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Investment Guide

Financial market's short memory for global crises

CIO House View

JULY 2025

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Financial market's short memory for global crises

If history has taught financial markets anything, it is how to forget. Through the first half of 2025, the world has seen no shortage of shocks. Yet once again, financial markets have proven their remarkable ability to absorb, adapt, and move on.

The question, as always, is: why? Partly, it is the structure of modern markets. Prevailing market strategies are mostly focused to respond to macro data, liquidity, and central bank rate policies, among the key fundamental variables, but not complex geopolitics. As long as inflation and economic growth expectations are anchored, and monetary policy credible, shocks, no matter how serious, tend to be faded.

Another reason lies in psychology. Markets are forward-looking by design, but they are forgetful by necessity. In an environment where capital is plentiful and return expectations remain high, lingering on geopolitical uncertainty becomes a cost few investors are willing to bear.

Of course, this forgetfulness carries also risks. It can lead to complacency, risk mispricing, and reinforce the illusion of resilience. It assumes that escalations will always be avoided, institutions will always hold, and diplomacy will always prevail. And yet, time and again, that assumption has worked, at least for financial markets.

So far in 2025 the financial world has chosen to look through crisis, not dwell in it. Crude oil prices may spike, governments may fall, and political norms may erode, but unless these disrupt business, credit channels, or central bank reaction functions, they remain, in financial market terms, peripheral.

The memory is short. The conviction is long. And for now, that remains enough to keep the rally alive. Geopolitical developments are, by nature, highly unpredictable. This makes it difficult to anticipate the potential trajectory of the ongoing Middle East conflict in the weeks and months ahead, or the looming end of Trump's tariff pause in July. In this environment, it is essential for investors to maintain well-diversified portfolios designed to navigate periods of heightened uncertainty. Financial markets will always be subject to unforeseen events and policy shifts. The key to success lies in adapting intelligently, filtering out the noise, and making decisions based on solid facts and strategic insights. This approach not only mitigates risks but also positions investors to capitalize on opportunities in an ever-changing landscape.

Enjoy the reading.
Best regards,

Gzim Hasani

CEO

Bekim Laski, CFA

Chief Investment Officer

Global Economy

- Despite elevated uncertainties, global growth is expected to stay positive.
- Global disinflationary trend continues despite short-term risks of oil price spikes due to Middle East tensions.
- After the expected cut to zero, the Swiss National Bank (SNB) takes now a wait-and-see position.

Middle East tensions and the looming end of Trump's tariff pause in focus

The ongoing conflict in the Middle East has been affecting markets much less than investors feared. Unless there is a further escalation and broadening of conflict parties, the most direct economic impact would be stemming from oil prices and in particular from any potential disruptions to oil shipments through the Strait of Hormuz, which handles around 20–30% of global oil trade and flow. Although such disruptions could drive oil prices substantially higher, the current market balances are not really tight, as major oil producers maintain spare capacity that can help offset supply shocks and stabilize prices. Also, historically oil prices would need to double in a short period of time to trigger a recession in advanced economies.

However, rising oil prices would add to inflationary pressure, especially in the US, where elevated energy costs compound the effects of higher tariffs under the existing trade policy, intensifying inflation concerns at a critical moment for monetary policy. Overall, as it stands, the global economy appears capable of weathering the economic repercussions of this geopolitical conflict without experiencing substantial adverse effects.

Speaking about US tariffs, the 90-day pause on Trump's Liberation Day 'reciprocal tariffs' is set to end in July. Unless the delay is extended or trade deals are struck, US import tariffs could essentially double or more from the today's levels.

US Fed on track to lower interest rates later this year

As expected, the US Federal Reserve (Fed) kept interest rates on hold in June. What was more surprising was that its updated economic projections reflected a slightly more challenging US economic outlook. Growth expectations were revised slightly lower, while inflation forecasts were pushed a bit higher due to the anticipated impact of tariffs. While this complicates the Fed's dual mandate of price stability and maximum employment given that these dynamics are moving in the opposite direction, the Fed's projections still points to two rate cuts before year-end even though the committee is more divided than before.

With inflation still above the Fed's target and labour markets cooling, the key takeaway is that the Fed is in no rush to ease. With seven officials forecasting no interest rate cuts this year and eight expecting two cuts, there is a debate about whether rising inflation or a weakening labor market will drive the Fed's policy decisions over the next few months.

However, many economists argue that the US appears to be the exception, not the rule given that in major parts of the world, disinflation is a greater force right now than inflation, especially in Europe and China. The OECD recently revised its annual headline inflation forecasts for the G20 economies to moderate to 3.6% this year from 6.2% last year, and further cooling to 3.2% in 2026.

Swiss National Bank sees high hurdles for negative rates

Declining inflation continues to challenge the Swiss National Bank (SNB) that cut its policy rate to zero in June, a widely anticipated move. The deflationary trend in Switzerland is driven by imported price declines, primarily due to the strong Swiss franc. Ensuring price stability is crucial, with the EUR/CHF exchange rate being particularly central. If the European Central Bank (ECB) pauses interest rate cuts, the EUR/CHF rate is likely to stabilize, mitigating imported deflation and reducing the need for further SNB rate cuts. During the press conference following the announcement of the rate cut, SNB President Schlegel surprisingly often stressed that negative interest rates could lead to undesirable side effects. He emphasized that the SNB expects moderate growth and an increase in inflation over time. This has tempered market expectations for imminent negative rates, making it likely that the SNB could remain on hold for the rest of the year, barring any major global downturn.

Sources: Federal Reserve Bank of St. Louis; U.S. Office of Management and Budget via FRED

Fixed Income

- The fundamentals for investment-grade bonds remain solid, and no significant deterioration in credit quality is expected.
- Quality high-yield and Emerging Markets bonds offer reasonable total return opportunities despite low credit spreads.
- Private debt and real estate investments are attractive alternatives to bonds.

Steady month for global bond markets

After their volatile but decent recovery in May, global bond markets remained resilient in June and added to their positive year-to-date total returns. More broadly, bond markets were torn between inflation and mounting debt concerns that lift yields higher, while growth risks exerted downward pressure.

While European bonds delivered moderate results, gains were mixed. Rate cuts by the ECB and other central banks did support government bonds, but rising yield pressure driven by higher issuance and structural fiscal dynamics tempered performance relative to Emerging markets (EM) fixed income, which outperformed global peers.

The performance of EM is driven primarily by local currency debt, which is underpinned by a combination of high-income generation, contained inflation and strengthening currencies. The interest and market sentiment towards the US dollar has undoubtedly become uniformly negative with investors appearing to have recently increased their EM currency positioning to historically high levels.

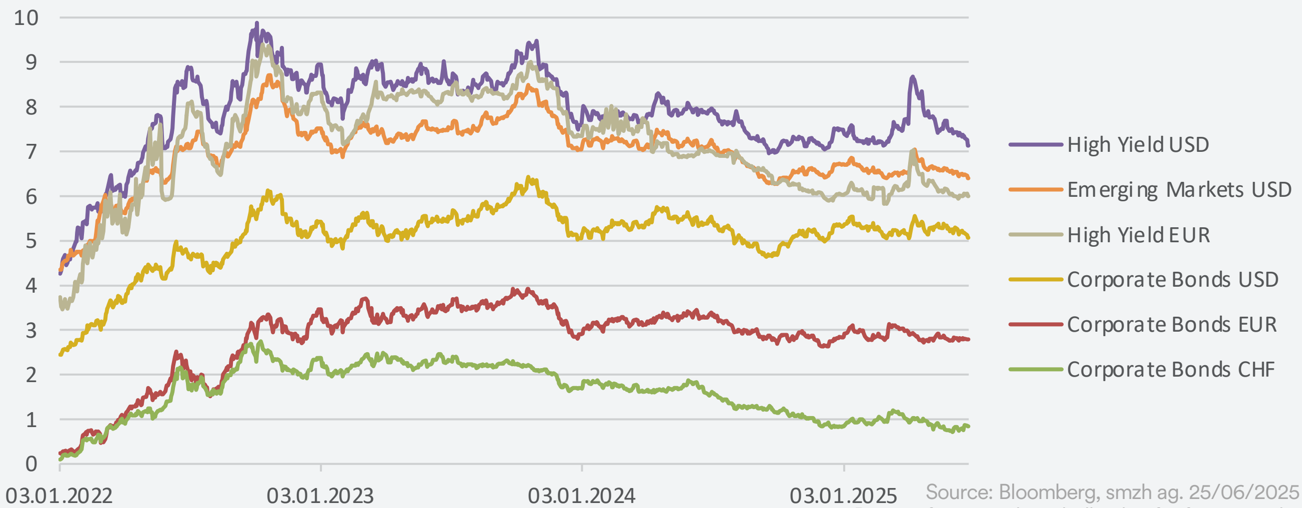
In credit markets, high yield credit continued outperforming investment grade and sovereign bonds, supported by improving risk appetite. This rally reflects a broader rotation back into more risk assets, as investors gained in confidence that the worst-case growth scenarios of a global recession may be avoided, even as inflation and fiscal risks remain elevated.

Challenges for Swiss investors persist

For regions with low interest rates such as Switzerland, government bonds do not look appealing given persistent low yields even after the latest pick-up following the SNB decision and market participants calibrating their expectations for negative interest rates. For Swiss investors, a combination of investment-grade bonds, high-quality high-yield bonds, and selective emerging market bonds remain still attractive, despite elevated hedging currency costs that are around 4.5% and 2% for USD/CHF and EUR/CHF, respectively. For investors who can tolerate illiquidity risks, alternative opportunities in private credit, private equity, real estate and other non-correlating asset classes continue to score attractive.

FIG. 1

Evolution of yields in selected Bond Markets



Source: Bloomberg, smzh ag. 25/06/2025
Past performance is no indication for future results

Equities

- Equity market valuations have risen following the recent recovery-rally and are for some regions no longer inexpensive.
- Tailwinds for European equities remain intact despite ongoing challenges from US trade policies. A resolution to the war in Ukraine could further improve sentiment.
- Swiss equities provide a blend of growth potential and stability, with income strategies like defensive dividends looking particularly attractive.
- Spikes in volatility offer opportunities to explore derivative strategies.

Global equities back to all-time highs

In June, positive trends continued in global equity markets. Although June performance was more moderate than in May, US equities maintained their tight leadership during the month, driven particularly by a sustained recovery in the technology sector following the strong setback in April. That said, volatility is likely to remain high amid uncertainty over the tariff outlook, concerns about US fiscal sustainability, and potential re-escalation of the Iran-Israel conflict.

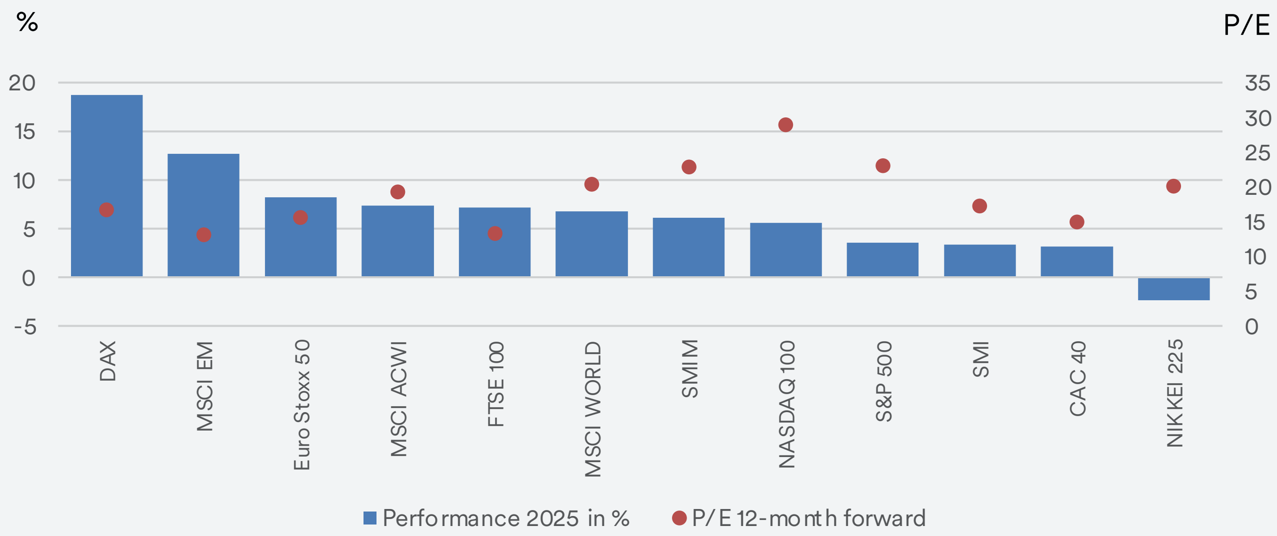
Following the swift recovery since the lows in April, equity market valuations have also moved higher. The US S&P 500 index, for example, is trading at around 22-times forward earnings, suggesting that either US corporate earnings need to pick up substantially or the US Fed has to cut interest rates significantly this year. Given the increased uncertainties, investors may also demand a higher risk premium to invest in US equities, potentially leading to a consolidation phase.

European markets are consolidating their solid 2025 outperformance

One of the most obvious destinations of capital outflows from the US market seems Europe, which is the home to the world's second-largest economy and second-biggest reserve currency and where the rule of law reigns supreme. Indeed, the equity markets in Europe, and Switzerland, have outperformed this year even though they have lagged a bit their US and Emerging Markets counterparts during May and June. Still, both European and Swiss equity markets maintain their appeal. As for Swiss equities, the latest rate cut by the Swiss National Bank should further pave the focus towards alternative yield generating strategies where quality dividend stocks continue to look attractive. The SMI's price-to-earnings ratio, based on consensus expected earnings for the next 12 months, is at 16x, matching the 25-year average.

FIG. 2

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



Source: Bloomberg, smzh ag. 25/06/2025
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Deep dive: Emerging Markets striking back

- Emerging Markets (EM) equities are gaining renewed attention for diversification opportunities outside US equities.
- Key factors making EM equities attractive include de-escalation in trade tensions, a weaker US dollar, supportive monetary policies, positive growth prospects in China, and attractive valuations.

Emerging Markets equities are poised for a comeback

In the context of investors seeking diversification opportunities outside US equities, Emerging Markets (EM) equities are gaining renewed attention alongside Europe and Switzerland.

The complex of Emerging Markets combine a wide range of countries, each with distinct economic structures, industries, and growth drivers – ranging from markets with companies at the cutting edge of technology in Asia and China, to commodity exposed markets in Latin America over to India's large consumer market.

While not without their own risks, EM can offer attractive prospects for investors seeking growth opportunities and portfolio diversification. While EM have underperformed their global counterparts over the last few years, especially US markets, investing in EM has become increasingly attractive due to several key factors that are aligning favorably.

First, the de-escalation in trade uncertainty signals that the worst of trade tensions may be behind us. This reduction in headwinds on the trade front is a crucial catalyst for investors interest in the region.

Second, the US dollar (USD) has shown signs of weakness this year, which historically benefits EM assets. If the USD continues to remain soft, it could further support EM performance.

Third, while US bond yields may rise in the short term due to US fiscal policy and inflation concerns, the US Federal Reserve could adopt a more supportive stance over the summer. Falling US interest rates typically bode well for EM markets.

Fourth, most EM central banks have been cutting interest rates given favorable inflation trends.

Fifth, the outlook for technology companies in China remains positive and China's consensus growth projections remain solid at just below 5% for 2025. Additional stimulus announcements during summer could further boost the sentiment for China and EM in general.

FIG. 3
Emerging Markets vs. Global Equities

Source: Bloomberg, smzh ag. 25/06/205
Past performance is no indication for future results

Lastly, while this is typically not a key driving catalyst, EM valuations are notably attractive, with a forward P/E ratio of below 13x compared to the one of Developed Markets of more than 19x (ca. 35% discount).

Also, global investor allocations in EM equities, particularly in China, remain low, indicating further potential for increased investor demand.

In summary, the combination of reduced trade tensions, a weaker USD, supportive monetary policies, positive developments in China, and attractive valuations makes EM an appealing investment opportunity.

Currencies and Gold

- Ongoing trend of international diversification away from the dollar is weighing on the currency.
- The Swiss franc is caught between expensive valuations and its safe-haven status.
- Gold continues to shine, even though a healthy consolidation may be due.

US Dollar remains vulnerable

After its 10% decline this year, the USD has stabilized a somewhat even though the currency remains vulnerable to further weakness and is far away from recovering like other risk assets did. While a less clouded growth outlook might lend some support to the dollar in the near-term, there is a clear risk that severe damage has been done to foreign investors risk appetite for US assets, in particular for the dollar.

While the ongoing talk of the dollars demise as the worlds reserve currency looks overdone, this does not mean that the currency can depreciate further, especially given the concerns around the US current account and budget deficits. Over the longer-term, the trend of international diversification away from the dollar may also lead to further dollar weakness. Therefore, investors with excess USD cash may want to reduce their exposure.

Further potential for the Swiss Franc

The Swiss Franc has been rangebound against the Euro for the second consecutive month but an easing pause by the Swiss National Bank (SNB) means that the Franc may re-start its appreciation soon again. During the press conference following the rate cut, SNB President Schlegel surprisingly often stressed that negative interest rates could lead to undesirable side effects, also emphasizing that the SNB expects moderate growth and an increase in inflation over time. This has tempered market expectations for imminent negative interest rates, making it likely that the SNB could remain on hold for the rest of the year, barring any major global downturn.

Instead, the European Central Bank's policy rate has reached a level that many ECB Governing Council members see as the equilibrium for now. While this reduces the urgency to cut rates again, there is a chance of another rate cut to 1.75%. This prospect isn't fully factored in by market participants, potentially leading to further Euro weakness and Swiss Franc strength.

Gold supported by US debt dynamic concerns and geopolitical turmoil

Amid growing concerns over the US government's weakening debt metrics, investors have gravitated towards gold as a safe-haven asset. Additionally, the weak US dollar makes gold more affordable for holders of other currencies. This currency dynamic has provided additional support to gold prices. Despite occasional volatility, gold prices are supported by persistent geopolitical risks and ongoing demand by central banks and investors alike. While gold may consolidate after recent gains, any periods of price weakness offer opportunities to build positions.

FIG. 4
The USD/CHF exchange rate has decoupled from the interest rate differential

Source: Bloomberg, smzh ag. 25/06/205
Past performance is no indication for future results

Swiss Real Estate

- As a result of the zero-interest policy, high-yield real estate investments are in focus for institutional investors.
- Swiss real estate is gaining attention internationally; especially commercial properties are attracting foreign capital.
- High equity requirements and limited access to external capital are dampening room for manoeuvre.

The return of TINA

Following the last interest rate cut by the SNB, the question of the return of TINA "There Is No Alternative" comes to the forefront again. In such a low-interest environment, the search for real returns remains a central challenge, especially for institutional investors. The ongoing series of capital increases in publicly traded real estate vehicles and the increasing performance strength of Swiss real estate stocks indicate continued solid investor confidence. Even in an international context, Swiss real estate is gaining attention and attracting more capital from abroad.

The transaction dynamics remain characterized by high willingness to pay among buyers. Therefore, acquisition yields are likely to decline, not due to speculative overheating, but because the supply of high-quality properties is structurally limited. In an environment that is becoming increasingly selective, opportunities are shifting towards well-connected peripheral locations and developable inventories.

In the current financing environment, institutional investors have a clear advantage. Although stable rental income and declining vacancy rates generally indicate high returns and solid sustainability, high leverage remains difficult to implement despite low interest rates—especially for private investors. They often lack access to additional equity or flexible financing structures. While institutional buyers operate with structured capital and efficiently leverage opportunities, many private investors are increasingly falling behind.

FIG. 5

Proportion of new mortgages with a high loan-to-value ratio (LTV >74%)

Source: SNB Financial Stability Report 2025, smzh ag

Bitcoin

- Bitcoin recovered quickly from geopolitical setbacks and is trading again above 107'000 USD.
- ETF inflows remain strong - over 3.2 billion USD in June.
- Market shows structural maturity, no signs of speculative excess.
- USA and Japan are advancing regulatory integration of Bitcoin as a financial product.

Bitcoin trumps geopolitical shocks

Bitcoin is currently trading above 107'000 USD, having quickly recovered from a temporary drop below the 100'000 USD mark. The short-term price pressure was a direct reaction to the escalation in the Middle East. The fact that the price was able to stabilize again within a few days underscores Bitcoin's increasing resilience to macro-geopolitical shocks. Such developments, which would have triggered panic sales in the past, are now structurally absorbed.

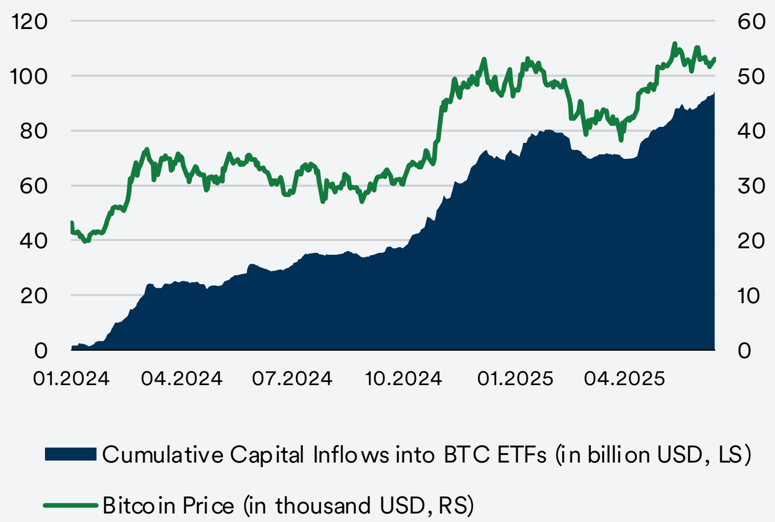
A significant factor of stability remains the ongoing strong capital inflows into US spot ETFs. In June, over 3.2 billion USD flowed into these products, a clear indication of strategic demand, particularly from institutional investors. The inflows are broadly supported and occur without exaggerated price reactions, further solidifying the maturity and market integration of Bitcoin.

Bitcoin remains strategically well-supported by stable capital inflows, increasing regulatory clarity, and growing robustness against external shocks. For long-term oriented investors, price zones between 100'000 and 110'000 USD continue to offer attractive entry opportunities. Pullbacks remain tactically exploitable, especially when triggered by short-term macro concerns that do not indicate structural weakness.

At the same time, the regulatory anchoring of Bitcoin as an investment continues to progress. In the USA, the Crypto Market Structure Bill is currently being negotiated in the Senate. The goal is to establish clear responsibilities between the SEC and CFTC and to define regulatory guidelines for the trading of digital assets on exchanges. In Japan, Bitcoin will be explicitly classified as a financial product and placed under the local financial market supervision. Both developments reflect growing institutional trust and create legal frameworks that could legitimize Bitcoin as a regulated asset class.

FIG. 6

Stable ETF inflows into Bitcoin despite geopolitical uncertainty



Source: Refinitiv Eikon, Farside, smzh 25/06/2025

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