TURNING POINT

Investment policy
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We are facing geopolitically highly interesting times. Decades-old structures and practices are being put to the test. One of the main drivers of this dynamic is the new US administration under Donald Trump. It is redefining America's role on the world stage. We do not consider it our job to pass judgement on Donald Trump's politics. Rather, we see it as our duty to objectively assess the new, developing general conditions and draw the relevant conclusions from an investor's perspective.

New politics in the US

The US has made a change of course tantamount to a paradigm shift in its economic and foreign policy and has provoked its trading partners by announcing extremely high import tariffs on almost all imported goods. Whether this will lead to serious negotiations or staunch countermeasures in the near future and therefore to a further escalation of the trade war will be seen in the next few weeks. What is certain is that, in the short term, we need to brace ourselves for a period of much-increased economic uncertainty. This will impact willingness to consume and invest globally. At the same time, inflation risks are increasing, as the price-lowering powers of globalisation have been seriously disrupted.

In the medium to long term, we expect the trade war to ease as the major economic areas agree on mostly stable rules for economic exchange. The mutual advantages and gains in prosperity from cross-border trade are simply too great to want to do without them. In functioning democracies, a policy that ignores this fact is unlikely to last in the long term. This also applies to the current US government under Donald Trump.

Which companies are now among the winners and which ones the losers in this transition period shaped by tariffs? We caution against jumping to conclusions. In our globalised economy, goods and services are the result of highly interconnected value chains. Depending on the structure of these dependencies, available alternatives and interrelationships, consumers and producers react differently to changing cost structures.

The corporate world was not unprepared for this. Quite the contrary. Many companies have made their supply chains and production processes more resilient recently. Companies that produce leading products and services have sufficiently deep 'barriers' and associated pricing power to optimally cushion the effects of tariffs.

Europe under pressure

The US is showing Europe the cold shoulder both in trade policy and in security policy, and Europe's structural deficits are coming relentlessly to light. The conditions for correcting this are by no means bad. Compared with other regions, Europe has well-educated human resources and a broad, innovative business world. A return to the productive forces of competition and moderate regulation can sustainably increase European economies' value creation potential. The pressure from the US is acting as a kind of push here. The corrections needed will, however, take time and will not be linear. However, writing off Europe would be misguided.

One hard nut to crack on this road to improvement will be fiscal policy. State budgets are in a structural imbalance. Ad hoc savings measures will not be enough to slow the debt spiral. The governments of Europe's core countries will not be able to avoid a consistent and drastic budgetary policy. If this does not materialise, market forces will bring it about in the form of further increases in interest on debt. The British government under Liz Truss, which was brought down in record time in 2022, serves as a good example here.

Short-term euro strength

Germany has watered down its debt brake. In the short to medium term, Germany's immense, additional government spending has the potential to give the European economy the long-awaited boost and overcome the economic downturn. The market now also expects persistently higher interest rates for the euro area. This will have a supportive effect on the common currency in the short term. However, higher debts will increase inflation pressure in the long term. Relative to the Swiss franc, the euro will tend to weaken again.

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Asset allocation
Our assessment of the individual asset classes is as follows:

Equities
Valuation levels vary greatly depending on the sector. Technology stocks are justifiably expensive due to their strong growth. Outside this sector, we can see historically moderate valuations and commensurately attractive risk premiums – particularly for many Swiss stocks. We remain overweight in equities.

Bonds
The yield curves of the relevant currency areas have normalised. We are not expecting any drastic shifts. We are countering the low yield level on Swiss bonds by underweighting them. Nevertheless, we value their low-risk nature, which has always proved its worth in turbulent periods.
We hold only very limited amounts of foreign currency bonds. The yield advantage is unable to make up for the expected currency losses against the Swiss franc in the long term. The US has unambiguously signalled that it intends to take countermeasures against interventions in the currency markets in the same way as against tariffs. With interest rates close to zero, the Swiss National Bank's room for manoeuvre through interest-rate policy is already limited. The option of using foreign currency purchases to weaken the domestic currency is now becoming even less attractive. All this suggests that the Swiss franc will remain strong.

Real estate
A great deal of capital is pouring into the Swiss real estate market again. The supply of new housing, which is only growing very slowly, is a reliable basis for the valuations and transaction prices. The recurring distributions are attractive relative to the bond world. We have a neutral weighting.

Gold
The precious metal is frequently used to protect assets from political influences and avoid the negative effects of weak paper currencies. The current strong gold price reflects the prevailing uncertainty. We are maintaining our positions.