Investment Guide

European equities take the lead from the Magnificent-7

CIO House View

MARCH 2025

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Six weeks into his second term, President Trump's policies continue to fuel uncertainty in financial markets. Unlike his first term, which was characterized by aggressive actions, his current approach seems to rely more on the threat of severe, transformative policies rather than immediate implementation. Still, his unpredictable actions and rhetoric challenge investors' expectations, creating a sealed book whose contents remain elusive. This volatility extends beyond financial markets; Trump's approach is reshaping the multipolar global landscape, disrupting traditional alliances and economic balances worldwide.

Europe, in particular, has found itself unexpectedly sidelined by recent geopolitical developments, diminishing its influence in the emerging international order. The old continent has already been grappling with multiple sources of challenges, such as sluggish economic growth, lagging competitiveness, and political upheavals in key economies like Germany and France, alongside US tariff threats. Compounding these issues are signals from the United States indicating a reluctance to continue shouldering Europe's military security responsibilities. This shift requires a re-evaluation of Europe's strategic position and defense policies within the new global context.

Despite these structural headwinds, European equities have seen a revival in 2025, outperforming their global counterparts. Optimism about earnings growth, a supportive central bank policy and the valuation discount compared to US equities – especially compared to the US market's key drivers of technological innovation, the so-called Magnificent-7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) - have led investors to prioritize these prospects over the risks of potential US tariffs. In addition, the possibility of a cease-fire in Ukraine is also lifting the mood. This broadening of tailwinds suggests that even in a challenging macroeconomic environment, European equities have the potential to outperform.

For investors, these developments present both challenges and opportunities. First and foremost, focusing on a diversified portfolio remains essential for navigating potentially volatile markets. At the same time, structural changes continue to generate opportunities that persist regardless of short-term developments. By identifying key investment opportunities amid geopolitical shifts, investors can position themselves to benefit from the evolving global economic order.

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

Best regards,

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CEO

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Global Economy

USA continues to lead the way

The US is expected to continue leading global economic growth, with real GDP expected to grow by 2.3% in 2025, according to latest consensus expectations. A strong consumer spending and a healthy labor market are supporting the US economy. However, this growth may come with higher inflation, with core inflation (excluding food and energy prices) expected to stay stubborn throughout the year following January's higher-than-expected data. The Federal Reserve (Fed) is likely to remain on pause in the months ahead as it awaits the impact of Trump's policies, even though market participants expect 1-2 rate cuts in 2025.

In the Eurozone, growth stagnated in the fourth quarter, and surveys suggest a similar picture going forward. Despite a small uptick in January, preliminary lead indicators (such as composite PMI) indicate continued economic sluggishness. In general, macro data increasingly question the drivers of the expected economic expansion. The Spanish economy continues to be a notable exception, with GDP growth comparable to that of the United States. In contrast, the core economies of the eurozone, Germany and France, are experiencing political upheavals. France passed its budget only recently, and Germany must deal with election aftermaths. These circumstances indicate that any immediate fiscal stimulus to boost these major economies is unlikely.

- Global real GDP growth is expected to be around 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%.

FIG. 1

Consensus macroeconomic forecasts for major economies

	GDP real				Inflation			
	2023	2024e	2025e	2026e	2023	2024e	2025e	2026e
USA	2,9	2,8	2,3	2,0	4,1	3,0	2,8	2,6
Eurozone	0,4	0,7	0,9	1,2	5,5	2,4	2,1	1,9
Germany	-0,3	-0,2	0,3	1,0	6,1	2,5	2,3	2,0
France	0,9	1,1	0,7	1,1	5,7	2,3	1,6	1,9
Italy	0,7	0,5	0,6	0,9	6,0	1,1	1,8	1,7
Spain	2,7	3,2	2,5	1,9	3,4	2,8	2,3	2,0
Switzerland	1,2	0,9	1,3	1,5	2,2	1,1	0,5	0,8
Japan	1,5	0,1	1,2	0,9	3,3	2,7	2,4	1,9
China	5,4	5,0	4,5	4,2	0,2	0,2	0,7	1,3
World	3,3	3,2	2,9	3,0	6,7	5,7	3,8	3,4

Source: Bloomberg, smzh ag
Past performance is no indication for future results
Latest data point: 24/02/2025

Switzerland is navigating between European risks and global opportunities

Switzerland's quarterly real GDP grew by 0.5% in the fourth quarter of 2024, bringing the growth rate for the full year to 0.9%, compared to 1.2% in 2023. This growth rate remains below the average economic growth of 1.8% since 1981. The subdued growth among major trading partners has slowed the Swiss economy and prospects remain uneven; while it can benefit from a solid global economic backdrop, risks to growth in Europe persist. If an acceleration of growth in Europe does not materialize, the Swiss economy is expected to grow below trend again this year. Current consensus expectations anticipate a real GDP growth of around 1.3% in 2025, with an inflation rate well below 1%, but still in positive territory, indicating no deflation. As a result, the Swiss National Bank (SNB) may respond with an additional interest rate cut at its March meeting, but this is a close call now. While negative interest rates are possible, they are currently seen as unlikely.

Fixed Income

Volatility in government bonds is likely to persist

At a time when central banks are facing a less certain path toward slowing inflation or keeping it restrained, the volatility infused by President Trump's policies is adding to the reasons for caution about easing. And this is likely to keep fixed income investors nervous for some time to come.

Bond markets have been indeed volatile lately. Yields on government bonds struggled for direction, with inflation worries weighing in the US, while European sovereign bonds have been suffering as market participants started to price in the necessity for higher future defense spending and more debt issuance. After hitting 4.8% in January, 10-year US government bond yields have retraced almost half of the yield surge since September last year to trade within a range of 4.2%-4.6%.

At the same time credit markets performed steadily, with credit spreads compressing across the board and lower quality segments even outperforming. Historically high absolute yields and a generally solid earnings season were major contributors to this trend.

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 in low-yielding regions. 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.

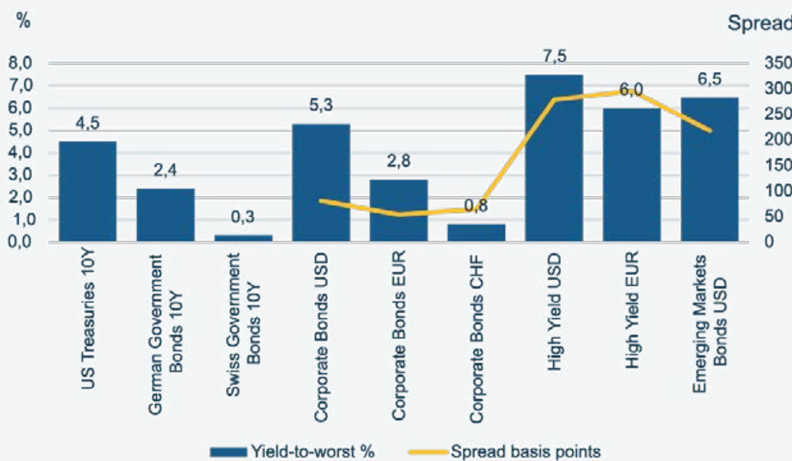
- Investment-grade corporate bonds keep their slight appeal over government bonds.
- Quality high-yield bonds offer reasonable total return opportunities despite low credit spreads.
- Private debt and real estate investments are attractive alternatives to bonds.

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.

FIG. 2

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



Source: Bloomberg, smzh ag
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Equities

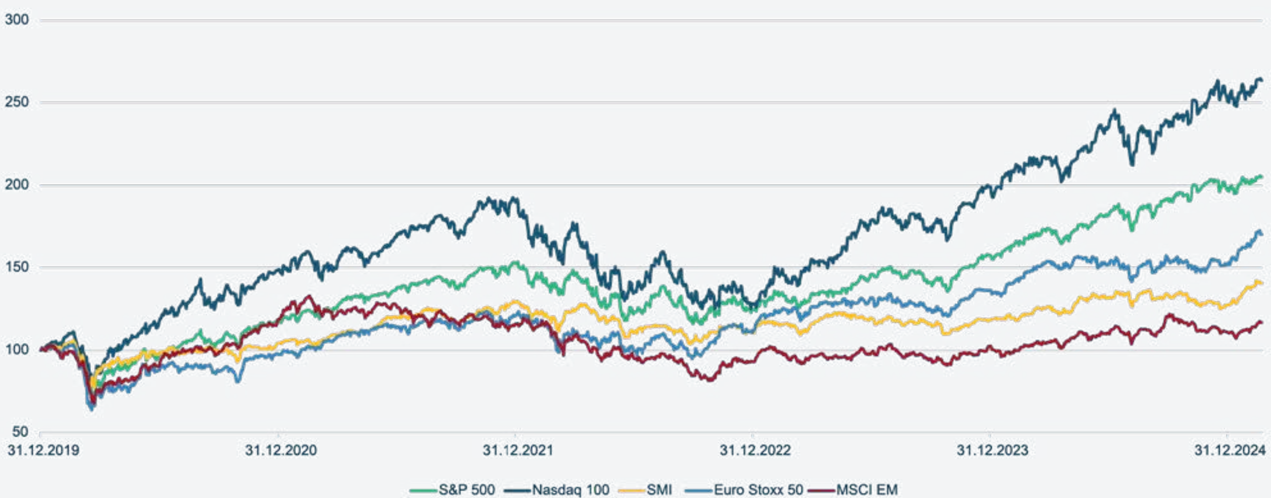
- Time to diversify away from the US Magnificent 7.
- Tailwinds for European equities are broadening, even though challenges due to US trade policy persist. A resolution to the war in Ukraine would likely improve sentiment further.
- Swiss equities offer a mix of growth potential and stability. Income strategies, such as defensive dividends, look particularly attractive.
- Volatility spikes offer interesting opportunities to explore derivative strategies.

Europe and US Magnificent 7 in focus

US President Trump's tariff threats continue to impact broader risk sentiment, even though global equities reached new all-time highs in February. However, US equities continue to underperform relative to their global counterparts, primarily due to the waning dominance of the market's key drivers of technological innovation, the so-called Magnificent Seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla). While consensus forecasts do not anticipate a decline in their earnings, a deceleration of the momentum is expected though. Furthermore, earnings growth expectations are increasingly broadening beyond this concentrated group, reinforcing the case for a more diversified investment approach. As a result, the Magnificent Seven are likely to see a diminished leadership role going forward, potentially challenging the long-standing dominance of the S&P 500 index. Nevertheless, their reduced influence does not imply that investors should avoid the index altogether. Rather, it presents an opportunity to explore alternative index exposures, such as equal-weight strategies, which offer more balanced market participation.

In Europe, most indices also reached new record highs. But to put this into perspective, unlike their US counterparts, European equities are finally breaking a 25-year-old record. Optimism about earnings growth is brightening and the possibility of a cease-fire in Ukraine has also lifted the mood. In addition, European equities continue to trade at a significant discount compared to their US counterparts. Overall, market participants are valuing these prospects more than risks related to potential US tariffs. That may indeed keep the region supported. In addition, the ECB is expected to cut interest rates three times by the end of the year, compared to 1-2 cuts by the Fed, which could provide an additional tailwind to European equities.

FIG. 3
Comparison of major equity market indices since 2020 in local currency total returns



Source: Bloomberg, smzh ag
Past performance is no indication for future results
Latest data point: 24/02/2025

Currencies and Gold

Swiss core inflation data provides SNB some relief – rate cut in March a close call

In January, Switzerland's headline inflation slightly decreased to 0.4% from 0.6% in December, in-line with consensus expectations. As widely anticipated, the energy category significantly contributed to the lower headline figure, with electricity prices falling by 8.7%, compared to the 17.8% increase observed in January 2024. However, core inflation, which excludes the volatile components of food and energy, rose to 0.9% from 0.7%, surpassing the consensus forecast of 0.6%.

Should this trend persist in the coming months, a more stable core inflation rate could provide the Swiss National Bank (SNB) with some reassurance that underlying price pressures are stabilizing near the midpoint of its 0% to 2% inflation target range. Nonetheless, the decline in energy costs is expected to push the headline inflation figure closer to zero in the first half of the year. Therefore, the SNB is likely to remain vigilant regarding downside risks to inflation and upward pressures on the Swiss franc. While a rate cut at its March meeting remains a close call, consensus anticipates a 0.25% reduction, followed by a pause.

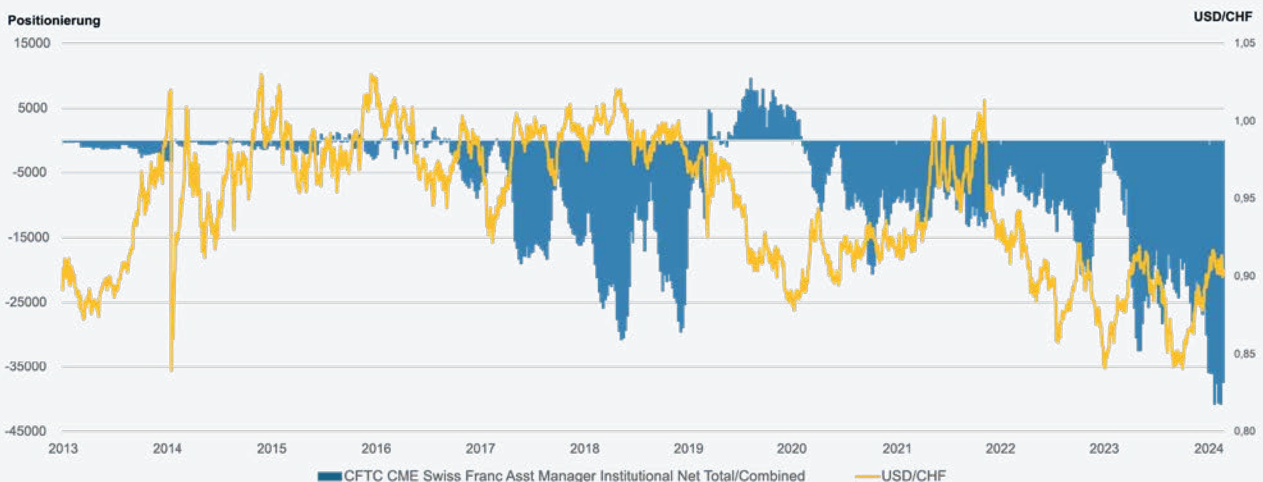
In terms of positioning, the dollar-franc pair remains stretched as fund managers maintain their underweight positions in the franc, according to Bloomberg CFTC data. Any change in sentiment in favor of the franc and the associated unwinding of these short positions would amplify its upside. Overall, 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.

- The US dollar is likely to maintain its strength in the first half of 2025.
- 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.

Gold continues to shine

Following a gain of over 27% in USD last year, gold has sustained its upward trajectory in 2025, reaching new all-time highs. While trade and geopolitical uncertainties are commonly cited as primary drivers of this increase, the underlying cause is likely a longer-term trend: central bank gold buying. According to the World Gold Council's (WGC) Gold Demand Trends report, central banks have been net buyers for 15 years, but the pace of accumulation has roughly doubled since the war in Ukraine. At the same time, central banks also seek to reduce reliance on US dollar assets. This trend should continue, with trade and geopolitical uncertainty likely to persist alongside US government debt concerns.

FIG. 4
Asset managers hold to underweights in the Swiss Franc vs. the US Dollar



Source: Bloomberg, smzh ag
Past performance is no indication for future results
Latest data point: 24/02/2025

Swiss Real Estate

- The cost advantage of homeownership over renting has increased significantly due to lower mortgage rates.
- The sustained high demand is expected to further drive price increases for single-family homes in 2025.
- The rise in building applications indicates a forthcoming expansion of housing supply, though on a limited scale

Home buying again more cost-effective than renting

Lower mortgage rates have once again made homeownership significantly more cost-effective than renting. If additional interest rate cuts occur this year, this advantage could further strengthen, driving increased demand for homeownership. In the second half of 2024, positive price trends were already observed for both single-family homes and apartments, with price growth expected to accelerate further in 2025. Given the high price levels of single-family homes, the shift towards apartment living is likely to continue or even intensify.

At the same time, the recent increase in building applications for apartments suggests a cautious expansion of supply in the coming years. However, even with rising construction activity, the volume of planned projects remains insufficient to significantly ease the housing shortage. Moreover, securing bank financing for construction projects at the required levels is becoming increasingly challenging—an issue that could prove to be a decisive obstacle or even a deal-breaker for some developments. As a result, the imbalance between supply and demand in the housing market is likely to persist, creating favorable conditions for real estate investors.

FIG. 5
Signs of recovery in construction activity

Source: Baublatt, Wüest Partner, Federal Statistical Office, smzh ag
Note: estimates of newly built apartments in 2023 and 2024 by Wüest Partner
Latest data point: 24/02/2025

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Bitcoin

- Bitcoin price drops below 90'000 USD in a risk-off environment.
- Market sentiment turns bearish, slipping into the fear zone.
- Sharp price declines offer buying opportunities, as Bitcoin's fundamental investment case remains intact.

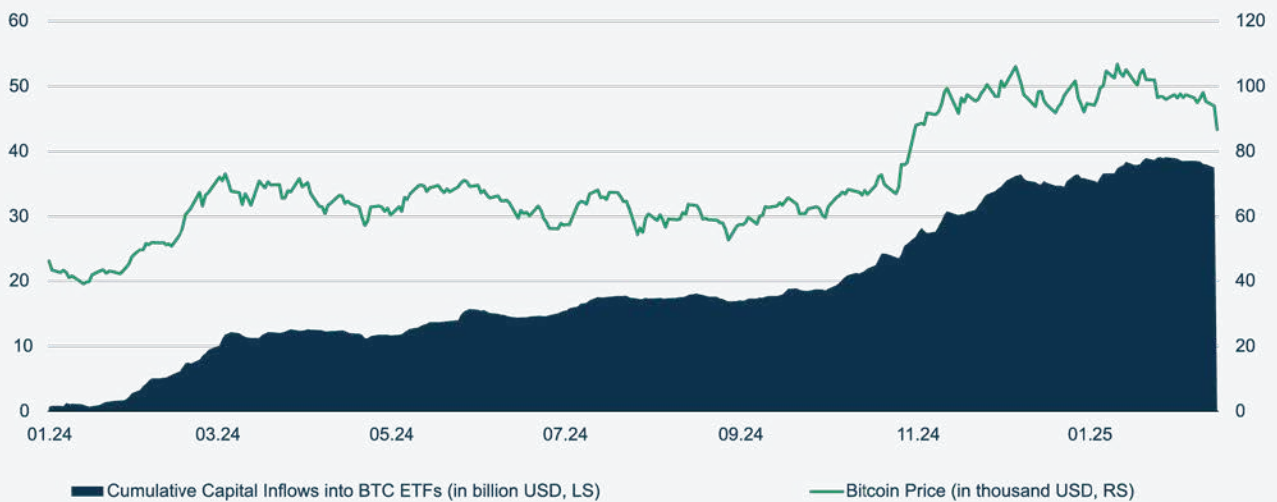
Bitcoin falls amidst institutional pullback and Fear Index spike

Bitcoin has not been immune to turbulent market conditions and has fallen to its lowest level since the beginning of the year. The CMC Crypto Fear & Greed Index has declined to its lowest point since September 2024, highlighting the prevailing negative market sentiment. While altcoins have recently experienced significant selling pressure and the anticipated altcoin rally has yet to materialize, Bitcoin has now also entered a correction phase.

The initial rush of institutional investors into Bitcoin following the debut of Bitcoin ETFs and Donald Trump's election victory has noticeably cooled. In February alone, there have been net outflows exceeding 1.4 billion USD. However, this should be seen more as a healthy market correction rather than a panic-driven sell-off.

Bitcoin's price development follows a well-known boom-and-bust cycle. While price volatility has decreased in recent years due to increasing adoption and market capitalization [see our smzh article on practical inclusion of Bitcoin and Ether in a portfolio context:] , sharp price drops remain possible. Such corrections often present attractive buying opportunities, as the fundamental arguments for Bitcoin remain intact.

FIG. 6
Flows of institutional investors into Bitcoin seems to be gradually cooling down



Source: Refinitiv Eikon, Farside, smzh ag
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