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Review of Financial Markets Q2 2025

The second quarter began with a bang in terms of customs policy, which sent the financial markets into turmoil. On 2 April, the US President announced a comprehensive and confusing package of shockingly high punitive tariffs. The world equity index reacted to the Liberation Day tariffs with a loss of 14%, the trade-weighted US dollar lost 5% and the gold price rose 13%. The excitement died down somewhat when it was announced that the USA had decided against the immediate introduction of the tariffs and opened a 90-day window for negotiations. The political and economic impact remained highly controversial, especially as the actual future tariff burdens for the USA's trading partners and the USA itself could only be surmised.

Growth in the US economy recovered from the import shock of the previous quarter. However, the current data also pointed to a weakening consumer boom. In view of insufficient inflationary successes, the Fed kept the key interest rate unchanged, thereby angering the White House. In Europe, the ECB was able to cut key interest rates twice thanks to favorable inflationary trends. In addition, the German government decided to spend considerable additional budget funds on infrastructure and security. The SNB decided to cut its key interest rate to 0% in order to prevent the threat of deflation. China showed signs of a slight economic recovery, although the property market remained weak

Despite the relative change in interest rates in favor of the USA, the US dollar weakened by 7% on a trade-weighted basis and even lost 10% against the CHF. The euro depreciated by 2% against the Swiss currency but remained stable on balance for the first half of the year. Precious metal prices rose in the face of the weakening US dollar, most noticeably platinum at 35%. The commodities complex was dominated by falling energy prices, causing the return on this investment sector to fall by 4%.

The investment result from fixed-interest securities was positive, as yields fell over the course of the quarter due to a minor decrease in the credit risk premium. The US equity market was pushed up by the recovery of the IT segment. Convincing company data and comments helped the sector to turn around. Emerging markets and small caps advanced by roughly 10%. Currency gains from investment in non-US-Dollar assets were considerable.

The escalation of the war between Israel and Iran with the brief intervention of the USA left hardly any traces on the markets, as the military balance of power was clearly demonstrated.

Second half of the year: fasten seat belts

The adventurous experiments in US economic policy continue to be explosive. For example, the postponement of import or punitive tariffs ordered by Trump will end at the beginning of July. So far, little is known about progress in bilateral negotiations. It is conceivable that where the negotiations are successful from the US perspective, an extension of the deadline will be granted. In more difficult cases, the threatened tariffs could be introduced in part or in full. The economic effects of US tariff policy are incalculable and therefore susceptible to correction. Secondly, The White House's tax law (the big beautiful bill) will also have a huge impact on the government's debt situation. This is likely to raise interest rates in Treasury markets and result in considerably higher debt servicing costs for the USA. If fears about the sustainability of public debt materialize and the bond market reacts vigilantly, the government could be forced to modify its budget plan. It is also conceivable that the government will increase pressure on the central bank to cut interest rates more quickly. If, contrary to expectations, the Fed gives in and lowers key interest rates more significantly than is appropriate in terms of stability, this would lead to a loss of confidence and even higher long-term interest rates. In addition, the Trump administration is pursuing the goal of weakening the currency to support its mercantilist trade policy by accusing other countries of manipulating the currency to the detriment of the US. A loss of confidence in the central reserve currency can have various consequences, including a sustained upward shift in interest rates in the US.

In the second half of the year, economic momentum in Europe is likely to be somewhat better than in the USA, where consumer spending is likely to inevitably slow. Germany adopted a comprehensive fiscal package to finance infrastructure, energy restructuring and security. NATO also decided to increase defense spending to 5% of GDP by 2035, which means a doubling of defense spending for the majority of European countries. In addition to fiscal expansion, the European Central Bank's monetary policy is also having a stimulating effect, in contrast to US monetary policy, which continues to have a dampening effect.

With their high valuation, the US equity markets reflect a confident development of the general conditions. Accordingly, they are also susceptible to negative developments, for example in customs policy, the labor market or consumption, which could cloud the economic outlook. By contrast, Swiss equities and European stocks in general are comparatively reasonably valued.

We assume that the equity markets will rise in the second half of the year in the context of single-digit nominal earnings growth. However, the risks described have the potential for considerable volatility and stock market dips.

Wangs, July 2025

Chart 1: Performance Q2 2025 in USD for different asset classes (in %)

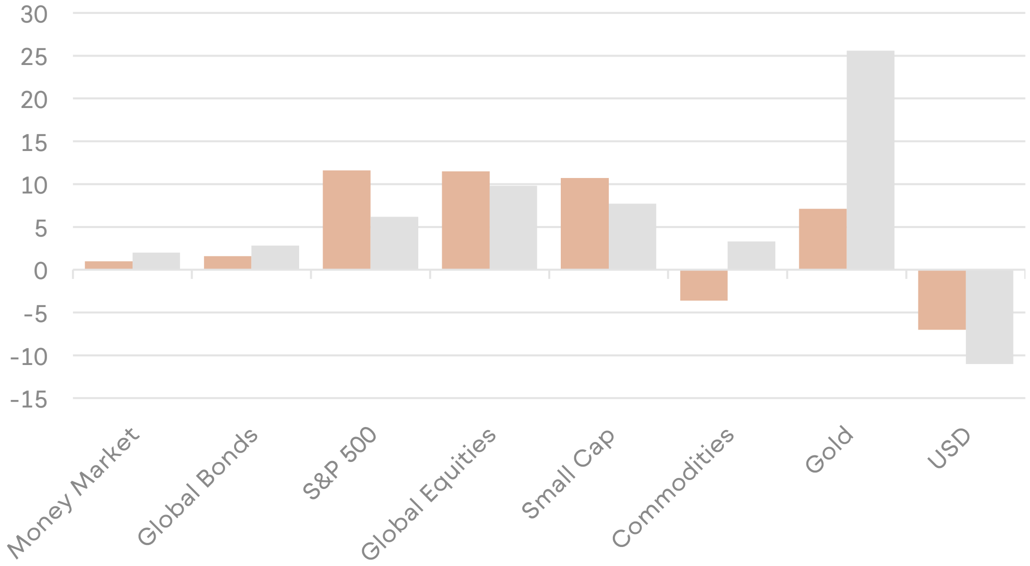

Chart 2: Performance Q2 2025 in local currency for selected stock indices (in %)