Zuger Kantonalbank

Portfolio

February 2025

Market overview and positioning

The new investment year started turbulently – at least where geopolitical developments are concerned. US markets stuttered temporarily. By contrast, our overweight in Europe is paying off. Hopes of a solution to the war in Ukraine and fresh elections in Germany are buoying markets.

Ruthless assertion of "America First"

US President Trump has announced numerous – and has already implemented some – "America First" measures. The motto of the re-elected president is currently "maximum pressure". So far, Trump has focused on import tariffs and cost-cutting measures in respect of the US government. He is also pushing for a solution to the Ukraine war, focusing on the interests of the US and allowing Europe no direct right of co-determination. What's more, he is showing little interest in supporting the proven alliances of the past. In order to get a deal that is to his liking, he appears to be prepared to resort to almost any means. The US Administration's communication style remains intractable. It can only be hoped that the new regime in the US, which has so far been acting extremely cynically at times and quite bizarrely at others, will ultimately exercise some restraint.

Economic momentum eases slightly

The US economy has cooled noticeably since the start of the year. The services sector has lost momentum, whereas the manufacturing industry has recovered somewhat. Overall, however, growth is more modest than previously. Numerous influencing factors are at play this year: unilaterally imposed economic policy measures such as tariff increases and tax relief measures could have positive or negative effects – depending on how the rest of the world responds. A more restrictive immigration policy could likewise act as a drag on economic growth in the longer term. The short-term effects are likely to be limited, however.

Solid environment for equity investments

The immaterial effects of US economic and foreign policy are difficult to assess: on the one hand, the uncertainty over the future path of the US could prompt investments decisions to be delayed, for example in the case of companies with globally integrated supply chains. On the other hand, the prospect of deregulation and lower corporate taxes could strengthen economic dynamism. Overall, we are expecting a slight weakening of US economic momentum this year, with real GDP growth expected to come in at 2.5%. For now this looks to be a solid environment with no risks of recession, including in a global comparison. This strengthens us in our conviction that US equities should remain strongly weighted in the portfolios.

"US policy is turning aggressive, although the markets look unperturbed for the time being. We are expecting heightened volatility in the financial markets over the coming months."

Alex Müller, Chief Investment Officer

Market overview and positioning

European economy weak

Europe has recently been exhibiting signs of a slight recovery, thanks to more stable consumer spending in particular. By contrast, the manufacturing industry faces challenges, both as a result of high energy costs and potential trade conflicts that could act as a dampener on exports. All in all, we continue to expect European growth to prove weak – much more so than in the US.

Dynamic stimulus from the political side

However, more expansionary fiscal policy – particularly in Germany – or any de-escalation of the conflict in Ukraine could spring positive surprises. Nonetheless, the potential for disappointment is high right now. The process of forming a new German government, involving the CDU/CSU and the SPD, is likely to drag on until Easter. On the other hand, exposure to European equities in particular looks attractive: Inflation should come down noticeably, and monetary policy is likely to be supportive. Moreover, equity valuations are currently attractive. Consumer confidence is improving slowly but steadily, and the equity market is increasingly reflecting this development (see graph).

"Our positioning remains unchanged for the time being. The global economy will grow in 2025 too. Developments in the US will remain under close scrutiny."

Alex Müller, Chief Investment Officer

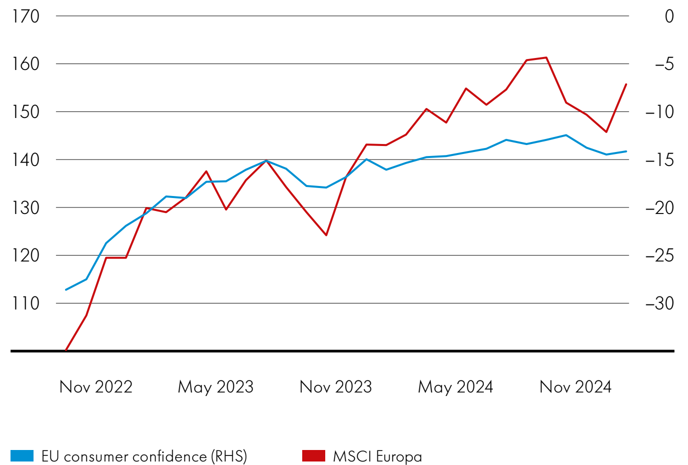
Outlook for Swiss industry brightens

In Switzerland, the development of the economy largely mirrors the situation in the Eurozone, but with certain improvements evident in the manufacturing sector. The corresponding leading indicators remain stuck below the growth threshold, but there has been a reduction in the rate of headcount reduction, and momentum on the production side has picked up somewhat. Switzerland's manufacturing sector is inching its way back from the nadir of 2023 towards the path of growth. By contrast, the indicators for the services sector indicate strength and are pointing to growth. Given the huge significance of this sector to the Swiss economy, this bodes well.

China still stagnating

China experienced a significant slowdown in growth in the second half of 2024, and further weakening looks likely this year. The problems in the real estate sector have not gone away, there is no evidence of an upturn in consumer sentiment, and multiple sectors of industry continue to exhibit excess capacity. A comprehensive economic package that would directly stimulate consumer spending would be a powerful tool for counteracting the downturn. It remains to be seen whether such a step will be taken at the upcoming National People's Conference, which starts on 5 March 2025.

Consumer confidence and European equity market development



Source: Zuger Kantonalbank, Bloomberg L.P./DL, MSCI Inc.

Helping hand from monetary policy?

Both the European Central Bank (ECB) and the Swiss National Bank (SNB) can be expected to cut interest rates further in 2025. Inflation rates are very low in Switzerland, which gives the latter greater freedom of manoeuvre when it comes to cutting rates. We believe central banks will continue the global rate-cutting cycle in order to support economic growth and reflect the decline in inflation. This situation creates a favourable environment for risk assets for the time being.

Tariffs as a risk scenario

We believe current US policy harbours one risk in particular: specifically, high tariffs could create greater uncertainty and result in the postponement of investment decisions. Global growth would recede more sharply than expected as a result, with the corresponding upward pressure on inflation due to fragmented supply chains. Central banks would have to hold back from rate cuts despite weak growth. As things stand, however, this risk scenario has yet to materialise.

What does this mean for investors?

Maintain allocation

We are leaving our positioning unchanged this month. Where equities are concerned, we are continuing to focus on proven core markets: Switzerland, the US, Europe and the emerging markets. We continue to recommend an overweighting of European and US equities, as well as gold.

Heavyweights drive rise in market index

Swiss equities have performed strongly in the first two months of the year. Heavyweights Roche and Nestlé, which acted as a strong drag on the overall market in 2024, currently rank among the outperformers, which has propelled Switzerland's leading market index to a double-digit percentage rise. We discern further potential for an economic upturn in Europe, even if a pause for breath looks appropriate in the short term.

US dollar and uncertainty as negatives

US equities remain one of the most promising asset classes in 2025. The economic parameters in the US look robust, and growth momentum remains unbroken in the technology area in particular, despite DeepSeek. We continue to recommend the overweighting of US equities. However, we recommend investing broadly across the wider market rather than putting all eggs in the technology basket. For Swiss investors, however, the first two months of the year have been tricky. One notably negative aspect is that the US dollar weakened against the Swiss franc.

Swiss bonds get off to a weak start

The stability of the Swiss economy, the global competitiveness of its companies and moderate inflation often mean attractive returns with manageable risk. However, Swiss government and corporate bonds have yet to benefit this year from low rates of inflation and stable ratings. Rising capital market interest rates have led to negative returns so far.

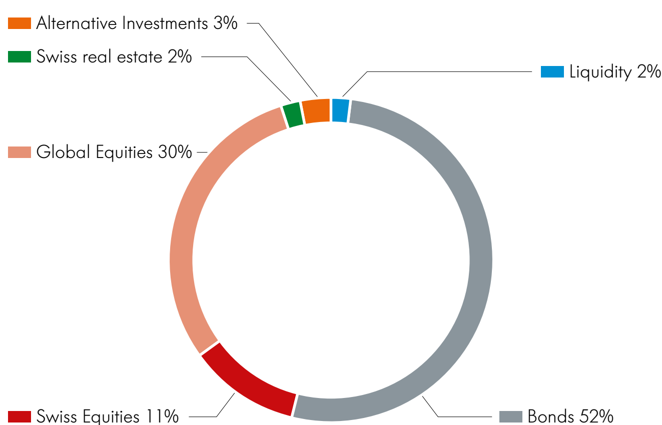
Europe has upside potential

European equity markets have performed pleasingly – as expected by us. Favourable valuations and an increasingly expansionary monetary policy could give the markets further momentum. At the same time, we expect a further normalisation of investor sentiment. Despite an ailing economy, positive factors such as rising real wages, falling rates of inflation, and an improved political outlook are contributing to stabilisation. Savings rates are also likely to fall, which will support consumption.

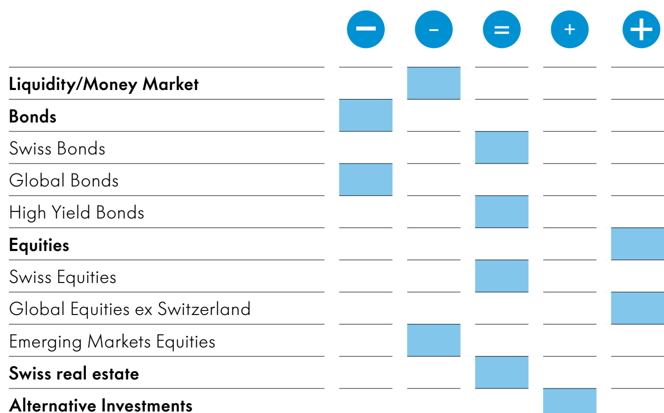
Gold glitters

Several key factors mean that gold remains an essential component of any balanced portfolio in 2025. Military conflicts and increasing geopolitical tensions are increasing the demand for gold as a safe haven. Central banks around the world are increasing their gold reserves. Despite the high current price level, a normalisation of real interest rates could provide further tailwind for the gold price.

Strategic Allocation (Source Balanced Mandate)



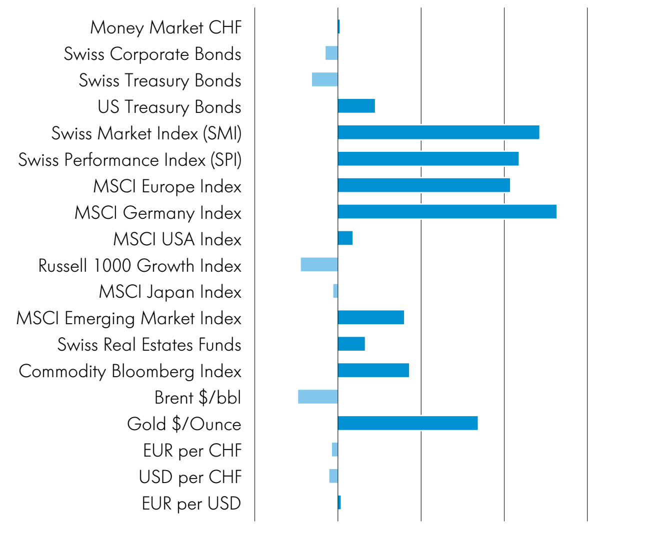
Tactical Allocation



Source: Zuger Kantonalbank

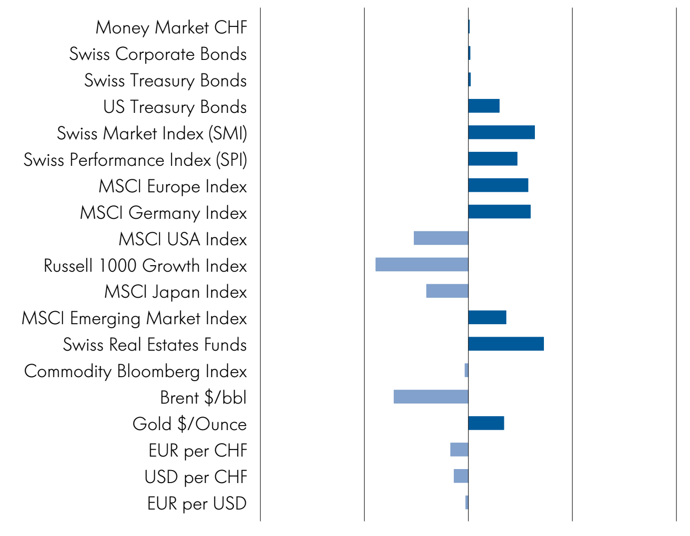
Market data (exchanges & markets)

Asset class returns (in CHF) Since start of year (as at 28.02.2025)



in percent –5 0 5 10 15 20

Asset class returns (in CHF) Last month (rolling as at 28.02.2025)



in percent –10 –5 0 5 10

Source: Zuger Kantonalbank, Bloomberg L.P., MSCI Inc., SIX Index AG, Frank Russell Company

Swiss equities SMI (from start of the year to 28.02.2025)

Richemont 33.1% / CHF 183.5	**Logitech** 17.8% / CHF 88.4	**Roche** 17.1% / CHF 299.2	**Nestle** 16.3% / CHF 87.12	**Holcim** 12.8% / CHF 98.54
Swiss Life 12.2% / CHF 784.8	**UBS** 11.4% / CHF 30.9	**Zurich** 10.2% / CHF 593.6	**Novartis** 10.1% / CHF 97.66	**Swiss Re** 10% / CHF 144.3
Alcon 8.5% / CHF 83.4	**Partners Group** 7.6% / CHF 1323	**Lonza** 6.1% / CHF 568.6	**Sika** 6% / CHF 228.7	**Geberit** 2.7% / CHF 528.4
Givaudan 2.3% / CHF 4058	**Swisscom** 1.8% / CHF 513.5	**Kühne&Nagel** –0.1% / CHF 207.6	**ABB** –1.5% / CHF 48.31	**Sonova** –2.5% / CHF 289

Source: SIX Index AG, Zuger Kantonalbank

Do you have any questions or thoughts on the current portfolio?

Contact us by email (alex.mueller@zugerkb.ch) or call us on 041 709 11 11.

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