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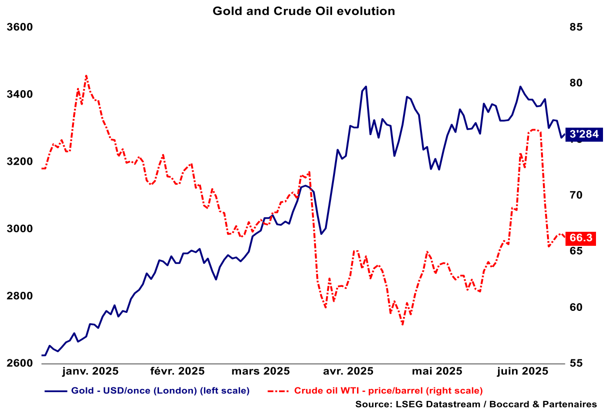
Financial Markets Overview – Q2 2025

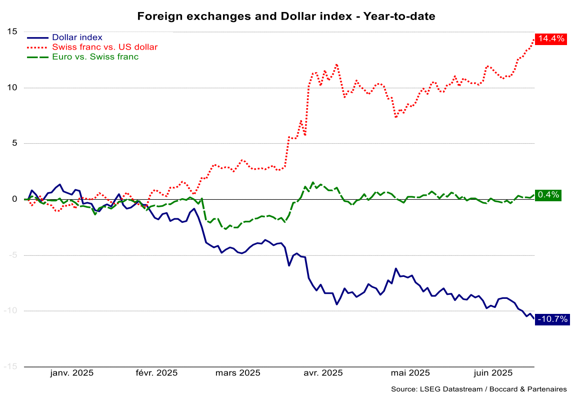
At the end of the first quarter, uncertainty had already intensified around ***a recurring theme: American protectionism***. On April 2nd, President Trump made good on what had previously been only a threat, introducing across-the-board 10% tariffs, with the possibility of additional surcharges. Very quickly, a new narrative took hold in the markets: that of a return to large-scale mercantilism, potentially devastating for the global economy. Stock markets corrected sharply, with market participants anticipating a global recession triggered by disruptions in supply chains and a sharp decline in global trade.

But no sooner had this new narrative taken hold than another one emerged to compete with it: that of ***negotiation***. Faced with diplomatic and economic backlash – including from traditional allies – the White House began to shift course, quickly raising the possibility of adjustments and initiating bilateral discussions with its main trading partners. The idea that these tariffs might be more of a negotiating lever than a fully-fledged ideological project began to gain traction. The spectre of a full-blown trade war is fading, but has not disappeared. Volatility was high throughout the first six months, but it has subsided as market participants have found a new acronym to define the behaviour of the unpredictable US president: ***"TACO"*** – *Trump Always Chicken Out*. Certain signs do indeed suggest this: the partial exemptions announced at the end of May, the olive branch extended to Mexico, and the temporary suspension of tariffs on certain essential electronic components. This perception, which is not unanimously shared by observers, has nevertheless led to a strong rebound in stock market indices since their low point in early April, particularly in the United States.

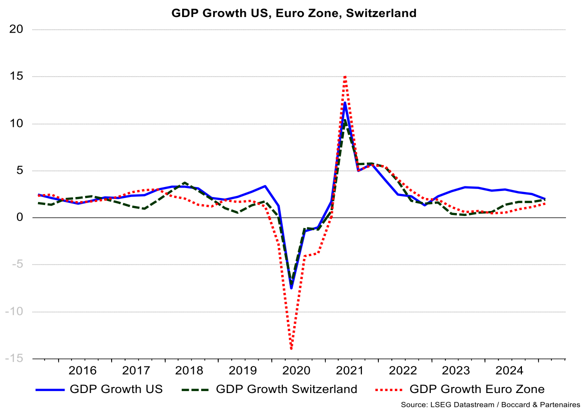


On the geopolitical front, the spread of tensions has only had a limited impact on financial assets. For example, the surge in oil prices lasted only a few days, once it became clear that Uncle Sam's strikes on Iranian sites were a show of force with no lasting consequences and no closure of the Strait of Hormuz or serious retaliation from the Mullahs.

Over the first six months of the year, safe-haven assets such as gold and the Swiss franc performed well, rising 23% and 14% respectively (against the US dollar). They also benefited from the greenback's decline (-10% against a basket of key currencies), which is suffering from investor mistrust in light of a budget deficit that could widen by nearly USD 4 trillion over the next ten years following the forced passage of the 'One Big Beautiful Bill', so dear to the all-powerful president.

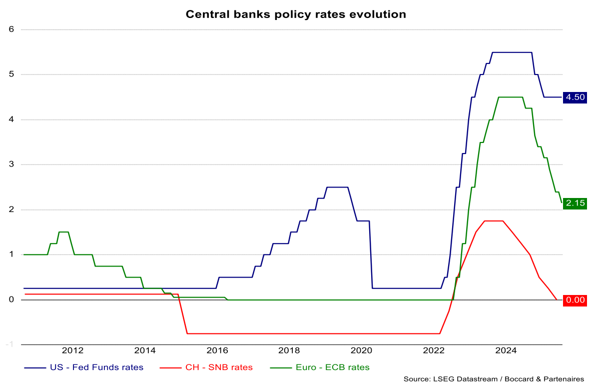


Macroeconomy and Central Banks: resilience and caution



During this period of diplomatic and geopolitical turmoil, the economy has shown surprising resilience. While GDP growth has slowed significantly, the North American job market remains strong, with unemployment still very low at 4.1%, while inflation is rising moderately. Beyond the differences between regions, the likelihood of a recession has declined, while the risk of price spikes appears to be under control. However, this is particularly dependent on the outcome of the trade agreements and customs duties that are expected to result from them.

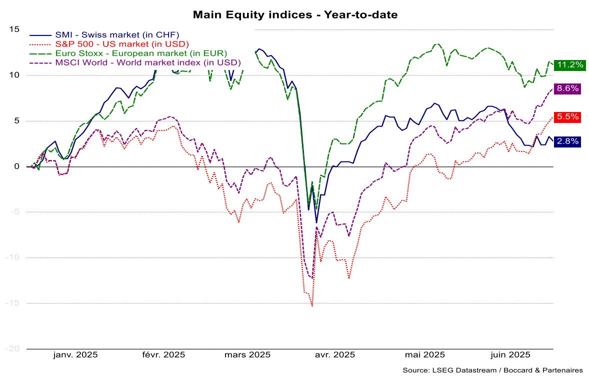
This is the main reason why the ***Federal Reserve has maintained a cautious tone*** and kept interest rates unchanged at its recent meetings. In Europe, however, the ECB has continued its cycle of easing, faced with falling inflation and sluggish economic momentum. The 'Swiss exception', i.e. zero inflation and a strong franc, has once again forced the SNB to act by lowering its key interest rates to 0%. The risk of negative interest rates is therefore continuing to rise.



Microeconomy: overall favourable trend, but numerous uncertainties

First-quarter corporate results, published between April and May, showed good resilience. Many benefited from 'overstocking' in anticipation of potential logistical disruptions or price increases. This behaviour artificially boosted revenues, with marked sectoral effects in industry, pharmaceuticals and technology. However, this temporary rebound raises a question: are these levels sustainable in the long term, or do they herald a backlash in the coming quarters? ***Second-quarter publications*** and ***comments from executives*** will therefore be ***crucial*** in helping to guide investors over the coming months. Greater clarity in trade agreements would, however, be clearly welcome.

Equity markets: the US rebound effect



In the United States, the first half of the quarter was marked by high volatility, before recovering impressively to erase a decline of more than 15%. Large technology stocks played an important role in this phenomenon, with optimism about the adoption rate of artificial intelligence in society quickly outweighing the risks. The ***narrative of a technological future as a saviour*** gained momentum, relayed by robust publications from the sector's leading players. In Europe, volatility was certainly less pronounced, but the April slump was recovered thanks to the prospects for investment in security and infrastructure. As the threat of colossal tariffs faded and risk appetite strengthened, the defensive characteristics of the Swiss market began to be shunned, and its rise since the beginning of the year can be described as sluggish.

Bond markets: signs of easing

While not uniform across regions, monetary easing remains the dominant trend. In the US, uncertainty over the inflationary impact of tariffs caused upward pressure on yields, which only eased moderately towards the end of the period. In Europe, the ECB's monetary loosening allowed German and French yields to fall. A similar pattern was seen in Switzerland, where yields are no longer attractive for top-quality issuers. Overall, government bonds have regained appeal in cautious portfolios amid renewed equity market volatility.

Conclusion: remain vigilant

This quarter has been one of competing narratives: from tariff catastrophe to diplomatic appeasement, from recession risk to economic resilience, from global conflict to AI-driven optimism. Investors have been swept along by this ***whirlwind of story-telling***, oscillating between fear and hope, retreat and risk-taking. In such an environment, our conviction remains unchanged: it is essential to guard against emotional extremes – in either direction. ***Our allocation remains diversified, with a deliberate defensive tilt***, including a significant share of high-quality bonds, reasonable exposure to gold, Swiss real estate, strong currencies, and a meaningful position Swiss equities with a resilient.

The relaxation of the moratorium from 9 July to 1 August on the implementation of import surcharges in the US does not fundamentally alter the picture. The threat of more substantial tariffs is part of a negotiation strategy aimed at mitigating the impact of the abysmal budget deficit and continuing industrial reshoring. However, it will remain a ***Damocles sword*** over international relations, supply chains, sector outlooks, and global growth.

We therefore remain alert to weak signals and prevailing narratives – not to react impulsively, but to integrate them into a more structured reading of the cycle. Narratives may change, but fundamentals remain. Our investment management is rooted in them.

Mauro Cavallin – Chief Investment Officer
Michael Strauss, Equities – Responsible Investment *July 2025*