smzh

Investment Guide

Staying the course

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MAY 2025

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Staying the course

During his campaign, President Donald Trump promised a "boom like no other." Investors fully embraced the "America First" trade following Trump's election victory, which led to the S&P 500 index experiencing the best post-election rally ever. The expectation was that the government would loosen regulations and cut taxes to stimulate further growth.

After the first 100 days in office of President Trump, US assets such as the US dollar, US equities, and to some extent US government bonds have suffered severely following Trump's trade war and verbal attacks on the US Fed, raising concerns about the independence of the central bank. Despite a recovery in April, US equities, as measured by the S&P 500 index, have fallen by more than 7% since Trump's inauguration and mark the worst performance in the first 100 days of a president since Gerald Ford in 1974.

In our annual investment outlook, we emphasized that Trump's second term has the potential to significantly shape the global economic and geopolitical landscape, leading to volatile and mixed performance in financial markets during the first half of 2025. But admittedly, we did not have the imagination to see that the US equity markets would enter their seventh-strongest correction since 1929.

Given the prevailing uncertainty, it remains crucial for investors to adopt a prudent and strategic stance and never panic. Erratic reactions due to an unclear situation can jeopardize long-term investment goals. Therefore, it is advisable to stick to a well-structured investment strategy that emphasizes diversification and aligns with individual financial goals. A disciplined approach allows for more effective management of periods of uncertainty. Consequently, this environment offers both challenges and opportunities. Structural changes continue to create opportunities that remain independent of short-term developments. By recognizing key investment opportunities amid geopolitical shifts, investors can benefit from the evolving global economic landscape.

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

Best regards,

Gzim Hasani

CEO

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Chief Investment Officer

Global Economy

- The US trade war is weakening the global growth forecast for 2025 to the lowest level since COVID-19.
- Central banks are facing challenges in loosening their monetary policies to support the economy.
- The Swiss National Bank (SNB) is likely to reconsider rate cuts again; even negative interest rates can no longer be ruled out.

Trump's erratic trade policy takes its toll

President Donald Trump's aggressive and erratic trade policy has caused significant turmoil in financial markets and economic activity both domestically and globally. While sentiment and survey data have been signalling weak economic conditions ahead for a while, hard economic data also take their toll. US gross domestic product (GDP) contracted at an annualized rate of 0.3% during the first quarter in 2025, for the first time in three years. The decline was driven by a substantial surge in imports, which increased at an annualized rate of 41.3% as companies front-loaded orders ahead of anticipated tariffs. This surge in imports subtracted nearly 5 percentage points from GDP, the most on record. Because imports aren't produced in the USA, they are subtracted from GDP calculation. Economists see the sharp widening in the trade deficit (higher imports, lower exports) reversing again in the second quarter. Because swings in trade and inventories can distort overall GDP, economists prefer looking at final sales to private domestic purchasers and this measure grew at a 3% annualized rate in the first quarter, above the 2.9% seen in the fourth quarter of 2024.

Growth in Europe is also stalling, and the Swiss economy shows a mixed performance: while the industrial sector continues to be under pressure, private consumption remains stable. The Purchasing Managers' Index (PMI) for manufacturing was at 48.9 points in March 2025. Thus, the index has been below the growth threshold of 50 points for 27 consecutive months, indicating continued declining activity in the industry sector. The labor market shows signs of slight weakening, but without dramatic deterioration. Inflation in Switzerland is expected to continue to decline. The strong Swiss franc is putting pressure on imported inflation, and since April 2 – since the announcement of the US trade war – energy prices have also significantly decreased due to the strong correction in oil prices. These circumstances could push overall inflation in Switzerland towards zero.

How are central banks reacting?

The inflation concerns of Fed Chairman Jerome Powell are feeding through the inflation expectations of US consumers. According to a survey by the University of Michigan, US consumers expect an inflation of 6.5% in one year's time. However, long-term market-implied inflation expectations have significantly decreased, as seen through break-even inflation or the 5y5y forward inflation swap (The 5-year, 5-year USD inflation swap rate represents the expected inflation rate over a period of five years, starting in five years). This is seen as a signal of market participants' confidence in the Fed's ability to control long-term inflation. This could prompt the Fed to focus more on growth risks and allow interest rate cuts. Market participants expect the US Fed to make cut interest rates by a cumulative of 1% over the course of the year.

Probability of negative interest rates in Switzerland has increased significantly

The ECB, which lowered interest rates in April, is likely to cut them again in June due to the weakened business climate, trade disruptions, and lower energy prices reducing inflationary pressure. The SNB could either intervene in the foreign exchange market or lower interest rates, with interventions currently being delicate as they could be interpreted by the US government as currency manipulation. Consequently, the SNB is expected to lower interest rates in June from 0.25% to zero, contrary to earlier expectations. Negative interest rates are also no longer excluded this year.

Fixed Income

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

Volatility likely to persist

Trump's trade war and harsh rhetoric towards the US central bank have forced a re-evaluation of assets fundamental to the economic dominance of the US: the dollar and US government bonds. Two traditionally safe havens in times of market uncertainty suddenly appear much less attractive. Consequently, US equities, the US dollar, and long-term US government bonds fell simultaneously during the recent market sell-off. This is unusual and suggests that investors are avoiding or offloading US assets. The longer this situation persists, the more the reputation of the US could be sustainably damaged. A significant shift away from US assets by investors could have substantial consequences, including further corrections of the dollar and a further rise in interest rates, which would have significant impacts on the global economy, as well as the US itself.

Challenges for Swiss investors remain

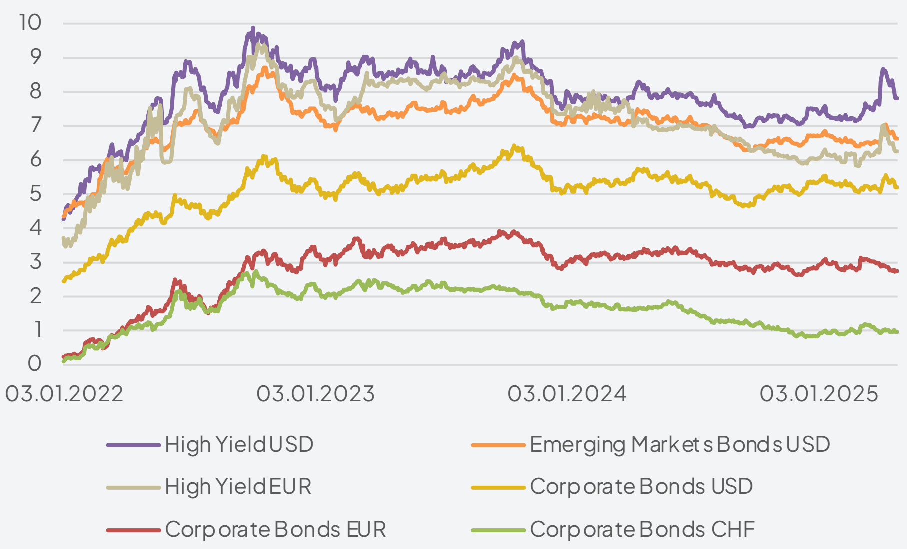
Despite the significant increase in downside risks to growth, bond yields have remained high. This creates an opportunity for investors to seek lasting portfolio income and stabilizers. In a portfolio context, a combination of investment-grade bonds, high-quality high-yield bonds, and selective emerging market bonds remains attractive, especially compared to government bonds in low-interest regions like Switzerland. For investors who can tolerate illiquidity risks, alternative opportunities in private credit, private equity, or real estate are available

Is the US exceptionalism ending?

The US relies on capital inflows to finance its budget and trade deficits. Nevertheless, even if the US government explicitly seeks radical changes at all levels, the US is still too large to fall too quickly. According to Bloomberg, foreigners hold over USD 19 trillion in US equities, USD 7 trillion in government bonds, and USD 5 trillion in US corporate bonds, accounting for about 20% to 30% of the entire market. While European and/or Chinese assets suddenly appear more attractive, they cannot replace the depth and liquidity of the almost USD 29 trillion US bond market.

FIG. 1

Evolution of Yield-to-Maturity in selected Bond Markets



Source: Bloomberg, smzh ag
Past performance is no indication for future results
Latest data point: 28/04/2025

Equities

- Despite heightened uncertainties, opportunities also arise for long-term investors.
- 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 interesting opportunities to explore derivative strategies.

Volatility rollercoaster

Equity markets around the world have reacted very negatively to the trade war shocks to just recover most parts again after the postponement of tariffs. Still, volatility is likely to remain elevated in the coming weeks. On one hand, the increased likelihood of tariff deals in combination with the potential shift in focus toward pro-growth policies may indicate a peak in uncertainty. On the other hand, ongoing uncertainty and the tariffs themselves will weigh on corporate earnings where growth expectations for this year may look too ambitious, with risks of analysts having to further reduce their expectations. While global equities have devalued significantly, they are not pricing in a recession. A process of negative earnings revisions typically does not bode well for equity market performance as the correlation between earnings and price-to-earnings (P/E) ratios is usually positive, indicating that declining earnings revisions could lead to lower equity valuations and thus limit the rebound potential during this process.

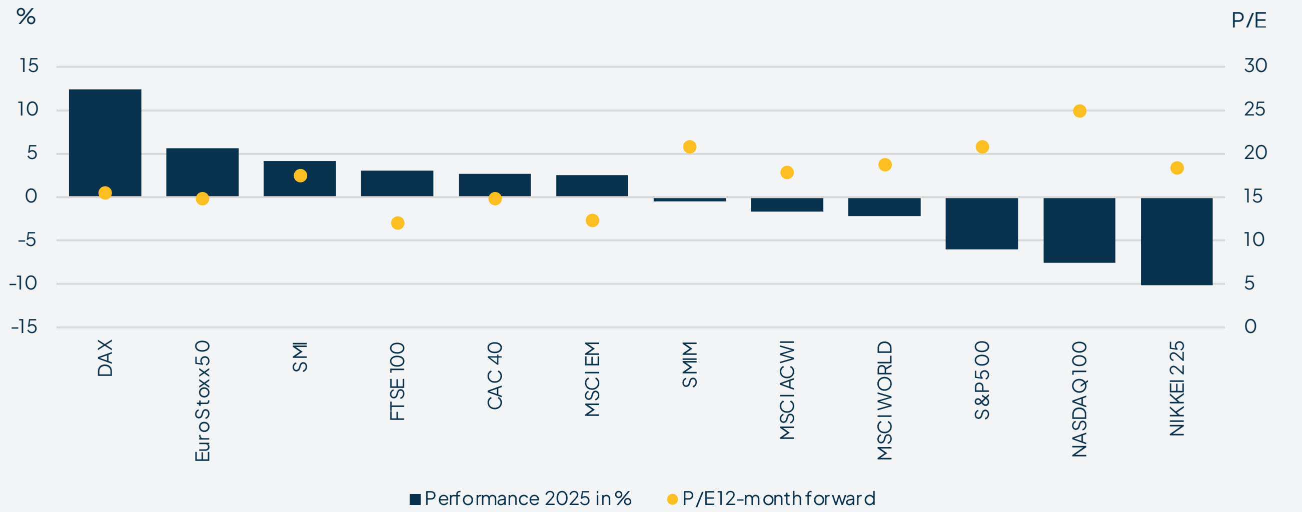
Staying the course

However, for investors with a long-term investment horizon and risk appetite, the current environment creates also opportunities despite ongoing uncertainties. Specifically, the equity markets in Europe and Switzerland had already experienced a revival over the course of the year, outperforming their global counterparts. Consensus earnings expectations in Europe are less pronounced than in the US and together with supportive central bank and stimulus policies, and a valuation discount continue to favour these prospects over the risks of potential US tariffs.

Additionally, the possibility of a ceasefire in Ukraine would further support the sentiment in Europe. This strengthening of positive factors suggests that European and Swiss equities have the potential to continue outperforming other markets even in a challenging macroeconomic environment.

FIG. 2

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
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Latest data point: 28/04/2025

Currencies and Gold

- The leading role of the US dollar is indeed at risk, but there is no real alternative.
- 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.

The role of the US dollar is being significantly challenged

Trump's tariff policies are causing market volatility and driving investors to safe havens such as gold and the Swiss franc. The Swiss franc has gained significantly in value against the dollar and most trading partner currencies in recent weeks. However, the franc has recently weakened somewhat against the euro, as in the current environment, investors are also increasingly switching from the dollar to the euro.

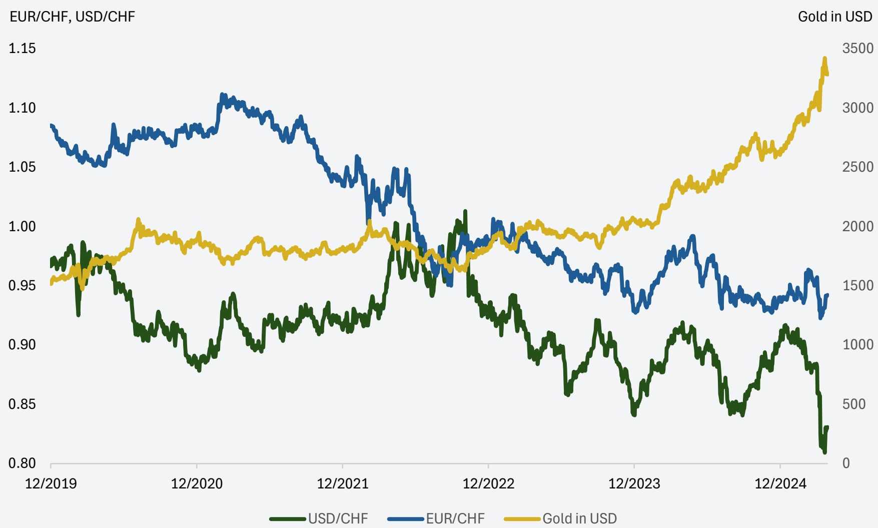
Trump's trade war and attacks on the US central bank have forced a reassessment of assets fundamental to the economic dominance of the US: the dollar and US government bonds. Two traditionally safe havens suddenly appear less attractive and seem to be experiencing larger capital outflows. The exact extent to which foreign investors have reduced their holdings of US government bonds and thus their USD positions will only become apparent in a few weeks. In the meantime, the US government should have a strong interest in concluding trade agreements that partially restore confidence in the dollar to gradually stabilize it. In the medium term, the fate of the dollar will depend on the outcome of trade negotiations and broader economic impact. The dollar may remain weak, but the depreciation could proceed in a more orderly fashion.

Gold: shining ascent in turbulent times

Gold reached a new record high in April, trading at over USD 3,500 before entering a consolidation phase. The weakness of the US dollar, Trump's attack of the Federal Reserve, and ongoing trade conflicts have prompted investors to seek safe investment alternatives such as gold, triggering high demand for ETFs. Particularly on the Chinese exchange, significant interest has been noted.

There are good reasons to believe that the trend towards a strong gold price will persist, and thus further upside potential can be expected, although a healthy consolidation would offer more attractive entry opportunities.

FIG. 3
Performance of CHF and Gold



Source: Bloomberg, smzh ag
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Latest data point: 28/04/2025

Swiss Real Estate

- Investors are increasingly seeking Swiss real estate as an inflation hedge, stability anchor, and source of income.
- Despite higher building applications and increased construction activity, the shortage in the housing market is likely to worsen this year due to excess demand.
- Restrictive financing conditions make alternative financing sources such as subordinated loans crucial for many projects.

Housing shortage worsens despite attractive interest rates

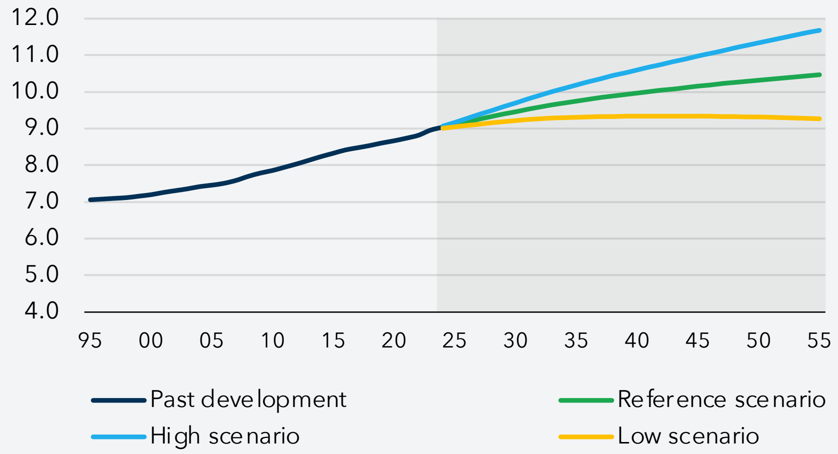
Despite increased investor interest and attractive interest rates, the housing shortage is likely to worsen further – benefiting investors but at the expense of tenants. Although the number of building applications is high, not all projects are approved and realized. The Swiss Builders Association expects around 42'000 new apartments for 2025 – only slightly more than the previous year and significantly below the estimated demand of 50'000 units by the Federal Statistical Office. Consequently, the vacancy rate is expected to continue to decline and fall below 1.0% (after 1.08% in 2024).

The shortage is affecting not only urban centers and agglomerations but increasingly suburban and peripheral areas as well. The ongoing population growth, which is stronger in the new federal scenarios than forecasted in 2020, is amplifying this trend. Well-connected projects in suburban and peripheral regions are therefore becoming attractive investment opportunities and are increasingly coming into the focus of investors.

Despite lower interest rates, real estate investors continue to struggle with restrictive financing conditions. Due to the new equity capital regulation that has been in effect since the beginning of the year, it remains difficult to achieve high loan-to-value ratios in financing. The reluctance is particularly evident in construction loans. Access to alternative financing forms, such as subordinated loans from non-banks, is thus becoming crucial for numerous construction projects.

FIG. 4

Evolution of the permanent resident population according to the three basic scenarios, in millions



Source: Federal Statistical Office

Bitcoin

- The new chairman of the U.S. Securities and Exchange Commission (SEC) is focusing on innovation-friendly regulation of digital assets.
- Bitcoin has not yet benefited from the flight to safe havens like physical gold. However, the general market recovery is supporting Bitcoin, which has stabilized above USD 90'000 and is approaching the USD 100'000 mark.
- ETF inflows have increased again with the price correction but remain below the all-time high.

Innovation-friendly regulation for Bitcoin and digital assets in focus

Paul Atkins was appointed as the new SEC chief on April 21, 2025. As a former SEC commissioner and CEO of a consultancy firm for digital assets, he brings a market-oriented approach. Instead of enforcement actions, the focus will now be on establishing reliable, innovation-friendly regulations. This opens up new perspectives for Bitcoin and digital assets regarding regulatory clarity.

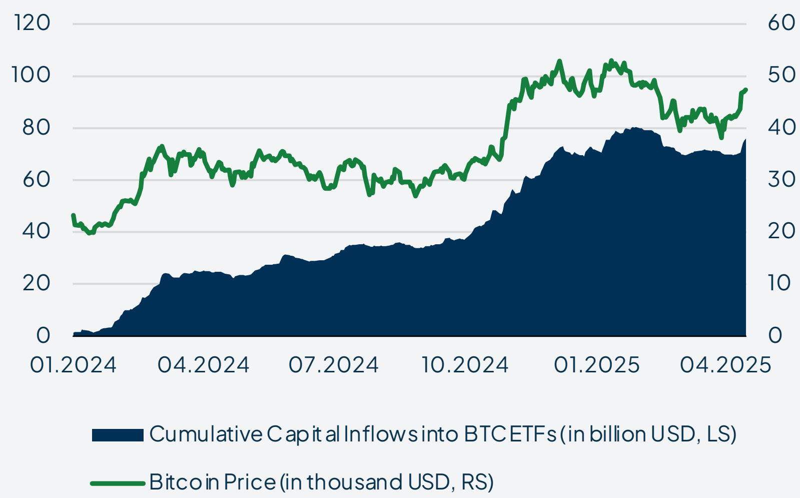
However, the real test for Bitcoin remains macroeconomic in nature. Created in response to the global financial crisis of 2008, Bitcoin has not yet experienced a pronounced worldwide recession. Although it has weathered monetary cycles, inflation phases, and geopolitical tensions, the question arises whether investors will view Bitcoin as a safe haven like gold or continue to see it as a high-risk technological asset in the face of economic risks. So far, the flight to safe assets has clearly favored physical gold: Gold has increased by over 25% since the beginning of the year, while Bitcoin has gained less than 2%, but still outperforming US equities.

While gold is primarily purchased by central banks and institutional investors, a comparable flight moment for Bitcoin—should a stagflationary environment or a classic recession take hold—might occur later and be more driven by retail investors. Despite the ongoing bear market in the broader crypto segment, the market structure indicates an accumulation phase. Bitcoin continues to trade steadily and is not far from its all-time high.

The investment thesis remains intact: If Bitcoin can continue to hold its ground in this challenging environment, it would be a significant step towards broader acceptance as an alternative investment.

FIG. 5

Price of Bitcoin has stabilizing while inflows into ETFs resume



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