PostFinance investment compass May 2025

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PostFinance

Editorial

Keeping a cool head

The last few weeks have been hectic and unsettling. Ever since 2 April, when US President Donald Trump announced his tariff demands to the world, virtually no stone has been left unturned on trade policy and the financial markets.

Philipp Merkt
Chief Investment Officer

There has been considerable anxiety among market participants, in the media and in the political sphere. With his often reckless and economically ill-conceived policies, Trump isn't only putting the US's reputation on the line as a reliable and market-focused partner. The tariffs, which have been imposed unilaterally and largely unjustifiably, also undermine international rules and institutions that are crucial to an open and stable global trading system.

"Although you can hardly take Trump's statements literally, they do need to be taken seriously."

A few weeks later, we've seen much of Donald Trump's combative presentation be qualified. The tariffs actually implemented are often significantly lower than announced, or have been suspended. The aggressive communication on "Liberation Day" has also given way to a more conciliatory tone. The talk on all sides is of "good deals" between "good partners". The markets look to have tamed Trump somewhat.

But that shouldn't obscure the fact that this year the United States is imposing significantly more and higher tariffs than before. Their consequences will be felt – in the form of higher inflation and lower growth. Companies will adapt to this in the medium term, but that does not lessen the burden in the short term. Nevertheless, we are a long way from the "end of the world" initially imagined by more feverish commentators. What can we take from all this? Probably that we should respond to Trump's pronouncements with a little more composure. His statements can't be taken literally. Yet, we do have to take them seriously – particularly on America's relationship with China.

The United States and China are competing for economic and political leadership on the world stage. The outcome of this rivalry is easy to predict. China's rise is likely unstoppable in the long term. We can see this simply from the fact that even during economic crises, the Chinese economy grows faster than the USA in very good years. It's only a matter of time before China overtakes the USA. No trade policy can prevent this happening.

Until then, the USA is set to maintain its active rivalry with China. This suggests further tensions for the time being, even if the rhetoric coming from both sides after their talks in Geneva sounded positive. And aside from the tariffs, there are other geopolitical issues. One is Taiwan or the dispute over sovereignty in the South China Sea.

But before these flashpoints flare up, the increased tariffs will lead to higher inflation in the USA. At the same time, the US economy is facing a slowdown. Normally, we would expect to see a recession as the only event that could bring inflation back down. Lower growth, higher inflation or even a recession are all arguments against excessively high risk appetite on the financial markets.

We therefore remain cautious. It's too early to take big risks.

Positioning

Caution still advised

Although the situation has eased in terms of both the US trade dispute and financial markets, import tariffs remain high, threatening to push US inflation back up and slow growth. We therefore remain cautiously positioned.

Financial markets initially suffered significant losses on the back of the threat of punitive tariffs. However, last month saw a countermove as reciprocal tariffs were unexpectedly suspended for 90 days. The recovery was particularly marked in Europe, with European stock markets now trading close to their highs and clearly in positive territory for the year as a whole. The stock markets in the USA also recovered, though to a lesser extent. The global recovery was fuelled by hopes of an easing of tensions in the trade conflict with the United States.

“Despite progress in the negotiations, import tariffs are likely to be higher than before President Trump took office.”

Higher import tariffs despite progress in the trade dispute

Recently, the US government has signalled initial progress in trade negotiations. An agreement with the UK was announced, and initial talks also took place between the USA and China. However, the details currently available suggest that these developments can hardly be considered a resounding success in comparison with the punitive tariffs. While the UK was able to achieve a reduction in tariffs on car and steel exports, the country still faces punitive tariffs of around 10 percent. There was also some rapprochement between the USA and China, with each side agreeing to reduce their respective tariffs by 115 percent. Nevertheless, tariffs of 30 percent on Chinese exports and 10 percent on US goods remain in place. Despite the progress made in the negotiations, import tariffs are, in turn, likely to be significantly higher overall than before President Trump took office.

Performance of asset classes

Asset class		1M in CHF	YTD[1] in CHF	1M in LCY[2]	YTD[1] in LCY[2]
Currencies	EUR	0.1%	–0.7%	0.1%	–0.7%
	USD	–2.6%	–8.5%	–2.6%	–8.5%
	JPY	–2.0%	–1.1%	–2.0%	–1.1%
Fixed Income	Switzerland	1.6%	0.4%	1.6%	0.4%
	World	–0.7%	–4.1%	1.9%	4.7%
	Emerging markets	–0.2%	–6.6%	2.4%	2.1%
Equities	Switzerland	8.5%	6.6%	8.5%	6.6%
	World	11.2%	–8.0%	14.1%	0.5%
	USA	11.1%	–11.6%	14.0%	–3.4%
	Eurozone	12.3%	9.8%	12.3%	10.6%
	United Kingdom	9.3%	2.7%	8.0%	5.9%
	Japan	9.1%	–4.0%	11.4%	–2.9%
	Emerging markets	10.4%	–2.7%	13.3%	6.3%
Alternative Investments	Swiss real estate	3.1%	2.3%	3.1%	2.3%
	Gold	8.3%	17.6%	11.2%	28.5%

1 Year-to-date: Since year start
2 Local currency

Data as of 8.5.2025
Source: Allfunds Tech Solutions, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

Persistent scepticism towards the US stock market

Import tariffs and uncertainty surrounding the trade dispute continue to weigh on the US's economic prospects. The general environment continues to be one of heightened uncertainty even though the new trade agreements mean that people's worst fears are unlikely to materialize. Combined with already subdued consumer confidence, the picture for the US economy looks gloomy. First-quarter US economic growth figures show that private consumption has already lost momentum. The contribution from consumption has halved compared to the previous quarters, although consumers facing the threat of increased tariffs are likely to have brought purchases forward. For many companies, import tariffs are also set to weigh on margins in the coming months. Against this backdrop, the recent recovery on the US stock markets doesn't look sustainable.

Preference for value stocks

The increased import tariffs also threaten to push US inflation higher again. Following May's monetary policy meeting, chair of the US Federal Reserve Jerome Powell also acknowledged that the risks of a renewed rise in inflation have risen. It means monetary policy is likely to remain restrictive for some time to come, and hopes of support in the near future have receded somewhat. We are therefore continuing to focus on less interest-sensitive value stocks and are underweighting the US market. Besides our cautious positioning, we're also maintaining our overweight position in the Japanese yen and continue to prefer listed Swiss real estate funds, which are less affected by the trade conflict.

Positioning relative to long term strategy: Swiss focus

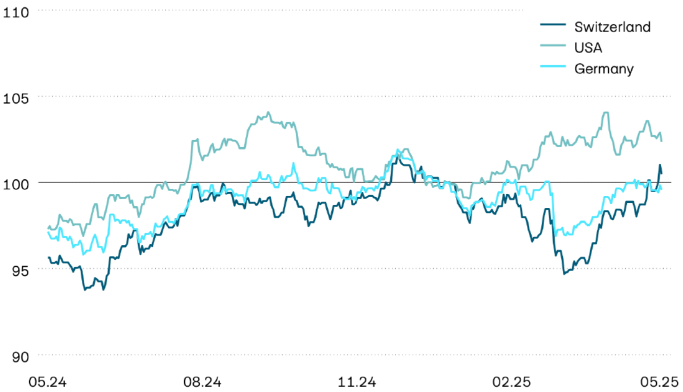
Asset class		**TAA[1] old**	**TAA[1] new**	**underweighted[3]**		**neutral[3]**	**overweighted[3]**	
				– –	–		+	++
Liquidity	**Total**	**4.0%**	**4.0%**		■			
	CHF	1.0%	1.0%			■		
	Money market CHF	1.0%	1.0%	■				
	Money market JPY	2.0%	2.0%				■	
Fixed Income	**Total**	**35.0%**	**35.0%**				■	
	Switzerland	17.0%	17.0%			■		
	World[2]	10.0%	10.0%			■		
	Emerging markets[2]	6.0%	6.0%			■		
	US government bonds[2]	2.0%	2.0%				■	
Equities	**Total**	**48.0%**	**48.0%**		■			
	Switzerland	23.0%	23.0%			■		
	USA	8.0%	8.0%	■				
	Eurozone	4.0%	4.0%			■		
	United Kingdom	2.0%	2.0%			■		
	Japan	2.0%	2.0%			■		
	Emerging markets ex China	5.0%	5.0%			■		
	China	2.0%	2.0%			■		
	World Value	2.0%	2.0%				■	
Alternative Investments	**Total**	**13.0%**	**13.0%**				■	
	Swiss real estate	8.0%	8.0%				■	
	Gold[2]	5.0%	5.0%			■		

[1] Tactical Asset Allocation: short to mid-term orientation
[2] Currency hedge to CHF
[3] Positioning relative to our long-term asset allocation

Fixed income

While US bond markets remained at the previous month's level, the trade conflict clearly led to increased demand for European bonds, which gained in value month-on-month.

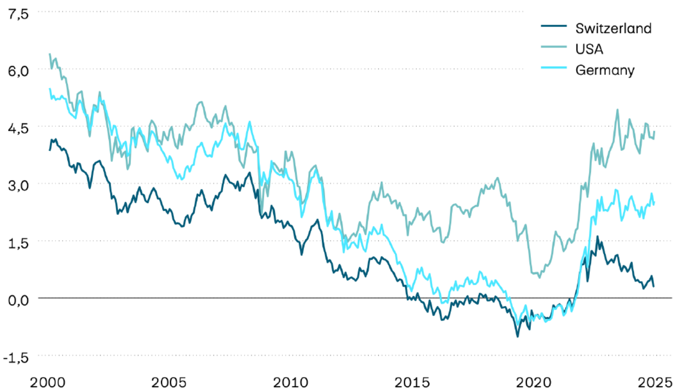
Indexed performance of government bonds in local currency
100 = 01.01.2025



The bond markets in Europe and the USA posted differing performance last month. European government bonds saw greater demand in light of increased uncertainty in the USA and a more supportive monetary policy in Europe. Government bonds in Europe and Switzerland continued to gain in value, whereas the performance of US government bonds was virtually unchanged month-on-month. The trend in Switzerland was particularly striking. The announced inflation rate of 0 percent fuelled concerns about a return to negative interest rates. As a result, yields to maturity fell significantly across large parts of the yield curve, with the curve up to a maturity of five years falling back below zero at times.

Source: SIX, Bloomberg Barclays

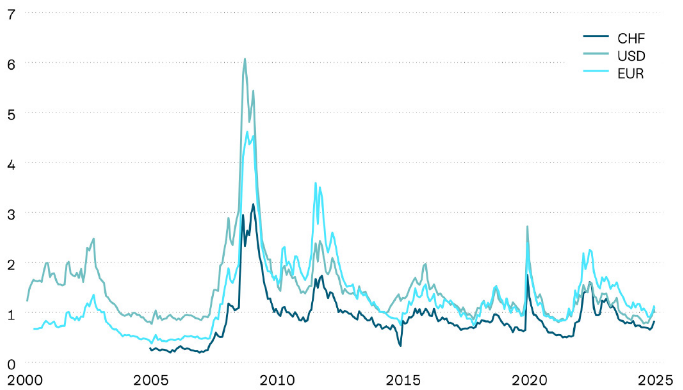
Trend in 10-year yields to maturity
In percent



In the USA, the announcement of comprehensive import tariffs was followed by a brief, sharp rise in yields to maturity. The markets clearly responded with concern to the aggressive economic and trade policies, and the resulting ongoing inflationary pressure. However, the subsequent pause in tariffs and hopes that the tariff conflict would not escalate to the extent feared led to an easing of tensions, which meant that the rise in interest rates was largely corrected. Yields to maturity of 10-year government bonds are now back at the 4.3 percent level. In Europe, by contrast, yields to maturity are down 10 to 20 basis points month-on-month. In Switzerland, 10-year Swiss government bonds are yielding around 0.30 percent, only just above zero.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



The ramifications of the trade conflict continue to be felt on the corporate bond markets. Yield spreads remain high against a backdrop of increased uncertainty. Unlike the equity markets, which have almost fully recovered, there has been no comparable easing of tensions on the corporate bond markets to date. However, risk premiums remain below the levels typically seen in times of recession.

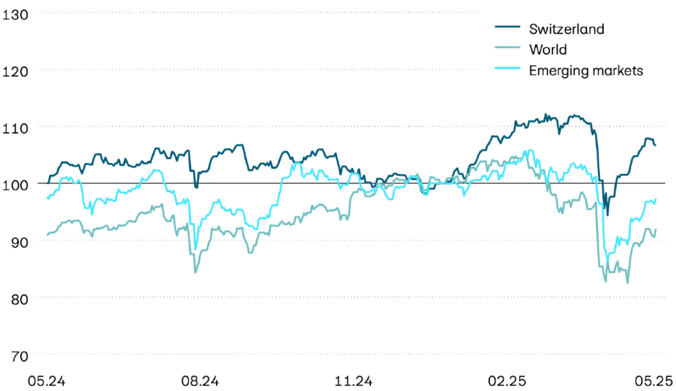
Source: Bloomberg Barclays

Market overview

Equities

Last month, equity markets recovered from their sharp decline triggered by the US trade dispute. European markets, in particular, saw a significant recovery and are now trading back above their year-opening price levels.

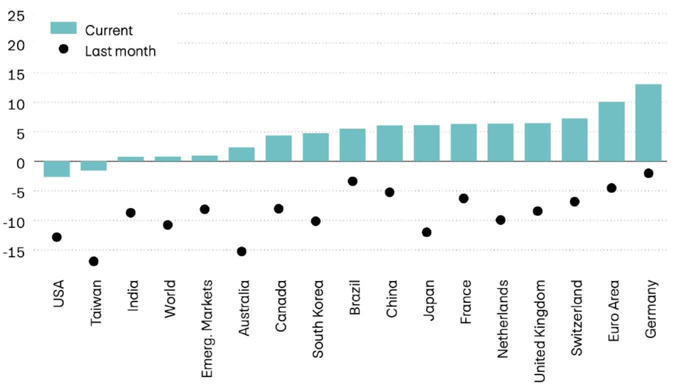
Indexed stock market performance in Swiss francs
100 = 01.01.2025



Global stock markets performed well last month, fuelled by a general sense of optimism. The mood improved significantly on hopes of agreement in the trade talks, in particular between the USA and China. The upbeat market sentiment was bolstered by generally favourable corporate reporting. Most European stock markets have since returned to positive territory. Despite the increase in US tariffs on Chinese goods and China's subsequent retaliatory measures, emerging market stocks also proved surprisingly resilient. US stock markets likewise picked up strongly over the month. However, the major indices continue to show negative returns for the year as a whole. Given the strength of the franc, this was only of limited benefit to Swiss investors.

Source: SIX, MSCI

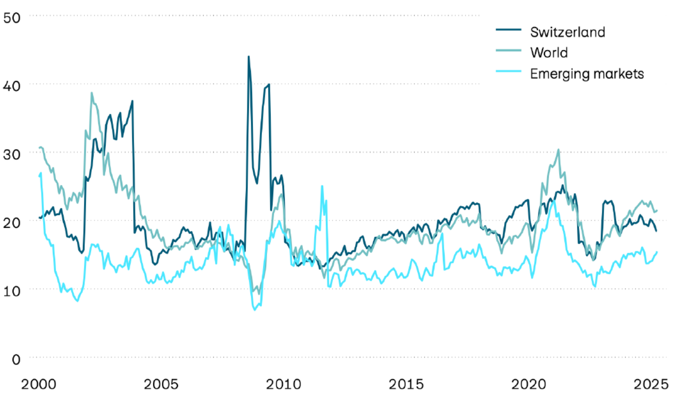
Momentum of individual markets
In percent



Momentum on most stock markets returned to positive territory last month. The announcement of a 90-day pause in reciprocal tariffs looks to have raised hopes of an early resolution to the trade conflict and is likely to have contributed significantly to the recovery. Markets with large tech sectors, such as the USA and Taiwan, continue to be outliers. These stock markets are not only trading below their highs for the year, but also beneath their year-opening levels.

Source: MSCI

Price/earnings ratio
P/E ratio



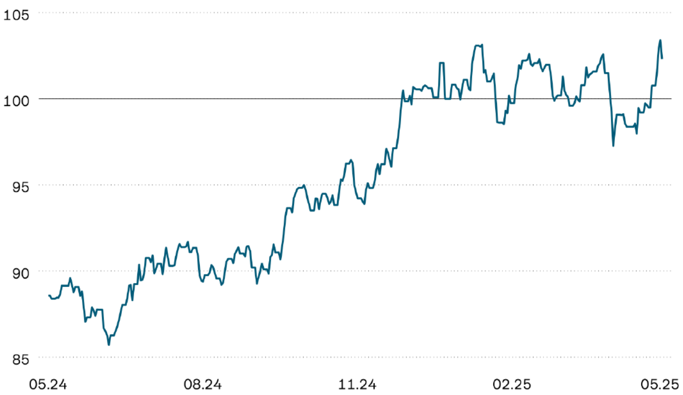
With the strong recovery in stock market prices last month, price/earnings ratios (P/E ratios) are currently back at a level similar to the end of March. P/E ratios in emerging markets in particular have risen significantly, which is likely largely in response to price performance. Prices not only fell less sharply during April's market turmoil, they are also now back at this year's highs reached in March.

Source: SIX, MSCI

Swiss real estate investments

While Swiss real estate funds were not entirely spared the market turmoil in April, they did recover strongly this month.

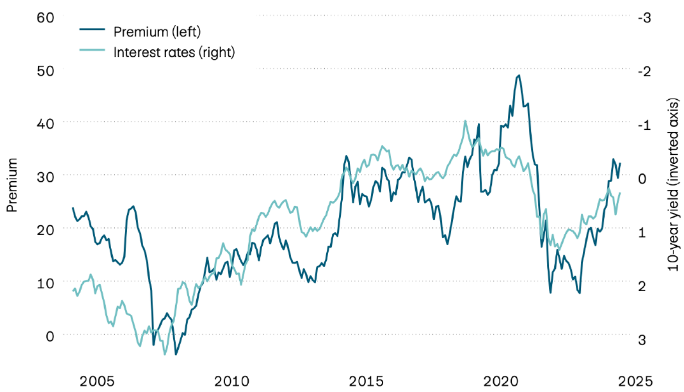
Indexed performance of Swiss real estate funds
100 = 01.01.2025



Source: SIX

Like the stock markets, Swiss real estate funds recovered from the turbulence on the markets this month. It means the annual performance of real estate funds is now over 3 percent for the year as a whole, clearly back in positive territory. The decline in capital market interest rates in Switzerland to just under 30 basis points is likely to have helped to maintain robust demand for real estate funds.

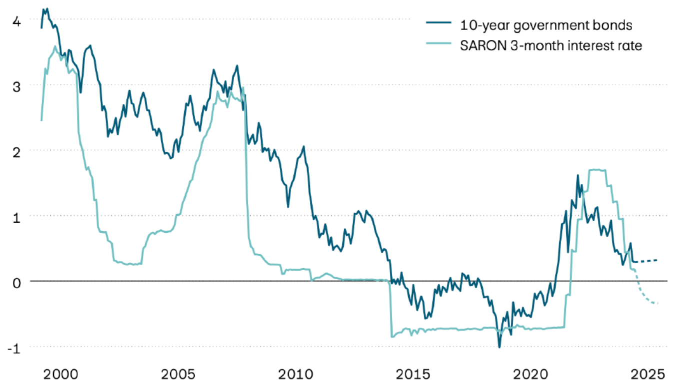
Premium on Swiss real estate funds and 10-year yields to maturity
In percent



Source: SIX

The positive performance of exchange-listed Swiss real estate funds led to another increase in the premium that investors usually have to pay on the stock exchange versus the actual net asset value (NAV) of properties. These premiums are now back near their highs for the year to date and remain above the historical average.

3-month Saron and 10-year yields to maturity
In percent



Source: SIX

Yields to maturity on 10-year Swiss government bonds fell significantly again last month following a brief rise. Whereas yields to maturity were initially just under 50 basis points, they stood at just 20 basis points at the end of April. Long-term interest rates remain above the 3-month SARON. This difference is likely to widen further, as inflation in Switzerland is now at 0 percent and market participants are expecting the Swiss National Bank to cut interest rates further.

Find out more in our interest rate forecast for mortgages.

Market overview

Currencies and cryptocurrencies

The US dollar was weak again this month. Conversely, the Swiss franc remains in demand and made significant gains against the US dollar once more.

The Swiss franc gained a further 4 percent against the US dollar this month and is trading at its highest level for 15 years. Against the euro, the Swiss franc remained stable. Despite the severe weakening of the US dollar in recent weeks and months, the American currency remains overvalued on a trade-weighted basis measured by purchasing power parity.

Currency pair	Price	PPP[1]	Neutral area[2]	Valuation
EUR/CHF	0.93	0.91	0.84 – 0.98	Euro neutral
USD/CHF	0.82	0.80	0.70 – 0.90	USD neutral
GBP/CHF	1.10	1.20	1.04 – 1.36	Pound neutral
JPY/CHF	0.57	0.87	0.71 – 1.03	Yen undervalued
SEK/CHF	8.52	10.07	9.00 – 11.14	Krona undervalued
NOK/CHF	7.96	10.55	9.30 – 11.79	Krona undervalued
EUR/USD	1.13	1.14	0.99 – 1.29	Euro neutral
USD/JPY	143.83	92.03	70.59 – 113.47	Yen undervalued
USD/CNY	7.23	6.26	5.78 – 6.74	Renmimbi undervalued

Cryptocurrency	USD rate	YTD in USD[3]	Annual high	Annual low
Bitcoin	103'261	10.58%	106'149	76'244
Ethereum	2'192	–34.21%	3'685	1'471

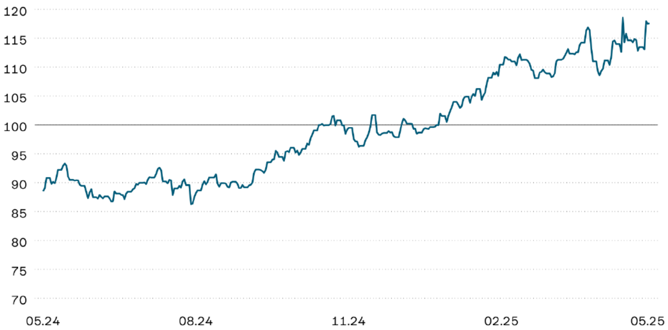
1 Purchasing power parity. This metric calculates an exchange rate using relative inflation rates.
2 Range of historically normal fluctuations.
3 Year-to-date: Since year start

Source: Allfunds Tech Solutions, Coin Metrics Inc.

Gold

The gold price, measured in Swiss francs, rose almost to its highest level again last month.

Indexed performance of gold in Swiss francs
100 = 01.01.2025



Towards the end of the month, the precious metal recouped the losses suffered at the beginning of the month. This puts the precious metal's annual return back well above 15 percent, still clearly outperforming most stock markets.

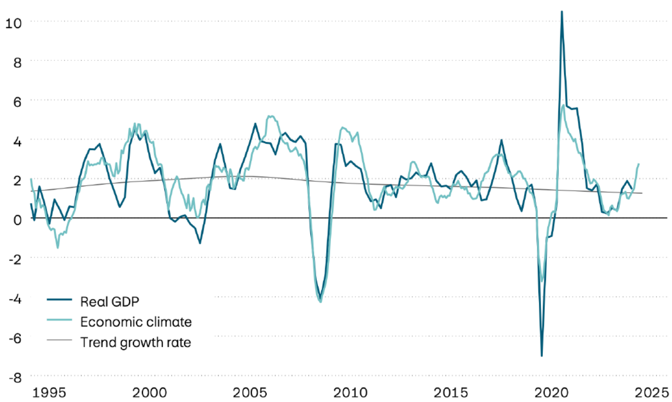
Source: Allfunds Tech Solutions

Economies look ahead

The latest economic figures are deceptive. In many economies, orders brought forward in response to trade restrictions – both threatened and in some cases already implemented – have, for now, boosted industrial production and, in turn, economic growth. In the USA, by contrast, economic output is likely to have been underestimated, as unusually high import volumes are depressing national income in purely arithmetic terms. We'll only see the extent to which the new tariff policy actually slows the global economy in the coming weeks and months.

Switzerland

Growth, sentiment and trend
In percent

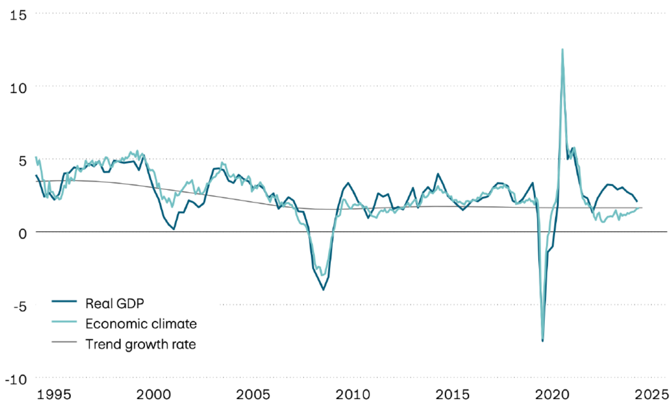


In Switzerland, many industrial companies brought their US orders forward in an effort to pre-empt the tariffs already announced. In March, the volume of non-pharmaceutical goods exported rose more than fivefold compared to the same month last year. However, companies see this increase as a one-off effect and expect a significant decline in business in the coming months. Sentiment in industry has clearly slipped back into negative territory. The situation is somewhat more stable among service providers, who continue to benefit from robust domestic demand. The latest inflation data has also caused a stir. The inflation rate fell to 0 percent, increasing the likelihood of further interest rate cuts by the Swiss National Bank (SNB).

Source: Bloomberg

USA

Growth, sentiment and trend
In percent



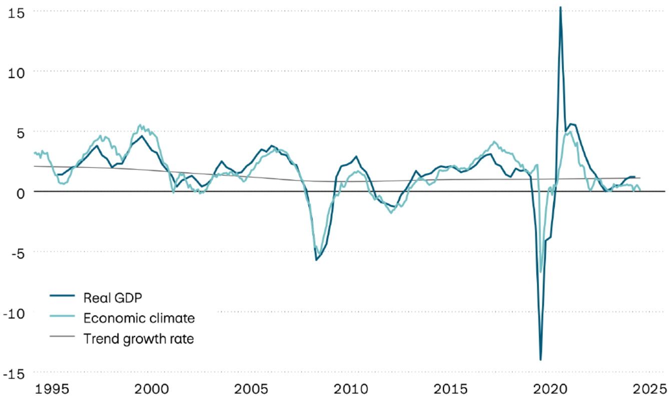
According to official estimates, the US economy contracted slightly in the first quarter of 2025. However, these figures probably cast economic performance in a somewhat overly negative light, as the sharp rise in imports following the trade restrictions, both threatened and in some cases already implemented, is depressing national income in purely arithmetic terms. That said, we have not yet seen any real economic downturn: business sentiment continues to be stable at a rather low level and the labour market remains close to full capacity. Conversely, private consumption has weakened significantly. Of the strong demand underpinning growth in recent years remains, barely half remains. This is hardly surprising given the sharp decline in consumer confidence. We'll only see the extent to which the latest trade policy measures are placing additional strain on the economy over the course of the year.

Source: Bloomberg

Eurozone

Growth, sentiment and trend

In percent



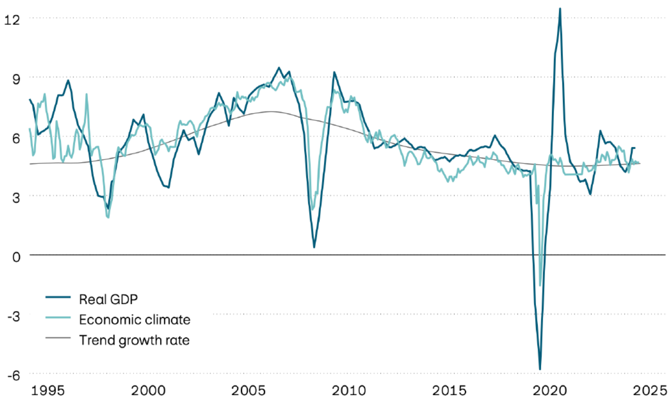
In the eurozone, economic output grew by 0.4 percent overall, performing somewhat more strongly than in the preceding quarters. However, this rise is less likely to do with any broad-based upswing and more the result of companies bringing forward US orders in response to the threat of trade restrictions. The sluggish recent recovery in business sentiment reinforces this view. Despite subdued economic momentum, inflation picked up again slightly: core inflation rose from 2.4 to 2.7 percent in April. Nevertheless, the financial markets are expecting further interest rate cuts from the European Central Bank (ECB).

Source: Bloomberg

Emerging markets

Growth, sentiment and trend

In percent



India continues to be the engine of growth among the emerging markets. Its economy is benefiting both from robust international demand as well as strong population growth and rising domestic demand. Business sentiment also continues to point to brisk business activity. Performance in Indonesia is similarly positive at the moment. The situation is much more difficult in Brazil, where the economy is cooling noticeably. China is also lagging behind expectations: the world's second-largest economy is slowing due to the ongoing real estate crisis and deep-seated structural problems. The slowdown is being exacerbated by an escalating trade conflict with the USA, with reciprocal tariffs exceeding 100 percent. Against this backdrop, the Chinese government's fiscal policy support measures have so far proven largely ineffective.

Source: Bloomberg

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y[1] 2025Q1	n.a.[4]	2.0%	1.2%	1.3%	n.a.[4]	n.a.[4]	n.a.[4]	5.4%
GDP Y/Y[1] 2024Q4	1.9%	2.7%	1.2%	1.5%	1.2%	6.2%	3.6%	5.4%
Economic climate[2]	↗	↘	↘	↘	↗	↗	↘	→
Trend growth[3]	1.3%	1.6%	0.8%	1.8%	1.1%	5.3%	1.8%	3.7%
Inflation	0.0%	2.3%	2.2%	2.6%	3.6%	3.3%	5.5%	–0.1%
Key rates	0.25%	4.5%	2.4%[5]	4.5%	0.5%	6.0%	14.25%	3.1%

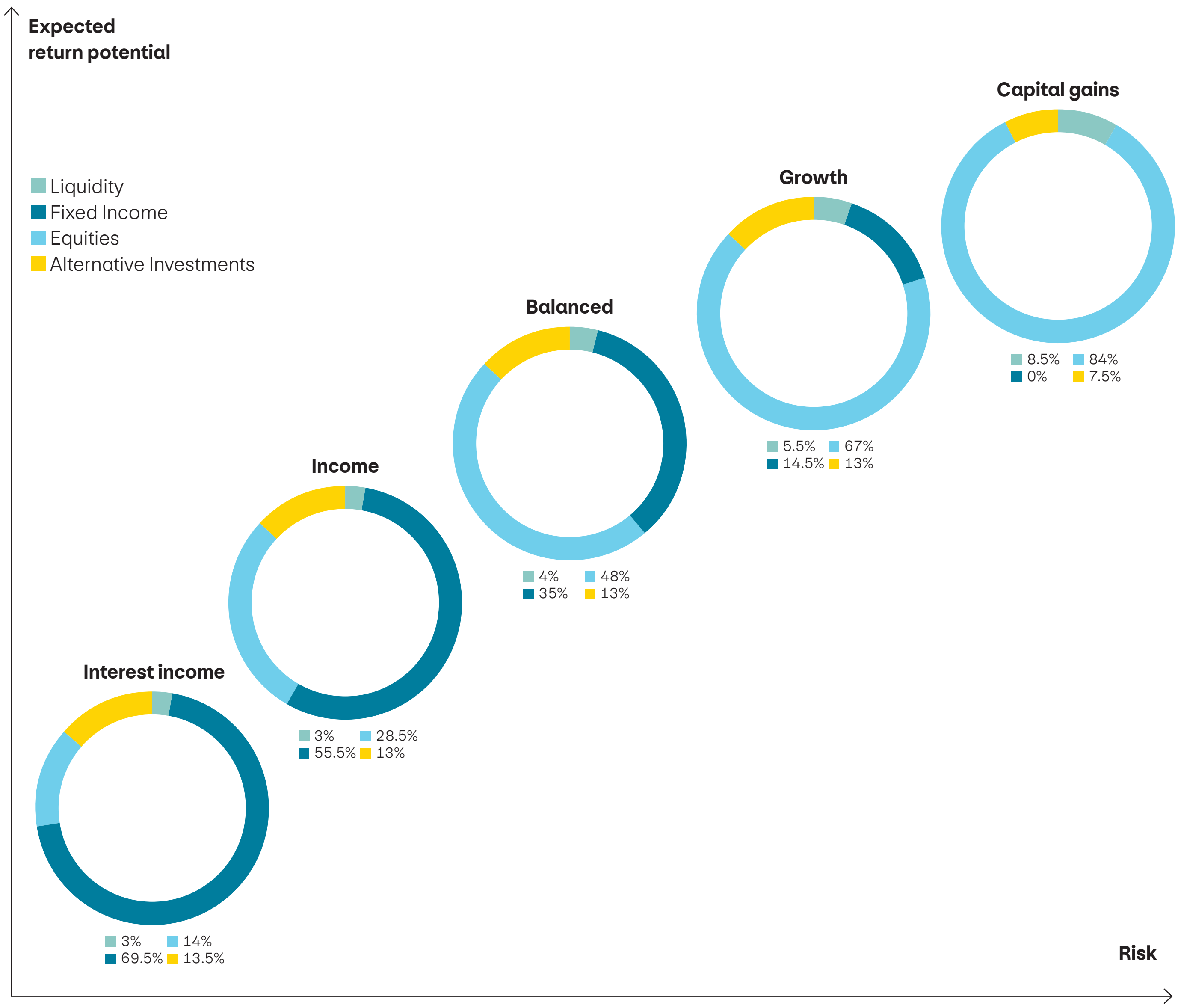
1 Growth compared to year-ago quarter
2 Indicator, measuring the overall sentiment and typically leading 1 to 2 quarters in advance of GDP. Green arrow indicates an increasing economic growth, red arrow a slowing.
3 Potential growth. Long-term change in gross domestic product with sustainable capacity utilization.
4 No data available
5 This is the ECB's main refinancing rate, the deposit rate is 0.15 percentage points lower.

Source: Bloomberg

Model portfolios Swiss focus

Caution

There were signs of progress in the trade conflict last month. An initial agreement was announced with the UK and talks were held between the USA and China in Geneva. The financial markets seem to welcome this development. However, it is also clear that even such agreements fall short of delivering real relief from tariffs. Although the newly negotiated tariffs are less extensive, import tariffs have risen significantly overall under the Trump administration. This means that higher inflation and lower growth can be expected in the US. Our positioning remains cautious in this environment. We continue to underweight the US equity market, favour global value stocks and maintain our overweight in defensive investments such as the Japanese yen and Swiss real estate funds.



Source: PostFinance Ltd

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