smzh

Investment Guide

CIO House View
JANUARY 2025

tailor-made. holistic. for you.

Foreword

Dear Clients,

Financial markets experienced a dynamic year in 2024, and 2025 promises to be full of opportunities and challenges alike. We are delighted to present the inaugural edition of our smzh Investment Guide. This monthly publication is designed to provide you with a concise and precise overview of current economic developments and financial market topics, as well as actionable investment ideas and strategic insights for your financial decisions.

In this edition, you will find:

- A global economic outlook for 2025
- Perspectives on various asset classes such as equities, bonds, real estate, and digital assets
- Exciting insights into trends shaping the financial markets

As your trusted partner, our aim is to support you in seizing the opportunities of the coming year while ensuring your long-term financial goals are met.

We wish you an inspiring read and look forward to engaging in personal conversations to explore your ideas and feedback. Together, we will shape a successful future.

Best regards,

Gzim Hasani
CEO

Bekim Laski, CFA
Chief Investment Officer

Executive Summary

Outlook 2025

Opportunities Outweigh Risks

In 2025, financial markets will face a dynamic environment with many central themes. One key factor could be greater performance dispersion across countries, sectors, investment styles, and themes. This higher dispersion requires selectivity but also offers opportunities for active investors.

The second Trump presidency has the potential to significantly reshape the global economic and geopolitical landscape. Key areas for investors to watch include trade and fiscal policy, deregulation, monetary policy, and international relations. Additionally, consensus expectations for corporate earnings look slightly optimistic, potentially requiring downward adjustments. The outlook for the U.S. Federal Reserve policy will also be pivotal, particularly with the risks of rising inflation in the U.S., which could lead to heightened market volatility.

This backdrop may well lead to a volatile and mixed performance of financial markets during the first half of the year as these challenges are addressed, followed by a recovery later during the year. For the year as a whole, opportunities still outweigh risks though, driven by declining inflation, lower interest rates, rising real wages, and sustained economic growth. This environment offers attractive opportunities for investors actively managing their portfolios.

Global Economic Outlook

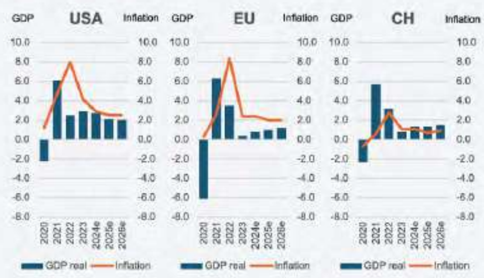
Global economic growth is expected to maintain a decent pace of around 3% according to consensus expectations, particularly supported by the U.S. economy. Interest rate cuts, coupled with a robust labor market and disinflation, are likely to boost consumption. According to market expectations, U.S. tariff threats may turn out less extreme than initially proposed and may come with a time lag, but they could still weigh on growth and lead to higher, stubborn inflation.

In Europe, trade uncertainties pose risks to economic growth, which may stagnate. In addition, the need for reforms is blocked due to weak political leadership in major economies like Germany and France. However, additional rate cuts by the European Central Bank (ECB) and a weaker euro may mitigate these effects. Southern European economies are likely to grow faster than their northern counterparts.

China's economic growth may slow further due to trade uncertainty and weak domestic demand, but Beijing could respond with additional stimulus measures.

- Global GDP growth remains robust at around 3%
- Further monetary easing by major central banks expected
- Inflation continues to decline, albeit at a different pace across regions

Macroeconomic forecasts according to consensus estimates



Source: Bloomberg, smzh
Past performance is not an indicator of future results
Latest data point: 31/12/2024

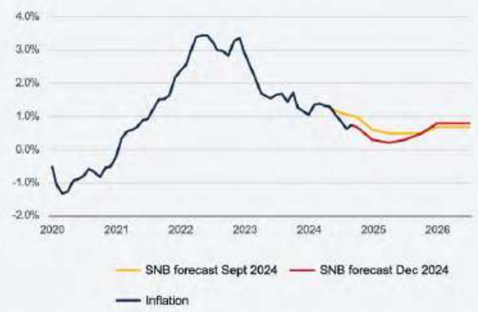
Economic Outlook Switzerland

The Swiss economy has weathered weak external demand from China and Europe in 2024 well and is expected to remain resilient also in 2025. Over the past decade, Switzerland has reduced its reliance on exports to Germany while increasing trade with the U.S. This trend, along with a robust U.S. economy, should help offset potential weaker growth in Europe.

Interest rates in Switzerland are expected to decline further, while the Swiss franc remains strong. Inflation is expected to stay low, leading to higher real wages. A strong currency has dampening effects on inflation, as do declining electricity prices for households starting in January 2025 and the expected decrease in the reference rate for mortgages in March 2025. Therefore, the Swiss National Bank (SNB) is facing challenges from a low inflation environment but is unlikely to tolerate an excessive appreciation of the Swiss franc. The era of negative interest rates my return in Switzerland but their introduction seems rather unlikely in the short-term as the SNB can explore additional tools before, such as interventions in the currency market.

- Swiss economy remains resilient
- Interest rates in Switzerland expected to drop further but stay above 0%
- Low inflation environment is a challenge for the SNB

Swiss National Bank (SNB) inflation forecasts



Source: BFS, SNB
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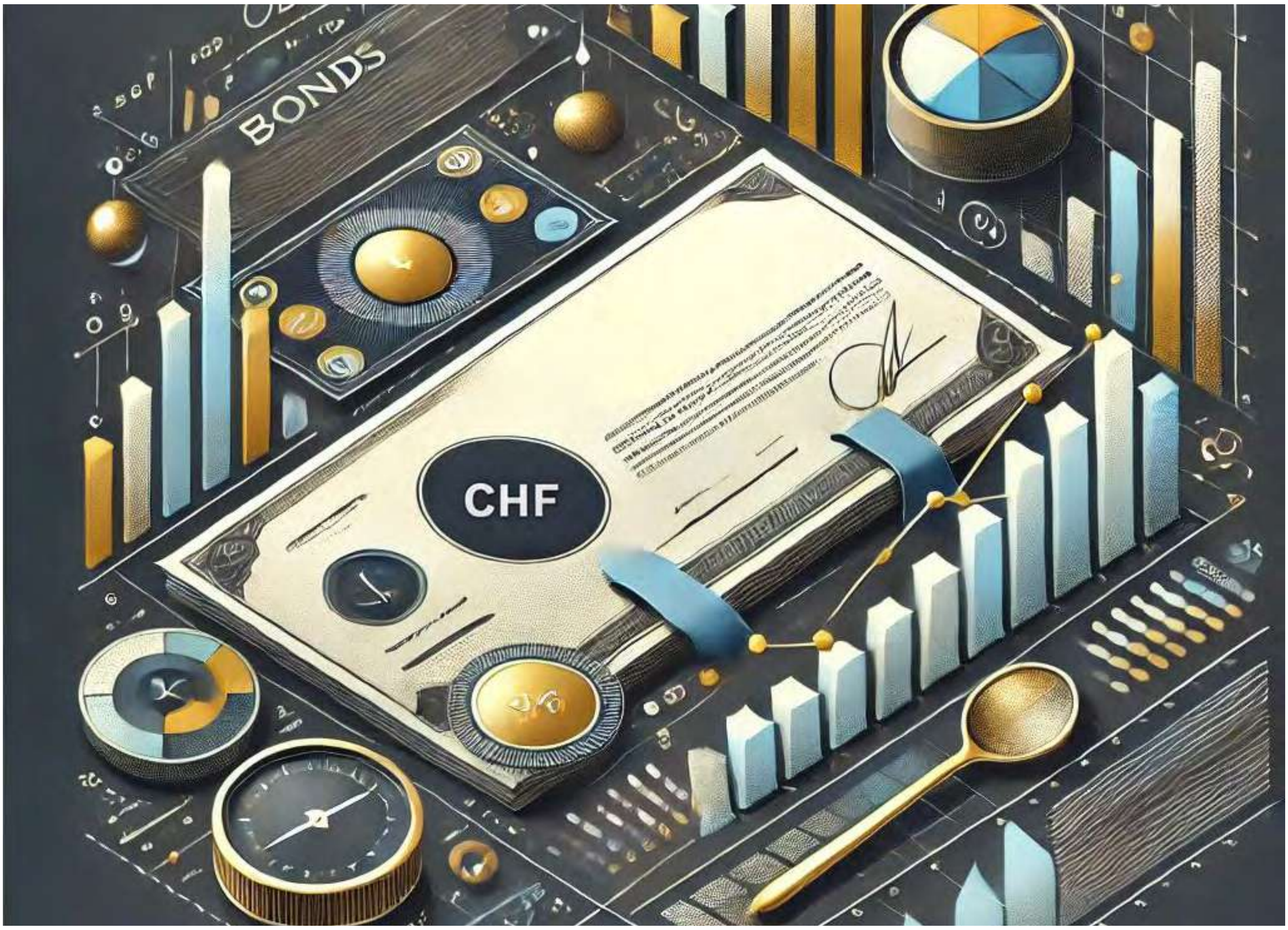


Fixed Income Market Perspectives

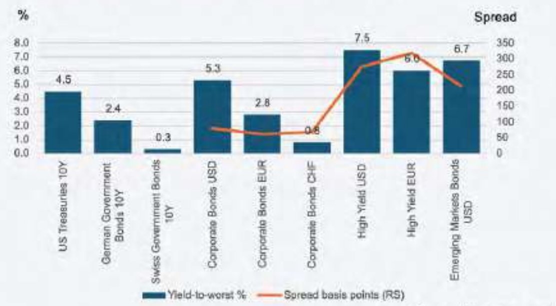
The environment remains supportive for corporate credit given a solid economic backdrop with declining inflation, and further rate cuts by major central banks. Trade-related uncertainties may create risks, but their effects on corporate fundamentals may not materialize before the second half of the year. Credit spreads remain at historic low levels and could therefore widen in a heightened volatility environment, which would weigh on total return performance somewhat.

In a portfolio context, a combination of investment-grade bonds, quality high-yield and emerging-market bonds offer attractive opportunities, especially compared to government bonds.

Falling interest rates lead to a challenging environment for investors and savers, and require a rethinking of investment principles, including the idea of a neutral "benchmark" portfolio, such as the traditional 60/40 mix of equities and bonds. Private debt, private equity, and real estate investments (both direct and indirect) are attractive alternatives to traditional bonds.

- Investment-grade corporate bonds are more attractive than government bonds
- High-yield bonds offer good total return opportunities despite low credit spreads
- Private debt and real estate investments are attractive alternatives to bonds

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



Source: Bloomberg, smzh
Past performance is not an indicator of future results
Latest data point: 31/12/2024

Equity Market Perspectives

Historically, equity markets perform well during periods of falling inflation, declining interest rates, and robust economic growth. Despite potential risks from U.S. trade policy, opportunities continue to outweigh risks. Therefore, even after the strong years for equities in 2023 and 2024, global equities are expected to continue their upward trajectory also in 2025.

Within well-diversified portfolios, U.S. equities should continue outperforming despite their higher valuations (the S&P 500 Index is trading at a 12-month price-to-earnings ratio of over 22x compared to its 20-year average of 16x). This valuation premium can, however, be justified by the healthy U.S. economic backdrop and the markets high allocation in structural growth segments such as IT in general and Artificial Intelligence (AI) in particular. Additionally, U.S. equities tend to perform well also in the year following an election. Lastly, corporate earnings of U.S. companies are supported by the economic policies of the incoming U.S. administration (tax cuts, deregulation).

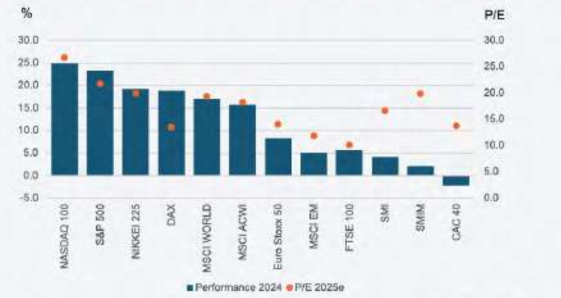
On the other hand, uncertainties related to U.S. trade policy and geopolitics could fuel volatility for European and Chinese equities, even though these markets are trading at significant valuation discounts compared to U.S. equities (the MSCI Europe Index is trading at a 12-month price-to-earnings ratio of approximately 13x).

The Swiss equity market underperformed its global peers in 2024 due to a disappointing performance of the index heavyweights Nestlé (-23%), Novartis (+4.5%), and Roche (+4.5%). The market's low exposure to structural growth themes such as IT was also a drag. However, Swiss equities offer many unique features with a mix of decent growth potential and stability. However, as long as the technology boom in the field of artificial intelligence (AI) continues, the market is likely to lag behind.

Investors seeking income might also consider equity income strategies, such as defensive dividends or derivative strategies.

- US and IT equities should continue to outperform despite high valuations
- Emerging markets and the Eurozone face challenges due to US trade policy
- Income strategies, such as defensive dividends, are attractive
- Volatility spikes offer interesting derivative strategies

Comparison of major equity market indices by 2024 performance and 2025e forward P/E ratios



Source: Bloomberg, smzh
Past performance is not an indicator of future results
Latest data point: 31/12/2024

- Swiss equities offer a mix of growth potential and stability
- However, the Swiss market lags global markets due to its low exposure to the IT sector

5-year performance of major equity market indices

Source: Bloomberg, smzh
Past performance is not an indicator of future results
Latest data point: 31/12/2024

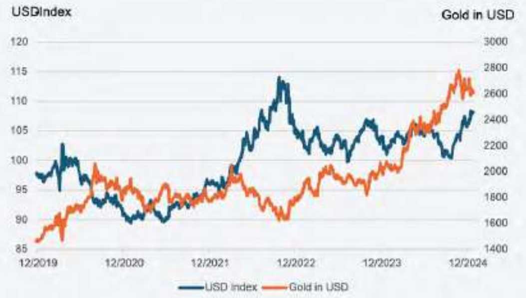
Perspective for Currencies and Gold

The US dollar remains supported by the proposed policies of the incoming US administration, such as tax cuts, immigration controls, and trade policies, even though the currency could be considered as overvalued compared to its major global peers. Furthermore, the growth differential between the US and other major economies also favors the USD, limiting significant downside risks for the dollar. However, investors should consider profit-taking opportunities if the US dollar continues to strengthen further.

In 2024, gold reached new record highs, and further gains are likely to follow in 2025. Lower interest rates, ongoing geopolitical uncertainties, and strong diversification trends away from dollar reserves are driving increased demand from investors and central banks.

- The US dollar is supported by higher interest rates and Trump's policies
- The Swiss franc remains strong
- Gold offers further upside

USD Dollar Index vs. Gold in USD



Source: Bloomberg, smzh
Past performance is not an indicator of future results
Latest data point: 31/12/2024

Perspective for Swiss Real Estate

The backdrop for the Swiss real estate market remains supportive amid a low-interest rate environment and a stable economy. Ongoing population growth driven by immigration, combined with a tight supply, means that demand for housing continues to exceed supply.

Despite increasing listings for single-family homes as well as a stagnating number of property transactions, prices remain high. On the other hand, restrictive financing conditions have a dampening effect on prices.

The listed real estate market offers attractive opportunities, particularly for institutional investors, as evidenced by numerous capital increases by investment funds. High premiums on listed real estate funds underscore the strong demand for real estate investments. The residential market is therefore expected to remain particularly attractive in 2025.

- Low mortgage rates and strong demand are driving residential property prices, supported by population growth, a robust economy, and limited supply
- A low-interest rate environment bodes well for real estate investments, particularly in the residential market

Attractiveness of cash flow yields from real estate investments

Source: SIX Group AG, IAZI, Refinitiv Eikon, smzh
Past performance is not an indicator of future results
Latest data point: 17/12/2024

Perspective for Bitcoin

Bitcoin showed an impressive momentum in 2024, particularly after U.S. elections and driven by strong institutional capital inflows into Bitcoin ETFs. This signals growing interest among institutional investors in Bitcoin.

At the same time, the Bitcoin price broke through the symbolic USD 100,000 mark, reaching new all-time highs. This underscores the positive market trend and increased demand, driven by the growing acceptance of digital assets in general.

The portfolio diversification theme remains central: Bitcoin has been showing declining correlation dynamics compared to traditional asset classes such as equities, bonds or gold, which makes it a useful diversification investment in a well-diversified portfolio.

An additional catalyst for the positive market sentiment is Donald Trump's election victory and his announced crypto-friendly policies. The prospect of regulatory easing and the potential introduction of U.S. Bitcoin reserves bolster investor confidence and suggest that Bitcoin could play a more significant role in the global financial system in the future.

- The outlook for Bitcoin remains positive, supported by strong institutional inflows, crypto-friendly political signals, and increasing acceptance as a diversifying asset class

Ongoing strong interest of institutional investors for Bitcoin ETFs

Source: Farside, smzh
Past performance is not an indicator of future results
Latest data point: 17/12/2024

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