Investment Guide

Trumponomics 2.0
and DeepSeek's sudden fame

CIO House View
FEBRUARY 2025

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Trumponomics 2.0 and DeepSeek's sudden fame

2025 has started with a series of seismic shifts across global financial markets, setting the stage for what may be a transformative period with the inauguration of Donald Trump for his second term as President of the United States taking center stage. The new administration's economic agenda, often referred to as «Trumponomics 2.0», is shaping investor sentiment and market expectations. Potential tax cuts, shifts in trade relations, and regulatory adjustments could have significant long-term impact on economic growth, corporate earnings, inflation, and geopolitics. As markets adjust to these evolving policies, the Federal Reserve's role in balancing inflation and interest rates remains a key market focus.

At the same time, rising US Treasury yields are drawing attention. Approaching levels not seen in nearly two decades, these yields reflect changing economic conditions and shifting investor expectations to a world where higher interest rates may persist longer than expected, potentially influencing equity valuations and capital allocation in financial markets.

In the midst of these macroeconomic shifts, the emergence of DeepSeek has introduced an additional layer of complexity. The relatively unknown Chinese AI company made headlines claiming to have built a cost-effective chatbot in just two months using lower-capability chips. While doubts remain about the full capabilities

of its technology, the announcement raised concerns about the sustainability of AI investments and the need for expensive high-performance computers, as well as the high profit expectations of leading companies in this field. However, there is also a positive perspective: competition has its advantages, as it has the potential to drive innovation and improve accessibility across the entire sector.

As financial markets navigate a period of heightened geopolitical uncertainty, investors increasingly appear to be pricing in more optimistic scenarios. While this momentum may persist, history suggests a sense of caution. As highlighted in our investment outlook earlier this year, this environment could lead to a volatile and mixed market performance in the first half of the year, as investors respond to evolving challenges, followed by a recovery later during the year.

Market corrections, however, often arise from unexpected triggers rather than anticipated risks. Indeed, such an eventual correction should be seen as a healthy consolidation rather than a bigger downturn. Therefore, with strong underlying fundamentals expected to remain in place throughout the year, any market pullbacks could create compelling buying opportunities that investors should carefully consider.

Speaking about equity market valuations, the current historically high price/earnings ratios of US equity markets have sparked an intense debate among investors about whether the market is overvalued. Instead of comparing current ratios with historical data, we encourage investors to also consider alternative measures that adjust for the shifting sector dynamics within equity markets. This is a theme we elaborate in more detail in our special topic.

I hope you find this edition of our smzh Investment Guide inspiring and look forward to connecting with you to discuss your ideas and hear your feedback

Best regards,

Gzim Hasani
CEO

Bekim Laski, CFA
Chief Investment Officer

Global Economy

- Global real GDP growth is expected to stay solid at 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.
- The Swiss economy stays resilient but low inflation is creating challenges for the SNB.
- Interest rates in Switzerland are expected to decline further but remain above 0%.

USA leading the way

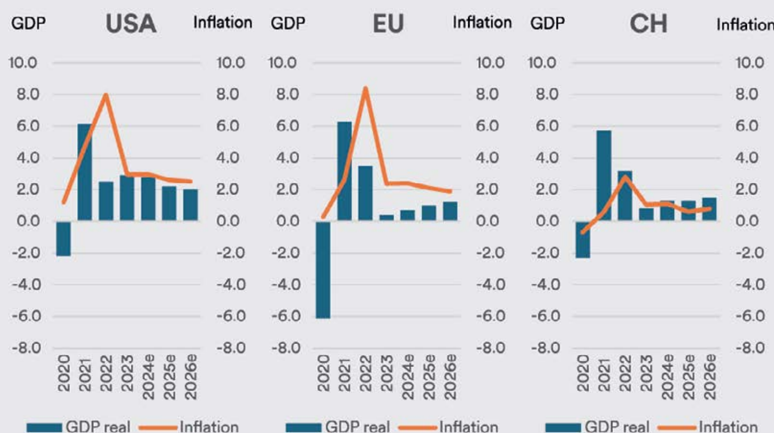
The global economic landscape is marked by varying degrees of uncertainty, though the outlook remains constructive with the global economy expected to continue growing around 3% as per consensus expectations. Lower interest rates, a robust labor market, and falling inflation are catalysts boosting consumption. The US economy is expected to outperform developed markets with an expected 2.2% real GDP growth in 2025. The Eurozone is expected to see a gradual recovery, with GDP growth rising from 0.8% in 2024 to 1% in 2025, but this trajectory is a challenge. China's outlook remains uncertain due to trade tensions and economic constraints, with growth and inflation risks tilted downward.

Inflation in developed markets is expected to continue declining and allow central banks for further rate cuts in 2025, except for Japan. President Donald Trump's proposed policies, such as high tariffs, corporate tax cuts, and immigration curbs, are seen as inflationary and could complicate the US Fed's interest rate path, leading to economic disruptions and volatility. The Fed's cautious stance of a gradual approach to future rate cuts is potentially clashing with President Trump's demands for more, imminent rate cuts.

Switzerland is navigating between European risks and global opportunities

The Swiss economy can benefit from the solid global economic backdrop, even though risks to growth in Europe persist. If an acceleration of growth in Europe does not materialize, the Swiss economy is expected to grow below average again this year, as in 2023 and 2024. Current consensus expectations anticipate a real GDP growth of around 1.3% for Switzerland and an inflation rate of well below 1%, but still in positive territory (i.e., no deflation). As a result, the Swiss National Bank (SNB) is likely to respond with further interest rate cuts, potentially lowering the key interest rate to 0. Negative interest rates are possible but currently seen as unlikely. In the event of more aggressive interest rate cuts by the European Central Bank (ECB) towards zero, the SNB may be forced to introduce negative interest rates to prevent a strong appreciation of the franc.

FIG.1
Consensus macroeconomic forecasts for major economies



Source: Bloomberg, smzh ag
Past performance is no indication for future results
Latest data point: 28/01/2025

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.

Rising real yields pushing bond yields higher

Over recent weeks, bond yields globally have surged as investors re-calibrate their expectations for further interest rate cuts by central banks. This trend was led by the US, where robust economic growth expectations coupled with government policy uncertainties led to a meaningful rise in benchmark 10-year US Treasury yields to levels just below 5%. Most of the rise was due to an increase in real yields, meaning that nominal yields outpaced inflation expectations. This suggests that investors are bracing for interest rates to remain higher for longer while keeping confidence in central banks' ability to control inflation.

Challenges for Swiss investors persist

Bond yields in Switzerland remain very low, posing challenges for investors looking for attractive yield and income. As the most accessible markets become increasingly expensive, sophisticated investors can unlock value through alternative strategies. Private debt, private equity, and real estate investments (both direct and indirect) are attractive alternatives to traditional bonds for investors that are able to bear illiquidity risks in these alternative asset classes.

Higher yields an opportunity to add bonds to portfolios?

Market participants have adjusted their expectations for the terminal Fed rate that is currently higher than the Fed's own median long-term projection. This indicates that market expectations may have gone a bit too far. For USD-based investors, this repricing offers indeed opportunities to add short-to-medium term US government bonds to portfolios. For investors outside the USD, the picture still looks different though. In a portfolio context, a combination of investment-grade bonds, quality high-yield and to a lesser extent selective emerging-market bonds offer attractive alternatives, especially compared to government bonds. Corporate fundamentals remain solid, and absent a major change in overall risk sentiment, credit spreads are likely to remain tight given the solid economic backdrop.

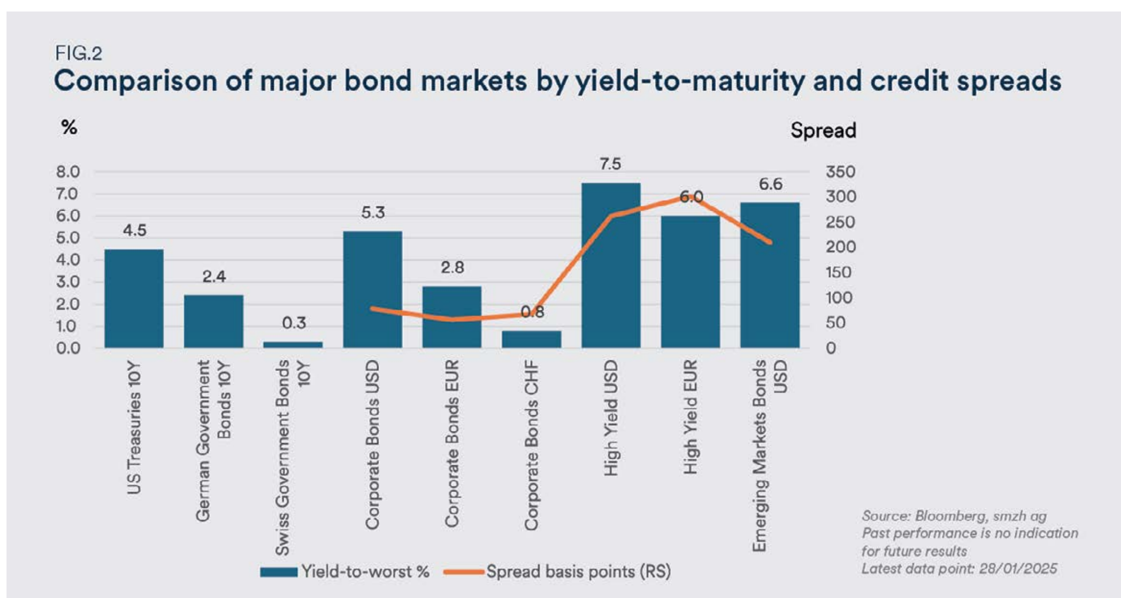


FIG.2
Comparison of major bond markets by yield-to-maturity and credit spreads

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Equities

- US and IT equities should continue to outperform despite high valuations.
- Emerging markets and the Eurozone face challenges due to US trade policy.
- Swiss equities offer a mix of growth potential and stability but lag global markets due to low exposure to secular growth themes such as the IT sector.
- For Swiss investors, income strategies, such as defensive dividends, look attractive.
- Volatility spikes offer interesting opportunities to explore derivative strategies.

Europe outperforming in 2025 so far – for a change

Equity markets started the year with a mixed bag before regaining momentum thanks to supportive US policies and initial results from the corporate earnings season for the fourth quarter 2024. However, recent gains were overshadowed by turbulences in the technology sector at the end of January, that was triggered by the sudden rise of DeepSeek, a revolutionary Chinese Artificial Intelligence platform that sent shockwaves through the global AI value chain. DeepSeek unveiled groundbreaking AI models that deliver a performance comparable to the world's leading chatbots but at what appears to be only a fraction of costs. This served market participants as a reminder of the fragility of sentiment in high-valuation industries.

European equities performed well in January, even surpassing their US counterparts for a change. Although there wasn't a specific catalyst for this outperformance, the most plausible reason seems that European equities have been trading at a significant discount compared to US markets. This time, the valuation advantage worked in their favor, despite European equities having traded at a considerable discount for over 20 years.

Consensus is expecting corporate earnings in the Eurozone to accelerate by more than 8% for 2025, up from -1.4% last year. For US companies, EPS growth is expected to increase by more than 14% for this year, vs 9.8% in 2024. These figures look elevated, especially for European companies. As for US equities, robust economic growth, a broadening of corporate earnings outside the leading IT companies and a quality tilt of the market underpins the case for it to continue outperforming the other regions, despite elevated valuations.

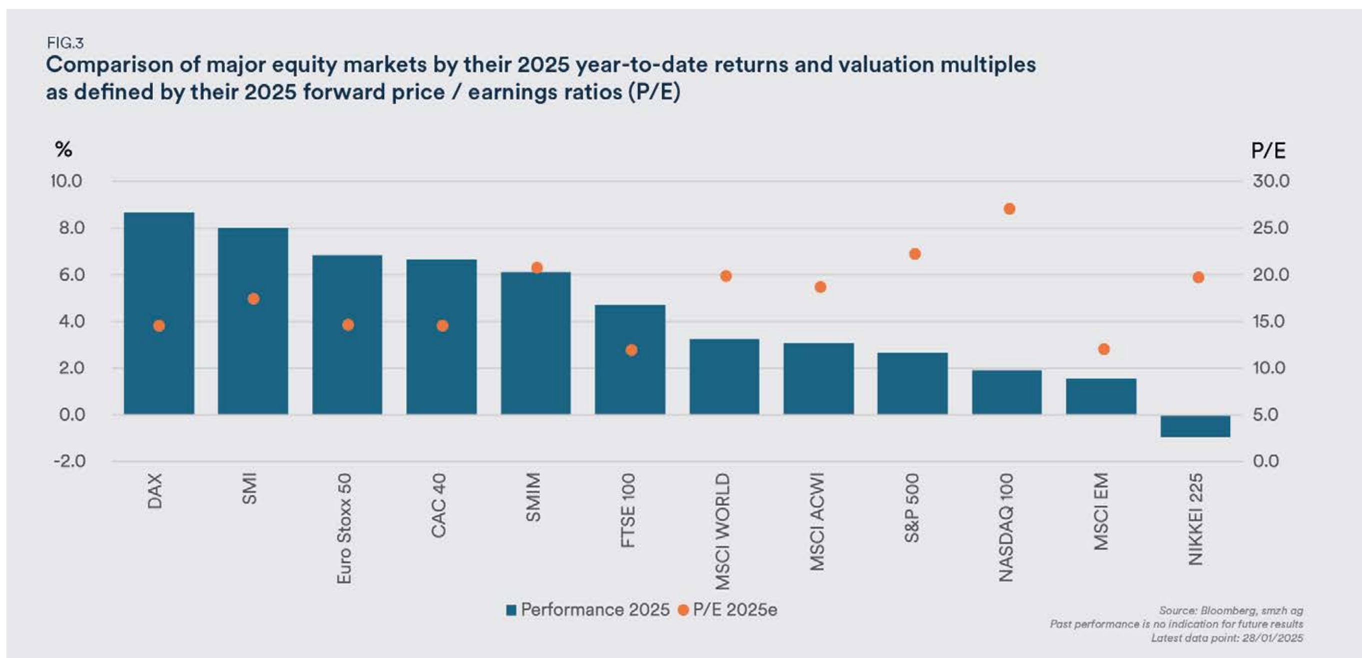


FIG.3
Comparison of major equity markets by their 2025 year-to-date returns and valuation multiples as defined by their 2025 forward price / earnings ratios (P/E)

Special topic: the US equity market valuation debate

- The historically high price/earnings ratios of US equity markets have sparked an intense debate among investors about whether the market is overvalued.
- Instead of comparing current ratios with historical data, it can be helpful to consider alternative measures and adjust for the shifting sector dynamics, especially the growing dominance of IT.

The S&P 500 valuation debate

The current historically high valuation of the S&P 500 index has sparked an intense debate among investors, particularly regarding the relevance of traditional metrics like the price-to-earnings (P/E) ratio, which has been a standard tool for assessing the valuation of equity markets. It offers a view of how much investors are paying for a company's earnings. While widely used, the P/E ratio has also its limitations.

The role of sector dynamics: IT's increasing influence

Among the critical factors in understanding today's valuations is the changing sector composition of the S&P 500. Historically, sectors like financials and energy, which have lower average P/E ratios, made up a larger portion of the index. Today, the landscape has shifted dramatically, with the information technology sector playing a dominant role. In 2024, the so-called Magnificent Seven companies (Apple, Microsoft, Nvidia, Amazon, Meta, Alphabet, and Tesla) alone accounted for roughly 33% of the S&P 500's market capitalization. These tech giants and the broader IT sector, known for their high growth but also profitability, tend to enjoy higher P/E ratios, which significantly lifts the index's overall valuation. This structural change in sector allocation naturally results in a higher P/E ratio for the index. This helps explain why higher P/E ratios today do not indicate the same level of overvaluation they would have in the past. It is therefore essential to look beyond the surface and consider alternative metrics. One such metric could be the price/earnings-to-growth (PEG) ratio.

The PEG ratio: a better valuation tool?

The PEG ratio builds on the P/E ratio by dividing it by the company's earnings growth rate. This makes it a more comprehensive measure, especially in growth-driven markets. For instance, a high P/E ratio may seem alarming until adjusted for robust earnings growth. Conversely, a low P/E ratio may not always signal a bargain if growth is stagnant.

Looking at the current S&P 500s PEG ratio of 1.90, it appears to be well below its peak of 2.5 in 2020. This indicates that, despite higher P/E ratios, strong earnings growth keeps its valuations reasonable, also compared to other equity indices. Moreover, analysts forecast that the double-digit earnings growth trend will persist through 2025, further supporting current valuation levels. Therefore, while the P/E ratio remains a useful tool, metrics like the PEG ratio provide a more balanced perspective, especially in growth-oriented markets.

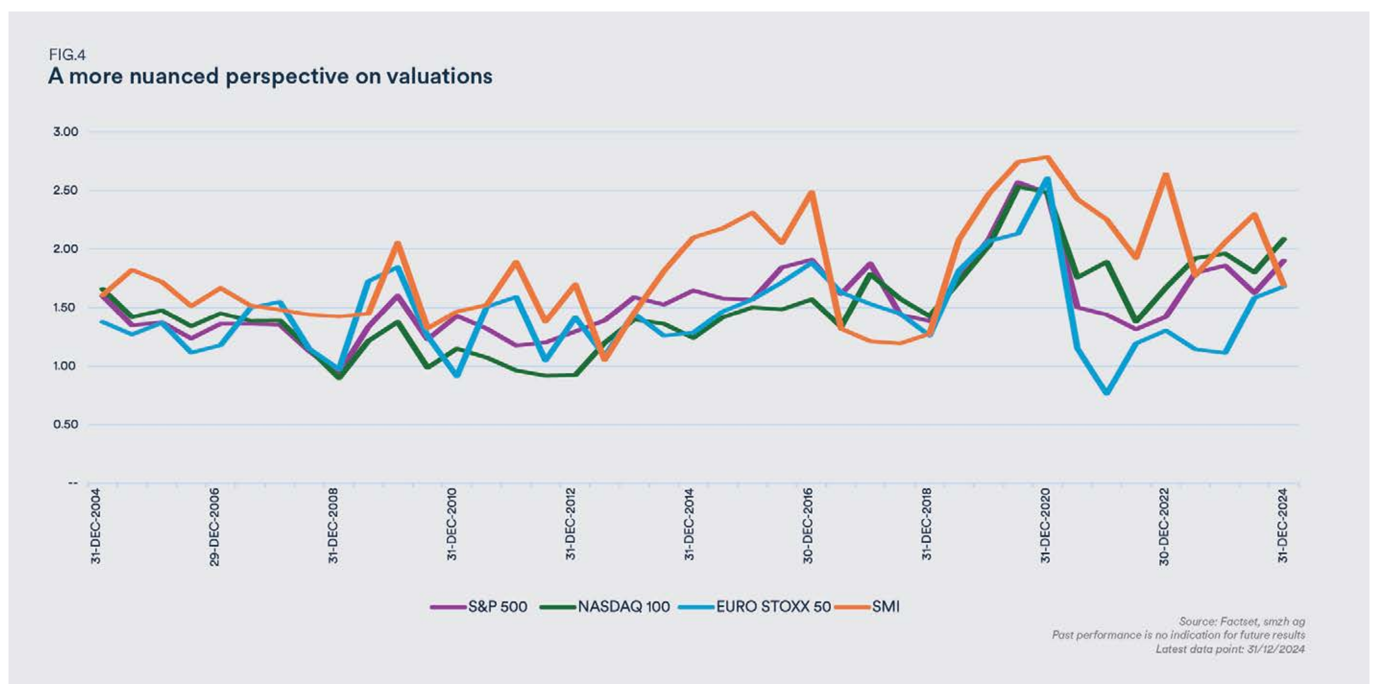


FIG.4
A more nuanced perspective on valuations

Source: Factset, smzh ag
Past performance is no indication for future results
Latest data point: 31/12/2024

Currencies and Gold

- In the first half of 2025, the US dollar is likely to maintain its strength.
- The euro remains affected by tariff risks and rate cuts by the ECB.
- The Swiss franc is caught between expensive valuations and its safe-haven status.
- Gold strength is expected to continue in 2025.

Renewed USD strength offers profit taking opportunities

Following its strong appreciation since September 2024, the US dollar continued its momentum in early January before giving away all its gains of 2025. While the dollar remains supported by President Trump's policies and the advantageous economic growth path, the currency could be considered as overvalued compared to its major global peers. As we highlighted in our investment outlook earlier this year, investors should consider profit-taking opportunities in renewed strength of the US dollar. Over the longer term, persistent high inflation and mounting debt levels weigh on the US dollar.

Swiss franc caught between expensive valuations and its safe-haven status

The outlook for the Swiss franc is complex and influenced by various factors, depending on the timeframe. The SNB's dovish monetary policy dynamics, as well as the franc's expensive valuation against both the dollar and the euro in a historical context, are negative for the currency. The SNB has already eased monetary policy by a cumulative 1.25% in the current cycle from 1.75% to 0.5%. More may follow at the next SNB policy meeting on 20 March, where further 0.25% to 0.5% rate cuts seem feasible.

On the other hand, the highly uncertain tariff, economic, and geopolitical landscape and the associated overall volatility in financial markets make defensive currencies such as the franc more compelling. Switzerland's positive long-term fiscal and external surpluses, adds to the franc's safe-haven status. In addition, the current positioning in the dollar-franc pair has become even more stretched as fund managers have increased their underweight positions in the franc, according to Bloomberg CFTC data.

Consensus expects the Swiss franc to stay range-bound in 2025, with USD/CHF seen near the current 0.90 and EUR/CHF near the current 0.94 by year-end.

Further upside in Gold expected

Gold gained 27% last year, reaching new all-time highs in USD terms in October before pairing some of the gains. In January 2025, the metal continued its upward trend to trade just shy of its record highs. The need for diversification by both central banks as well as investors has been the key driver behind the rally in gold prices. This trend should continue, with trade and geopolitical uncertainty likely to persist alongside US government debt concerns, despite the uptick in real interest rates that usually has a negative effect on gold prices.

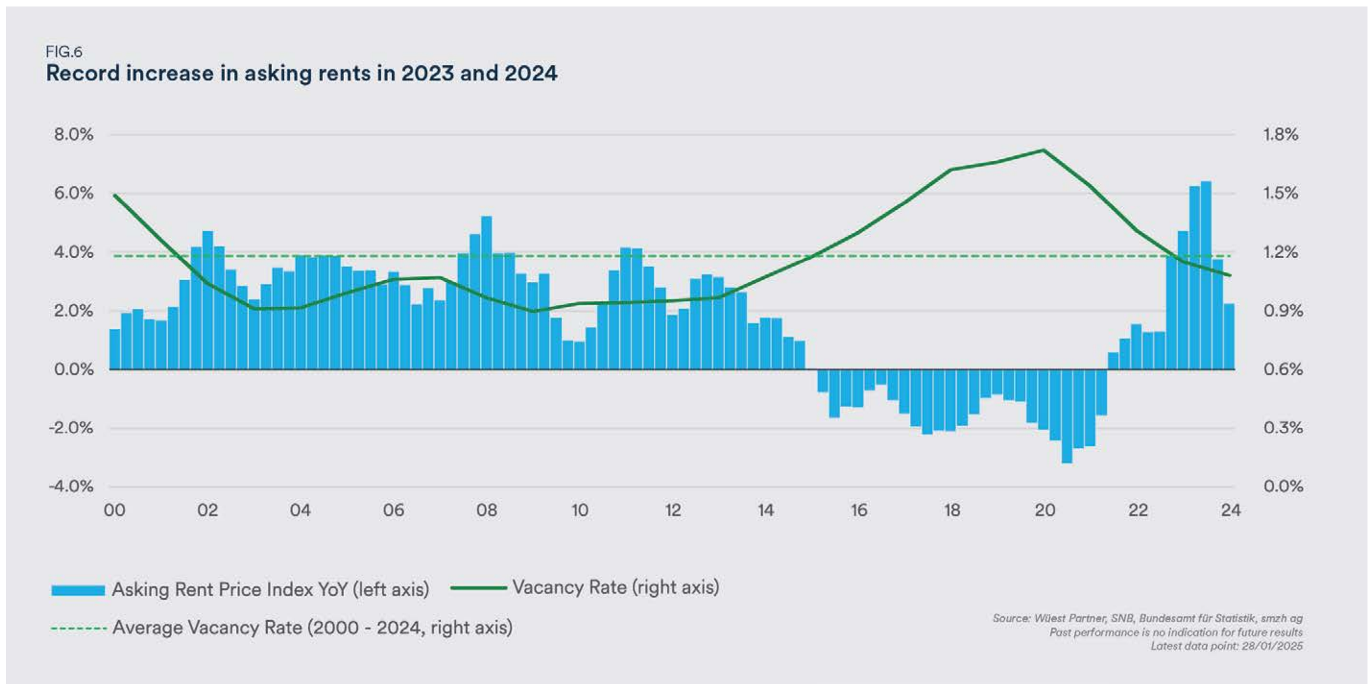
Swiss Real Estate

- Institutional investors' interest in Swiss real estate investments remains high, as seen by successful capital increases and positive price developments of publicly traded real estate funds.
- Rental rates have risen sharply over the past two years, driven by low vacancies, low construction activity and high immigration.
- A slowed rental rate growth of 2–3% is expected for 2025, with sustainable and innovative real estate projects gaining importance.

Strong Demand for Residential Investment Properties

Interest by institutional investors towards Swiss real estate remains high. Real estate funds and investment foundations successfully conducted capital increases last year - a trend likely to continue or even intensify in 2025. The high interest in real estate is also reflected in the positive price dynamics of listed securities and the high premium on exchange-traded funds, which currently averages over 33%. The high valuation of publicly traded assets further supports the expansion of directly held real estate portfolios.

In the past two years, rental prices have risen rapidly. Low vacancy rates, a de facto construction freeze, high immigration, and rent increases driven by the rising mortgage reference rate have amplified this trend. While the increase in building permits and growing interest in construction projects may slow rental growth in 2025, a rise of 2–3% remains likely. To be well-positioned in the medium and long term, strategic location selection, sustainable projects, and innovative usage concepts are becoming increasingly important.



Bitcoin

- Despite a recent sell-off in the global IT sector, Bitcoin held the USD 100'000 mark, underscoring its market strength and diversification potential.
- Institutional interest in Bitcoin is growing, supported by initiatives to integrate it into treasury reserves and positive regulatory developments, which could act as catalysts for future price momentum.

Bitcoin unaffected by turmoil in the IT sector

Bitcoin's price remained largely unaffected by the recent tech sell-off triggered by the launch of a new AI model from Chinese startup DeepSeek, which cast doubts on U.S. dominance in the sector. At one point, Bitcoin briefly dipped below the USD 100'000 mark but quickly rebounded and is now hovering near its all-time high. Its price stability despite turbulences in the AI sector once again shows its potential for diversification benefits.

USD 100'000 level holds – a strong signal for the crypto market

Since Bitcoin's historic breakthrough of the USD 100'000 mark on December 5, 2024, market euphoria has somewhat cooled. However, the fact that Bitcoin continues to hold above this critical threshold highlights its market strength.

This is reflected in a slightly lower Fear & Greed Index (Coinglass), but which still remains in the "Greed" zone. At the same time, Bitcoin's dominance continues to rise, nearing 60%, reinforcing its leading role in the crypto market. Another indicator of growing liquidity and investor interest is the continued increase in stablecoin market capitalization, which hit a new high in January.

Institutional interest in Bitcoin is also on the rise: Companies are planning to add Bitcoin to their treasury reserves, and even central banks are taking a closer look. In Switzerland, an initiative is calling on the Swiss National Bank to integrate Bitcoin, while the Czech National Bank is considering holding up to €7 billion in reserves.

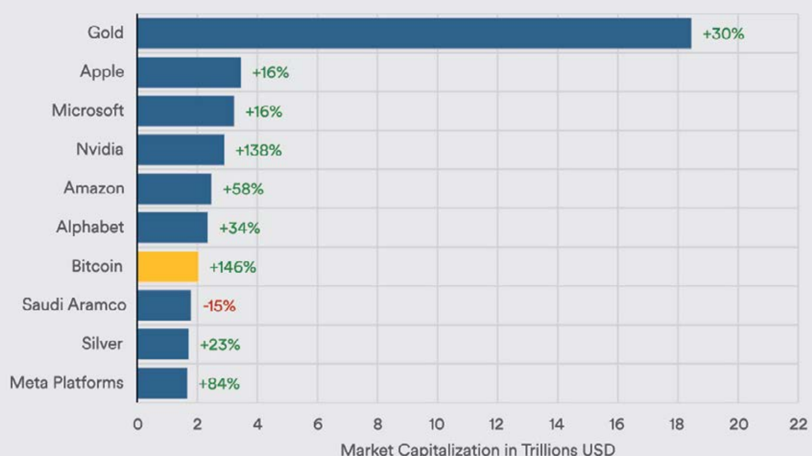
Trump's crypto policy as a catalyst for further upside in Bitcoin?

With the executive order "Strengthening American Leadership in Digital Financial Technology," Trump is signaling a shift in crypto regulation, opting for market-driven solutions. A task force comprising federal agencies has been assigned to review existing regulations and develop a new regulatory framework within 180 days, where initial results are expected in just 30 days.

If the proposed measures prove favourable for Bitcoin and the broader crypto sector, they could act as a catalyst for a price breakout, reigniting the upward trend in the weeks and months ahead.

FIG 7

Bitcoin is currently the seventh largest global asset by market capitalization (percentages of growth in market capitalization from the end of 2023 to January 28, 2025)



Source: Refinitiv Eikon, smzh ag
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