



# Investment Guide

## Glass Half Full

CIO House View  
OCTOBER 2025

# Glass Half Full

Financial markets are, at their core, a mirror of human sentiment, constantly shifting between fear and enthusiasm, caution and conviction. When we look at a glass containing equal parts of air and water, do we see what's missing or do we focus on what there is? This age-old question, glass half empty or half full, has its relevance also in today's financial markets. With headlines oscillating between warning signs and optimism, investors are confronted daily with reasons both to worry and to hope.

At first glance, the backdrop is ambiguous: the economic cycle is far advanced, the US labor market is weakening, and the Federal Reserve faces a delicate balancing act. On the one hand, it must persist in its fight against stubborn inflation; on the other, it is tasked with facilitating full employment and economic growth. Navigating these competing objectives, the Fed's policy decisions remain finely poised, adding to market uncertainty and debate about what comes next.

For many, their instinct is to focus on the dangers, the empty half of the glass, especially given today's elevated equity and bond market valuations. With so much optimism and good news already priced in, it can be tempting to assume that the best days are behind us and that the risks of disappointment are mounting.

But if we tilt the glass or rather our perspective, positive forces may still be at work beneath the surface-level caution: resilient corporate earnings, technological innovation, and a historical precedent that rate cuts, outside of recessions, often revive rather than exhaust market opportunities. At the same time, history shows that the early stages of monetary easing are often accompanied by heightened equity market volatility. Investors typically remain cautious until there is greater confidence that recession risks have been averted and that the transition to lower interest rates will effectively support financial stability and sustainable economic growth, as low confidence during downturns can dampen the stimulative impact of rate cuts on borrowing and investment.

Ultimately, the ever-present uncertainties and mixed signals in financial markets remind us that a balanced perspective is essential. While risks should not be ignored, focusing solely on potential downsides may obscure genuine opportunities on the horizon. In this environment, maintaining a disciplined investment approach rather than seeking to time short-term swings remains the most prudent strategy. History shows that those who stay invested and stay focused on long-term goals are best positioned to benefit as the glass gradually fills up again.

Enjoy the read.

Best regards,



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CEO



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Chief Investment Officer

# Global Economy

- Despite elevated uncertainties, global growth is expected to stay positive.
- In the US, weakness in the job market is outweighing inflation concerns.
- Swiss economic growth remains subdued.

## US Fed restarts its well-telegraphed rate-cutting cycle

As widely expected, the US Federal Reserve (Fed) restarted its monetary easing cycle in September by reducing its key interest rate by 0.25%, the first cut since December 2024. The Fed sees the need for two more cuts this year as worries of softening in the labor market outweigh concerns about inflation. The Fed's rate decision was also accompanied by a new set of projections showing moderate US economic growth and a gradual easing of inflation. Real GDP is expected to expand by roughly 1.6% in 2025 and 1.8% in 2026, slightly higher than earlier forecasts, with growth stabilizing near 1.9% by 2027. Inflation is anticipated to decline gradually but remain above the 2% target through 2025–2026, approaching the target only around 2027.

For the Fed, striking the right balance in its dual mandate of maximum employment and price stability remains challenging given the upside risks to inflation and downside risks to growth and employment. The passthrough of tariffs remains very difficult to predict, implying that the Fed needs to tread carefully. Overall, this is expected to be a gentle easing cycle, providing enough stimulus to avoid a further significant deterioration in the labor market and give some relief to more vulnerable areas of the economy.

## Global economy remains resilient

The global economy has also held up better than many expected. A rush to preempt the elevated tariff rates spurred a front-loading of exports, helping many economies and companies shield consumers from price increases so far even though risks of higher inflation remain.

In combination with growth-oriented fiscal stimulus measures and lower interest rates, economic growth appears to be supported in the medium term. The major economies are expected to see below-trend but positive growth in both 2025 and 2026. Policy stimulus in Europe and China helps to partially offset the weakness in economic activity.

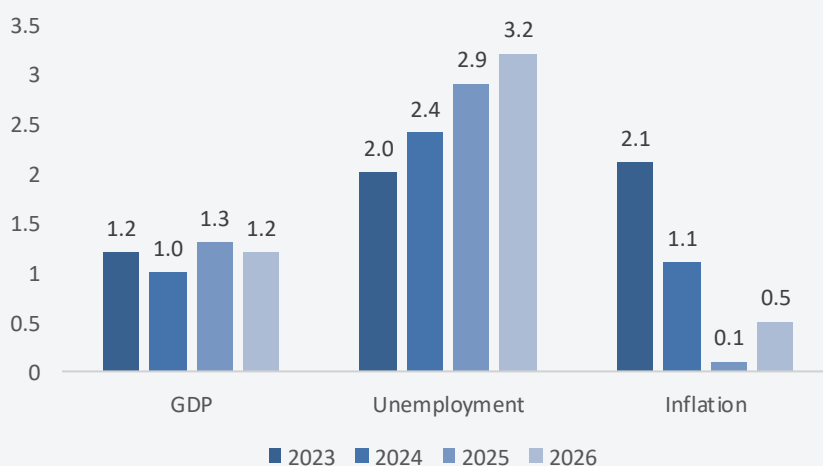
## Swiss economy near stagnation

The outlook for Switzerland remains challenging due to prevailing tariffs, the strength of the Swiss franc, and weak foreign demand. Nevertheless, as long as the US tariff shock remains limited to only a few sectors, the overall economic impact is expected to remain contained, likely helping Switzerland avoid a broad-based recession. However, growth is likely to remain weak and close to stagnation for the remainder of the year.

Inflation in Switzerland remained at 0.2% in August compared to the previous-year period, in line with expectations. The State Secretariat for Economic Affairs (SECO) expects inflation to average 0.1% in 2025 and 0.5% in 2026. Lower electricity prices, declining reference rates, and a stronger Swiss franc continue to weigh on inflation in Switzerland.

FIG. 1

### Economic forecasts for Switzerland



Source: SECO, smzh ag, 16/06/2025

# Fixed Income

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

## Bond markets expand gains in September

Fixed income markets delivered solid returns in September, adding to their year-to-date gains. This performance was largely driven by increased market expectations that the US Fed will make further interest rate cuts. Consequently, yields on US government bonds declined across most maturities, leading to capital gains for bond investors.

As for corporate bonds, credit spreads, the yield premium over government bonds, tightened further and boosted total returns across fixed income segments. Emerging market debt continues to lead, driven by local currency debt, which is underpinned by a combination of high-income generation, contained inflation and strengthening currencies as global investors seem to have increased their exposure to emerging market currencies to historically high levels in a reflection of a growing trend to diversify away from the US dollar. Spreads in investment grade and high yield bonds remain near multi-decade lows, suggesting some widening risks ahead. However, given strong investor interest, solid balance sheet fundamentals and to some extent limited additional debt issuance, these credit segments remain an attractive source of income in portfolios.

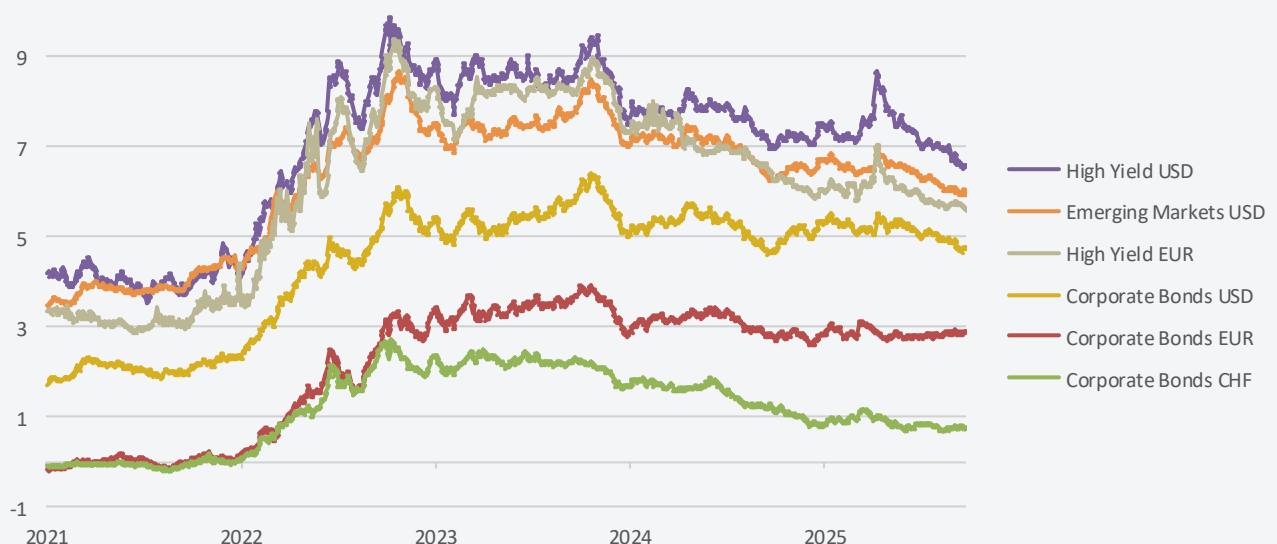
## Investment strategies for Swiss investors amid low CHF yields

For low-interest-rate regions such as Switzerland, government bonds do not really look appealing given persistently low yields. Ongoing challenges to Swiss economic growth and subdued inflation are expected to keep Swiss government bond yields at low levels. For Swiss investors, a combination of investment-grade bonds, high-quality high-yield bonds, and selected emerging market bonds remains attractive despite elevated currency hedging costs of around 4.1% and 2.1% 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 remain attractive.

FIG. 2

### Evolution of yields in selected bond markets (%)



Source: Bloomberg, smzh ag. 24/09/2025  
Past performance is no indication of future results.

# Equities

- In most regions, equity market valuations are no longer cheap.
- Tailwinds for European and emerging market equities remain intact despite ongoing challenges related to US trade policy.
- Swiss equities provide stability but the market lags global peers due to low exposure in the IT sector. Income strategies like defensive dividends look particularly attractive.
- Spikes in volatility offer opportunities to explore derivative strategies.

## Equities keep climbing the wall of worry

Global equity markets have continued their resilient ascent through September 2025, climbing to fresh highs despite ongoing economic and geopolitical uncertainties. Emerging market and US equities led the rally, buoyed by strong earnings reports, renewed optimism about Fed rate cuts, and a weak US dollar. While September is historically a challenging month for equities, the robust earnings momentum and accommodative monetary policy have supported sustained gains, reflecting investors' willingness to look beyond near-term risks and focus on the favorable growth outlook companies provided during the earnings season.

For equity investors, the key question is whether the restart of the Fed's easing cycle is taking place in the context of a potential recession. The distinction is critical, as the equity market's performance can diverge sharply depending on the scenario. History shows that when the US Fed lowers interest rates outside of recessions, equities often have further potential to rise. This so-called "soft landing" scenario, one of lower rates without a sharp downturn, could therefore extend the current market trend. Within the more cyclical segments of equity markets, in addition to emerging market and Eurozone equities, small caps may also have room to further reduce their relative underperformance if the macro environment does not deteriorate.

## Equity market valuations remain a key concern

Given the strong performance that has led equity markets to trade at elevated valuation levels despite lingering uncertainties, a healthy correction may be due. At the same time, valuations are affected by several factors such as economic growth, inflation, real interest rates, payout ratios and, most importantly, earnings growth. As such, a historical comparison of valuations also requires a thorough assessment of these underlying drivers.

It is important to note that, historically, equity markets have often exhibited increased volatility at the start of monetary easing cycles. Typically, market participants remain cautious until there is greater clarity that a recession can be averted and that the transition to lower interest rates will support rather than undermine economic growth. This period of uncertainty often leads to short-term fluctuations and corrections in equity prices until macroeconomic stability is confirmed.

Nevertheless, the resilience of the global economy, stable corporate earnings, supportive interest rate dynamics, and continued fiscal support all underpin a compelling case for staying invested, even as policy volatility and trade tensions create headline risks. Furthermore, strong structural trends, such as advances in artificial intelligence, should continue to bolster corporate earnings, as evidenced by the solid second-quarter earnings season.

After a significant increase in equity market valuations since the correction in April, earnings growth is expected to be the key driver of price appreciation going forward. This will naturally limit how much markets can climb in the near term. In addition, while investors are primarily focused on risks related to trade policy and economic growth, attention could shift to pro-growth and deregulation policies, which would provide additional support.

## Special Topic: Small and mid-cap equities

- Attractive valuations and lower interest rates improve the outlook for smaller companies.
- Small and mid-cap stocks carry higher volatility, but also the potential for stronger growth.

### What they are

Small and mid-cap stocks represent companies with market capitalizations ranging from a few hundred million up to around five billion Swiss francs. Unlike the familiar constituents of the large-cap universe, these companies are often in an earlier stage of their corporate lifecycle, more specialized, and more dependent on domestic or niche markets. Their key attraction lies in agility: they can innovate quickly, seize market share, and benefit disproportionately when economic growth accelerates. That dynamism also entails risk, however. Smaller firms typically have less diversified revenue streams, lower cash reserves, and a higher sensitivity to credit conditions. Their performance is therefore more volatile and closely tied to the economic cycle. But higher volatility also means higher growth potential.

### Why they have underperformed

Over the past few years, small and mid-cap equities have underperformed. Rising interest rates pushed up borrowing costs, economic uncertainty favored larger, diversified firms, and investor flows concentrated on mega-cap technology stocks. The surge of passive investing has further tilted capital toward large-cap indices, leaving the smaller-cap part of the market overlooked.

### Why they look attractive now

Valuations are trading at significant discounts both relative to large caps and their own historical averages. As central banks lower interest rates, reduced borrowing costs directly benefit smaller companies by improving profitability and enabling new growth opportunities. Beyond cyclical forces, smaller companies offer exposure to trends that large caps often miss. For Swiss investors, this can be particularly relevant. The Swiss Market Index (SMI) is dominated by just a handful of global heavyweights in healthcare, consumer staples and financials. While these firms provide stability and global diversification, they also concentrate risk and limit exposure to faster-growing segments of the economy. By contrast, Switzerland's small and mid-cap universe, represented in indices such as the SPI Extra or SMIM, offers access to innovative companies in industrials, technology, medical technology, and niche consumer markets. Many of these firms are world leaders in their specialized areas yet remain largely under the radar of international investors. Adding them to a portfolio not only broadens diversification beyond the "Swiss giants" but also provides a more balanced reflection of the domestic economy's dynamism.

FIG. 3

#### Performance of small and mid-cap vs. large-cap indices in key regions since 2020



Source: Bloomberg, smzh ag. 24/09/2025  
Past performance is no indication of future results.

# Currencies and Gold

- The ongoing trend of international diversification away from the US dollar is weighing on the currency.
- The Swiss franc is caught between expensive valuations and its safe-haven status.
- Gold continues to shine and remains an attractive portfolio diversifier.

## US dollar remains vulnerable

The path of the US dollar remains uneven. After its first positive month in July following six consecutive months of losses, the greenback lost ground again in August and September. Mounting concerns about the US current account and budget deficits, uncertainties surrounding the future Fed chair, and upcoming rate cuts, even as inflation may rise temporarily, all contribute to a challenging backdrop for the currency. As a result, the ongoing trend of international diversification away from the dollar could put further downward pressure on the currency. Investors holding excess USD may therefore want to consider reducing or hedging their exposure in light of these developments.

## SNB negative interest rates would offer only limited relief for the economy

In recent months, the Swiss franc has been driven more by external factors than domestic data and this trend is likely to continue. But as the high US tariffs gradually affect the supply chain of Swiss exporters, the market focus is likely to turn to domestic economic developments and the potential response of the Swiss National Bank (SNB). While the SNB kept its policy rate unchanged in September, market pricing still suggests that a step into negative interest rates over the coming six months remains more likely than not.

Still, the prevailing view remains that the introduction of negative interest rates by the SNB would primarily influence the exchange rate in the short term, while the overall relief for the economy would be limited. In principle, a slowdown in the Swiss economy should weaken the Swiss franc, thereby reducing the need for further rate cuts. However, increased global risk aversion could strengthen the franc's status as a safe haven, offsetting this depreciation pressure. In the meantime, the CHF is likely to trade range-bound against the Euro but may likely continue to appreciate against the USD.

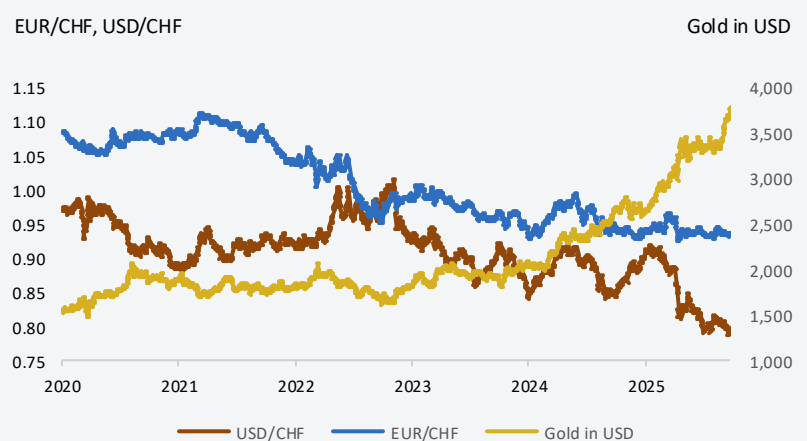
## Gold remains an attractive portfolio diversifier despite pullback risks

After trading range-bound since April, gold resumed its rally in September to climb to fresh record highs above USD 3,700. Having surged now by more than 43% year-to-date in dollar terms, gold has outperformed all other major asset classes. Central banks continue to accumulate gold, and investment demand remains robust despite elevated prices.

Although gold is known for its volatility, lack of income generation, and a mixed performance as an inflation hedge, investors are considering its role in portfolios in the current market environment. Weakening global growth, lower interest rates, worries over the independence of the US central bank, and persistent geopolitical risks continue to support the metal.

Having said this, investors need to keep in mind that during phases of market stress, gold can also suffer sizeable declines when investors take profits or meet liquidity demands.

FIG. 4  
Evolution of CHF and gold



Source: Bloomberg, smzh ag. 24/09/2025  
Past performance is no indication of future results.

# Swiss Real Estate

- The nationwide vacancy rate has fallen to 1.0%. This scarcity is also affecting suburban and rural areas.
- Supply remains sluggish and political initiatives further increase uncertainty for investors.
- Attractive opportunities are arising in suburban and high-growth municipalities with good accessibility.
- Selective allocation remains essential: focus on structural location quality and resilient use mix.

## Vacancy rates drop to record lows: robust demand in suburban areas

The nationwide vacancy rate has fallen to a new low of 1.0%, corresponding to around 48,500 unused apartments. Scarcity is no longer confined to urban centers but increasingly affects suburban areas and rural regions. Available units are concentrated either in high-price locations with limited affordability or in peripheral locations of lesser quality.

For investors, the implications are clear: Demand remains robust, but supply is sluggish. Approved projects take years to reach completion, while fewer greenfield developments mean that net additions continue to decline. Indicative figures for 2024 already suggest lower completions than in 2023. The result is sustained upward pressure on asking rents, with annual increases of 2–4% appearing realistic.

At the same time, growing political intervention adds to uncertainty. Basel-Stadt provides a case in point, as overregulation has curbed construction activity.

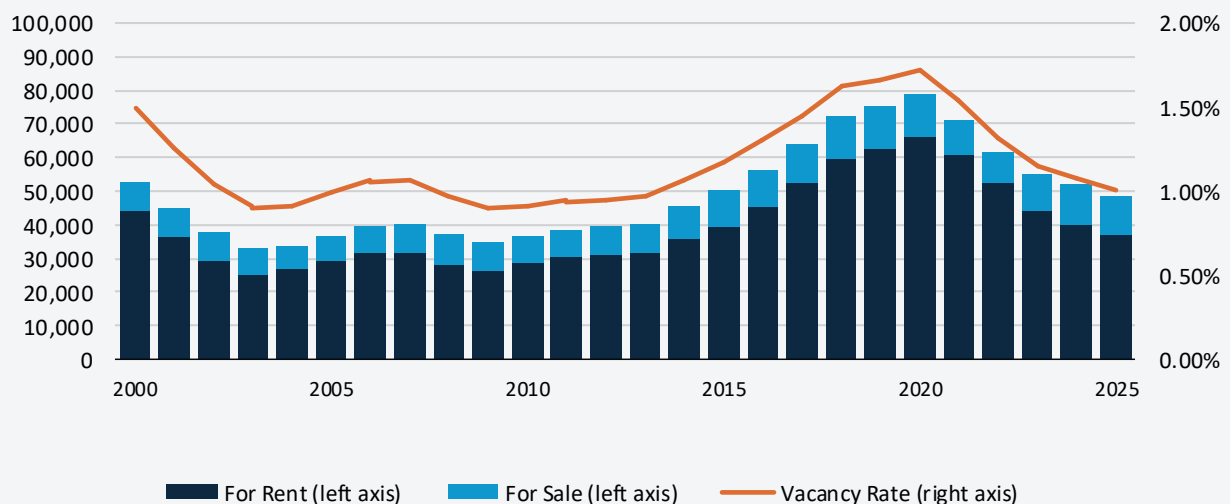
As a result, institutional investors are increasingly shifting toward suburban areas and high-growth municipalities with good accessibility, where demand potential and regulatory risks are more balanced.

It is precisely in these suburban belts and growth-oriented municipalities with good connectivity to major centers where attractive opportunities are emerging. These locations combine solid demand potential with comparatively manageable regulatory hurdles.

A selective allocation remains key. Investments should not be based solely on current scarcity but on the structural quality of location and use mix. This ensures that portfolios remain resilient in case of abrupt shifts in migration, economic conditions, or regulation.

FIG. 5

### Nationwide vacancy rate declines to 1.0%



Source: Federal statistical offices, smzh ag



# Bitcoin

- Sharp sell-off in Bitcoin with year-to-date record liquidations on September 22. The USD 100,000 threshold is becoming a key level with high liquidity and a risk of further liquidations.
- Historical comparison of rally duration and returns suggests the current bull run may be nearing its end.
- However, institutional demand and long-term accumulation indicate that market dynamics could be different this time.

## Liquidations and looming thresholds: Is Bitcoin's bull run at risk?

After the long-awaited interest rate cut by the US Federal Reserve, Bitcoin has behaved differently than many market participants had expected. Instead of benefiting from the strength in gold or the rally in tech indices, the price of Bitcoin fell sharply. The wave of liquidations was particularly striking: according to Coinglass, long positions worth around USD 1.6 billion were liquidated on September 22, followed by another USD 800 million on September 25 – one of the strongest liquidation events of the year to date.

A key level in the market right now is the USD 100,000 threshold. This is where a lot of liquidity is concentrated, and a sharp move below this level could trigger further forced liquidations in highly leveraged positions.

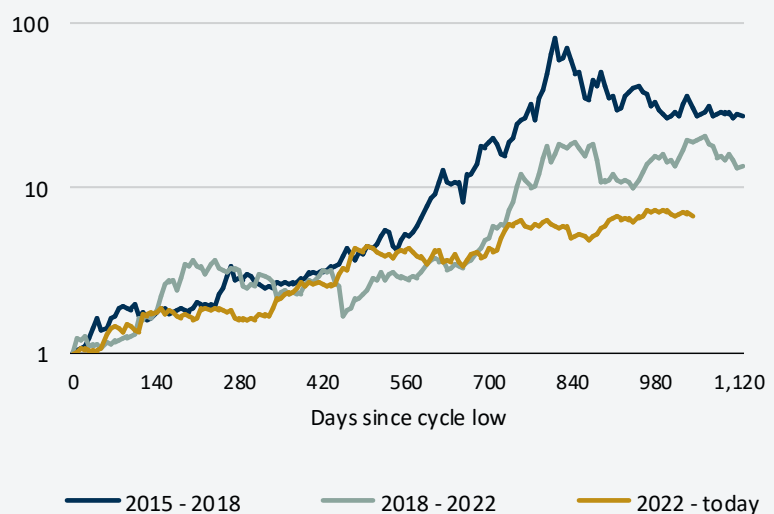
At the same time, Ethereum, Solana, and many other altcoins are already under significant selling pressure. The question is whether this is merely a short-term “wash-out” of over-leveraged positions or whether the current bull cycle has reached its peak.

A look at the past offers some clues in this context. In each cycle, returns have diminished, which is not surprising given today's much larger market capitalization. In addition, the current rally has already lasted almost as long as the previous two, both of which eventually turned into bear markets.

However, many institutional investors are now active in the market, accumulating with a long-term horizon, which speaks against an abrupt end of the bull market. At the same time, long-term Bitcoin holders are sitting on substantial unrealized gains. A key indicator here is the so-called realized price – the average price at which all circulating Bitcoins last moved. Currently, this price is at around USD 54,000. Should the market transition into a bear phase, this level will be particularly relevant: in the past, the realized price has proven to be a reliable reference point where market bottoms tend to form.

FIG. 6

### Bitcoin cycles in historical context: Is the current bull run topping out?



Source: Coinmarketcap, smzh ag. 25/09/2025



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