



## What a tariffic year

*2025's first half saw global markets react to tariffs, political change, and shifting policy priorities. Fiscal expansion, AI momentum, and geopolitical risks defined the investment landscape.*

### Economic Review and Equities

The major story in H1/25 was the U.S. administration's wide-reaching tariffs, which rattled markets but eased after temporary suspension and negotiations. In Europe, Friedrich Merz's election in Germany spurred a fiscal pivot and a €500 billion infrastructure plan, boosting growth but sending Bund yields higher. Japan gained investor confidence with rising defense spending and corporate reforms. Middle East tensions briefly lifted oil prices, but oversupply muted the impact. In the U.S., the "Big Beautiful Bill" worsened debt projections and triggered a Moody's downgrade. China's stimulus and AI leadership helped restore investor confidence despite continued trade friction with the U.S. Overall, the global focus shifted from monetary to fiscal policy, with debt sustainability concerns driving bond, currency, and commodity volatility.

#### Europe, UK and Switzerland

European equities performed well, aided by a rotation out of U.S. tech and strong gains in financials, industrials, and defense. Merz's win and fiscal easing in Germany lifted sentiment, supported by recovering manufacturing and ECB rate cuts that brought inflation near 2%. UK large caps rose in Q1, while mid-caps outperformed in Q2 amid stabilizing Sterling and BoE easing. Top UK sectors included real estate and telecoms, while energy and healthcare lagged. Despite consumer sector weakness, rate cuts and easing inflation offered support by mid-year. The Swiss national bank lowered rates back to zero after the CHF strengthened towards most currencies.

#### USA

U.S. equities fell in Q1 due to losses in tech and consumer discretionary sectors, worsened by China's DeepSeek challenging U.S. AI dominance. Tariffs on Mexico and Canada and

domestic job cuts hit confidence. The Fed held rates but cut growth forecasts. In Q2, markets rebounded on AI enthusiasm and solid earnings, especially in tech. A 0.5% GDP drop was linked to tariff-driven imports, but labor indicators remained strong. Trump extended tax cuts and increased defense spending, reinforcing a pro-growth stance.

#### Asia & EM

Asian equities saw moderate Q1 gains and stronger Q2 results as AI optimism and easing trade fears supported sentiment. China's stimulus lifted Q1 markets, while Taiwan rebounded in Q2 after initial worries on tariffs on semiconductors. South Korea and Hong Kong led, while India and Thailand lagged. Japan's equities rallied in Q2 after early losses, driven by corporate reforms, rising yields, and supportive shareholder policies like buybacks and dividend hikes. The region showed resilience amid shifting trade dynamics and local policy responses.

Indices in USD	Q2 2025	YTD
<b>Bonds</b>		
Global Bonds	1.6%	2.8%
Global Government Bonds	1.2%	2.1%
Global Investment Grade	4.4%	5.1%
Global High Yield	7.6%	10.3%
Emerging Markets	1.5%	1.9%
Global Convertible	8.3%	11.0%
<b>Equities</b>		
ACWI World	11.6%	10.2%
SPI Switzerland	8.6%	20.4%
S&P500 USA	10.9%	6.1%
MSCI Europe	11.0%	22.6%
MSCI Emerging Markets	11.7%	14.7%
<b>Alternative Investments</b>		
Precious Metals	9.4%	28.1%
Commodities	1.3%	10.4%
Digital Assets	20.6%	-12.8%
Hedge Funds	1.1%	1.7%
<b>Currencies</b>		
USD/CHF	-10.3%	-13.7%
USD/EUR	-8.3%	-13.3%
USD/JPY	-3.5%	-8.8%



### Bonds

Bond markets were shaped by diverging fiscal moves, geopolitical risk, and central bank shifts. U.S. Treasuries outperformed early on recession fears, while German Bunds sold off after Germany’s fiscal shift. UK and Japanese yields rose on stagflation and inflation expectations. The U.S. “Liberation Day” tariffs caused temporary yield spikes, calmed by negotiation. Moody’s downgraded the U.S. after debt concerns flared. Central banks generally paused or eased, with steepening yield curves. High yield outperformed investment grade globally while investor demand and lower issuance supported strong returns despite volatility.

### Alternative investments

Commodities had a mixed performance in the first half of 2025, with gains in Q1 reversing in Q2. The S&P GSCI Index rose in Q1, led by precious metals —particularly gold and silver— as investors sought safe-haven assets amid rising tariff and geopolitical risks. Energy prices surged early in the year, especially natural gas, while industrial metals like copper also posted solid gains. Agriculture underperformed in Q1 but cocoa rebounded sharply in Q2. Precious metals continued to benefit from elevated global risk and investor demand for security. Industrial metals and livestock also made modest gains in Q2, rounding out a volatile but selectively strong first half across commodity sectors.

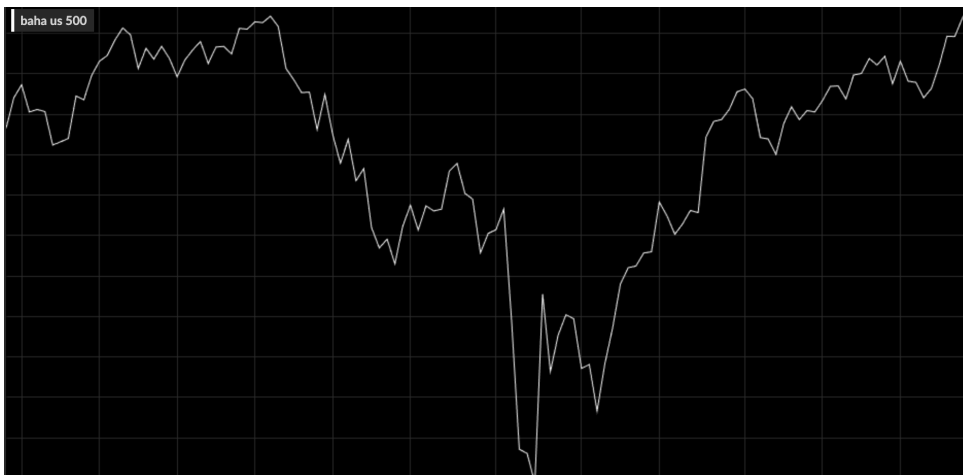
Strategically we lifted our exposure to European equity early April, lowering our global allocation. During the hottest period of the tariff discussions end of April, we reduced our equity exposure a bit to prevent further losses for our clients, including selling our investments into Vietnam and India. The rebound however was so quick and strong that we missed part of it, teaching us once more to trust the markets and react counterintuitively in such situations – if at all.

We switched two of our fixed income investments after a thorough best-in-class selection process for Investment Grade investments.

We further are gradually reducing the number of positions to make the management of the portfolios even more efficient and cost effective.

### Our Investments and Actions

This is how the US market performed in the first half year, a classic V-Shape:





### Navigating the 2<sup>nd</sup> half of 2025

*Despite war, tariffs, and tech shifts, markets remain resilient. But rising debt, trade disruptions, and ignored risks may eventually test investor optimism.*

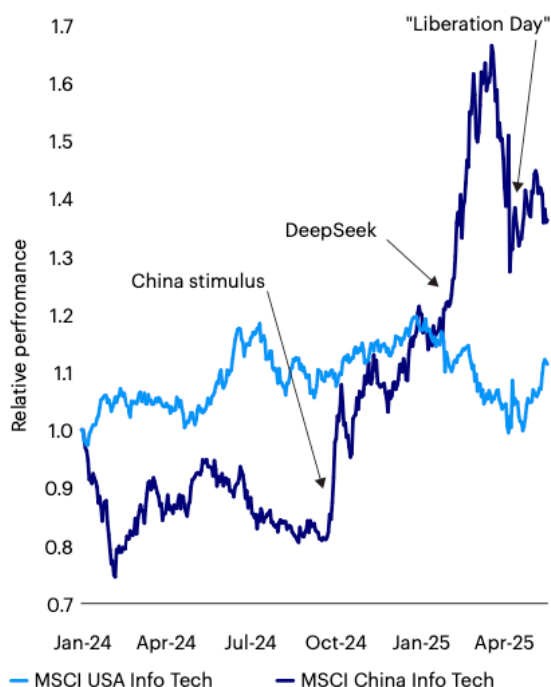
**Geopolitics vs. Markets** - If you'd known in advance about war in the Middle East, U.S. bombing Iran, or tariffs on allies and rivals alike, you likely would've exited markets. But that would have been a mistake. Markets continue to shrug off geopolitical shocks. Is this rational optimism—or dangerous ignorance?

**Business Uncertainty > Political Tension** – Markets care more about business conditions than war headlines. Unless energy and supply chains are disrupted, geopolitical risks often remain market-irrelevant. The global geopolitical risk index is elevated but far from crisis levels—currently comparable to Brexit-era 2015. Large-cap equities typically remain untouched by local wars.

**AI: Infrastructure First, Revenues Later** – AI investments are ramping up, but monetization lags. Cloud computing is projected to hit \$2 trillion by 2030, with generative AI making up 10–15%. Growth is driven by digital transformation

#### China tech in favor

Relative performance vs. MSCI ACWI, (Daily data, from 2 January 2024 to 16 May 2025)



and cloud modernization - only 30% of workloads are cloud-based today. China is joining the U.S. in leading AI, see the graph (source: Invesco), while Europe continues to fall behind.

**Defence Sector: Too Hot to Handle?** – Defence spending - particularly in Europe - is surging. While this has boosted the sector, returns may no longer be sustainable. As it's nearly impossible to distinguish defensive from offensive systems, such investments are ethically highly controversial.

**“Liberation Day” and Tariffs** – The U.S. entered its 250th year with tariffs dominating headlines. Though their full economic impact is pending, with most U.S. households earning under \$100,000 and the majority of essentials imported, the effects are expected to be painful and politically unpopular. Rather than retaliate, other countries are responding with economic stimulus.

**Tariffs and Debt: Long-Term Drags** – While wars have had minimal impact on markets this year, U.S. tariffs are worsening business conditions. Slower growth and rising uncertainty seem inevitable. Meanwhile, their national debt is exploding - at \$55,000 per second. This is “One Big Beautiful Bill” the next generation will have to pay. His approach - increasing debt and shifting the bill to others - is classic real estate thinking applied to governance.

### Currencies and Bonds

#### Cash and Currencies

We expect the U.S. Federal Reserve to gradually shift from restrictive to neutral policy, with some rate cuts likely, helping avoid a recession. Among major central banks, only Japan is hiking rates which is supportive for the Yen. U.S. political pressure on monetary policy and fiscal indiscipline continue to weaken the Dollar. For CHF investors, partial equity hedging into CHF or EUR is under consideration. Fixed income exposure remains fully hedged to clients' reference currencies.

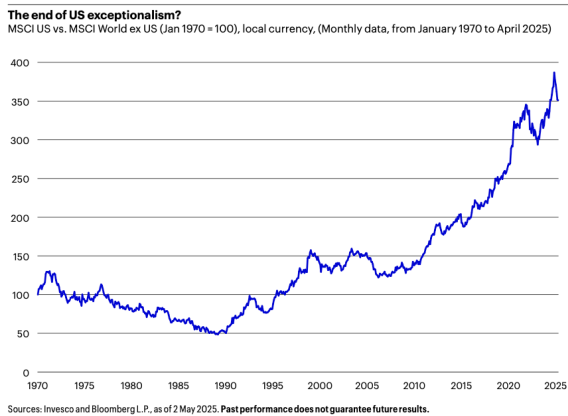
#### Bonds

We remain underweight in government bonds due to their low yields. Corporate and High Yield bonds continue to offer more attractive returns. Default rates seem to remain low.



### Equities – an end to US exceptionalism?

If the Fed cuts rates, being underinvested could be costly. We focus on fundamentals over geopolitics. The U.S. still dominates equity markets (~70% of MSCI) but earns just 40% of its revenues domestically. Emerging Markets, while just 10% of the index, generate 30% of global revenues. Nestlé is a prime example of how the company domicile is not really that relevant: it makes up 15% of the Swiss index, but only 2% of its turnover comes from Switzerland. Revenue exposure matters more than company domicile, while U.S. tech giants continue to lead in earnings growth, cash flow and reserves.



### Alternatives – Classic

Gold remains a hedge mainly for extreme uncertainty, not inflation as many think.

The commodity supercycle hasn't started, as global infrastructure spending remains muted. We expect continued sideways movement.

Our former intern, Luca R., recently completed his bachelor thesis on the integration of cryptocurrencies into PWA portfolios. He recommends a 5% allocation to digital assets to significantly enhance the portfolio's risk-return profile. Ideally, this allocation should be implemented through a Bitcoin ETF. This approach aligns well with our existing strategy of a 3% allocation within a balanced mandate. Luca also emphasizes the importance of supporting clients through education and communication on this emerging asset class. We will continue to do so proactively, but please don't hesitate to contact us at any time to discuss the topic and explore your individual options.

### Positioning our portfolios

A well-diversified portfolio is fundamental to any investment strategy. However, it's important not to assume that bonds will always offset equity downturns. The years 2018 and 2022 have shown otherwise. Bond-equity correlation tends to be negative only when inflation is below 3%; above that, the relationship often turns positive. Ultimately, the bond and equity components serve distinct purposes and should be viewed independently within the portfolio: Bonds are for a stable yield mostly only a little above inflation after costs and taxes. Equity however serves the purpose of long term capital gains. The stress is on long term, which is the most difficult part when investing actively in shares, as patience runs out very easily and nervousness keeps in.

### So, are bonds safer than equities?

The answer is yes and no.

Short term yes, long term no. Short term, the risk and volatility can work against your goals, so that investment in bonds will surely be more on target than investments in equities.

In the long run however, the risk of equities is fully rewarded. They are not only the more attractive investment, but also the safer one! Even the worst outcome after 12+ years of investing is higher than the worst possible outcome when investing in bonds.

Still: the absolutely safest way of losing money is to invest into equities driven by fear or greed. The absolutely safest way of gaining money is investing long term into quality stocks.

All this is the focus we have when investing our own and clients assets alike: defining the purpose of the investment and then choosing the safest investment to reaching the goals and sticking to the strategy.

Your PWA Team