Zuger Kantonalbank

Portfolio

December 2024

Market overview and positioning

With the victory of Donald Trump, the balance of power in the US Congress for the next four years has been clarified: everything is now in place for a basically business-friendly policy in the US. The global rate-cutting cycle continues, and the SNB is sending a clear signal against deflationary risks. The ECB is also easing, with the Fed likely to follow suit. This situation should be viewed as fundamentally positive for the financial markets and for the start of the new year.

Economic growth uneven

We expect global economic growth to be moderate in 2025, with regional variations. Whereas the US continues to grow robustly and is benefiting from a strong labour market, Europe is lagging behind in its development. China's recovery is likely to be slow. The path of the upturn largely depends on which fiscal measures Beijing decides on and how the real estate market is stabilised.

What "America First" could mean

Under US President Trump, we expect various "America First" measures: lower corporate taxes, tighter restrictions on immigration, the removal of regulations and new tariffs on imported goods. With the Republican dominance in US national politics, market participants are focusing more on the risks of higher inflation. This could lead to a tighter monetary policy that would slow down economic growth. Are these worries justified?

Decision year for the US economy

There is no doubt that 2025 will be an important year for the USA. The economy is growing and can be expected to enjoy a further political tailwind in 2025. The current estimates predict real growth of over 3 percent. The broad direction of the Trump administration is clear, but the precise measures and their repercussions are more difficult to evaluate.

"The different regions of the world will grow at different tempos in the new year. This calls for an active positioning, which includes taking account of dynamic developments on the geopolitical front."

Alex Müller, Chief Investment Officer

It remains to be seen whether Trump's policies will actually drive up rates of inflation in the US and then push the Fed off its rate-cutting path. The labour market does not seem to be overheating at the moment. The latest inflation data showed for the first time in a long while a relaxation in residential components.

European economy still sluggish

Europe's economies are likely to experience only subdued growth. The leading indicators for both the manufacturing and services sectors were very weak at the year-end. In other words, the economic headwinds facing the EU look set to persist even after several disappointing quarters. Despite the collapse of the German traffic light coalition and the European elections in 2024, we are not expecting a wave of reform and deregulation in Europe.

Wir begleiten Sie im Leben.

China's slow recovery

In China, growth weakened significantly in both the second and the third quarter. Leading indicators recently slumped to their lowest level of the year. Thanks to a monetary and fiscal stimulus programme, growth can be expected to stabilise at around 4.5% in 2024 and 2025. On the monetary policy side, measures include interest rate cuts, lower minimum reserve requirements for banks, measures to support the equity market, and the recapitalisation of large state banks. The fiscal aspect has yet to be definitively determined. A persistently weak real estate market, the low level of consumer confidence as a result, and surplus capacity in various sectors of industry remain major challenges for this country.

Falling Swiss interest rates

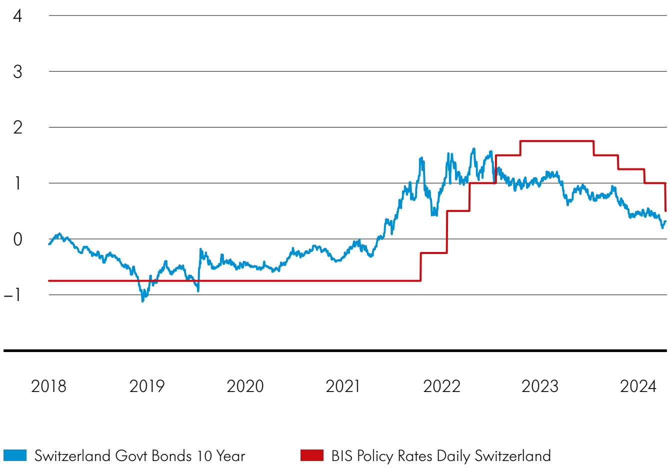
As is so often the case, the situation in Switzerland is different. After three rate cuts in the current year, the Swiss National Bank (SNB) cut its key interest rate again by 0.5 percentage points at its last meeting on 12 December 2024 (see chart). It is the largest rate cut so far in the current monetary policy cycle and at the same time a clear signal from the new SNB President Martin Schlegel. With this move, he is showing that he is just as committed to ensuring price stability as his predecessor Thomas Jordan. The SNB justified its decision by pointing to decreasing inflationary pressures and the prolonged phase of economic weakness.

> "2025 is upon us: The new investment year once again presents opportunities for mixed investment portfolios. The global economy will grow in 2025 too, an argument in favour of equity exposure."
>
> Alex Müller, Chief Investment Officer

Low inflation rates

The latest forecasts show that inflation in Switzerland is at the lower end of the SNB's target range of 0 to 2%. The SNB expects inflation to amount to 1.1% for 2024, whereas for 2025 it is now predicted to be just 0.3% after the previous estimate of 0.6% was scaled back. For 2026, the forecast has been raised marginally to 0.8%, but remains at a very low level. The strong Swiss franc played a major role in easing inflationary pressures by making imports cheaper. The Swiss inflation rate thus primarily reflects price increases in domestic goods. The strength of the franc remains a challenge for the guardians of Swiss monetary policy. The rate-cutting cycle in Switzerland is therefore not yet at an end.

Falling Swiss interest rates



Source: Zuger Kantonalbank, Bloomberg DL

ECB likewise cuts rates

The European Central Bank (ECB) followed in the footsteps of the SNB and also implemented four rate cuts in 2024. As in other regions, the significant decline in inflation rates facilitated this strategy, which led to further advances in European equity markets, despite the subdued economic environment. We believe central banks will continue the global rate-cutting cycle in order to support economic growth and reflect the decline in inflation. This is creating a favourable environment for risk assets for the time being.

Fractures in geopolitics

The geopolitical landscape remains fragmented. It is being shaped by conflicts such as those in the Ukraine and the Middle East, along with the ongoing rivalry between the US and China. This fragmentation is affecting trade routes, supply chains and investments. Quite how the Ukraine war will develop in 2025 remains to be seen. Europe will have to position itself even more clearly on this issue over the coming year. The situation in the Middle East remains tense after the fall of the Assad regime in Syria.

What does this mean for investors?

Positioning for 2025

Due to current developments, we have reviewed and adjusted our strategic asset allocation. The weighting of Swiss bonds is increasing and a gold component is being included. Where equities are concerned, we focus on proven core markets: Switzerland, the US, and – to a lesser extent – Europe and the emerging markets. This allocation reflects our assessment of the parameters for 2025.

Security through quality

Swiss equities and bonds are indispensable for investors with a long-term outlook. The stability of the Swiss economy, the global competitiveness of its companies and moderate inflation often mean attractive returns with manageable risk. Swiss government and corporate bonds are benefiting from low rates of inflation and stable ratings. Forgoing foreign currencies eliminates the need for high hedging costs.

Strong growth thanks to innovation

US equities remain one of the most promising asset classes in 2025. The economic framework in the US is sound and the growth momentum, especially in the technology sector, remains unbroken. Topics such as "artificial intelligence" are driving innovation, while lower interest rates are additionally supporting technology values. We therefore recommend a strategic overweighting of US equities for the coming year.

Stability with upward potential

The European stock markets continue to face challenges, but we also see opportunities. Favourable valuations and an increasingly eased monetary policy could give the markets additional momentum. At the same time, we expect a further normalisation of sentiment. Despite volatility in development, rising real wages and falling inflation rates are contributing to stabilisation. Savings rates are also likely to fall, which will support consumption.

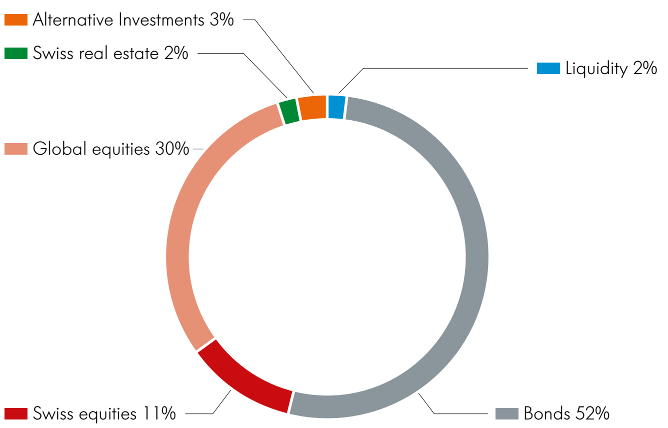
Gold as a counterbalance to risks

There are several key factors that make gold an essential component of a 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 price level, a normalisation of real interest rates could provide further tailwind for the gold price.

Staying invested: a proven strategy

The last 12 months have once again shown impressively: a broadly diversified portfolio is the key to ensuring stability and returns in turbulent times. Political uncertainties and market fluctuations can be successfully cushioned with a smart investment strategy. The following also applies in 2025: Do not be distracted by short-term fluctuations, but stay invested.

Strategic Allocation (Source Balanced Mandate)



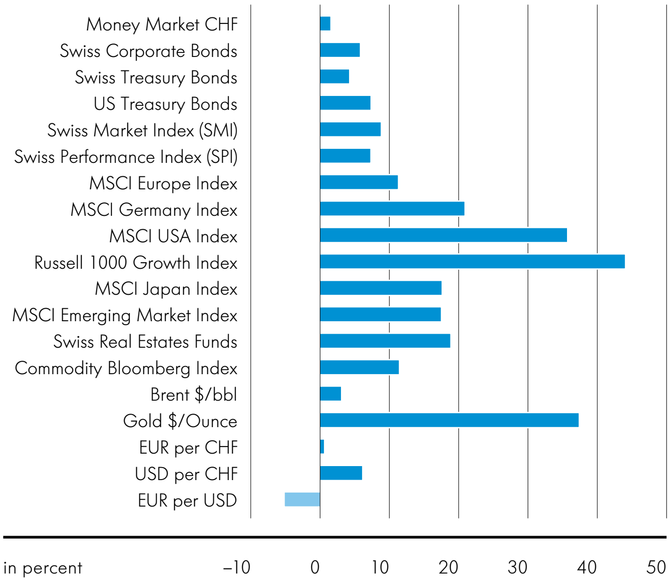
Source: Zuger Kantonalbank

Tactical Allocation

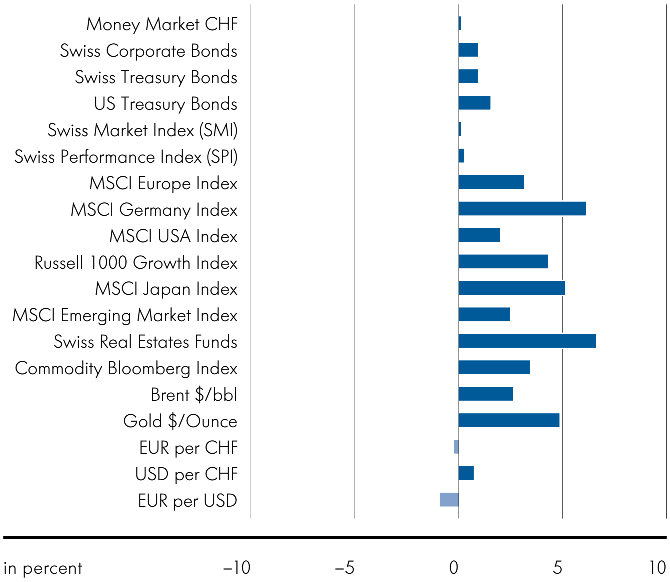
	−−	−	=	+	++
Liquidity/money market			■		
Bonds	■				
Swiss bonds			■		
Global Bonds		■			
High Yield Bonds			■		
Equities					■
Swiss Equities			■		
Global Equities ex Switzerland				■	
Emerging Markets Equities			■		
Swiss real estate			■		
Alternative Investments			■		

Market data (exchanges & markets)

Asset class returns (in CHF) Since start of year (as at 12.12.2024)



Asset class returns (in CHF) Last month (rolling as at 12.12.2024)



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

Swiss equities SMI (from start of the year to 12.12.2024)

Lonza 56.2% / CHF 548.2	**Swiss Re** 43.5% / CHF 127.8	**ABB** 41.8% / CHF 51.82	**Holcim** 41.4% / CHF 90.18	**Zurich** 31.9% / CHF 547.8
Swiss Life 23.8% / CHF 687.2	**Richemont** 19.9% / CHF 135.6	**Givaudan** 17.9% / CHF 4041	**Alcon** 17% / CHF 76.56	**UBS** 12.5% / CHF 28.62
Partners Group 9.3% / CHF 1284.5	**Roche** 8.8% / CHF 255.5	**Sonova** 8.2% / CHF 292.3	**Novartis** 7.7% / CHF 88.06	**Geberit** 4.1% / CHF 547
Swisscom 3.8% / CHF 504.5	**Logitech** –3.9% / CHF 75.44	**Sika** –14.7% / CHF 230.6	**Nestle** –20.7% / CHF 74.9	**Kühne&Nagel** –26.3% / CHF 205

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.