BRUELLAN
PANORAMA
Q2/2025

QUARTERLY OUTLOOK / APRIL / MAY / JUNE 2025

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THE COST OF UNCERTAINTY

FLORIAN MARINI, CFA, CMT / CHIEF INVESTMENT OFFICER

After two years of stronger-than-expected growth and easing inflationary pressures, **stagflation risks are resurfacing**, driven in part by the prospect of aggressive policy shifts under the Trump administration. Pro-growth measures – such as corporate tax cuts, deregulation, lower energy prices, and a potential Russia-Ukraine peace deal – could support economic expansion. However, downside risks remain significant: tariffs and tighter immigration policies could disrupt global supply chains and fuel inflationary pressures.

President Trump may claim that he is "**not looking at the stock market**" with regards to tariff decisions, but he is likely watching his approval ratings. Since his inauguration, polls have shifted and now stand at 46.5% favourable vs. 49.7% unfavourable – worse than President Biden at the same stage of his mandate, before inflation eroded his popularity despite four years of annualised GDP growth in excess of 2.5%.

With inflation a key voter concern, any price pressures could further weaken Trump's approval rating, forcing caution on policies that risk stoking inflation ahead of the midterm elections.

The overall outlook is highly uncertain. What is clear though is that **uncertainty comes at a cost**. In an environment of limited visibility, corporate managers may delay CAPEX deployment, while investors demand greater compensation for risk. Equity markets could continue to rise, but gains are likely to be driven by earnings growth rather than multiple expansion, i.e. higher price-to-earnings (P/E) ratios.

A resilient global economy despite market volatility

So far, the impact has been concentrated on market valuations rather than the real economy. Leading indicators are still supportive, and the global economy remains firm. Global PMI Services activity, while having decelerated from 53.8 in December to 51.6 today, remains in expansionary territory, with 94% of countries still experiencing growth. Manufacturing PMI meanwhile continues to rebound, after a prolonged period of contraction since Q4 2022, and has now slightly surpassed the 50 threshold, signalling renewed expansion.

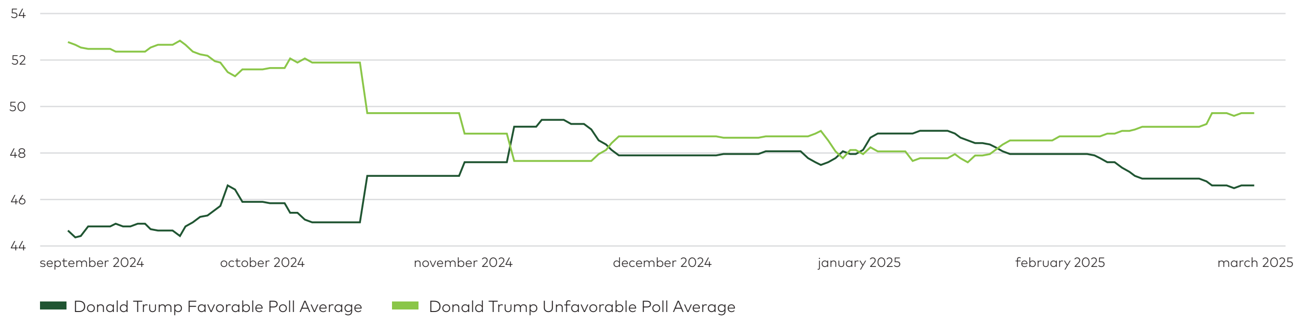
In the US, the manufacturing sector is clearly growing again, with a PMI that has moved up to 52.7. While the European economy remains below the 50 mark, signalling continued weakness, almost all EU countries have experienced a significant improvement over the past quarter. The French Manufacturing PMI has risen from 41.9 to 45.8, while Germany's has improved from 42.5 to 46.5.

Europe and China step up stimulus to sustain growth amid rising uncertainty

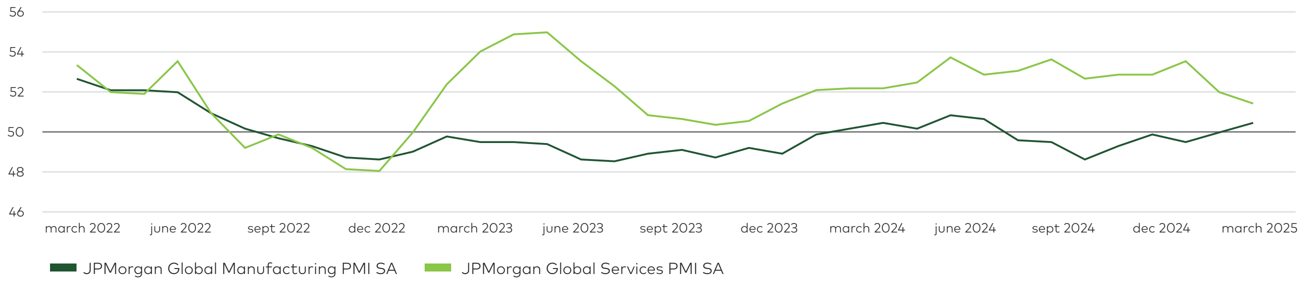
Europe and China are implementing significant stimulus measures to bolster economic growth. In Europe, Germany is leading the push with plans to relax its debt brake to finance EUR 500 billion in infrastructure investments and significantly increase defence spending, exempting military expenditures above 1% of GDP from debt constraints. These measures aim to modernise infrastructure, stimulate industrial activity, and enhance military capabilities. And although they do face political hurdles, Germany, with a debt-to-GDP ratio of 63%, has the fiscal capacity to support them.

Meanwhile, China is focusing on boosting consumer spending through relaxed credit policies, while also investing heavily in high-tech sectors such as AI and robotics to sustain long-term growth. Both regions are adopting proactive fiscal strategies to counter an economic slowdown and geopolitical challenges.

Donald Trump's unfavourable ratings now significantly exceed favourable ratings



The global services PMI is slowing but still in expansion territory, while manufacturing is now back to growth after two years of contraction



Easing inflation keeps central banks supportive

Global inflationary pressures are steadily cooling and, absent a new Trump-led trade war, this trend is likely to continue. Consumer inflation has made significant progress, with the CPI currently standing at 2.8% in the US, 2.4% in the EU, and China experiencing deflation. On the producer side, inflation is now contained, with the US PPI at 2.1%, the EU PPI at 1.1%, and China having been in outright deflation for over a year. The final hurdle, services inflation (which accounts for 60% of the CPI), should continue to moderate as wage growth and shelter costs gradually decelerate.

Given this backdrop, central banks are expected to remain supportive, with the Fed likely to cut rates three more times and the ECB twice. Historically, such action has boosted manufacturing, given its sensitivity to interest rates. With over 70% of central banks in easing mode, manufacturing should finally support global GDP growth in 2025, alongside the resilient services sector.

Corporate earnings drive equity markets amid valuation challenges

The Q4 2024 earnings season proved strong, with S&P 500 EPS up 13%. Excluding energy, growth reached 16%, with most sectors posting double-digit gains. The S&P 500 ex-Magnificent 7 has now increased its earnings contribution for a third consecutive quarter, signalling broader market strength.

For 2025, double-digit EPS growth is expected, supported by economic resilience and potential tax cuts, though tariffs and immigration policies pose risks. The S&P 500's P/E has fallen from 22x to 20x, and the heavy uncertainty surrounding Trump's policy agenda is likely to cap multiple expansion. Further equity gains will thus rely on earnings growth rather than valuation re-rating. In turn, this means that less richly priced regions such as Europe and China may offer more attractive opportunities, with the Stoxx Europe 600 currently trading at a P/E of 14x and Asia ex-Japan at 13x.

A world of uncertainty: lower growth, higher inflation, but no recession expected

Donald Trump's return to power is reshaping the global economic landscape. Certain policies – such as deregulation, Russia-Ukraine peace deal and lower energy prices – could stimulate economic activity and mitigate inflationary pressures. Others – for instance tariffs and tighter immigration controls – are more likely to weigh on growth and fuel inflation. Assessing the net impact remains highly complex, as the durability of these policies is uncertain, given frequent reversals, legal challenges, and ongoing political negotiations.

Overall, we anticipate a moderate slowdown in global growth, now expected to fall slightly below 3%, down from 3.3% three months ago, alongside higher-than-anticipated inflation. That said, a **recession remains unlikely** in our view, given the still resilient economic fundamentals across all major regions. **Earnings growth should continue to support equity markets**, particularly for indices whose valuations are less stretched, as heightened uncertainty will likely cap multiple expansion.

From an investment perspective, we **maintain our constructive stance on risk assets**, particularly equities, reiterating our **«buy on dips» strategy** while reinforcing the need for **greater diversification** amid the return of market volatility.

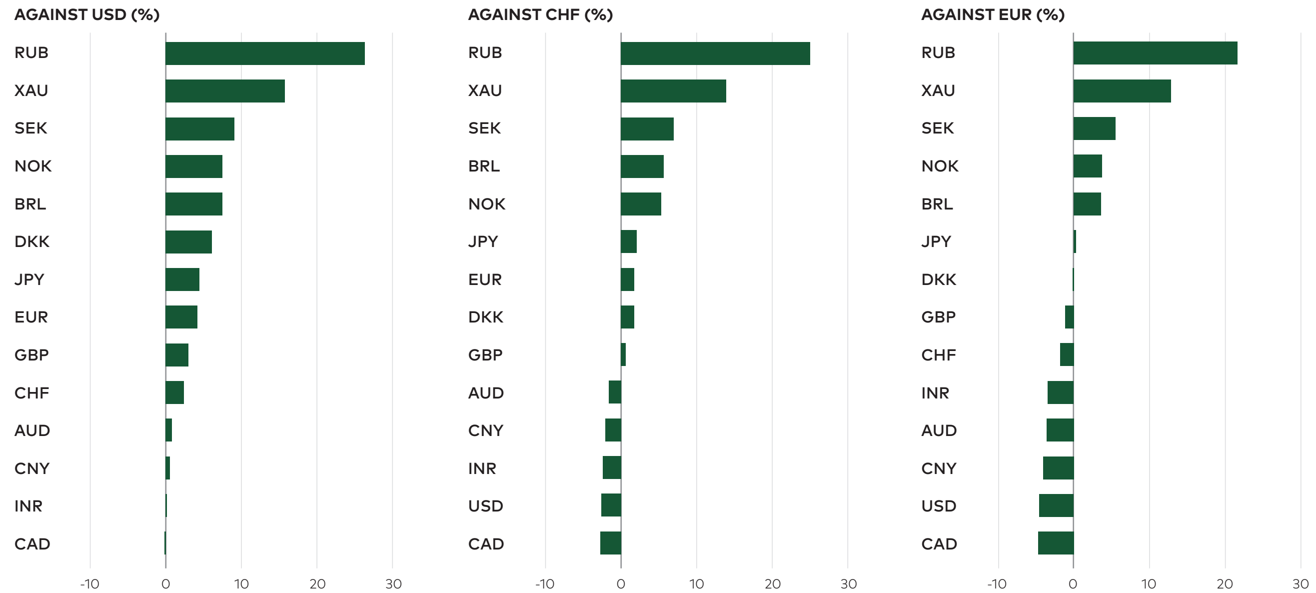
Regionally, we **maintain a neutral stance for now**. While the recent correction in US equities has improved valuations, they remain elevated relative to historical norms, limiting the case for an overweight position. Conversely, Europe and China present compelling opportunities due to their valuation discounts and fiscal stimulus efforts. However, further confirmation of structural reforms will be required before shifting to a more constructive positioning in these regions.

MARKETS PERFORMANCE

Current Economic Indicators

	Real GDP %		Inflation %		PMI	Debt % GDP	Current Account % GDP	Budget % GDP	Unemploy-ment %	Interest rates	
	2024	2025	2024	2025	Current	Current	Current	Current	Current	3 Months	10 Years
USA	2,8	1,9	3,0	3,0	49,8	97,8	-3,8	-6,9	4,1	4,3%	4,2%
Euro Area	0,4	0,9	2,4	2,2	48,6	87,4	2,8	-3,2	6,2	2,1%	2,7%
Switzerland	1,3	1,3	1,1	0,5	48,9	17,8	5,7	0,0	2,6	0,2%	0,5%
UK	1,1	1,0	2,5	3,1	44,9	101,0	-2,7	-5,1	4,4	4,5%	4,6%
Asia ex Japan	5,3	4,5	1,3	1,9	-	4,6	1,5	-6,0	4,3	4,4%	3,5%
Japon	0,1	1,2	2,7	2,6	48,4	216,2	4,8	-4,0	2,5	0,3%	1,5%
Brazil	3,4	2,0	4,4	5,4	53,0	60,8	-2,9	-8,5	6,7	-	15,1%
Russia	4,1	1,6	8,4	8,2	48,2	19,5	2,8	-0,6	2,3	-	-
India	9,2	6,3	4,8	4,7	57,6	46,5	-0,9	-4,9	8,5	7,3%	6,6%
China	5,0	4,5	0,2	0,6	51,2	330,0	2,3	-4,8	4,0	1,9%	1,8%
World	3,3	2,9	4,2	4,0	-	-	0,6	-	7,1	-	-

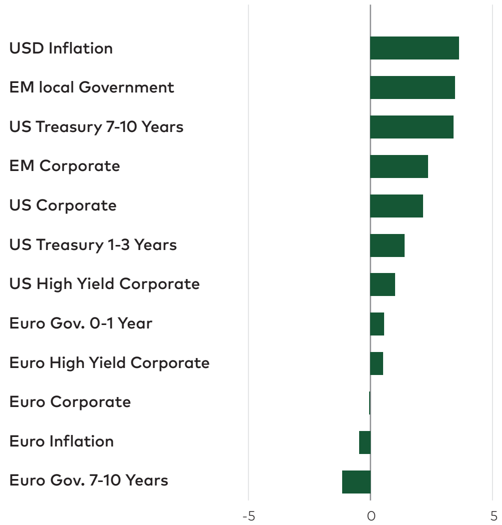
Market Performance (from 31.12.2024 to 31.03.2025)
Exchange-Rates



Stock Markets / Total Return & Valuation (from 31.12.2024 to 31.03.2025)

	USD	EUR	CHF	GPB	Leading PE	
					LT Median	Current
S&P 500	-4,3%	-8,4%	-6,7%	-7,1%	18,0	20,9
Eurostoxx	12,3%	7,5%	9,4%	9,0%	14,0	14,6
Swiss Perf. Index	11,1%	6,8%	8,6%	8,0%	19,1	18,0
FTSE 100	9,4%	4,7%	6,6%	6,1%	14,2	12,3
MSCI Asia Ex-Jpn	1,1%	-3,2%	-1,5%	-1,9%	14,7	13,4
Nikkei 225	-5,6%	-9,2%	-7,7%	-8,2%	20,4	18,2
Brazil Bovespa	16,9%	12,4%	14,2%	13,6%	14,0	7,5
MSCI Russia	-	-	-	-	6,1	-
India SENSEX	-3,0%	-7,1%	-5,5%	-5,9%	20,9	20,3
China CSI 300	-0,4%	-4,7%	-3,0%	-3,4%	15,5	15,1
MSCI World	-1,8%	-6,0%	-4,3%	-4,7%	17,4	18,9

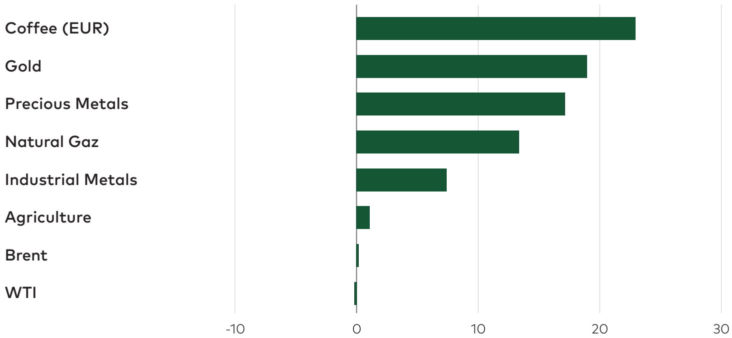
Bond Market



Sectors / Returns & Valuation (Leading PE)

	USA	Europe	World	USA		Europe		World	
				LT Median	Current	LT Median	Current	LT Median	Current
Cons discr.	-13,5%	-4,4%	-10,5%	21,6	25,3	14,6	15,0	18,8	21,5
Cons. Staples	4,6%	4,7%	5,5%	19,5	21,9	18,4	16,0	19,3	19,8
Financials	2,0%	15,5%	5,5%	14,4	16,4	11,5	10,7	13,6	14,0
Energy	9,3%	10,8%	9,2%	14,4	16,3	11,0	9,4	13,3	13,3
Industrials	-0,7%	6,9%	2,0%	18,4	22,8	18,9	20,4	18,3	20,4
Technology	-12,9%	-4,6%	-12,0%	22,5	34,6	25,4	26,8	23,3	34,2
Materials	1,7%	0,0%	3,2%	17,7	20,3	14,6	15,8	16,2	17,3
Utilities	4,1%	9,9%	6,6%	16,9	18,1	14,1	13,1	16,7	16,2
Health Care	5,7%	0,0%	4,6%	19,6	17,9	20,4	15,9	20,4	17,4
Telecom	-7,0%	10,3%	-4,6%	17,9	18,2	16,1	17,9	18,2	18,5
Real Estate	2,9%	2,3%	-4,6%	44,2	37,5	21,1	13,0	28,3	27,6

Commodities



8 ALLOCATION GRIDS

Global Asset Classes

	Overweight	Marketweight	Underweight	Main Drivers	Risks
Equities	●			We remain constructive on the 2025 outlook. Although GDP growth has been revised down and inflationary pressures are higher, the world economy is still firm.	Trade wars fuelling inflationary pressures and uncertainty weighing on growth remain key risks.
Bonds	●			Global bonds offer attractive yields, as the trade war increases growth risks. Bonds should maintain their diversification qualities if the economic slowdown proves sharper than anticipated.	Stickier-than-usual inflation and very expansive fiscal policies.
Gold		●		Central bank purchases and demand for gold as a hedge against uncertainty will continue to support prices.	Normalisation of the Trump administration's tariff policy and a potential peace agreement in Ukraine.
Cash			●		

Equities

	Overweight	Marketweight	Underweight	Main Drivers	Risks
US		●		US corporate earnings are projected to grow by 11% this year, driven by resilient economic activity and improving business sentiment.	A rising interest burden, potential inflationary pressures and reduced expectations for Fed rate cuts highlight ongoing vulnerabilities.
Europe		●		The continuation of positive macro surprises, coupled with the realisation of key catalysts (such as a ceasefire in Ukraine), could support further strong performance.	Two major risks identified: a shift away from the «Goldilocks» scenario in the US (overheating or slowdown) and an escalation of the trade war initiated by President Trump.
Switzerland		●		The German infrastructure investment plan is undoubtedly one of the main drivers for Swiss companies, especially those active in construction/renovation and S&M caps.	There is still a lot of uncertainty that could disrupt international growth, which would have a de facto negative impact on the economy and market.
Asia Pacific ex-Japan		●		Stimulus measures aimed at stabilising the real estate sector and restoring confidence should support a more constructive view on China.	A potential reinforcement of US tariffs.
Japan		●		Growth is improving, driven by robust wage increases and sustained domestic demand.	A potential reinforcement of US tariffs or yen appreciation under a possible Mar-a-Lago agreement.

Bonds

	Overweight	Marketweight	Underweight	Main Drivers	Risks
Developed Sovereigns	●			The rally in US Treasuries has been substantial and may lose momentum, particularly as European sovereigns begin to offer more compelling value. The recent German fiscal stimulus has pushed European yields to more attractive levels, creating opportunities in the region.	A reacceleration in US inflation could challenge the Fed's projected rate cuts, while a broader European fiscal expansion could further steepen yield curves and delay bond market normalisation.
Corporates (IG)	●			The modest spread widening has improved valuations across investment grade corporates. We maintain a constructive stance, favouring medium-term maturities.	A deeper economic slowdown or credit event could pressure corporate balance sheets, driving spreads wider and impairing total returns.
High-Yield			●	Heightened policy uncertainty warrants a cautious approach. While spreads have widened, we favour shorter-duration high yield instruments with strong carry profiles.	Escalation of US tariff policies from rhetoric to implementation could undermine growth expectations and weigh heavily on lower-quality credits.
Emerging		●		EM bonds remain supported by the weaker US dollar and increased central bank flexibility in key markets. These conditions provide a constructive backdrop, particularly for local currency-denominated debt.	A broad-based trade war or renewed USD strength would pose meaningful headwinds, potentially tightening financial conditions and limiting policy space across EM economies.

Currencies

	Overweight	Marketweight	Underweight	
EUR vs USD		●		On a long-term view, the USD is expensive against the EUR, but the recent EUR upmove leaves little room for depreciation in the short term.
EUR vs CHF			●	The CHF should continue to moderately appreciate against the EUR.
USD vs CHF			●	The SNB has little room to curb CHF appreciation, with rates at 0.25% and a Trump administration opposed to central banks using reserves to manipulate their currencies.
EUR vs GBP			●	The growing interest rate differential in favour of the GBP should support appreciation against the EUR.
EUR vs JPY			●	Attractive entry point to go long JPY against EUR: the JPY is undervalued and the interest rate differential now plays in its favour.
USD vs GBP		●		Neutral position due to the significant shift in interest rates favouring the USD.

SWITZERLAND
GROWTH NORMALISATION UNDER CHALLENGE

ANICK BAUD / SENIOR FUND MANAGER

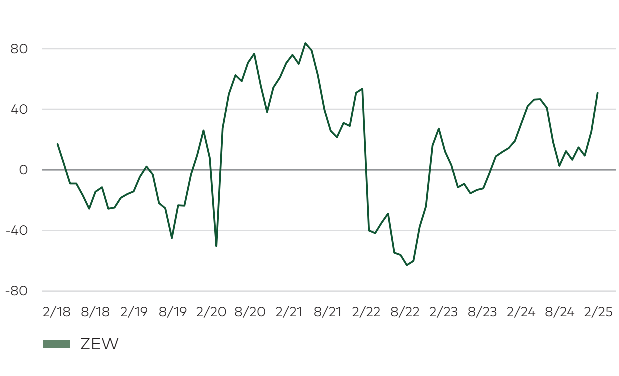
With all eyes on Donald Trump's erratic and ever-evolving announcements, liable to push the global economy in opposite directions, it is more important than ever to keep a cool head and analyse factually what could tip the balance in Switzerland.

Almost three months into the 46th US President's term, the consequences of his economic policy, for both his own country and the rest of the world, remain unclear. Depending on whether or not some of his decisions are implemented, two very distinct scenarios are emerging with regards to global growth, and by extension the Swiss economy, for the coming months. Uncertainty being by nature impossible to apprehend, we have decided to go with the least pessimistic scenario, namely that of a very likely normalisation of growth, albeit at a slower than average rate. Indeed, at the time of writing, we note several factors that bode well for the Swiss economy, but also some risks that could dilute any actual recovery.

The German plan, a boon for the economy:
the large EUR 500 billion investment plan recently endorsed by the German parliament is really a blessing, not only for our neighbouring country's growth, but also for that of Switzerland. Germany being the Swiss Confederation's second largest trading partner, its good health is indeed a prerequisite for a recovery in the Swiss manufacturing sector, which has been struggling for almost three years.

Beyond the amounts committed and the expected economic benefits for Swiss companies active in construction and renovation, this plan sends a strong signal: it aims to restore confidence in Europe's leading power. Its impact was already visible in the March reading of the ZEW index, a measure of the economic climate in Germany, which reached a high point since February 2022. Such a dynamic should encourage the return of private investment, which has been frozen for a long time in the face of political and economic uncertainties, as well as a recovery in public investment, an area in which Germany is lagging considerably.

The German economic climate, as measured by the ZEW index, stands at a high since February 2022



Indeed, of all the OECD countries, Germany is the one with the lowest investment-to-GDP ratio over the past 15 years. Such underinvestment has hampered the modernisation and maintenance of infrastructure (bridges, roads, rail and electricity networks) and exacerbated the housing crisis. In the big cities, the housing shortage is causing rents to skyrocket and experts estimate that, by 2027, there will be a shortage of nearly 800,000 housing units. The last major construction wave dates back to reunification, leaving a structural deficit that is now weighing on the property market.

With this plan, Germany is therefore embarking on a necessary catch-up process, the effects of which will extend beyond its borders and benefit all of Europe, Switzerland included.

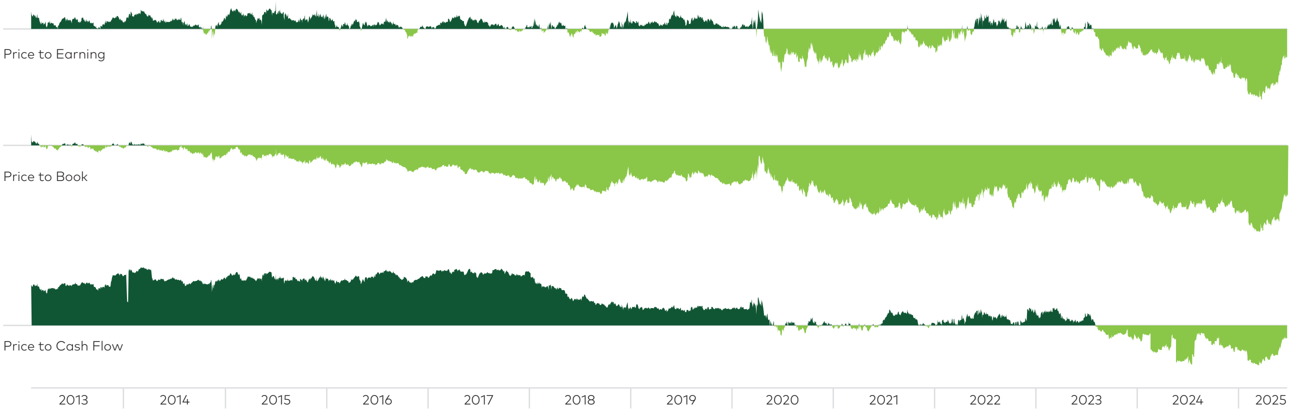
Guesswork on the tariff front:
at this point in time, it is still too early to anticipate the US administration's final decision. There are, however, factual elements that help temper concerns, even though, in any trade war, facts do not always prevail.

First, while Switzerland runs a goods trade surplus with the US, the overall balance (goods and services) is in fact flat, as confirmed by the former administration last November. Second, the Confederation is the sixth largest foreign investor in the US and even ranks top in terms of direct investment in research and development. According to SECO, Swiss companies employ some 400,000 people in the US, mainly in high value-added positions, with an average salary of USD 131,000.

Furthermore, pharmaceutical exports, which account for 60% of Swiss exports to the US, are unlikely to be taxed in the same way as industrial goods, because of their low substitutability and price elasticity.

While the direct impact of any tariff measures remains uncertain, there is no doubt that customs duties imposed

The Swiss market is trading at a significant discount vs. the US market according to various metrics



on Switzerland's trading partners would have repercussions on its economy, particularly in some manufacturing sectors that have already been weakened over the past three years. More generally, the current uncertain climate is weighing on investment decisions. With some industries having been slow to clean up their inventories, a new wave of order deferrals would prove an additional blow. All these uncertainties have also led the Swiss National Bank (SNB) to cut its growth forecast for 2025, to between 1 and 1.5%, i.e. a below-potential rate. The same caution is apparent at the company level with some managements, upon release of their annual results, refraining from providing guidance for the current year due to lack of visibility.

Consumption, still a bulwark:
as we have oft emphasised, private consumption has played a stabilising role in recent years, offsetting persistent weakness in the manufacturing sector. While the manufacturing PMI has spent the past 22 months below the growth threshold of 50, the services PMI, with a few exceptions, has remained above this threshold since February 2021.

On the other side of the Atlantic, some indicators suggest a slight drop in consumer confidence amid a relatively anxiety-provoking backdrop. In Switzerland, however, the available data do not yet make for the same conclusions. A number of factors should continue to support consumption: the SNB forecasts low inflation in 2025 (0.4%), while nominal wages should grow by 1.4%[1] on average and the recent drop in the reference rate applicable to rental leases could ease the rent burden. Also encouraging is the fact that the consumer climate, as measured by SECO, is showing a clear improvement compared with last year. Still, given the uncertain international context, this balance remains fragile and could waver at the slightest shock.

A Swiss market that remains attractive in relative terms:
after five years of underperformance vs. its European and US counterparts, the Swiss stock market has picked up year-to-date. While Nestlé and Roche have weighed heavily in this improvement, the Swiss market boasts several assets that could play to its advantage.

From a valuation perspective, it has historically been viewed as expensive, because of the strength of its economy and the niche positioning of many companies. However, for several months now, it has traded at a marked discount vs. the US market according to all the major metrics (graph 2), making it comparatively more attractive.

Furthermore, the expected earnings momentum is particularly robust in Switzerland:
profit are forecasted to grow 17% in 2025 and 9% in 2026, among the highest rates in Europe. This should provide additional support for the stock market. The extremely low level of 10-year Swiss bond yields (0.7%) also makes equities more attractive. Whether one looks at the dividend yield (3%) or the earnings yield (5%), the risk premium remains attractive for yield-seeking investors.

In a scenario where the global economy remains relatively unaffected by trade tensions and benefits from German fiscal stimulus, Swiss small- and mid-caps, which have lagged even more, could be the main beneficiaries, driven by an improvement in the manufacturing PMI. Conversely, should growth come under pressure due to a more adverse international context, the defensive nature of SMI large caps could attract more investors in search of stability.

1 According to UBS's latest compensation survey, released in the fall of 2024

EUROPE

HAVE THE LAST FEW WEEKS MARKED THE START OF A GREAT DECADE FOR EUROPE?

MALEK DAHMANI / FUND MANAGER

Global financial markets have been shaken by recent geopolitical developments, be they President Trump's policy announcements or the pick-up in international tensions. Still, European equity markets have performed well, helped by catalysts such as tax reform in Germany and a potential ceasefire in Ukraine. While some cyclical support is materialising, keeping this bull market alive, structural obstacles nonetheless remain, notably the need for true European economic integration in order to engineer a sustainable super cycle.

When time speeds up

Last century, Lenin spoke these famous words: "There are decades where nothing happens; and there are weeks where decades happen." Recent developments could well fall into the second category.

Since the beginning of this year, much of the news impacting stock markets circulated first on Truth Social, long before appearing in traditional media such as the Financial Times or Bloomberg. Amid mixed macroeconomic data, geopolitics clearly took centre stage, with Trump employing his "flooding the zone" tactics: discussions on new tariffs between the US, Canada, Mexico and China, a fiery meeting with Ukrainian President Zelenskyy, not to mention issues related to the status of the Panama Canal or Greenland. In between, there were a bunch of controversial news items, some directly affecting Europe, too numerous to list here.

Despite this turbulent backdrop, European markets have delivered an impressive performance, up 9% year-to-date. Why is this? In our last publication, at the onset of 2025, we discussed the extreme pessimism prevailing with regards to European markets and listed some potential positive catalysts in a "Goldilocks" scenario. It turns out that two of these catalysts have gained momentum in recent weeks: a ceasefire in Ukraine and, more importantly, expansionary fiscal policy in Germany, involving reform of the debt brake. The latter, promoted by the winner of the recent elections, Friedrich Merz, is has just been approved by the German institutions. The German stock market has benefited greatly, particularly the DAX and MDAX indices, which are posting year-to-date gains of 15%. Over the same period, European profit forecasts have been revised up slightly, following better-than-expected Q4 results and more positive guidance, especially for consumer-related sectors. Banks also released numbers that beat expectations and signalled less pessimistic projections for 2025, thanks to the stability of long-term interest rates. US equities meanwhile saw profit forecasts be revised downwards, after an exceptional 2024 and in the face of expectations that were probably too high. The gains made in the wake of Donald Trump's election have thus been erased.

As such, investors have been encouraged to diversify their holdings more than was the case at the end of 2024, driving higher inflows into European equities. The key question is whether this momentum will continue.

The levers for a continuation of the European bull market

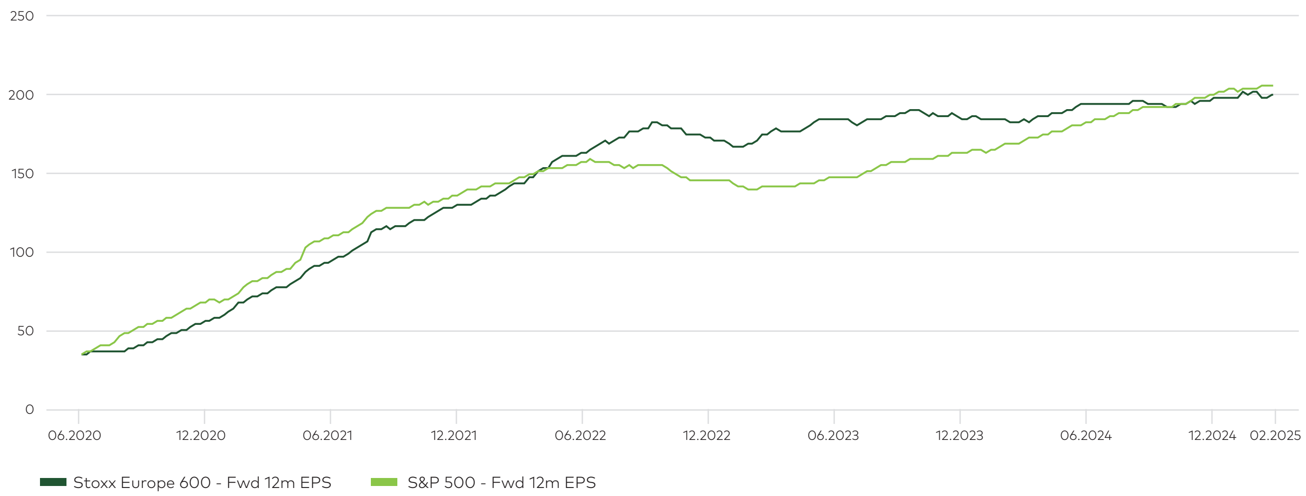
We do not consider it relevant to favour one region over the other. Both could perform very well for the rest of the year. That said, it is clear that the performance ratio between Europe and the US is now more balanced than it was three months ago. As a reminder, since the low point of Covid, earnings growth has been similar in both regions, unlike in the 2010s, when Europe suffered negative results, far lagging the US.

As regards European stock markets more particularly, several levers could keep the rally going. An expansionary fiscal policy, especially in Germany, may boost consumption by European households, which are in a favourable financial situation. In addition, the impact of a ceasefire in Ukraine, particularly on energy costs for European industries, has yet to materialise. Although these effects will probably not be visible until 2026 or beyond, the boost in confidence could lead to a continued rerating of European equities. In such a scenario, domestically oriented companies should benefit, alongside mid-caps, as evidenced by the strong recovery of the MDAX.

A super profit cycle for Europe? Not so fast...

However positive it may be, does this momentum have the potential to become a structural trend? We consider it still too early to mention such an evolution. The recent Draghi report clearly highlighted Europe's limitations in terms of structural outperformance. This would require a super profit cycle, driven by increased investment in R&D and

Strong earnings growth in Europe since the Covid low, now on par with that of the U.S. market



production tools, supported by a deep capital market and greater European cooperation, enabling the emergence of transnational champions in key sectors such as banking, telecommunications and industry.

Fragmentation and lack of economies of scale: number of European vs. US military platforms

	Europe	US
Tanks	15	1
Fighter aircraft	20	7
Destroyers & frigates	26	4
Torpedoes	17	2
155mm guns	27	2

We are closely monitoring initiatives to pool defence spending. If Europe does manage to overcome internal political challenges, and thus both strengthen its industrial capacities and collaborate effectively, it could perhaps enter into a super profit cycle.

That said, a number of economic risks stand in the way of such a scenario. A high probability of recession in the US would for instance inevitably weigh on the current optimism, given how dependent many European companies are on the US market. Trade barrier threats, while still vague, may also materialise, driving greater volatility that investors will need to take advantage of, especially those who, like us, believe in the aforementioned catalysts.

All told, despite the specific challenges, we remain dependent on signals from the White House or posts on Truth Social. We have no choice but to adapt to this speeding up of time, or else we risk haven fallen a few decades behind when we reconvene in a few weeks for our next edition.

UNITED STATES
STAGFLATION AHEAD?

FLORIAN MARINI, CFA, CMT / CHIEF INVESTMENT OFFICER

After two years of stronger-than-expected growth, easing inflationary pressures, and a clear path toward lower interest rates, the US economic landscape has been reshuffled. The new administration's agenda introduces both opportunities and risks, with potential repercussions on growth and inflation dynamics.

Policy tailwinds: pro-growth measures
At the outset of President Trump's administration, a series of aggressive economic policies were introduced to reshape the US economy. The proposed measures include a reduction in corporate tax rates from 21% to 15%, with a view to stimulating domestic manufacturing and enhancing competitiveness. Alongside this, a broad deregulation agenda seeks to eliminate ten existing regulations for every new one introduced, fostering a more business-friendly environment. Additionally, a "drill, baby, drill" policy is intended to ensure energy independence, lower energy costs, and mitigate inflationary pressures. A potential peace deal or armistice between Russia and Ukraine could further contribute to lower energy prices, supporting economic stability.

Policy headwinds: inflationary and uncertainty risks
While these measures could spur economic growth, other aspects of Donald Trump's policy agenda introduce risks. Trade tensions and tariff hikes may disrupt supply chains, fuelling inflation domestically and weighing on global growth. Tariffs directly impact US prices (see Chart 1). Immigration policy also represents a critical shift. Under the Biden presidency, an influx of two million new workers annually helped contain wage growth despite above-2% GDP growth. In contrast, tighter immigration policies under President Trump could exacerbate labour shortages, fuelling wage-driven inflation.

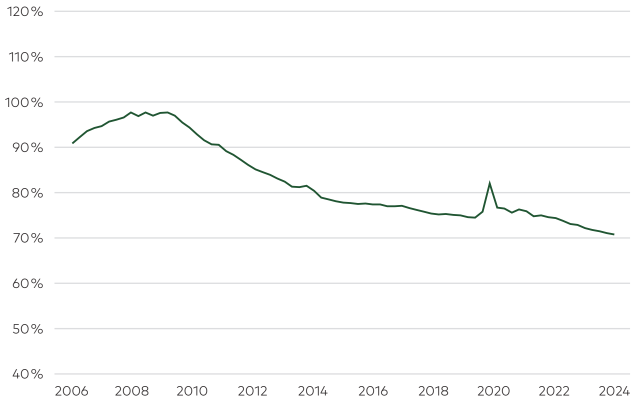
Meanwhile, budget cuts under Elon Musk's Department of Government Efficiency (DOGE) have triggered widespread federal job losses, potentially disrupting government services and weighing on growth. The uncertainty surrounding these cuts may also deter private investment.

Uncertainty remains a key factor
In just two months, Donald Trump has issued nearly half as many executive orders as he did during his entire first term, underscoring an increasingly volatile policy environment. This unpredictability comes at a cost – businesses need stability and visibility to commit to capital expenditures, while investors will demand higher discount rates on their investments to compensate for heightened risk. In this environment, richly valued assets become less attractive as multiple expansion is constrained, making cash flow growth the primary driver of returns.

No recession, but higher endpoint inflation and fewer central bank cuts
Growth prospects are still firm. Leading indicators, such as the PMI, remain in expansionary territory. While the PMI Services index, a key driver of growth, has receded significantly, the Manufacturing PMI, which had been in recession territory since late 2022, has witnessed a strong comeback, jumping from 47.4 to 52.7 over a period of five months.

An illustration of the impact of tariffs – US Midwest aluminium premium
Before President Trump's inauguration, the premium to deliver aluminium to the US Midwest (over the London Metal Exchange price) was 18%, in line with its 10-year median. Following Trump's tariffs, it immediately surged to 33.5%.

US household debt-to-GDP ratio at its lowest level since the 2008 financial crisis



Inflation continues to moderate, with the CPI having fallen to 2.8% and the PPI at 2.0%. The final stretch of disinflation is primarily linked to the services component, which accounts for 60% of consumer inflation. This segment is largely driven by shelter and wage inflation, both of which are showing clear signs of deceleration. Absent a trade war, this downward momentum should help offset some of the one-off inflationary effects from tariffs.

Against this backdrop, the Federal Reserve (Fed) has revised its 2025 GDP growth forecast downward, from 2.1% in December to 1.7% today. Inflation expectations have been revised upward, from 2.5% to 2.7%, while the unemployment outlook remains stable, inching up slightly from 4.3% to 4.4%. Fed Chair Jay Powell views the inflationary impact of tariffs as temporary and emphasized that long-term inflation expectations remain well anchored. As a result, the Fed held rates steady in March and Powell signalled that he is in no rush to cut them. Markets nonetheless continue to price in two to three rate cuts this year.

Consumers face growing pressures, but fundamentals remain solid

Several major US companies – including FedEx in freight, Target, Walmart, Dollar General and General Mills in consumer goods, as well as United Airlines and Delta in the airline sector – are warning of either weaker-than-expected revenues due to declining consumer confidence or margin compression caused by tariffs and higher input costs.

Despite these challenges, the overall consumer backdrop remains resilient. US household leverage has been declining steadily since 2008, with the household debt-to-GDP ratio falling from 98% to 69%. While disposable personal income growth has slowed over the past two years, it remains firmly in expansion territory, and the employment situation is still stable. Job openings are gradually declining – a positive development in curbing wage inflation – while initial jobless claims remain steady.

Corporate earnings drive equities amid valuation challenges

The Q4 earnings season delivered solid results, with S&P 500 EPS growth reaching 13%, and an impressive 75% of companies surpassing expectations. Excluding the energy sector, earnings growth was even more robust at 16%. Notably, consumer discretionary, healthcare, financials, IT, communication services, utilities and real estate all reported double-digit EPS growth, emphasizing the widespread nature of corporate profitability. The contribution of non-Magnificent 7 S&P 500 stocks has now increased for a third consecutive quarter, a sign that earnings contributions are becoming more evenly distributed across the index.

Looking ahead, double-digit EPS growth is expected this year, supported by economic resilience and potential corporate tax cuts. Tariff and immigration policy-related risks could, however, weigh on profitability.

The S&P 500's P/E ratio has declined from 22x to 20x following the market correction, yet valuations remain elevated relative to historical medians and global peers. With policy uncertainty limiting multiple expansion, further equity gains will depend on earnings growth rather than P/E re-rating.

Conclusion: the US equity market at a crossroads

The U.S. economy faces several challenges: rising political uncertainty, persistent inflation risks, and policy choices such as tariffs and immigration measures that could weigh on investor confidence. Despite this, growth remains solid, corporate earnings are strong, and the manufacturing sector is showing signs of recovery. With valuations still elevated relative to historical norms, further equity gains are likely to depend more on earnings growth than multiple expansion. We remain constructive on US equities but, with volatility returning, consider that greater diversification across sectors and individual names is increasingly warranted.

ASIA

BEYOND TARIFF FEARS LIES AN OPPORTUNITY FOR A TURNAROUND IN CHINA

FLORIAN MARINI, CFA, CMT / CHIEF INVESTMENT OFFICER

After years of deteriorating macroeconomic data due to a prolonged real estate downturn, as well as weak consumer and corporate confidence, Beijing has launched ambitious stimulus measures to stabilise the property market and restore sentiment. Despite mounting trade tensions with the US, the government has set an aggressive 5% GDP growth target. After two years of an earnings recession, signs of recovery are emerging.

After posting 5% growth in 2024, China's economy is expected to slow to 4.5% in 2025, despite Beijing's ambitious 5% growth target. Weak consumer confidence and the prolonged downturn in the property sector remain the main drags on activity.

Unprecedented stimulus measures to restore growth and counter deflation risks

As economic momentum fades, China is facing heightened deflationary pressures, with both the CPI and PPI in negative territory (at -0.7% and -2.2% respectively). To restore confidence and stimulate growth amid increasing trade tensions, the government launched a series of significant stimulus measures in late 2024 and early 2025.

The People's Bank of China (PBOC) cut key interest rates and reduced the reserve requirement ratio to lower borrowing costs and boost liquidity. Simultaneously, the government raised its fiscal deficit target to 4% of GDP and announced the issuance of RMB 3 trillion in special Treasury bonds to finance infrastructure projects and ease the financial burden on local governments. Within the real estate sector, authorities introduced policies to lower down-payment requirements for second-home purchases and relaxed mortgage rate floors in cities experiencing price declines. These measures aim to stabilise the property market, boost consumer confidence and support economic growth, even as external risks remain elevated.

Geopolitical risks: escalation towards trade war 2.0?

The new US administration has imposed 20% tariffs on Chinese exports and signalled that further restrictions are possible. China retaliated by targeting US agricultural and energy exports, while imposing export controls and security measures on US companies operating in China. Beyond economic retaliation, Washington is also pressuring Beijing on non-trade issues, such as curbing fentanyl flows into the US. So far, no resolution has been found, and the risk of further escalation remains.

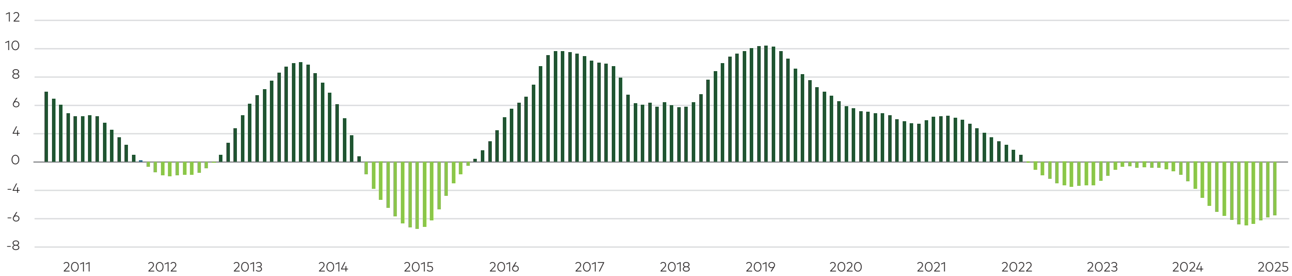
In parallel, the US has intensified technology restrictions, particularly in semiconductors and AI, aiming to curb China's access to critical components. However, such restrictions have also spurred domestic innovation, leading to unexpected breakthroughs in China's artificial intelligence (AI) sector.

DeepSeek and China's AI ambitions

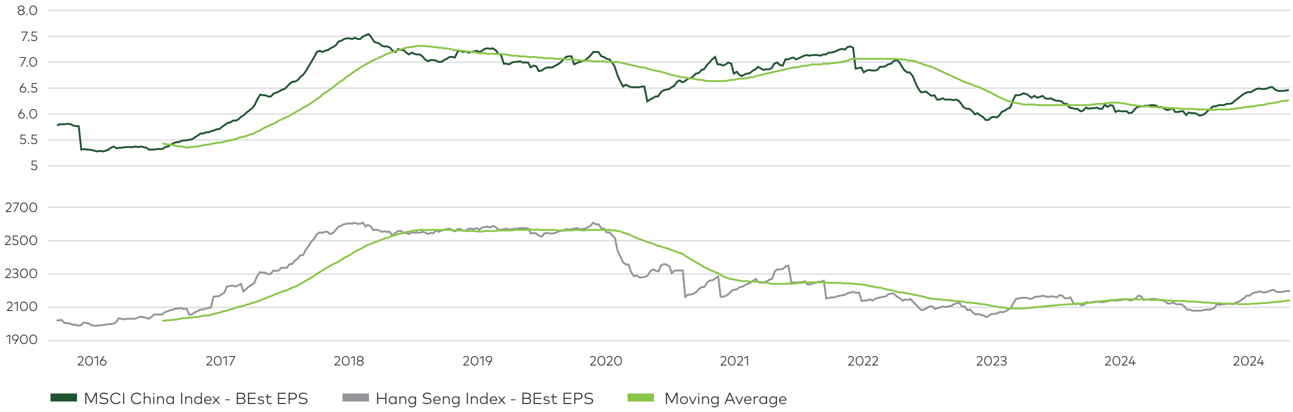
Despite US sanctions, China has made significant strides in AI. The emergence of DeepSeek, a homegrown large-scale AI model, signals Beijing's ambition to rival OpenAI and Google DeepMind. Heavily supported by state-backed initiatives, DeepSeek reflects China's broader strategy of achieving self-sufficiency in high-tech industries.

If DeepSeek and similar AI models gain traction, China's tech sector could become a key growth driver in the coming

China's commercial residential prices continue to decline, but signs of stabilisation are emerging



Chinese valuations remain attractive, and EPS are back in an uptrend



years. The rapid development of cost-effective AI is already accelerating automation across multiple industries, particularly in manufacturing, logistics and healthcare. AI-powered robotics, for instance, are becoming an essential tool for Chinese firms looking to enhance efficiency and maintain global competitiveness.

Policy shift: renewed support for the private sector

After years of regulatory crackdowns, President Xi Jinping reaffirmed Beijing's commitment to supporting the private sector at a closed-door symposium on 17 February, attended by key business leaders from Alibaba, Xiaomi, Meituan, Huawei, CATL, BYD, DeepSeek and Tencent. Xi urged private enterprises to "show their talents" and pledged to protect the legitimate rights of entrepreneurs, while fostering a business-friendly environment.

This meeting suggests a potential shift in Beijing's stance, particularly after years of restrictive policies targeting tech and internet companies. Analysts speculate that the regulatory tightening cycle that began in 2020 may now be easing, as the government seeks to restore investor confidence and re-energise economic growth.

Chinese equity market outlook

Chinese stocks remain historically undervalued, trading at 12x forward earnings, compared to the S&P 500's 20x P/E ratio (post-correction).

Following two years of declining earnings, from 2021 to 2023, several key sectors are experiencing a strong recovery. The Chinese tech sector, for instance, has recorded an annualised 40% EPS growth since the 2022 lows, significantly outpacing the Nasdaq 100's 23% increase. Still, Chinese tech stocks trade at a discount, with a current P/E ratio of 16x vs. 26x for US tech.

A similar divergence is visible in the consumer discretionary space, where Chinese EPS are growing by 25% vs. 17% in the US, despite a stark valuation gap of 12x in China vs. 27x in the US. This suggests that, despite strong fundamentals, investor sentiment toward Chinese equities remains weak. Beyond these key sectors, finance and telecommunications are also showing moderate earnings growth, though real estate, industrials, utilities and consumer staples remain in a "profits recession". While sentiment toward Chinese equities is still fragile, rising corporate earnings, cheap valuations and renewed policy support indicate that the worst of the equity downturn may be over.

Investment recommendation: cautiously optimistic

While China's economic slowdown and geopolitical risks warrant caution, proactive policy stimulus and historically low valuations create meaningful upside potential. The rise of AI, particularly through DeepSeek, represents a structural growth opportunity, notwithstanding persistent short-term uncertainty.

Investors should adopt a selective approach, focusing on sectors that benefit from policy tailwinds, particularly tech, consumer discretionary and financials. Given strong government intervention and a market that has already priced in worst-case scenarios, Chinese equities (CSI 300 & Hang Seng) remain attractive over a 12 month horizon. That said, investors should keep a tactical approach, closely monitoring policy execution and geopolitical developments before increasing exposure.

FIXED INCOME

MANUEL STREIFF / ADVISOR

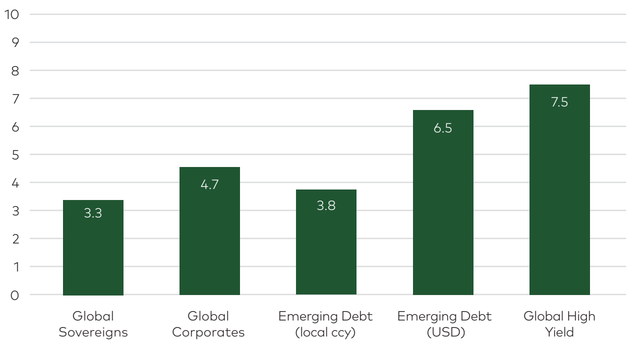
As we enter the second quarter, investor apprehension over US tariffs and evolving policy dynamics remains a central theme. While early-quarter developments did provide some clarity, persistent geopolitical and trade-related uncertainties continue to weigh on both business sentiment and consumer confidence. Retaliatory actions from major US trading partners are expected, further complicating the landscape.

Against this backdrop, the Fed is poised to maintain its current stance. Chair Jay Powell has communicated a willingness to look through the immediate inflationary effects of tariffs, focusing instead on the broader implications for economic growth. This dovish bias, coupled with elevated policy uncertainty, should support rate stability in the near term.

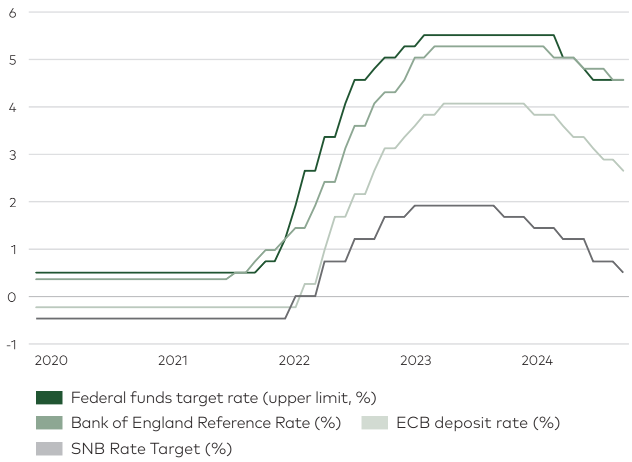
Geopolitical negotiations, particularly those surrounding the planned US-China summit mid-June, will remain a dominant driver of market sentiment. Notably, the adverse impact of more restrictive US immigration policies may be partially offset by ongoing deregulation efforts and lower energy prices.

In Europe, Germany's recent commitment to expand defence and infrastructure spending marks a pivotal policy shift, with the potential to catalyse a broader fiscal response across the eurozone. Such a development could gradually bolster regional growth prospects.

Yield to maturity per fixed income segments: Sovereigns, Corporates, Emerging debt in local currencies, Emerging debt in USD and High Yield



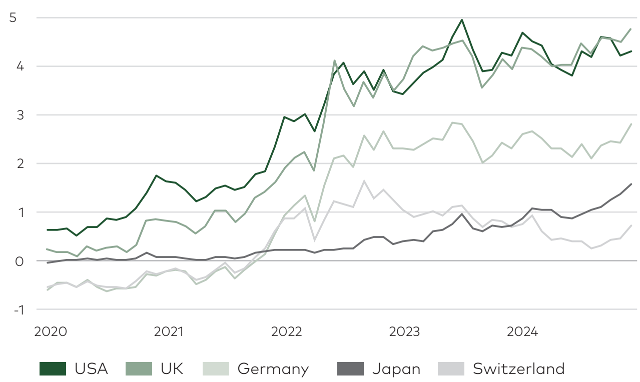
Key central banks target rates



DEVELOPED MARKET SOVEREIGNS

In sovereign debt markets, signs of decelerating US growth and a more accommodative Fed have buoyed US Treasuries. Meanwhile, the anticipation of fiscal stimulus in Europe has put upward pressure on core European yields, significantly narrowing the transatlantic spread. While we expect some consolidation of this move, execution delays in European spending and continued trade tensions could temper further convergence. Market pricing currently reflects expectations of two to three Fed rate cuts, which may need to be partially repriced should inflation prove more persistent than anticipated.

Sovereign yield to maturity (10Y benchmarks)



Swiss franc-denominated bonds have gained in appeal, with 10-year Confederation yields approaching 0.7%. The SNB is likely to tolerate further currency appreciation to preclude potential US "market manipulator" designations and associated retaliatory measures.

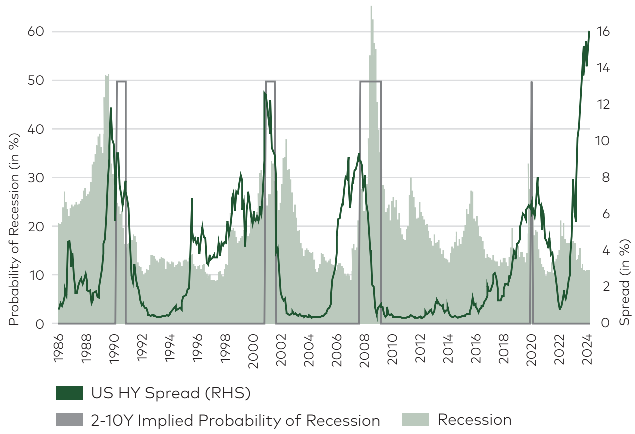
US and European Corporate Spreads (Investment Grade)

DEVELOPED MARKET CORPORATES

Corporate credit markets experienced some divergence in performance, with spreads widening amid elevated uncertainty surrounding US trade policy. US corporate bonds found modest support from a decline in Treasury yields, while European corporates were weighed down by higher underlying rates, as well as broader spread widening. High yield bonds logged positive returns in the US and Europe, but Asia outperformed significantly.

Despite the recent spread movement, valuations remain uncompelling. Credit spreads, in our view, do not yet offer sufficient compensation for the prevailing macro and policy uncertainty, nor for the potential downside risks to growth.

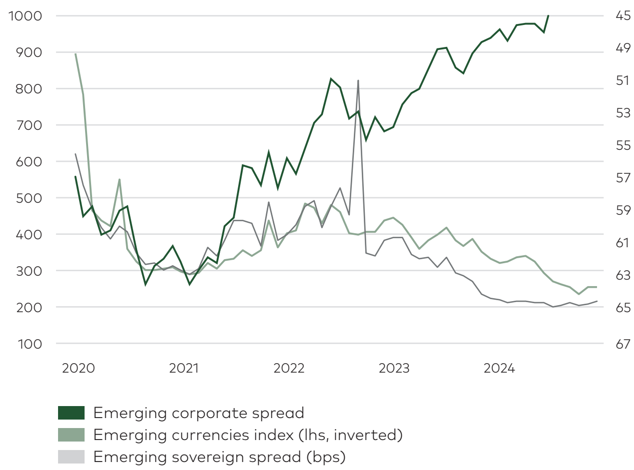
US High Yield spreads and probability of recession, as derived from the yield curve



HARD CURRENCY EMERGING MARKET DEBT

Heightened trade tensions have widened EM hard currency spreads over US Treasuries. A softer dollar may, however, offer reprieve by affording EM central banks increased policy flexibility in the face of potential growth pressures.

Emerging Spreads (corporate and sovereign) and emerging currencies index (vs. USD, inverted)

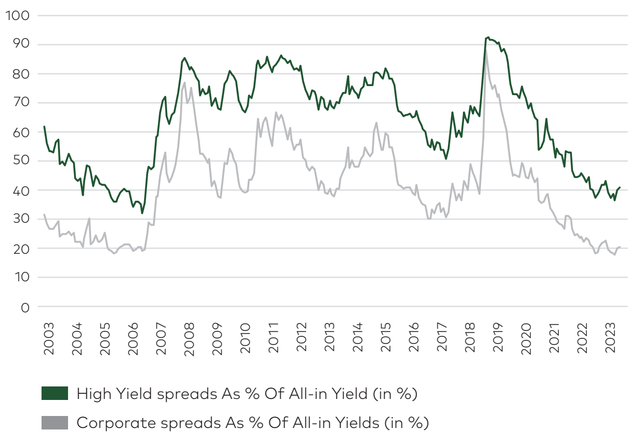


LOCAL CURRENCY EMERGING MARKET DEBT

In local currency debt, while a weaker dollar and declining US yields are constructive over the medium term, investors will likely remain cautious until greater visibility emerges around US trade policy and its implications for global growth.

Portfolio outflows and prudent EM central bank policies have already lifted local bond yields. Brazil has entered a tightening cycle, and in China, resilient economic activity supported by pro-growth measures has driven yields modestly higher.

Credit Spreads as % of all-in Yields



FIXED INCOME PROJECTION

Segments	Yeld (%)			Return View (12m horizon)
	USD	EUR	CHF	
Cash	4,28	2,04	0,11	↘
Short-Term High-Yielding	5,36	3,15	0,72	↗
10y Government Bonds	4,36	2,77	0,66	↗
10y Government Inflation-Linkers	1,96	0,68	n.a.	↗

Segments	Spread over Sovereigns (bps)	Return View (12m horizon)
Developed Corporates	93	↗
Corporate Hybrids	175	→
Developed High Yield	355	→
Emerging Sovereigns	258	→
Emerging Corporates	218	→
Emerging Local-Currency Debt	n.s.	↗

Source: Bloomberg indices hedged in the respective currency

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