



Investment Guide

Are Financial Markets driven by Panglossian Optimism?

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Are Financial Markets driven by Panglossian Optimism?

Despite persistent geopolitical tensions, tariff shocks, and concerns about global growth, equity markets continue reaching new all-time highs. This seemingly paradoxical development invites an important question: do these markets reflect rational confidence, or have they succumbed to Panglossian optimism?

The term “Panglossian optimism” originates from a character in the satirical novel called “*Candide*” by Voltaire, one of the most prominent French philosophers, where Dr. Pangloss insists on living in “the best of all possible worlds” regardless of any adversity. In the context of financial markets, the term refers to a tendency among investors to underestimate or ignore risks and to assume that favourable market conditions will always prevail.

Recent market behaviour may indeed show elements of this mindset. The resilience of equity markets and their rapid ascent to new all-time highs despite persistent uncertainties such as tariff shocks, geopolitical risks – where tensions simmer dangerously, from the ongoing conflict in Ukraine to volatility in the Middle East – or rising sovereign debt and questions over central bank independence.

A healthy correction may be due — but keep strategic positioning

Equity valuations have expanded even as uncertainties persist, suggesting that a healthy market correction may be indeed warranted. Nonetheless, this does not argue for a withdrawal from equities. Despite heightened risks, maintaining strategic allocations remains prudent.

While a slowdown in growth is widely anticipated, recent economic data have been relatively resilient. Structural trends, particularly in artificial intelligence, are likely to support corporate margins. Historically, corporate earnings have been the single most important determinant of equity price performance, and this fundamental link remains intact today where earnings are expected to be the key driver for price performance going forward. While this may constrain near-term upside potential, the backdrop remains constructive. Additionally, as market focus gradually shifts from concerns over trade policy and economic growth to potential pro-growth and deregulation policy measures in the US, compounded by anticipated interest rate cuts by central banks both in the US and globally, further stimulus may be on the horizon.

Historically, markets have oscillated between under- and overestimating risks. Determining the current environment requires rigorous analysis, not optimism alone. Looking ahead, investors should retain a disciplined approach, recognize genuine growth opportunities while remain vigilant toward risks that could swiftly alter the market narrative.

Enjoy the reading.

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.
- The cooling US labor market is paving the way for the US Fed to cut interest rates in September.
- New US tariffs could prompt the SNB to cut rates below zero as early as September.

Trump's Tariff Liberation Day Reloaded

Four months after Donald Trump shocked the world and unsettled markets by presenting a placard full of tariff rates at the White House Rose Garden, subsequent intense negotiations have resulted in new rates for several trading partners. For many countries, revised tariff rates are now broadly consistent with, or in certain cases lower than, those outlined on 2 April. However, several markets — and in particular Switzerland — have encountered unexpected negative policy reversals with higher tariffs. Even for the remaining nations, average US tariffs now stand at around 15%, representing the highest levels since the 1930s and roughly six times higher than a year ago.

Many trade deals concluded – but how reliable are they?

While Trump's new tariff structure offers a degree of certainty to manufacturers, significant uncertainty remains. In the weeks ahead, the US president is expected to announce additional tariffs on imports of pharmaceuticals, semiconductors, critical minerals, and other key industrial products. President Trump appears to view these developments as part of an ongoing “reality show”, making further “deals” or additional tariff hikes highly likely. Furthermore, the legal basis for these tariffs continues to be evaluated by US courts, casting doubt on their durability and enforceability.

Weak US labor data a game changer for the US Fed policy

In the meantime, the global economy has held up better than many expected. A rush to surpass the elevated tariff rates spurred a front-loading of exports, aiding many international economies and shielding US consumers from price spikes so far. According to advance estimates, the US economy rebounding sharply in the second quarter, growing at a 3.0% annualised pace after a 0.5% contraction in the prior quarter. However, news of an unexpected weakening in the US labor market for July, coupled with downward revisions for May and June, unsettled investors last week, underscoring that the US economy has effectively recorded only minimal net job growth over the past three months.

While monthly jobs numbers are always revised in later months, they were not standard revisions and outside of the 2020 pandemic, they were the largest since at least 1979. This has raised worries that the US central bank may have been flying blind in recent months and may need to play catch-up with interest rate cuts. Consequently, the probability of a September interest rate cut from the Fed surged to above 80% according to market expectations.

New US tariff shock puts Switzerland's export sector under severe pressure

With the US government's announcement to impose punitive tariffs of 39% on selected Swiss export goods as of 8 August 2025 — unless an alternative agreement is reached — the external economic environment for Switzerland is changing significantly. Since the pandemic, Switzerland's export structure has shifted strongly toward the US. In 2024, nearly one in five export francs was destined for the US. This economic concentration compensated for weakness in Europe — especially Germany — but, combined with growing geopolitical asymmetry, now creates an exposed risk profile.

The new tariffs would put substantial pressure on the Swiss economy. Independent early estimates would see the Swiss GDP declining by around 0.3% to 0.6%. Such a pronounced downturn in growth could further intensify deflationary pressure and increase the likelihood that the SNB would need to lower its policy rate into negative territory as early as September.

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.

Another steady month for global bonds

Despite growing fiscal uncertainty and political challenges, demand from foreign investors for US government bonds remained stable in July. US Treasury yields remained steady as a result, and price volatility was relatively contained.

Also more broadly, the bond market experienced subdued movements. After their volatile but decent recovery in May, global bond markets remained resilient also during June and July and added to their positive year-to-date total returns. Credit spreads—across both investment-grade and high-yield segments—tightened further to multi-year lows amid a broadly positive sentiment. Year-to-date, all major fixed-income segments have generated positive total returns — comfortably outperforming short-term cash yields.

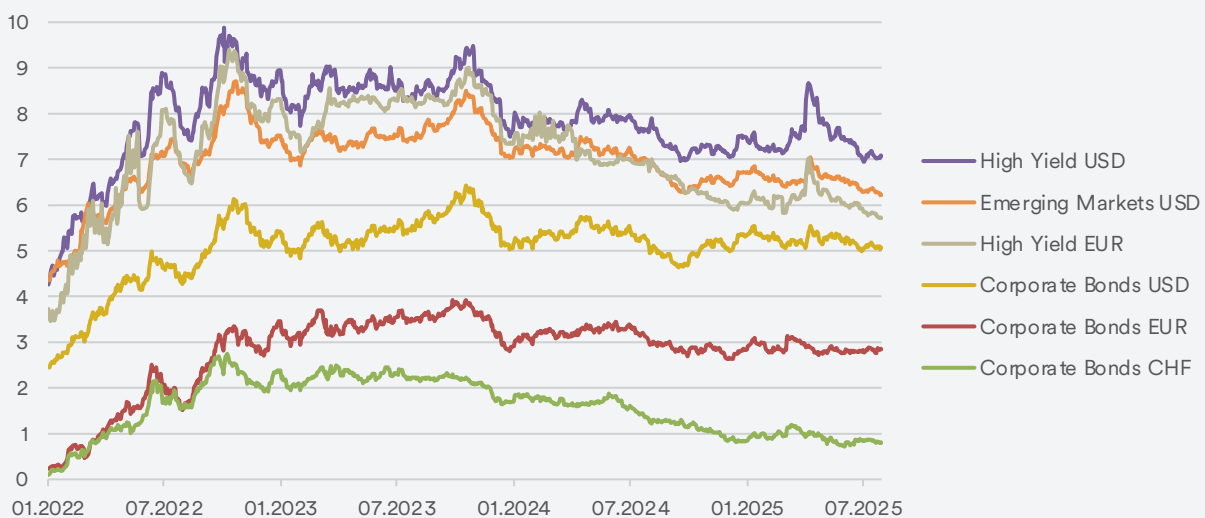
Emerging Markets debt continued outperforming their major counterparts driven by local currency debt, which is underpinned by a combination of high-income generation, contained inflation and strengthening currencies. The interest and market sentiment towards the US dollar has undoubtedly become uniformly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

Investment strategies for Swiss investors amid persistent low CHF yields

For low-interest regions such as Switzerland, government bonds do not really look appealing given persistent low yields. For Swiss investors, a combination of investment-grade bonds, high-quality high-yield bonds, and selective emerging market bonds remains still attractive, despite elevated currency hedging 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. 31/07/2025
Past performance is no indication for future results

Equities

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

Sunny markets trump tariff clouds

Despite significant uncertainties related to US tariffs and concerns over President Donald Trump's criticism of Fed Chair Jerome Powell, global equities continued their upward trajectory in July — albeit at a more moderate pace. US equities maintained their tight leadership during the month, driven particularly by a sustained recovery in the technology sector. Market strength was fueled by the signing of initial deals between the US and some key trading partners, as well as by a strong start to the second-quarter earnings season. Although analysts had lowered their profit forecasts heading into the reporting period meaningfully, more than 80% of S&P 500 companies have so far exceeded earnings expectations.

Still, while investors are primarily focused on risks from trade policy and economic growth, attention may soon shift towards pro-growth and deregulation policies in the US. Furthermore, anticipated interest rate cuts by central banks both in the US and globally, along with supportive policies in emerging markets, are set to provide further stimulus.

Europe may lag in the short term due to a lack of clear catalysts, but increasing investment in defense and infrastructure is expected to provide renewed momentum.

In light of these factors, investors are encouraged to maintain their long-term strategic exposure to equities.

A healthy correction may be due, but keep strategic positioning

Given the strong performance that has led equity markets to trade at elevated valuation levels while uncertainties persist, a healthy correction may be due indeed. However, this does not mean that investors should abruptly withdraw from equity markets entirely. Despite heightened risks, maintaining strategic allocations remains prudent. The resilience of the global economy, stable corporate earnings, supportive central banks, and continued fiscal support all underpin a compelling case for staying invested, even as policy volatility and trade tensions generate headline risks.

While a growth slowdown is widely anticipated, recent economic revisions have been positive, illustrating ongoing resilience in the economic environment. Furthermore, strong structural trends, such as advances in artificial intelligence, should continue to bolster corporate margins, as evidenced by the solid start to the second quarter earnings season. After a significant rise in equity market valuations, earnings growth is expected to be the key performance driver for the remainder of the year, which may naturally limit somewhat the further upside potential in the near term.

Reassessing Swiss equities in a technology-driven market

Swiss equities enjoyed a strong start to 2025, but the market's relatively low exposure to key structural growth themes such as information technology has weighed on relative performance over the past three months. Although Swiss equities offer a unique combination of stability and solid growth potential, the ongoing technology-driven rally — particularly in artificial intelligence (AI) — suggests that Swiss equities may continue to underperform their global peers in the near term.

While Swiss equities remain a cornerstone in CHF portfolios, their strategic role merits reconsideration. Complementing core Swiss holdings with increased international diversification and a targeted focus on high-growth themes can enhance both performance and resilience. Additionally, in Switzerland's persistently low-interest rate environment, quality dividend stocks continue to stand out as attractive options for investors seeking stable income.

Deep dive: Swiss dividend equities in focus

- Dividend strategies are gaining importance in the current low-interest rate environment, as they offer stable sources of income and the potential for capital appreciation — particularly when dividends are systematically reinvested.
- However, diversification and a sustainable dividend policy are more important than the mere level of dividend yield.

Quality over Quantity

Following the recent decision by the Swiss National Bank to lower interest rates to zero, Swiss investors are once again facing a familiar challenge: how can stable and meaningful returns be generated in an environment where traditional savings instruments yield little or no income?

Against this backdrop, dividend strategies are emerging as a sustainable and attractive investment option, particularly for investors whose risk profiles allow for a higher equity allocation. This approach can also benefit those who wish to position their portfolios more strategically towards income-generating assets. Dividend-paying equities provide a tangible source of income, which is largely absent in bank deposits and government bonds under the current monetary conditions. As a result, investors can generate a steady cash flow while simultaneously maintaining the potential for capital appreciation. Furthermore, in a market environment characterised by heightened volatility, a focus on income-generating equity portfolios not only delivers dividend income but can also help mitigate the impact of increased fluctuations.

The role of dividends in long-term wealth accumulation

Dividends have always played a central role in generating total returns from equity investments. Since 2015, the Swiss SMI Index has achieved a total return of approximately +33% excluding dividends. When accounting for dividends, especially a systematic reinvestment, the same index (SMI Index Total Return) achieved a total return of over +88%. The SPI Select Dividend 20 Index, which focuses specifically on high-dividend stocks, performed even more strongly, delivering a return of over +54% over the same period – at almost same volatility. With systematic reinvestment of dividends, this index (SPI Select Dividend 20 Index Total Return) generated a total return exceeding +132%.

These figures clearly demonstrate that a dividend-focused strategy can significantly enhance equity returns, primarily through the systematic reinvestment of dividends.

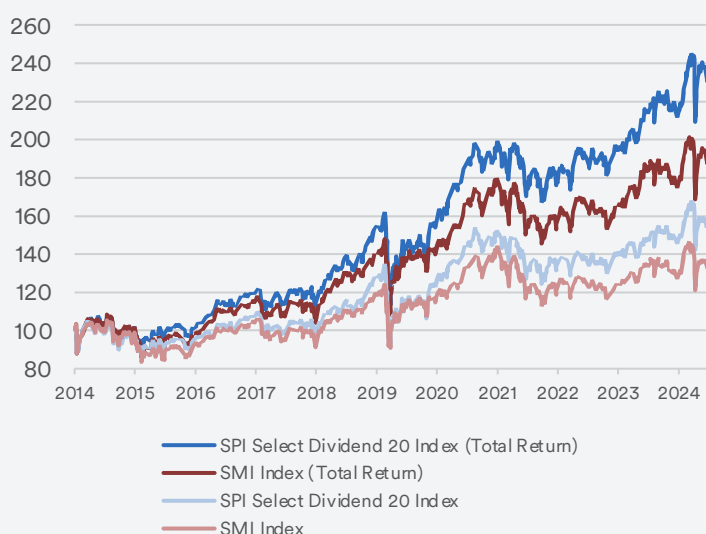
Diversification remains key, not the dividend yield

As with any fundamental investment principle, broad diversification remains critical in dividend strategies. Balance sheet strength and profitability of the company, as well as the sustainability and growth of its dividend policy, are more important than the absolute level of dividends paid in any given year. It is therefore essential not to select investments based solely on dividend yield. A well-constructed dividend strategy, such as that reflected by the aforementioned SPI Select Dividend 20 Index, takes into account not only the level of dividend yield but also criteria such as the sustainability of dividend payments and the financial stability of the companies.

Dividend yields of Swiss equities remain attractive

With an average dividend yield of around 3%, Swiss dividend stocks remain attractive—for investors willing to take on higher equity exposure as well as for those seeking to align their portfolios with income-oriented strategies.

FIG. 2
Dividends contribute substantially to long-term total returns



Source: Bloomberg, smzh ag, 31/07/2025
Past performance is no indication for future results

Currencies and Gold

- 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, even though a healthy consolidation may be due.

How severe is the damage to the USD?

After seeing steep declines during the year, the US Dollar Index (DXY) recorded its first positive month in July following six consecutive months of losses. Nevertheless, it remains over 9% lower than at the beginning of the year. While a less uncertain growth outlook may provide some near-term support for the dollar, there are clear risks that the recent downturn has eroded foreign investors' risk appetite for US assets, particularly for the dollar itself. Although speculation about the end of the dollar's status as the world's reserve currency appears exaggerated, further depreciation cannot be ruled out. Mounting concerns about the US current account and budget deficits, uncertainty surrounding the future Federal Reserve chair, and market expectations of 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 greenback. Investors holding excess USD may want to consider reducing or hedging their exposure.

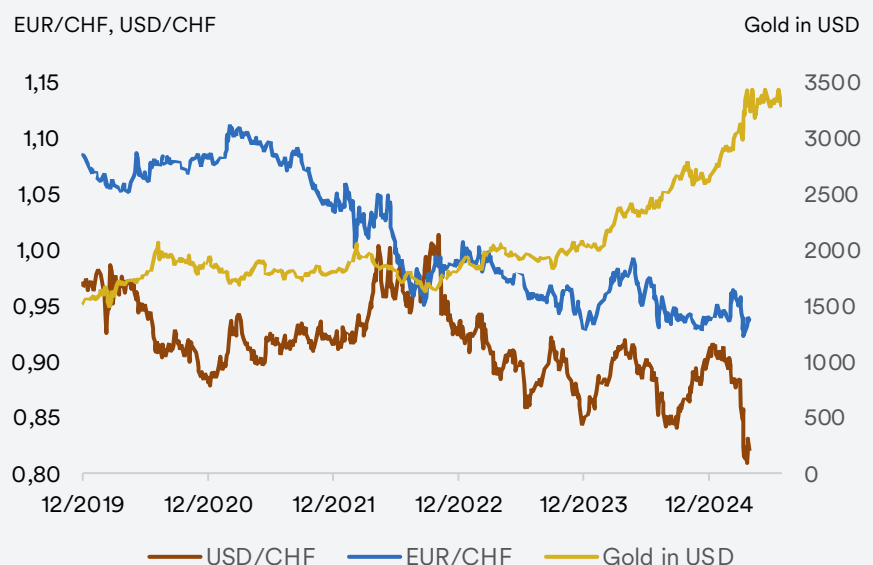
Recent political developments have also played a role in gold's price dynamics. For instance, Donald Trump's trade agreements with major partners such as Japan, the EU, and the UK, as well as a more conciliatory approach toward China, have led to some short-term volatility and profit-taking in the precious metals market. At the same time, Trump's renewed public criticism of Fed Chair Jerome Powell and the attendant speculation about potential changes at the Federal Reserve have highlighted risks to central bank independence. Any perceived threat to Fed autonomy could undermine confidence in US Treasuries and the dollar, offering further support to gold prices, even if such outcomes remain rather unlikely.

Additionally, the broader global outlook continues to favour gold. According to the latest World Gold Council survey, most central banks plan to increase their gold reserves through 2026, underscoring the metal's enduring appeal as an investment in uncertain times. Given these factors, and despite its inherent risks, gold remains a relevant and potentially stabilizing component in diversified investment portfolios.

Gold continues to shine, although a healthy consolidation may be due

Gold has staged a remarkable rally, surging almost 30% year to date in dollar terms and delivering over 65% over the past five years. This performance is driven by heightened geopolitical risks, growing US fiscal concerns, and speculation about the dollar's future. Although gold is known for its volatility, lack of income generation, and mixed performance as an inflation hedge, investors are rightly considering its role in portfolios.

FIG. 3
Evolution of CHF and Gold



Source: Bloomberg, smzh ag. 31/07/2025
Past performance is no indication for future results

Swiss Real Estate

- The supply of listed rental apartments has increased year-on-year but continues to be absorbed by strong demand. The average listing duration has declined nationwide, from 27 to 23 days.
- The narrowing gap between urban and cantonal listing suggests that tenants are increasingly relocating to suburban and adjacent regions. As a result, B and C locations are becoming even more relevant from an investor's perspective.
- While construction activity has picked up, it still lags demand.

Strong demand drives faster lettings and new regional hotspots

The number of listed rental apartments rose significantly between April 2024 and March 2025. According to the latest evaluation of the Swiss Real Estate Institute, around 410'000 rental listings were recorded nationwide, representing an increase of 70'000 compared to the previous period. Despite this expansion in supply, the market remains tight. The average listing duration has continued to decline and now stands at just 23 days across Switzerland. On average, rental apartments are being let four days faster than in the previous year, indicating persistently strong demand.

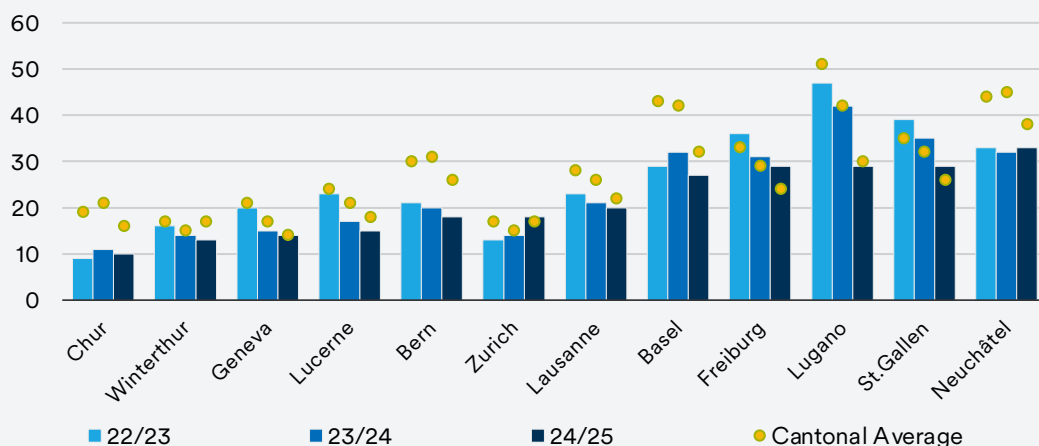
This development goes hand in hand with a revival in household mobility, which had slowed markedly in 2022 and 2023. Demand remains concentrated in urban areas, but listing durations are also falling at the cantonal level. Where the gap between city and cantonal averages is narrowing, this points to a successful shift in demand towards suburban and peri-urban areas. It reflects growing regional flexibility and an increased willingness of households to relocate beyond core cities.

Structurally, however, the rental housing market remains under pressure. While construction activity has picked up, it still falls short of delivering the required volume of new housing. As a result, asking rents are likely to continue rising, not due to speculative overheating, but driven by a structural shortage.

From an investor's perspective, B and C locations are gaining in attractiveness. In many of these areas, construction activity is progressing more dynamically, supported by more favorable regulatory conditions and lower political pressure. At the same time, rental potential is increasing as more households move out of cities into surrounding regions. Where construction momentum meets real demand, strategically compelling opportunities for project development and medium- to long-term investment are emerging.

FIG. 4

Decline in average listing duration: comparison across 12 Swiss cities



Note: Coverage period between April and March of the following year.
For the cantonal comparison, Basel is shown relative to Basel-Landschaft.
Source: OWI April 2024 – March 2025, SVIT Switzerland, smzh ag.

Bitcoin

- Bitcoin is increasingly used as a macro hedge in institutional portfolios, with strong inflows into Bitcoin ETFs.
- Investors are diversifying crypto exposure beyond Bitcoin; Ethereum ETFs see strong inflows, major altcoins are rallying.
- The digital reserve currency strategy for the US dollar is taking shape. The US is backing privately issued stablecoins over a state-run CBDC.

Bitcoin surges as US reinvents crypto regulation and digital dollar strategy

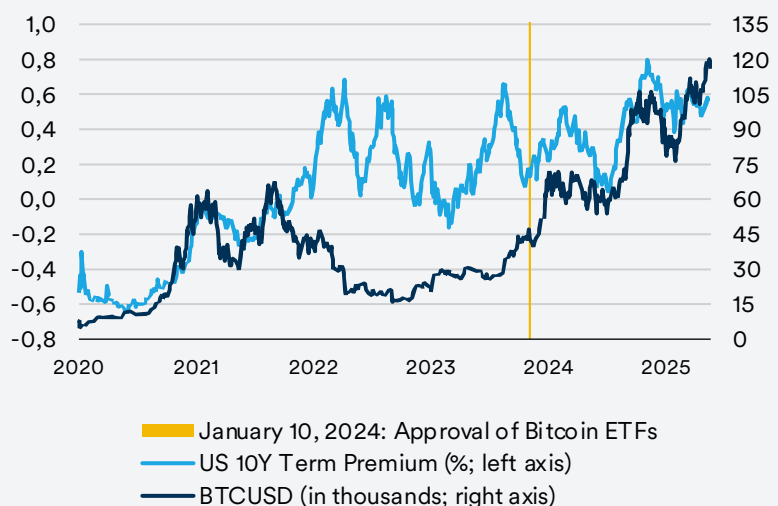
After several weeks of consolidation, Bitcoin has completed its breakout and was temporarily trading above USD 120'000. Its price dynamics continue to be driven by strong inflows of institutional capital, as Bitcoin is increasingly positioned as a strategic hedge against the mounting fiscal pressures in the United States. This positioning is reflected in the tight correlation observed since the ETF launch in early 2024 between the Bitcoin price and the term premium on long-dated US Treasury bonds (the additional return investors demand for the uncertainty and risks of holding long-term US government bonds compared to rolling over short-term bonds).

With these steps, the US is pursuing a market-driven stablecoin sector, in clear contrast to the state-led approaches seen in China or the EU. The strategic objective is to establish the US dollar as the leading global currency in the digital realm, not through public issuance, but by enabling scalable private-sector solutions under transparent oversight. In light of the intensifying geopolitical race for monetary infrastructure, this direction is not only regulatory in nature but also highly significant from a monetary policy perspective.

The monetary policy dimension is gaining further momentum amid growing political pressure on Fed Chair Jerome Powell and the rising risk of politicized interest rate decisions. Against this backdrop, Bitcoin is gaining renewed relevance as a macroeconomic hedge. At the same time, Ethereum ETFs are seeing record inflows, and significant price increases in altcoins such as Ripple, Solana, and Binance Coin indicate that investors are increasingly diversifying their crypto allocations.

Regulatory developments have also added new momentum. Three key legislative initiatives were passed by the House of Representatives in the USA. The GENIUS Act, already signed into law, introduces clear rules for the issuance of stablecoins. The CLARITY Act aims to define the responsibilities of the SEC and CFTC to ensure regulatory certainty for cryptocurrencies. Meanwhile, the Anti-CBDC Act seeks to prohibit the Federal Reserve from introducing a central bank digital currency.

FIG. 5
Institutional investors increasingly using Bitcoin as a macro hedge



Source: Refinitiv Eikon, Fred, smzh ag



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