PostFinance investment compass February 2025

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PostFinance

Editorial

Trade war becomes a reality

Unfortunately, new US President Donald Trump has put his threats into action and is using punitive tariffs as an active tool in his policy. China and Europe will respond – with consequences for both the economy and financial markets, initially fuelling higher inflation and greater uncertainty.

Philipp Merkt
Chief Investment Officer

Donald Trump has been President of the United States for just over a month now – and is putting words into action with amazing speed and great zeal. While his efforts focused initially on domestic policy measures, we've known for a couple of weeks that he's serious about his threats to impose duties and punitive tariffs.

> "The trade dispute unleashed by Trump threatens both individual companies and entire economies."

So far, the financial markets have reacted with admirable calm to the unilateral tariffs. But it's important for everyone to understand that tariffs on foreign goods lead directly to higher prices and only increase domestic production after some time. It means the impending rise in consumer prices is particularly untimely. Even before President Trump took office, inflation rates in the USA had already risen. With core inflation standing at 3.3 percent, inflation is well above the US Federal Reserve's target. That's bad news for the financial markets: we can no longer expect stock and bond prices to be driven up this year by aggressive central bank interest rate cuts.

On top of that, the retaliatory measures taken by the countries targeted will have an impact on inflation in their own domestic markets. We have to hope that the response from China and Europe is smarter and more prudent than this provocation from the USA. And there are signs that this is actually happening. China reacted by launching an antitrust investigation against Google, rather than simply escalating the conflict with blanket tariffs. America's tech giants won't like this move at all. Similarly, during Trump's first term in office, European countries responded with targeted punitive measures against individual companies and economic sectors rather than imposing blanket tariffs.

So far, Switzerland has only been affected by these developments indirectly, but that could change. The pharma industry, in particular, is threatened by the Trump administration's potential targeting of the high selling prices for medicines manufactured in Switzerland. Switzerland is exposed with its agricultural exports and protection of the domestic market against cheap US imports. And there's also the threat of Switzerland being cast as a currency manipulator, which isn't actually that much of a stretch: we've got a large trade surplus with the USA, and the SNB has repeatedly tried to weaken the franc.

After an excellent start to the year, we are therefore reducing our overweight in the Swiss equity market. We see profit-taking as advisable because several large Swiss companies would be particularly hard hit by potential US tariffs – and the impact of Trump's trade war could, in turn, be disproportionately high.

Positioning

Profit-taking in Swiss equities

After some initial caution to begin with, the year got off to a successful start last month. In light of the looming trade war, we are taking profits on the Swiss equity market and neutralizing our positioning towards European equities.

The financial markets began the new year cautiously. In particular, the US Federal Reserve's stated reluctance towards future interest rate cuts led to rising interest rates and headwinds on financial markets worldwide, though these headwinds proved to be relatively short-lived. Long-term interest rates worldwide again declined sharply last month, despite some ups and downs. While this was likely due in part to the UK and European central banks' monetary easing last month, renewed hopes that the decline in US inflation will set in more firmly over time also probably played a role. Overall, the markets now appear more confident that inflation rates will fall significantly. We still consider this to be an overly optimistic scenario, and instead expect US inflation rates to remain high for some time to come. Indeed, any looming trade war threatens to exert further upward pressure on inflation.

"The Swiss equity market performed strongly. However, there's a considerable risk that the looming trade war will spread to the Swiss economy."

Profit-taking on Swiss equity market

The stock markets remain relatively unconcerned about a trade war that is becoming a reality. On the contrary, they made extremely strong gains last month. The Swiss stock market in particular rose sharply. Index heavyweights Novartis, Roche and Nestlé have made a major contribution to this year's good performance so far. These three companies published strong annual results last month, pushing their share prices up by over 7 percent month-on-month. Measured by the Swiss Performance Index, the Swiss stock market is up more than 10 percent since the beginning of the year. This means that the Swiss stock market has gained as much in one and a half months as the average of the last 35 years in an entire year.

Performance of asset classes

Asset class		1M in CHF	YTD[1] in CHF	1M in LCY[2]	YTD[1] in LCY[2]
Currencies	EUR	0.6%	0.5%	0.6%	0.5%
	USD	–1.5%	–0.5%	–1.5%	–0.5%
	JPY	1.6%	2.6%	1.6%	2.6%
Fixed Income	Switzerland	0.7%	–0.6%	0.7%	–0.6%
	World	1.1%	0.5%	2.7%	1.0%
	Emerging markets	0.9%	1.0%	2.5%	1.5%
Equities	Switzerland	10.0%	10.9%	10.0%	10.9%
	World	4.4%	4.6%	6.0%	5.1%
	USA	3.4%	3.8%	5.0%	4.3%
	Eurozone	10.8%	11.7%	10.1%	11.1%
	United Kingdom	8.0%	7.2%	6.5%	7.2%
	Japan	3.3%	1.7%	1.7%	–0.8%
	Emerging markets	5.6%	3.2%	7.2%	3.7%
Alternative Investments	Swiss real estate	1.1%	1.7%	1.1%	1.7%
	Gold	7.5%	11.2%	9.2%	11.7%

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

Data as of 13.2.2025
Source: Allfunds Tech Solutions, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

However, there's a considerable risk that the looming trade war will spread to the Swiss economy. We see the pharmaceutical industry as being particularly exposed. It's not only high selling prices that could be a thorn in the side of the Trump administration, but also the fact that more medicines are exported to the USA than are imported from there. Given the strength of its two pharmaceutical giants, there is considerable potential for setbacks in the Swiss equity market. Conversely, we believe the European equity market is somewhat less vulnerable, given its broader sector diversification. We are therefore taking profits from our overweight in the Swiss equity market and returning to a neutral position in European equities.

Potential for setbacks on the US equity market

However, we're maintaining our underweight in tech-heavy US equities in favour of global value stocks. Firstly, value stocks are less expensive than growth stocks, giving them greater upside potential, and secondly, the US equity market is likely to be particularly vulnerable to a trade war. This is because index heavyweights such as Meta or Alphabet could well be targets in any trade dispute. These companies generate a considerable proportion of their revenues outside the USA, making them vulnerable to retaliatory measures.

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**	**33.0%**	**33.0%**			■		
	Switzerland	15.0%	15.0%		■			
	World[2]	10.0%	10.0%			■		
	Emerging markets[2]	6.0%	6.0%			■		
	US government bonds[2]	2.0%	2.0%				■	
Equities	**Total**	**50.0%**	**50.0%**			■		
	Switzerland	25.0%	23.0%			$\boxed{■}$		
	USA	10.0%	10.0%		■			
	Eurozone	2.0%	4.0%			$\boxed{■}$		
	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%			■		

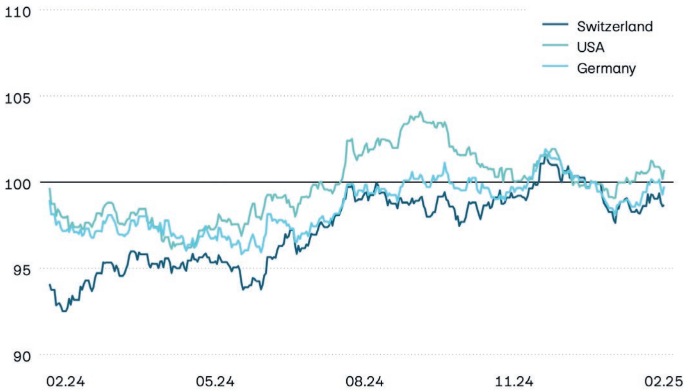
[1] Tactical Asset Allocation: short to mid-term orientation
[2] Currency hedge to CHF
[3] Positioning relative to our long-term asset allocation
□ Adjustment compared to last month

Market overview

Fixed income

Following their significant rise until mid-January, long-term interest rates in the industrial nations fell again slightly last month. This led to price gains on the bond markets.

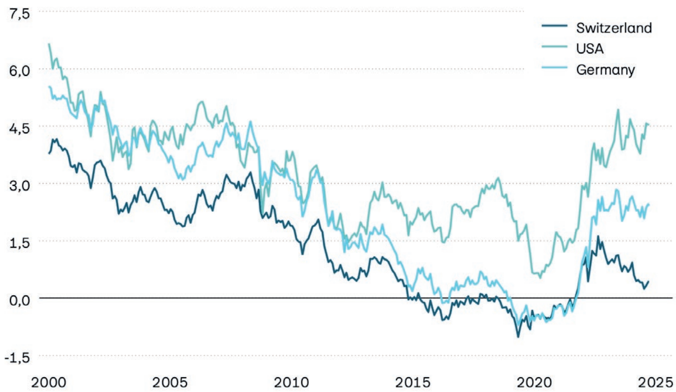
Indexed performance of government bonds in local currency
100 = 01.01.2025



January initially saw a sharp rise in long-term interest rates, causing losses on the bond markets, before a turnaround followed in mid-month. Further monetary easing in Europe and the UK and the decline in US core inflation in December are likely to have contributed to the reversal. In the short term, however, this was again at risk, as the 3.3 percent rise in US core inflation for January fuelled renewed concerns about inflation. Nevertheless, the fall in producer prices in the USA provided some reassurance. Interest rates in Europe and the USA fell month-on-month, helping government bonds to make gains.

Source: SIX, Bloomberg Barclays

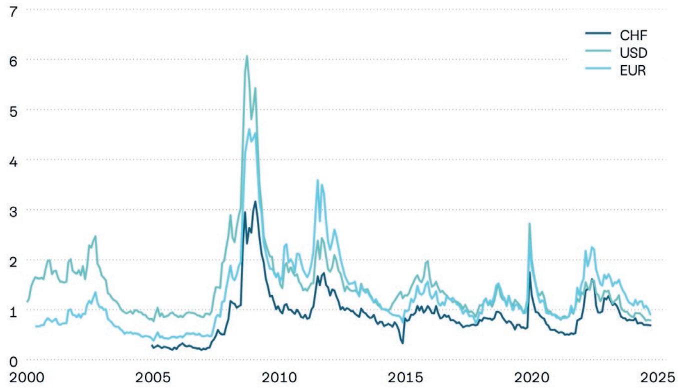
Trend in 10-year yields to maturity
In percent



The strong upward trend in long-term interest rates seen since mid-December weakened appreciably last month. Yields to maturity in both Europe and the USA are down by around 25 basis points. Yields to maturity on 10-year US government bonds are now back at around 4.5 percent. This is the same level seen in mid-December before the US Federal Reserve's (Fed) far more cautious statements about possible policy rate cuts. Notwithstanding this trend, 10-year Swiss government bonds are yielding 0.4 percent, the same as in the previous month. They were temporarily lower at 0.3 percent, but have recently returned to 0.4 percent as the core inflation rate has risen.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



Credit spreads on corporate bonds remain at historically low levels. So far, the looming trade conflict with the USA appears to have had no impact on companies' refinancing conditions, and fears of recession continue to play no role on the market at present.

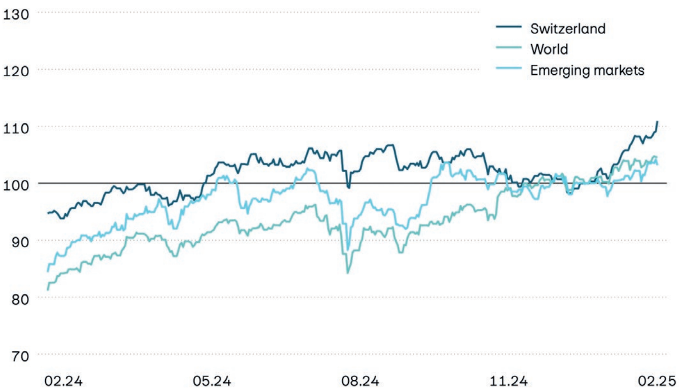
Source: Bloomberg Barclays

Market overview

Equities

After some initial caution, the equity markets had a successful start to the new year. The stock markets in Europe and Switzerland in particular rose sharply.

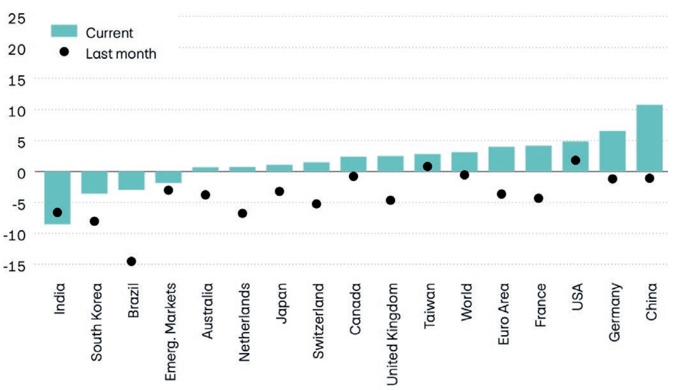
Indexed stock market performance in Swiss francs
100 = 01.01.2025



Following perceptible headwinds on the stock markets amid rising capital market interest rates as the year began, stock markets were far more optimistic again last month. The European and Swiss markets in particular made significant gains. Since the beginning of the year, their value has risen by 10 percent and has been unaffected by the Trump administration's looming trade conflict. In Switzerland, index heavyweights Novartis, Roche and Nestlé – which had long held back price performance on the domestic market – made significant gains last month, thanks in part to good corporate numbers.

Source: SIX, MSCI

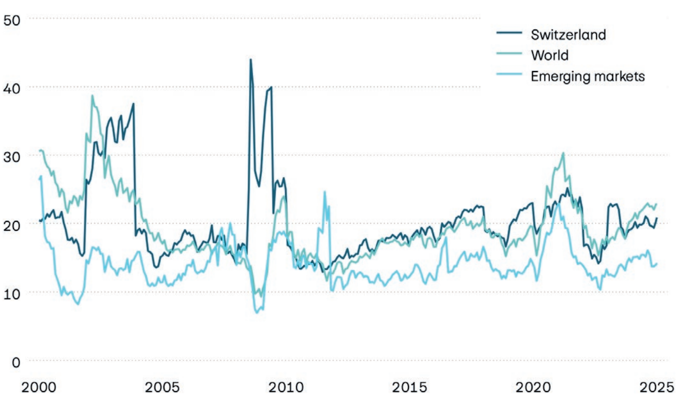
Momentum of individual markets
In percent



The stock markets' successful start produced an upturn in momentum on the stock markets. Momentum on most markets is now back in positive territory. This trend is particularly clear on the Chinese stock market, where growth in momentum was strongest. This is likely to be related to the breakthrough of Chinese startup DeepSeek in artificial intelligence, as tech-oriented stocks in particular recorded the biggest price gains on the Chinese market.

Source: MSCI

Price/earnings ratio
P/E ratio



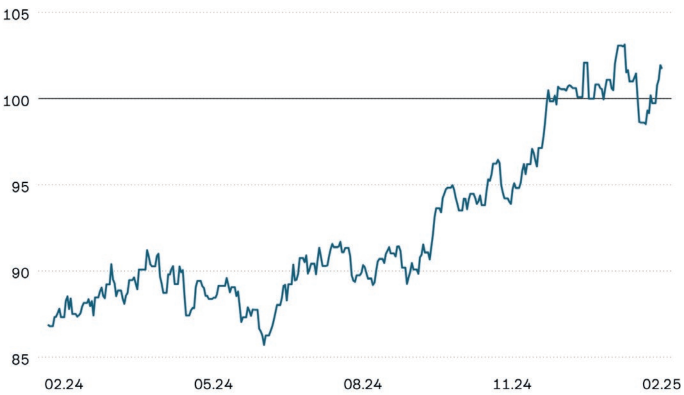
Price/earnings ratios (P/E ratios) rose significantly over the past month, particularly in emerging markets and Switzerland. This is due to the very positive momentum on these stock markets recently. Both markets gained around 10 percent, while earnings performance remained relatively stable.

Source: SIX, MSCI

Swiss real estate investments

Swiss real estate funds recovered slightly following a period of weakness in mid-January.

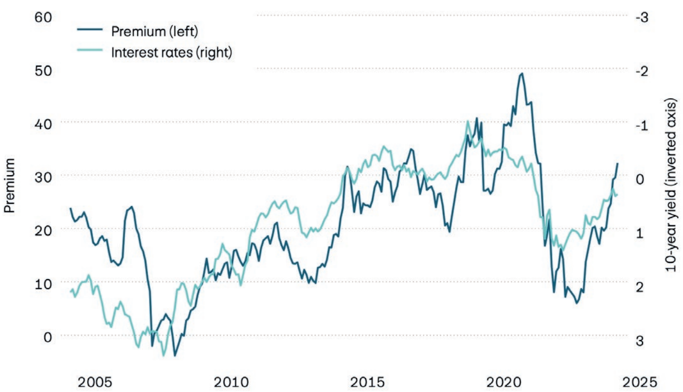
Indexed performance of Swiss real estate funds
100 = 01.01.2025



After falling slightly in value in January, Swiss real estate funds have recently recovered to some extent. Real estate fund performance has been somewhat more volatile this year, and, unlike the previous year, has lagged behind that of the stock markets. Nevertheless, real estate fund prices are around 2 percent above their year-opening level.

Source: SIX

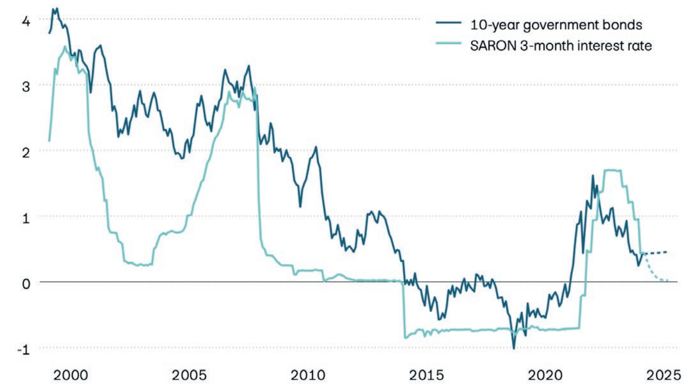
Premium on Swiss real estate funds and 10-year yields to maturity
In percent



The positive performance of exchange-listed Swiss real estate funds led to a slight increase in the premium that investors usually have to pay on the stock exchange versus the actual net asset value (NAV) of properties. By historical standards, these premiums therefore remain high. Higher premiums have only been seen during periods of negative capital market interest rates.

Source: SIX

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



Yields to maturity on 10-year Swiss government bonds saw little change month-on-month and are currently at 0.4 percent. Long-term interest rates and the three-month SARON are therefore almost at the same level. This could possibly change in March. Despite slightly higher core inflation, market participants are currently working on the assumption that the Swiss National Bank (SNB) will lower the policy rate by 25 basis points, which would push short-term money market interest rates below the current level of long-term capital interest rates.

Source: SIX

Currencies and cryptocurrencies

The US dollar's rally failed to continue this month. The Japanese yen rose significantly against the US dollar.

The US dollar failed to continue last month's upward trend. Over the month, the US dollar lost around 2.5 percent on a trade-weighted basis. At over 3 percent, the Japanese yen recorded the strongest appreciation against the US dollar. The yen's rise is likely to have been triggered by the ongoing normalization of the Japanese central bank's monetary policy. Overall, however, the US dollar remains highly valued on a trade-weighted basis measured by purchasing power parity.

Currency pair	Price	PPP[1]	Neutral area[2]	Valuation
EUR/CHF	0.95	0.90	0.83 – 0.97	Euro neutral
USD/CHF	0.90	0.79	0.69 – 0.90	USD neutral
GBP/CHF	1.13	1.20	1.04 – 1.36	Pound neutral
JPY/CHF	0.59	0.87	0.71 – 1.03	Yen undervalued
SEK/CHF	8.42	10.04	8.98 – 11.10	Krona undervalued
NOK/CHF	8.10	10.53	9.30 – 11.77	Krona undervalued
EUR/USD	1.05	1.14	0.99 – 1.29	Euro neutral
USD/JPY	152.80	91.13	70.10 – 112.17	Yen undervalued
USD/CNY	7.29	6.22	5.75 – 6.69	Renmimbi undervalued

Cryptocurrency	USD rate	YTD in USD[3]	Annual high	Annual low
Bitcoin	96'627	3.48%	106'149	92'542
Ethereum	2'679	–19.58%	3'685	2'601

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, reached a new high and has risen by more than 10 percent since the beginning of the year.

Indexed performance of gold in Swiss francs
100 = 01.01.2025

The gold price reached new highs several times last month and climbed above 2,600 francs per troy ounce for the first time. Since the beginning of the year, the precious metal has already gained more than 10 percent in value. One of the reasons for this rapid rise is likely to have been the fear of Trump's tariff plans, which probably increased demand for gold as a safe haven.

Source: Allfunds Tech Solutions

Economy

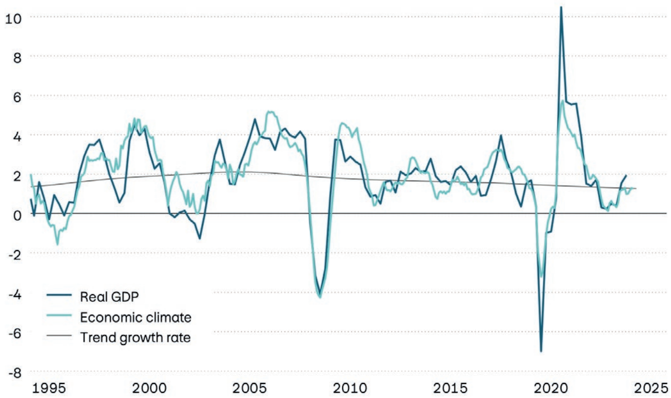
Trade war becomes a stress test

Since taking office, Donald Trump has announced a series of punitive tariffs and quickly implemented far-reaching measures. In the short term, this is likely to keep inflationary pressure high, particularly in the USA, where inflation has already been rising recently. At the same time, the new trade barriers are increasing economic pressure – not only on the US economy, but also on China and Europe – and making their economic recovery more difficult. It means the risks for the global economy have risen significantly. Against this backdrop, the Swiss domestic economy appears to be regaining momentum just in time.

Switzerland

Growth, sentiment and trend

In percent



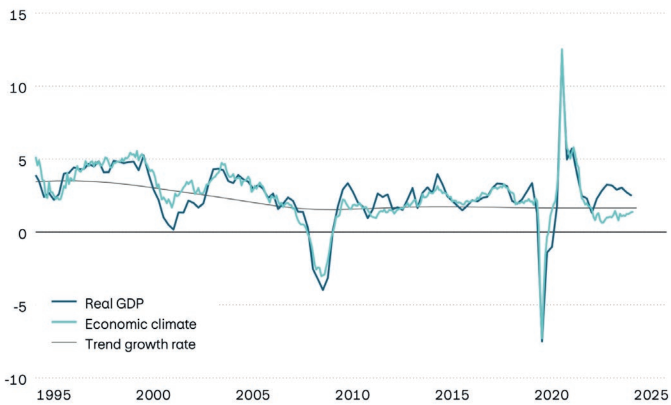
Economic sectors geared towards domestic demand are continuing their recovery at the beginning of the new year. Sentiment among Swiss service providers improved markedly in January, and consumer confidence rose moderately again. The latest figures on Swiss consumption are also encouraging. This recovery in the domestic economy comes at a time when export-oriented industries continue to face weak international demand and could come under additional pressure from increased risks in global trade. Besides support from domestic demand, the Swiss franc also provided some relief as it weakened at the beginning of the year, bucking its long-term upward trend.

Source: Bloomberg

USA

Growth, sentiment and trend

In percent

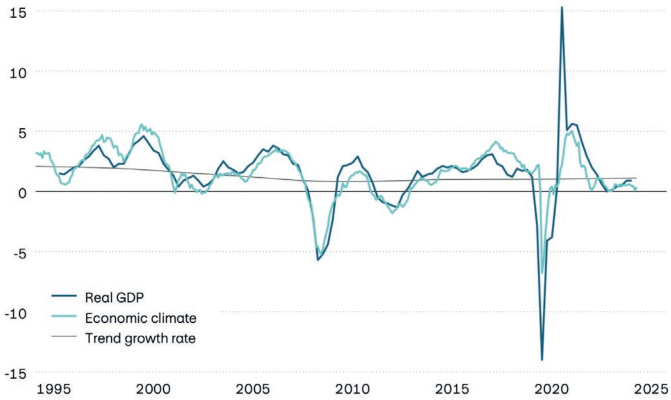


As the latest economic data from the USA shows, growth slowed somewhat in the fourth quarter of last year compared to the two previous quarters, but remains solid at 0.6 percent. The main driver was again consumer spending, in particular on durable consumer goods such as electronics, which grew strongly. The new year also got off to a bright start, with industrial companies in the USA expecting a moderate increase in business activity for the first time in more than two years. However, concerns about inflation have also grown in recent weeks. January saw an unexpected rise in core inflation, while inflation expectations among American households increased significantly in light of President-elect Donald Trump's trade policy.

Source: Bloomberg

Eurozone

Growth, sentiment and trend
In percent

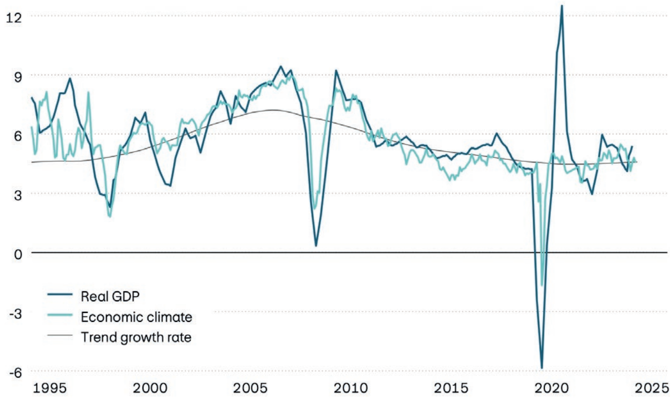


The economic figures for the fourth quarter of last year were disappointing. The eurozone as a whole recorded zero growth, with performance held back in particular by the region's heavyweights Germany and France. Besides economic problems, they are suffering from political deadlock and actually saw a slight decline in the last quarter. The start to the new year was also rather uninspiring overall. The industrial sector is still failing to pick up momentum, and although economic performance is stagnant, there was again no progress in tackling inflation in January. This is making the situation increasingly uncomfortable for the European Central Bank (ECB), which recently cut interest rates significantly in an effort to bolster the economy.

Source: Bloomberg

Emerging markets

Growth, sentiment and trend
In percent



The major emerging markets had a subdued start to the new year. In China, by far the world's largest emerging economy, business sentiment had already deteriorated significantly in the run-up to US President Donald Trump's announcement that all imports from China would be subject to 10 percent tariffs. At the same time, domestic demand has remained weak. Even so, the threat of deflation has receded sharply with core inflation recently rising to 0.6 percent. And in India, the second-largest emerging economy, initial economic data has also been quite disappointing, with a significant decline in service sector activity of particular concern. Pessimism among Indian service providers is currently at levels last seen two years ago.

Source: Bloomberg

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y[1] 2024Q3	2.0%	2.7%	0.9%	1.0%	0.6%	5.4%	4.0%	4.6%
GDP Y/Y[1] 2024Q4	n.a.[4]	2.5%	0.9%	1.4%	1.2%	n.a.[4]	n.a.[4]	5.4%
Economic climate[2]	↘	↘	→	↘	↗	↗	↘	→
Trend growth[3]	1.3%	1.6%	0.8%	1.8%	1.1%	5.3%	1.7%	3.7%
Inflation	0.4%	3.0%	2.5%	3.0%	3.7%	4.3%	4.6%	0.5%
Key rates	0.5%	4.5%	2.9%[5]	4.5%	0.5%	6.25%	13.25%	3.1%

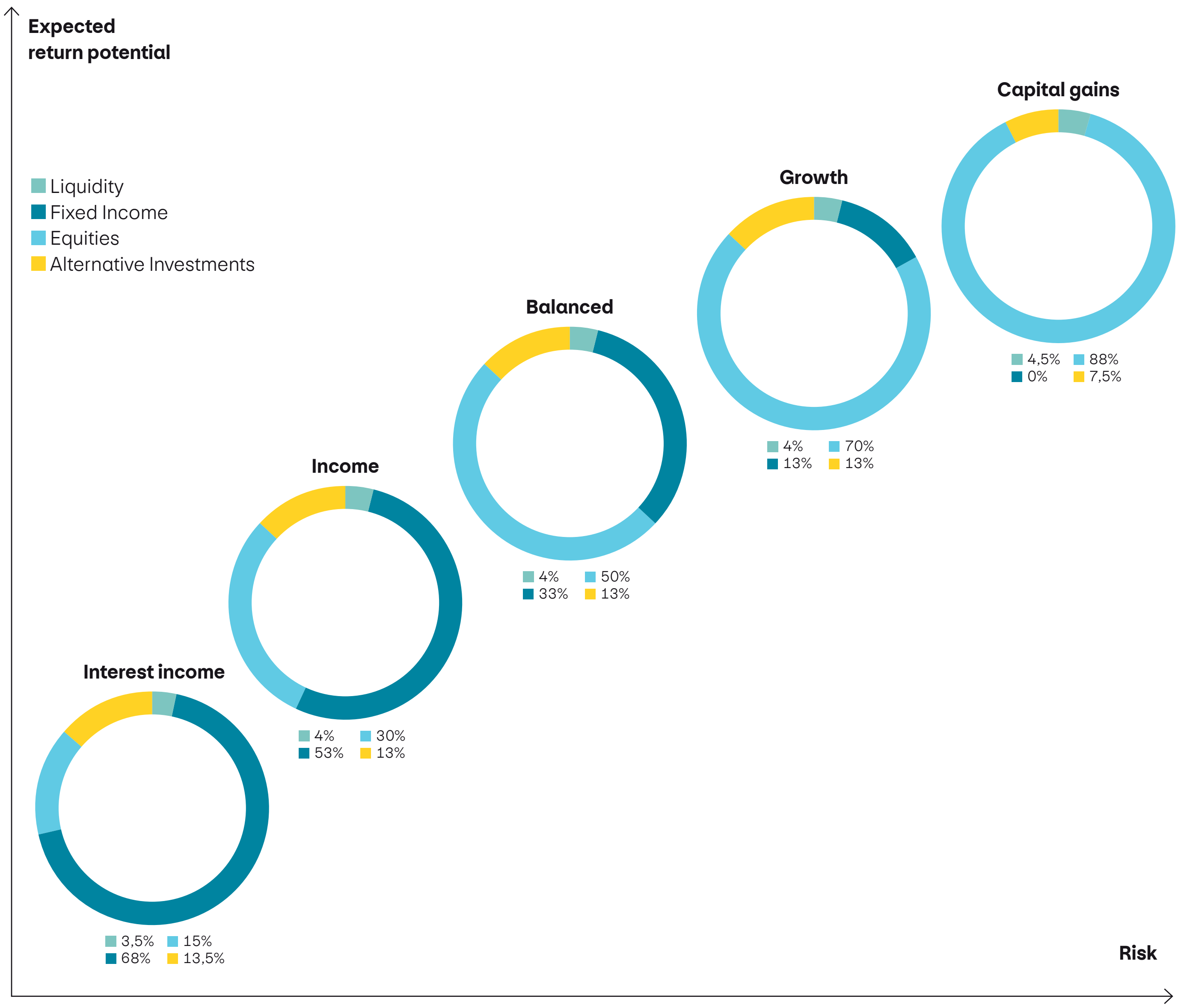
1 Growth compared to year-ago quarter
2 Indicator, measuring the overall sentiment and typically leading 1 to 2 quarters in advance of GDP. Green arrow indicates an increasing economic growth, red arrow a slowing.
3 Potential growth. Long-term change in gross domestic product with sustainable capacity 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

Adjustment within equities

After an initially subdued start to the new year, the financial markets picked up speed again last month. The Swiss stock market in particular made strong gains. This was mainly due to the index heavyweights, which were able to impress with good annual results. At the same time, however, it became apparent that the threat of a trade war between the USA and its trading partners was becoming a reality. This could hit the concentrated Swiss equity market hard. Against this backdrop, we are realizing gains on the Swiss equity market and closing our overweight in favour of the European equity market.



Source: PostFinance Ltd

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PostFinance Ltd
Mingerstrasse 20
3030 Bern
Switzerland

Phone +41 58 448 14 14
www.postfinance.ch

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