

Investment Policy

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Key points

Dollar trajectory unknown

The US government's **economic policies** may seem outwardly haphazard, but there is one constant: making the rest of the world pay for its trade and public deficits. Though America is the world's largest economy, it feels that it has been taken for a ride and is retorting with 'remedial' measures that could in turn cause turmoil.

In the spotlight, the **trade war** is bringing an end to the liberal economic order that the US itself had championed since 1945 and which gained momentum with the fall of the Berlin Wall in 1989 and China's accession to the World Trade Organization (WTO) in 2001. The US is determined to claw back the manufacturing jobs lost during the era of globalisation and the successive waves of offshoring. Alternatively, foreign companies could be asked to pay to access the US domestic market to help finance tax cuts. In today's interconnected and interdependent world, supply chains risk permanent disruption, global business trends could falter and US inflation may resurface.

But that's not all. The "One Big Beautiful Bill Act" **budget reconciliation legislation** has foreign investors in its crosshairs. The 2017 tax cuts, set to lapse at the end of this year, are due to be rolled over at a hefty cost, leaving the government scrambling for extra revenue. The trouble is that tariffs and spending cuts may yield too little. Section 899 of this bill therefore authorises the government to impose taxes on foreign companies and on non-resident investors' income streams such as dividends, coupons or real estate.

If enacted, such measures would diminish the **attractiveness of US assets** for foreign investors in dollar terms. Correspondingly, we have been reducing green-back exposure across all our portfolios since the beginning of the year.

Scenario and conclusions

- **Economy:** trade war causing angst and anxiety
- **US:** budget bill making its way through Congress for ratification this summer
- **Central banks** continue monetary easing, except for the Fed, which is taking its time
- **China:** deflation risk still an issue

- **Equities:** underweight, preference for non-US equities
- **Bonds:** overweight outside of CHF (high-quality corporate bonds, IG)
- **Currencies:** preference for CHF, further down-grade in USD exposure
- **Cash:** neutral

Asset allocation

Equities

Sovereign bonds

Credit

Alternative investments

Cash

Equities

US

Europe

Switzerland

Japan

Emerging markets

Bonds

Sovereign

Corporate investment grade

High-yield corporate

Emerging market sovereign (USD)

Emerging market sovereign (local)

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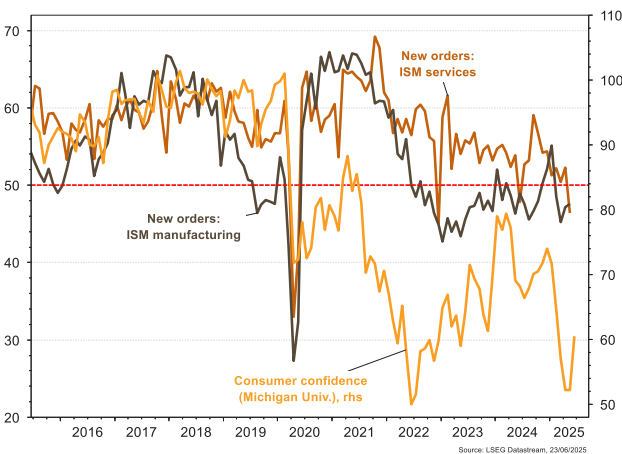
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Equities					
Sovereign bonds					
Credit					
Alternative investments					
Cash					
Equities					
US					
Europe					
Switzerland					
Japan					
Emerging markets					
Bonds					
Sovereign					
Corporate investment grade					
High-yield corporate					
Emerging market sovereign (USD)					
Emerging market sovereign (local)					

Economy: Brace for a hot summer

For now, we will refrain from commenting at length on the tariffs the Trump administration wants to impose on its trading partners, as the final details have yet to be determined. But the trade war is making the reported economic data hard to interpret. Granted, **business data** remain broadly resilient, but **sentiment indices** for households, manufacturing and services point to weaker growth (**Chart 1**). This is evident in the US, Europe and China alike.

Chart 1 | US: nosedive in confidence!



Understandably, economic agents exposed to customs duties have brought forward some of their purchases. Companies have accelerated capital spending and stockpiling, while households have advanced discretionary purchases.

As evidence, the 0.2% quarter-on-quarter contraction in **US GDP** in Q1 (annualised) was not due to weak domestic demand, but to a deeply negative trade balance contribution of 4.9%, driven by unusually large imports. Sadly, the outlook for demand is not quite as encouraging based on leading indicators such as purchasing manager sentiment. Both ISM manufacturing and ser-

vices indicators have entered contraction territory, with the former dropping from 50.5 in January to 48.5 in May (new orders at 46.6), and the latter from 52.8 to 49.9 (new orders down sharply at 46.4).

According to optimists, a rollback in tariffs is possible and could help soften the economic slowdown and trigger a recovery in confidence indices. But if matters were to escalate further, a recession would be all but inevitable. Our view is that the labour market will be the decisive factor in determining which way the economy swings. For now, hiring is still holding up in the US, as some 139,000 jobs were added in May. By contrast, weekly initial jobless claims have been trending upward this year, rising from 200,000 at the start of 2025 to 247,000 in May, pointing to a degree of weakness in the labour market.

Inflation may have been slowing recently but could turn upwards again once the effects of tariffs are felt. Meanwhile the Fed's foot-dragging has incurred the executive's wrath (**Chart 2**). As with tariffs, we will have to wait until after the summer to see what shape the budget ultimately takes. The plan approved by the House of Representatives still requires Senate endorsement, and some horsetrading between the two chambers remains likely, especially if the size of the projected deficits unsettles bond markets.

The first-quarter GDP surge in the **Eurozone** (+0.6% q/q) was driven by one-off factors. Exports to the US climbed by 25% over the period, mirroring the US trade deficit. Industrial production also rose by 2.2%. In Germany, however, the trend reversed sharply in April, with exports plunging 15% month-on-month and industrial production contracting by 1.4%. It will take until next year for the positive effects of Germany's fiscal boost to become visible. Until then, it is probably facing a period of economic stagnation. The ECB's monetary policy is providing further stimulus. Now that the inflation target has been met, with prices rising by 1.9% year-on-year,

Financial markets

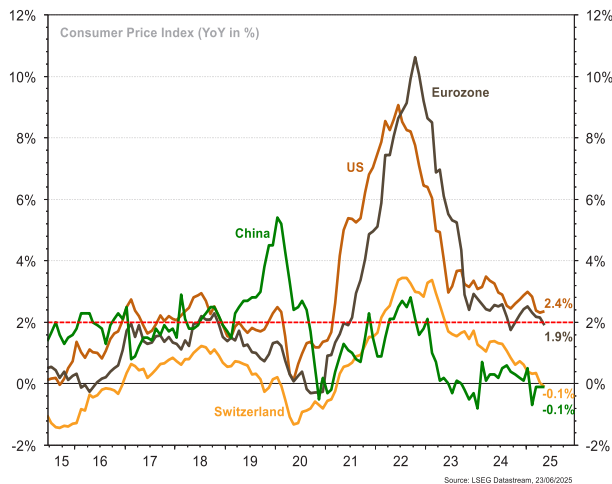
*) To 20.06.2025	Performance			Valuation			Earnings growth			
	Price (local currency)	Quarter Q2*)	Since 31 Dec 2024	12-month P/EPS	Dividend yield	Price/net assets	12-month EPS	2025 EPS	2026 EPS	2027 EPS
Equity markets										
United States	5 704.06	6.69%	1.55%	22.01	1.5%	5.3	12%	9%	14%	13%
Europe	536.53	0.49%	5.69%	14.40	3.2%	2.2	7%	3%	11%	11%
Japan	2 771.26	4.20%	-0.49%	13.89	2.4%	1.4	6%	4%	11%	8%
Switzerland	11 871.32	-5.80%	2.30%	16.69	3.1%	4.0	9%	8%	10%	10%
United Kingdom	4 765.29	3.10%	6.70%	12.55	3.4%	2.0	7%	3%	11%	11%
Emerging Markets (USD)	1 189.85	8.03%	10.60%	12.63	2.8%	1.9	12%	12%	13%	11%
World (USD)	3 881.69	6.97%	4.69%	19.43	2.0%	3.6	10%	7%	13%	12%

Source: Datastream, IBES consensus

there is scope to cut interest rates to sustain economic growth (**Chart 2**).

Robust exports powered **Swiss** GDP growth to 0.8% quarter-on-quarter in Q1 2025, adjusted for sporting events. Lending an additional helping hand was the construction industry, spurred on by a cumulative 150bp

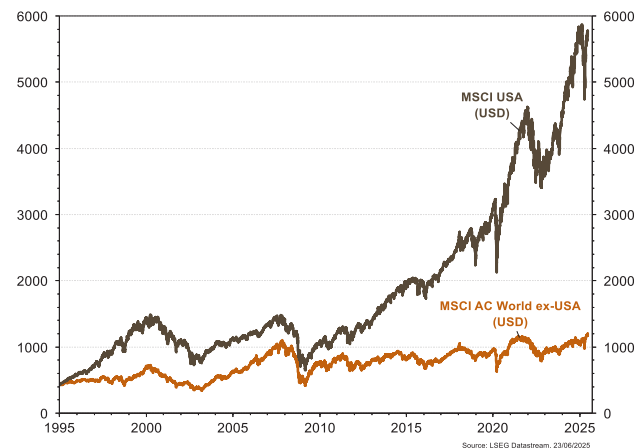
Chart 2 | World: inflation hits ECB and SNB targets



rate cut over the past year. The stronger franc and lower energy prices have sent inflation back into the red (-0.1% y/y), meaning no respite for the SNB. Negative rates are once again looming (**Chart 2**). A loose monetary policy would be especially beneficial given that the economic outlook is still gloomy, particularly in manufacturing (PMI down at 42.1). Making matters worse, the Swiss economy is heavily dependent on exports, which account for roughly 50% of its GDP, making it particularly exposed to the current wrangling over trade. Concurrently the US Treasury, in its semi-annual report to Congress, has placed Switzerland back on its list of countries suspected of manipulating their currency. For now, this is not a definitive ruling, but inclusion in this list will do little to support efforts to negotiate lower tariffs.

In **China**, the same swings in cross-border trade data are evident as elsewhere. In April, exports may have risen by 4.8% year-on-year, but shipments to the US (which accounts for roughly 10% of China's exports) plunged by 34.5%, suggesting that Beijing is seeking ways to circumvent the tariffs. For the Chinese authorities, managing talks with Washington is just one of several priorities. Prices contracted by 0.1% year-on-year in May, showing that deflation still threatens. The PBoC is stepping up efforts to prevent deflation from taking hold, cutting the five-year Loan Prime Rate by 0.1 percentage point to 3.5% and lowering the one-year counterpart to 3%. The reserve requirement ratio for major banks was likewise reduced from 9.5% to 9% to boost lending. And there is probably more monetary easing to come.

Chart 3 | Equities: preference for international equities (non US)



10-year sovereign bonds	Level at 20.06.2025	Change Q2*) (bps)	Change since 31 Dec 2024 (bps)
USD yields – United States	4.37%	16	-20
EUR yields – Germany	2.51%	-18	15
JPY yields – Japan	1.40%	-7	31
CHF yields – Switzerland	0.40%	-18	16
GBP yields – United Kingdom	4.53%	-14	-4
Emerging markets (USD)	6.75%	-8	-20
Emerging markets (local currency)	3.69%	-7	10
Commodities	Price	Quarter Q2*)	Since 31 Dec 2024
Gold (USD/oz)	3 367.64	7.8%	28.0%
Brent (USD/bl)	78.53	5.1%	4.5%

FX	Level at 20.06.2025	Change Q2*)	Change since 31 Dec 2024
EUR vs. CHF	0.9416	-1.49%	0.33%
EUR vs. USD	1.1514	6.60%	11.19%
EUR vs. JPY	168.0212	4.02%	3.25%
EUR vs. NOK	11.6509	2.38%	-0.93%
GBP vs. EUR	1.1707	-2.04%	-3.24%
GBP vs. USD	1.3465	4.32%	7.51%
USD vs. CHF	0.8177	-7.58%	-9.78%
USD vs. CAD	1.3730	-4.61%	-4.54%
AUD vs. USD	0.6467	3.77%	4.44%

Source: Datastream

Monetary preferences

Rank 1 Appreciation expected	Rank 2 Stabilisation	Rank 3 Depreciation expected
CHF GOLD	EUR GBP JPY	↓ USD
<ul style="list-style-type: none"> ▪ CHF: haven and hedging currency, which compensates for lower yield; no longer overvalued ▪ GOLD: rate cuts and any dollar depreciation will provide support; hedge against geopolitical risk and excessive public debts 	<ul style="list-style-type: none"> ▪ EUR: the expected improvement in the growth outlook is supportive, as is the currency's affordable valuation ▪ GBP: attractive valuation and returns ▪ JPY: very attractively valued, helped by contrarian monetary policy (rate hikes) 	<ul style="list-style-type: none"> ▪ ↓ USD: lofty valuation, higher public deficit than for other countries and gloomier outlook for economic growth relative to the rest of the world

Investment conclusions

The uncertainty hovering over trade and fiscal policies in Washington is likely to hurt US asset prices even more going forward. Our response has been to continue reducing the size of **US equity allocations** and cutting our dollar exposure. Both are overvalued, in our view, and do not price in the hit to their fundamentals that we expect to see.

Staying with equities, we have cut earnings growth estimates for the current year on both US and Eurozone stocks. Yet relative to the US, European equities are trading on more affordable valuations, in line with their past average and at levels compatible with estimated growth rates (**Chart 3**). Monetary policies in these countries are also more supportive.

As stated above, **USD** has risen to lofty levels, following an unusually extended upcycle. Most strikingly,

compared with other currencies, its fundamentals are deteriorating as we write. The public deficit is expected to widen, while elsewhere deficits are being reduced. Economic growth is slowing in the US but stabilising in other regions. At the same time, the appeal of USD-denominated assets is being undermined by protectionism. Within **USD** profiles, we have trimmed exposure to **sovereigns and rotated into hedge funds** – an investment strategy favoured by current conditions in which volatility is high and dispersion is rising. In **EUR** portfolios, our more upbeat view on business conditions has prompted us to increase exposure to **high-yield** debt while reducing holdings of government bonds. Yield-chasing persists in **CHF**, just as the SNB weighs up moving the benchmark policy rate back into negative territory.

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