Investment Outlook 3rd Quarter 2025

Uncertainty in the financial markets has eased somewhat, while there is a shift taking place in currency allocation. Confidence in the US dollar as a reserve currency has been undermined by the actions of the US government. Equities remain attractive considering solid economic growth, whereas fixed-income investments are losing their appeal.

Political Environment

The U.S. government is undermining the global economic order by threatening high tariffs without offering an alternative rules-based framework. In addition, the massive budget deficit and growing national debt are destabilizing both the U.S. and global financial systems. However, the administration has shown in the past that it can act pragmatically at the last minute and, after a chaotic process, arrive at reasonable decisions.

In Europe, the expansion of Germany's budget deficit brought some relief, but structural reforms that would boost productivity, innovation, and long-term growth are still lacking.

China has significant fiscal leeway, which it has used little to address its structural challenges: high youth unemployment, a low consumption rate with a strong dependence on exports, and a rapidly aging population. After a period of repression of the private sector, the Chinese government has now returned to a more business-friendly course. Nevertheless, investors remain deeply sceptical about the long-term reliability of the governments commitment.

Economic Outlook

The U.S. economy remains remarkably robust despite the government's chaotic trade policy. Companies are highly innovative and competitive, even though the growth forecast for the current year has been revised downward. Since both the scale of tariffs and their economic impact are still unclear, reliable forecasts cannot be made at this time.

After years of weak growth in Europe, there is growing hope that increased government spending in Germany could trigger an economic recovery. However, long-term growth prospects remain limited due to low levels of innovation, high tax burdens, rigid labour markets, and elevated energy costs.

Despite structural challenges, the Chinese economy continues to demonstrate strong innovation and solid growth. Nonetheless, U.S. and European import tariffs could slightly dampen that growth.

India is coming into focus as a potential alternative to China. Yet, the development of complex value chains is a lengthy process.

Interest Rates and Fixed Income

Core inflation in the U.S. remains above 3%. In addition, both the magnitude and the impact of tariffs on prices are difficult to assess. For this reason, the U.S. Federal Reserve (Fed) is hesitant to lower key interest rates, even though they are currently above the long-term average. In the best-case scenario, companies would be able to absorb the tariffs without raising prices. In the worst-case scenario, economic growth could collapse while inflation rises simultaneously stagflation scenario that would leave the Fed with little room to manoeuvre, as it is not able to fight inflation and support employment at the same time. Moreover, the rapidly rising government debt in the U.S. is likely to push interest rates higher over the long term.

In Europe, inflation is at 2%, within the target range. Accordingly, interest rates in the euro area are expected to remain stable. However, increased fiscal spending could drive rates higher in the long run.

In Switzerland, the central bank ensures reliable monetary policy. The strong Swiss franc has a dampening effect on prices. Interest rates are expected to remain low for a longer period, also because growth in government spending is limited.

For bonds in U.S. dollars and euros, short maturities are recommended. For Swiss franc-denominated bonds, longer-term issues can also be considered.

Equities

U.S. companies remain competitive and continue to deliver solid earnings, which justifies higher stock prices in the United States. Many technology firms are barely affected by the chaotic economic policies.

European equities are low-valued relative to their earnings, a reflection of historically stagnant profit growth. A cyclical recovery could support short-term price gains. However, due to limited innovative capacity, significant long-term price increases are unlikely.

Chinese equities also appear attractively valued and offer long-term growth potential thanks to strong innovation dynamics.

Overall, equities can be slightly overweighted, with a targeted focus both on technology stocks, and defensive stocks.

Currency Outlook

The persistently high fiscal deficits in the U.S. are putting pressure on the U.S. dollar, as there are growing concerns that government debt may eventually be inflated away. In addition, the dollar remains overvalued based on purchasing power parity. Many central banks and international investors are heavily exposed to the U.S. dollar and are now gradually beginning to reduce their holdings.

Despite these developments, the dollar is expected to maintain its role as the world's leading reserve currency although in a diminished capacity. In the short term, the euro could benefit from this trend; however, the European financial market is less liquid, and economic momentum remains limited.

High government debt resulting from increased defence spending and rising pension obligations is also weighing on the euro area.

Switzerland stands out as a reliable monetary and fiscal policy actor, continuing to offer high stability.

Gold

In recent months, central banks have increasingly acted as buyers of gold to diversify their large U.S. dollar holdings in foreign exchange reserves. Gold continues to be regarded as a reliable hedge against geopolitical risks. We therefore recommend that all investors hold a limited portion of their portfolio in gold.

Asset Allocation

A slight overweight in equities, with a focus on emerging markets such as China and India, is recommended. The risk-return profile of bonds is currently unattractive: while EUR- and USD-denominated bonds offer appealing current yields, they carry significant long-term risks. Swiss franc bonds offer only modest returns but serve an important role in stabilizing the portfolio.

In the short term, the U.S. dollar should be underweighted relative to the Swiss franc.



