Cham, October 3rd 2025

Outlook into the 4th Quarter 2025

The golden age will have to wait…

As we step into the last quarter of 2025, more and more voices are warning that equities are looking stretched — some even fear a sharp correction. Q3 itself was messy: sideways trading, lots of nerves, and little direction. Only toward the end did the mood brighten a bit.

On the macro side, things look stable at first glance, especially in the U.S., but the data is less convincing once you dig in. For 2023/24, job statistics were revised down by about a million — a perfect excuse for rate cuts. There's also growing concern that official numbers are being polished under the influence of the U.S. President. Critics say we're flying blind if the data is dressed up too much. But the U.S. isn't alone here — creative statistics are a global sport, and it doesn't make long-term planning any easier.

Construction is slowing, defaults are rising, and trade is being held back by tariffs. Shipping rates per container have collapsed — not a great setup for logistics stocks. The PMI, the classic early-warning system, is slipping both in the U.S. and Europe. Still above water, but pointing to slower growth for 2026.

Gross domestic product, real, % year-on-year

Year average	2022	2023	2024E	2025E	2026E
World	3.6	3.4	3.3	3.1	2.9
Europe (28%)	2.7	1.5	1.8	1.5	1.4
European Union	3.6	0.6	1.1	1.4	1.4
Eurozone	3.6	0.7	0.9	1.3	1.1
France	2.8	1.6	1.1	0.6	0.9
Germany	1.9	-0.7	-0.5	0.5	1.2
Italy	5.0	0.8	0.5	0.6	0.8
Netherlands	5.0	-0.6	1.1	1.4	0.9
Spain	6.2	2.7	3.2	2.6	1.8
Non-euro EU countries					
Sweden	1.3	0.0	1.0	1.4	2.2
Hungary	4.3	-0.7	0.5	0.6	2.6
Poland	5.9	0.1	2.8	3.4	3.2
Non-EU Europe					
UK	4.8	0.4	1.1	1.3	1.3
Norway	4.2	1.1	0.6	1.2	0.6
Switzerland	3.1	0.7	1.4	1.2	1.4
Russia	-1.2	3.9	4.3	1.0	0.9
Turkey	5.3	5.1	3.2	2.8	2.3

Year average	2022	2023	2024E	2025E	2026E
America (32%)	3.1	2.6	2.4	1.7	1.4
Canada	4.2	1.5	1.6	0.9	0.4
Mexico	3.7	3.4	1.2	0.6	1.9
USA	2.5	2.9	2.8	1.6	1.3
Latin America	4.2	1.8	1.8	2.7	2.0
Argentina	6.0	-1.9	-1.3	4.2	2.1
Brazil	3.1	3.2	3.0	2.7	1.5
Chile	2.2	0.6	2.4	2.4	2.2
Colombia	7.3	2.3	0.1	2.8	2.9
Asia (36%)	4.1	5.1	4.6	4.5	4.2
Australia	4.1	2.1	1.0	1.7	2.5
Japan	0.9	1.4	0.2	1.2	1.0
New Zealand	2.9	1.8	-0.6	1.4	2.5
China	3.0	5.2	5.0	4.7	4.0
India	7.1	8.7	6.9	6.9	7.4
South Korea	2.7	1.6	2.0	0.7	1.6
Asean	5.9	4.1	5.0	4.5	4.4
Indonesia	5.3	5.0	5.0	4.8	4.8
Singapore	4.1	1.8	4.4	2.0	0.8
Thailand	2.6	2.0	2.5	2.1	2.0
Africa & Middle East (4%)	5.9	2.2	2.6	3.8	4.1
Nigeria	3.3	2.9	3.4	3.3	3.1
South Africa	2.1	0.8	0.5	0.8	1.4
Israel	6.2	1.8	0.3	1.9	2.7
Saudi Arabia	12.0	0.5	2.0	5.0	5.7

Source: Macrobond, Julius Baer; E = expected

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Since Trump took office, the S&P 500 is only up 13.72%. Factor in a dollar drop of 11.77%, and for Europeans it's been a losing game. That "golden age" feels more like daily uncertainty coupled with high volatility. Gains are concentrated in just a few big names — the same picture in Europe.

Geostrategically as well as economically, Europe risks falling behind. Stifling bureaucracy and the constant waiting for the much-announced reforms are exhausting both entrepreneurs and investors. Should this "autumn of great reforms" be delayed or end in disappointment, investors could run out of patience and turn their attention to more dynamic opportunities elsewhere. On top of this, the unstable situation in France is acting as an additional brake.

The EU's rulebook keeps slowing down the environment for urgently needed investments, while the U.S. giants are charging ahead with bold, heavy bets on the future — and that's without even mentioning China's sheer dynamism. Europe risks being squeezed to pieces between these two economic powers. The highly specialized small cap companies, a crucial supplier to industry, are already fighting for survival. And yet, these companies are sitting on billions in investment reserves, waiting for a clear and stable framework. On top of high social and energy costs, the real shortage is skilled people. Despite millions unemployed, the land of high-school graduates can't find enough craftsmen and technical specialists.

On the subject of energy and its costs, a new IEA study has just been published. According to it, electricity demand will double over the next five years, driven primarily by AI technology. For 2025, the expectation is around 450 TWh, but by 2030 the figure could reach as much as 1,000 TWh. To put it in perspective: one terawatt hour equals one billion kilowatt hours, meaning that each year, electricity production would have to increase by an amount equal to Japan's entire annual consumption. Under such a scenario, energy costs are set to far outpace inflation rates. At the same time, the expansion of the necessary infrastructure will inevitably create new investment opportunities.

Demographics add another drag: aging populations in Europe, China, Japan, and eventually even the U.S. Immigration props up numbers in America for now, but that too will flatten out. All of this makes rate cuts unavoidable. U.S. inflation ticked up slightly, from 2.7% to 2.9%, but tariff-driven price shocks haven't really hit — yet.

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Consumer price indices, % year-on-year

Year average	2022	2023	2024	2025E	2026E
World	8.0	5.6	4.1	3.6	3.1
Europe (28%)	13.9	9.5	7.3	6.0	4.0
European Union	9.2	6.4	2.6	2.5	2.0
Eurozone	8.4	5.4	2.4	2.0	1.5
France	5.9	5.7	2.3	1.0	1.8
Germany	6.9	5.9	2.3	2.1	1.5
Italy	8.7	5.9	1.1	1.9	1.6
Netherlands	11.6	4.1	3.2	2.8	2.0
Spain	8.3	3.4	2.9	2.3	1.9
Non-euro EU countries					
Sweden	8.4	8.5	2.8	0.7	1.4
Hungary	14.6	17.1	3.7	4.7	3.9
Poland	14.4	11.4	3.8	3.7	2.8
Non-EU Europe					
UK	9.1	7.3	2.5	3.2	2.2
Norway	5.8	5.5	3.1	3.1	2.1
Switzerland	2.8	2.1	1.1	0.2	0.6
Russia	13.8	5.9	8.5	9.3	5.3
Turkey	72.3	53.9	58.5	34.5	20.5

Year average	2022	2023	2024	2025E	2026E
America (32%)	9.9	5.5	3.3	3.6	3.9
Canada	6.8	3.9	2.4	2.3	2.8
Mexico	7.9	5.5	4.7	3.9	3.6
USA	8.0	4.1	3.0	3.0	2.9
Latin America	17.8	10.4	4.3	6.1	7.7
Argentina	72.4	133.5	219.9	43.3	31.6
Brazil	9.3	4.6	4.4	5.0	4.0
Chile	11.6	7.3	3.9	4.3	3.1
Colombia	10.2	11.7	6.6	5.0	3.6
Asia (36%)	3.5	2.4	1.9	1.4	1.9
Australia	6.7	5.6	3.2	2.5	2.6
Japan	2.5	3.3	2.7	3.1	1.8
New Zealand	7.1	5.7	2.9	2.3	2.0
China	1.9	0.3	0.2	0.1	0.6
India	6.7	5.7	4.9	3.9	4.4
South Korea	5.1	3.6	2.3	2.0	1.8
Asean	4.6	3.5	2.3	1.8	2.5
Indonesia	4.2	3.7	2.3	1.9	2.7
Singapore	6.1	4.8	2.4	0.9	1.1
Thailand	6.1	1.2	0.4	0.2	1.4
Africa & Middle East (4%)	7.2	13.9	11.7	7.5	6.2
Nigeria	18.8	24.7	31.4	22.8	17.4
South Africa	7.0	6.1	4.4	3.4	4.6
Israel	4.4	4.2	3.1	3.0	1.9
Saudi Arabia	2.5	2.3	1.7	2.5	2.7

Source: Macrobond, Julius Baer; E = expected

The tariffs imposed on the rest of the world were struck down by a court as partly illegal. With an appeal from the White House still pending, the process is not yet final. If the tariffs were lifted and had to be repaid, the U.S. government would face damages running into the trillions. The federal budget would then close with a massive deficit.

By year-end, we still expect cuts in both the U.S. and Europe. The Swiss are more cautious after their past zero-rate pain, but some banks already charge negative rates on big cash balances. Meanwhile, Trump is pressuring the Fed. His failed attempt to fire a board member was a test shot at Powell. All this power-play erodes trust in the Fed and the dollar. Remember: only 1% of daily dollar trading is tied to real trade — the rest is speculation.

Our previous outlook stays the same:

"The leading Wall Street houses project the broad S&P 500 index to end 2025 between 6,100 points in a negative scenario and up to 7,000 points if the outlook is favorable. On the basis of our own data from credible sources, MPM anticipates a highly volatile year that could close with the S&P 500 at around 6,850 points. This would represent an increase of roughly 14%. Global economic momentum is expected to ease to about 3.1% this year. These figures are calculated with caution and still leave room for positive surprises."

The S&P 500 is currently trading at around 6,688 points. The Fed's latest rate cut is expected to give the equity markets another positive boost. This long-overdue step could still be followed by one or two smaller cuts before the end of the year. However, if U.S. inflation settles at around 3%, additional rate reductions in 2026 would be unrealistic.

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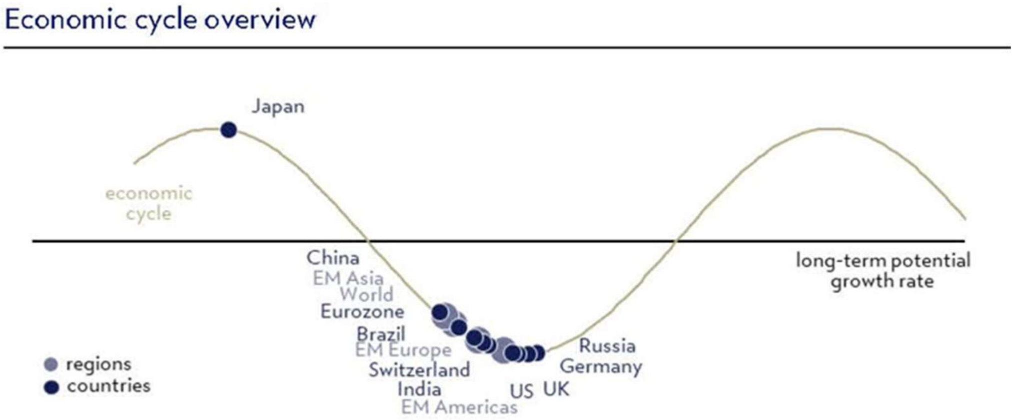
We assess the portfolio structure against the backdrop of the global economic cycle. Regionally, Japan appears to be at the top of its cycle and moving into weaker years, while Europe remains in the trough, with Germany beginning to turn upward. The United States, by contrast, is entering a cyclical upswing, supported by large-scale investments already underway.



Source: Julius Baer

Investor sentiment improved sharply in the third quarter of 2025. The risk barometer, our gauge of market appetite, is now oscillating at high levels, last seen between late 2020 and January 2022, with a temporary peak in mid-2023. The sentiment troughs of May 2022, May 2023, and especially April of this year have been clearly left behind. The data, however, diverge from the current momentum: despite a cautiously positive tone in the markets, we are still far from the kind of excesses witnessed back in 2007.

Although stepping back from geopolitical optimism may appear somewhat premature, a successful portfolio should be updated toward year-end, with targeted profit-taking included. The free economy has proven to be remarkably adaptable in the face of political and regulatory obstacles. A long-term investment strategy has once again shown its strength. We therefore anticipate an active and profitable close to the year.

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