR	8'053	-0.72	9.11
Italy (FTSE MIB)	EUR	39'251	1.54	14.81
Spain (IBEX 35)	EUR	13'445	0.73	15.95
UK (FTSE 100)	GBP	8'683	-1.44	6.24
Emerging Markets (MSCI Emerging Markets)	USD	1'129	2.93	5.01
Japan (Nikkei 225)	JPY	38'027	2.35	-4.68
China (Hang Seng)	HKD	23'483	2.36	17.07
China (CSI 300)	CNY	3'919	0.75	-0.40

Currencies	Currency	Last Price	Change	
			MTD%	YTD%
EUR/USD	USD	1.079	-4.0	-4.2
USD/CHF	CHF	0.884	2.2	2.7
EUR/CHF	CHF	0.954	-1.7	-1.4
GBP/CHF	CHF	1.140	-0.3	-0.3
USD/JPY	JPY	150.52	0.1	4.4
USD/CNY	CNY	7.268	0.1	0.4

Commodities	Currency	Last Price	Change	
			MTD%	YTD%
Gold	USD	3'021	5.7	15.1
Silver	USD	34	8.2	16.6
WTI Crude Oil	USD	70	0.2	-2.6
Brent Crude Oil	USD	74	0.9	-1.0
Copper LME	USD	10'112	8.1	15.3

Crypto Currencies	Currency	Last Price	Change	
			MTD%	YTD%
Bitcoin	USD	89'556.57	2.8	-7.6
Ether	USD	2'205.24	-9.5	-39.9
XRP	USD	2.46	11.7	14.6
Solana	USD	143.97	-5.5	-27.6
Cardano	USD	0.97	16.9	-13.2

MTD: month-to-date / YTD:year-to-date / bps: basis points
Source: Bloomberg, smzh ag
26.3.2025

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