

Cham, July 4th 2025

Outlook into the 3rd Quarter 2025

Trump Years – Volatile Years

After the darkest April, we had the best May in decades. After April 2, the so-called Liberation Day, all asset classes – stocks, bonds, and currencies – collapsed in unison for the first time since the 1970s and then recovered in unison in May. Not even gold or cryptocurrencies were able to escape this roller coaster. In days like these, long-standing experience is important and reassuring:

- Trump has repeatedly made a 180° turn with his erratic tariff policy. The stock market effects have frightened him: it is Trump's stock market performance, not Biden's. Moreover, the leading indicator "investor confidence" has shocked the White House: the historic plunge from a positive 115 points to a pessimistic 84 points in just two months of "Trump" is statistically unprecedented.
- Capitalist America dislikes the globalist as the new class enemy. A break from globalism back to mercantilism would be comparable to the end of the gold standard in 1974, to the detriment of the dollar. Comparing Trump to Nixon, however, would be somewhat exaggerated.

We have also repeatedly mentioned the presidential pressure on the central bank's independence. Although the Fed is constitutionally protected, these attacks are worrying the financial markets. Powell is ignoring the pressure from the White House and is not pursuing a reserve interest rate policy. The scenario of a recession, or stagflation, is not yet completely off the table.

Investments in the US should be encouraged. Deals, in other words. But the almost daily threats of tariffs and taxes are scaring off investors and making sensible long-term planning difficult. The US president still has several options for burdening global investors with taxes and duties. Apart from the existing inheritance taxes, there is also the threat of the almost ignored Section 899. Its application is rather unlikely, as it would lead to an undesirable flight of capital from the US.

Although the omnipotence of the White House is currently clashing with reality and the law, the US President can be expected to test the limits of the system at any time. President Trump is acting in advance with executive orders, bypassing Congress. He issued more of them in his first 100 days than his predecessors Biden and Obama did during their entire terms in office. Meanwhile, Wall Street is reacting to Trump's almost daily changing decisions somewhat more calmly than it did in April.

Global power shifts and escalating conflicts are straining investors' nerves. The business sentiment barometer is at its lowest level since 1970. The decline after the so-called Liberation Day from 57 points to 50.8 was unprecedentedly sharp. Confidence, an important leading indicator, also fell in tandem. The stock market, however, is reacting differently and promises significantly more confidence in the future. This is underpinned by two important facts:

The Federal Reserve does not yet see any drastic effects from Trump's tariff policy. In contrast, international organizations like the IMF have reduced their global growth forecasts by around 10%. Current figures, however, indicate a surprising growth boost, especially in Europe, not least due to the new political tone in the German economy.

It's not just inexperienced investors who are irritated by these daily changes in momentum, controversial signals, and market volatility. Even long-term investors are struggling to accept the resulting sharp price fluctuations. What was once a year's volatility in the 1980s can now occur in a single day. The new, younger generation of market makers, or rather, stock traders, is facing fierce competition from algorithmic programs. This blurs the view of economic realities that will ultimately be reflected in prices. The classic saying "the stock market is always right" holds true here as well. The record highs contradict the sentiment polls, were it not for the damaged US dollar:

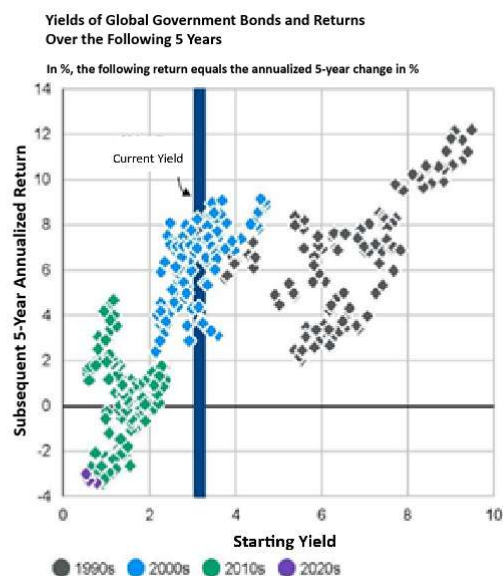
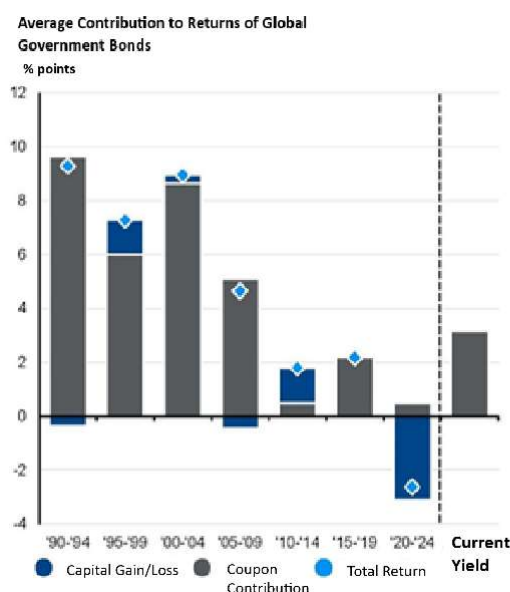
The enormous US debt, the escalating conflict over Iran, and the daily threat of the US president's intervention in economic and monetary policy continue to cause high volatility in all market sectors.

The focus of investments is increasingly shifting to Europe. At the beginning of the year, the valuation of European stocks was around 30% lower than that of US stocks.

Even if the US's extreme decisions were postponed, mitigated, or reversed, the time to buy US securities seems premature despite the temptations: mistrust is too dominant, and the uncertainty and damaged reliability have already caused lasting damage.

The outlook for the bond market is not much better. A dollar yield of 3% is expected by 2026, a meager option for Europeans given the costs of currency hedging and inflation. Calls for another zero-interest rate phase in Europe are making the search for a safe haven in Europe very difficult.

The total return on safe government bonds has been negative over the past four years – see chart on the left



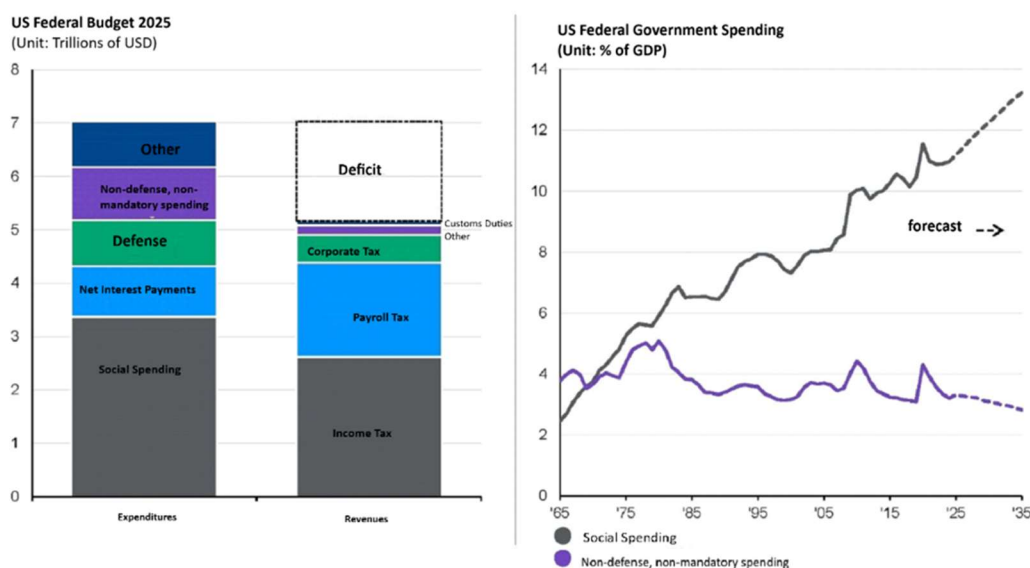
Source: Bloomberg, LSEG Datastream

The profit margins and profit growth of US companies are currently on average around 30% higher than those of EU companies. However, given the recent extreme earnings expectations, a revision must be expected, and expectations could be reduced by as much as -22%. It is important to avoid or reduce positions in companies with high leverage. With the worst April in decades, global economic growth forecasts were gradually downgraded from 3.3% to 2.8%. A wave of earnings reports from tech companies will continue to dominate the markets. This, along with political signals such as tariff deals and conflicts in Ukraine and the Middle East, will lead to a reassessment of investment sectors. An analysis of all major corrections since 1960 reveals a pattern: portfolios with a high-quality long-term strategy have, without exception, not only performed best but also performed most cost-effectively. Corrections not based on economic effects have always been and continue to be very short-term.

A near-zero yield in the interest rate landscape surrounding the Swiss franc: The SNB has successfully committed itself to price stability: inflation is currently hovering around zero percent. Negative interest rates are already looming again in the fight against the permanently excessive franc. Limited volumes of repo rates for banks are already a precursor to this. Since June 19, the Swiss National Bank has reduced interest rates to zero.

SARON rates have fallen massively since the beginning of the year. The federal government's yields for one year are 0.08% and for ten years are 0.51% - Switzerland is financing itself with free money.

The issue of debt in comparison: Anyone who examines this topic more closely will notice that there are some parallels between Europe and the USA. The US budget deficit rose to 125% of GDP, a figure also established in France and Italy. Germany, in contrast, is in a very solid position. The structure of government spending is also similar: as in Europe, the majority of the US budget goes to social spending and debt service.



Quelle: CBO, LSEG Datastream, JPM

The systematic budget deficit can only be managed through growth or higher taxes and other more subtle measures. In simplistic terms, this means a permanent need for more consumers. Demographics, or rather population growth, should not be underestimated. For ten years now, population growth in the US has been achieved solely through immigrants. Even then, zero growth will be reached as early as 2055. The current tough immigration policy thus runs somewhat counter to this trend.

Looking toward the end of the year, we remain moderately optimistic. The first six months successfully brought inflation rates in Europe into the target range. The decline is due less to a threat of deflation than to a correction of excessive consumer prices. This enabled the ECB to lower interest rates. The three-month Euro-Libor is now below 2%. The US Federal Reserve will also make two more interest rate hikes by the end of the year. Given this, we prefer equities to debt securities. Equity returns currently clearly exceed those of BBB-rated bonds.

The Trump years – volatile years. This headline will continue to set the tone. Opinions oscillate from black to white – on the same page of the financial press, depending on the author. Barely the ink is dry when the situation changes again. A risky time for day traders and speculators. With the long-term strategy recommended by MPM, a securities portfolio can be managed in calmer waters – with many years of experience and free from self-interest.

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