Investment letter

Monthly review of global financial markets

SWISS CAPITAL IB

June 2025

MACROECONOMICS

The trade war continued to dominate headlines in May. While **U.S. negotiations were successful with the United Kingdom** (a general 10% tariff, with steel and aluminum exempted) **and a deal with China is emerging** (lowering tariffs from 145% to 30% on Chinese goods entering the U.S., and from 125% to 10% on U.S. goods going to China), discussions are progressing more slowly with Japan and India. **More worryingly, in another of his trademark reversals, Trump renewed pressure by imposing 50% tariffs on European imports starting in July**. Markets didn't react too harshly to this announcement—despite its potentially major consequences—since they interpreted it as a tactical move by the U.S. president aimed at (1) reaffirming his determination to rebalance the country's trade and (2) **opportunistically easing pressure on long-term rates**, which have been rising due to the passage of his *Big Beautiful Bill* in Congress and the downgrade of the U.S. credit rating by Moody's from Aaa to Aa1. **Still, the key takeaway remains: the effective tariff rate on goods** entering the United States now comfortably exceeds 10%, compared to just 2.2% last year. The risk of a shock is therefore real, even though the worst of the *Liberation Day* announcements appears to have been toned down.

Trade-related disruptions continue to be reflected in deteriorating soft data. American consumers remain hesitant, as shown by the University of Michigan survey, whose consumer confidence index declined for a fifth consecutive month, reaching its lowest point since June 2022. May's Flash PMIs climbed back above 50 (Manufacturing and Services: 52.3), but supply chain tensions persist. Fortunately, the price pressures reflected in PMI and ISM surveys are not yet feeding into producer prices (PPI: +2.4% YoY vs +2.5% expected) and even less into consumer prices. **The CPI surprised on the downside** (+2.3% YoY vs +2.4% expected; Core CPI: +2.8% as expected). The price index for goods even declined (-0.1% YoY), despite goods being on the front line of the trade war. However, the Trump administration's erratic decisions still threaten price stability, and inflation could rebound as early as next month.

As a result, the Federal Reserve held its rates steady for the third consecutive meeting, within the 4.25%–4.50% range. Amid the current uncertainty, Jerome Powell said monetary policy is "well-positioned." However, he is increasingly considering the potential conflict between the Fed's dual mandate (inflation and employment). The Fed has reiterated that in such a scenario, it would prioritize the objective furthest from target. With the labor market still strong (177,000 jobs added in April vs 130,000 expected, and unemployment steady at just 4.2%), the Fed is likely to stay focused on inflation and keep rates unchanged for now. Markets now anticipate fewer than two rate cuts before year-end.

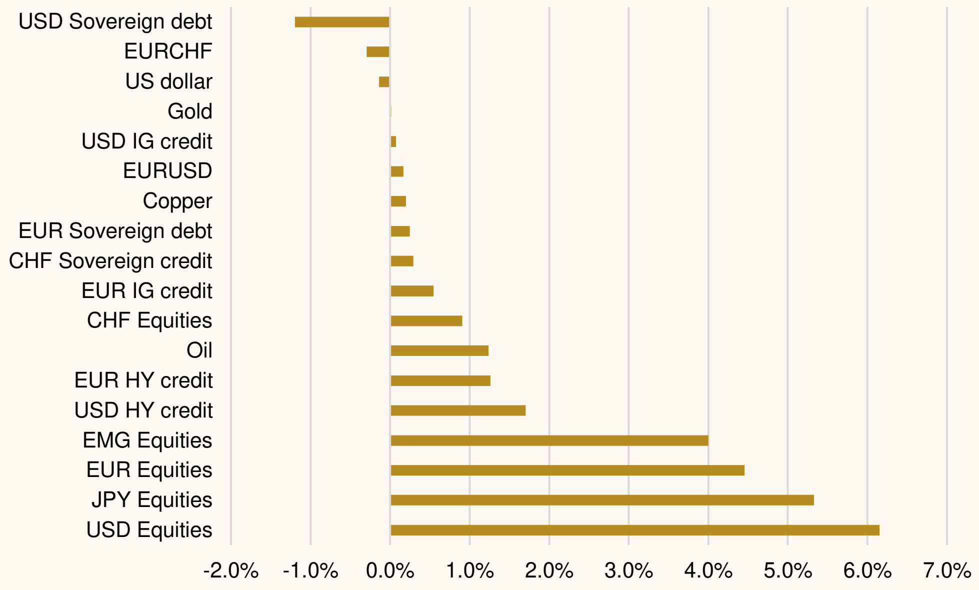
> **The trade war continues to dominate headlines in May**

In Europe, the turmoil caused by the trade war is reflected in a four-month slowdown in economic activity. Q1 growth was revised down to +0.3% QoQ (from +0.4% in the initial estimate). The European Commission also lowered its 2025 growth forecast from 1.3% to 0.9%. Logically, May Flash PMIs dropped below the 50 mark for the first time this year (Composite: 49.5 vs 50.7 expected). However, the improvement in the **manufacturing sector** was a positive surprise (Manufacturing PMI: 48.4). This sector benefited from a temporary easing in trade tensions and progress on Germany's stimulus plan. In this rather gloomy environment, the **rebound in inflation** (HICP: +2.2% YoY, Core HICP: +2.7%) is explained more by base effects than a reversal in disinflation. This was confirmed by Q1 negotiated wage data, which showed a sharp slowdown (+2.4% vs +4.1% previously). **That should be enough to convince the ECB to continue easing policy.** And while Isabel Schnabel delivered a fairly hawkish speech early in the month calling for an end to rate cuts, other hawks (Wunsch, Knot) struck a much more dovish tone. An eighth consecutive rate cut on June 5 is therefore all but guaranteed.

In Japan, the **BoJ** reiterated it does not plan to continue hiking rates, with the trade war posing a serious threat. May's Flash PMIs were lukewarm (Manufacturing: 49.8, Services: 50.8), underlining the fragility of the recovery. Prime Minister Shigeru Ishiba is in talks with the U.S. government to reduce the 25% tariff imposed on car exports—a serious blow to the archipelago, as the U.S. is Japan's largest export market. **Inflation remains elevated**: the headline index rose +3.6% YoY, driven by food prices (+6.3%), including an eye-popping +98.4% increase in rice prices. Core inflation also exceeded 3%. As a result, consumer confidence fell to its lowest level in over two years, and long-term yields rose further.

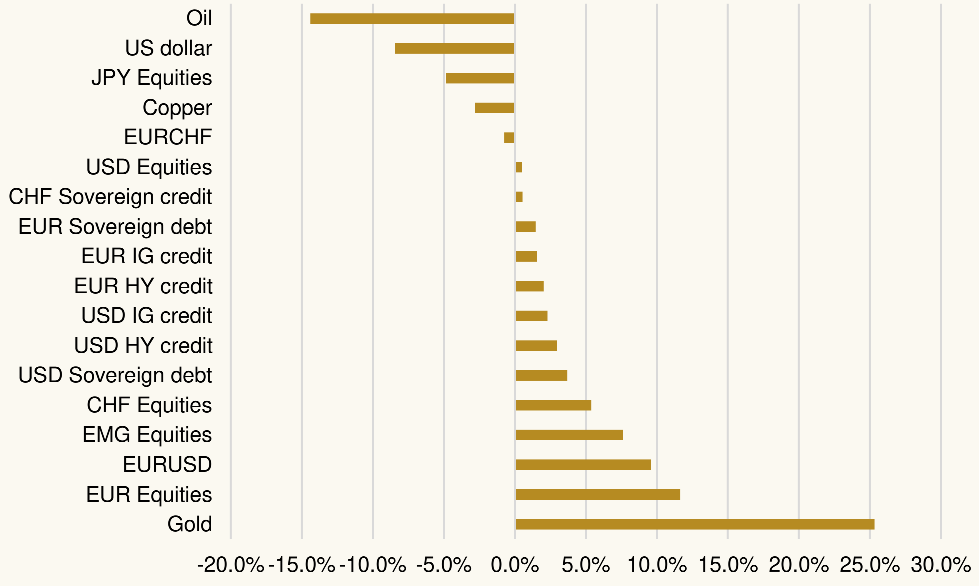
OVERVIEW

MAIN ASSET CLASSES
MONTHLY PERFORMANCE



Source: Bloomberg, 31/05/2025

MAIN ASSET CLASSES
PERFORMANCE YEAR-TO-DATE



Source: Bloomberg, 31/05/2025
Past performance is not indicative of future performance

MACROECONOMICS (CONTINUED)

In the United Kingdom, the **BoE** cut rates from 4.5% to 4.25%. However, the central bank struck a cautious tone, as two members of the Monetary Policy Committee voted to keep rates unchanged. That was enough to dash hopes of another cut in June. Inflationary risks remain a concern. Following an administrative price adjustment, inflation rebounded more strongly than expected. The headline index jumped from +2.6% YoY to +3.5% (vs +3.3% expected), and the core index from 3.4% to +3.8% (vs +3.5% expected). With a **Flash Composite PMI** similar to that of the eurozone (49.4), growth has stalled after a strong Q1 (+0.7% QoQ). This picture is unlikely to convince the **Old Lady of Threadneedle Street** to rush another rate cut: the next move is now expected in November.

In China, despite the trade deal signed with the United States in Geneva, the economy shows no convincing signs of improvement. Exporters are rushing shipments (Exports: +8.1% YoY vs +1.9% expected), but domestic consumption disappoints (Retail sales: +5.1% YoY vs +5.5% expected. **Deflation is setting in.** For the third straight month, the Consumer Price Index fell (-0.1% YoY in April), while Producer Prices are in free fall (-2.7% YoY after -2.5%). Once again, the **PBoC** was timid, trimming its benchmark rate by only 10 bps (from 3.1% to 3.0%). This may help slow the fall in real estate prices (-4% YoY after -4.5%), but without more fiscal stimulus, markets expect just 4.5% growth this year—below the 5% target set by the Chinese authorities.

In Switzerland, the economy is also suffering from trade tensions. While Q1 growth came in surprisingly strong (+0.7% QoQ in the initial estimate vs +0.5% expected), it likely reflects massive exports to the U.S. in anticipation of tariffs (as of late May, SECO had not published the breakdown). **Business sentiment is declining**, with the Manufacturing PMI hitting a nine-month low (45.8 vs 48.6 expected). Consumer confidence also hit a 14-month low. Deflation is becoming a real threat: the **CPI dropped to 0% YoY** (vs +0.2% expected), exacerbated by the franc's continued strength near its historic high against the dollar. **The SNB's policy rate is expected to hit 0% in June**, with markets now anticipating a return to negative rates by September.

EQUITY MARKETS

After a strong "W-shaped recovery" following Liberation Day, U.S. equity markets continued their spectacular rally, even returning to positive territory compared to their January 1, 2025 levels (S&P 500: +6.20%, Nasdaq 100: +9.0%). May was their best month since November 2023. Behind this powerful rebound: **global trade de-escalation and the temporary agreement signed between the United States and China**, which brought U.S. tariffs on Chinese goods down to 30% (from 145% previously), and Chinese tariffs on U.S. imports to 10% (down from 125%). Trump also showcased himself as a "deal-making" president, striking Middle Eastern deals favorable to the American tech sector, while playing the role of protector of a besieged America: his Golden Dome is set to complete President Reagan's 'Star Wars' initiative. A godsend for defense stocks.

Markets cheer lower tariffs and the comeback of the Magnificent 7

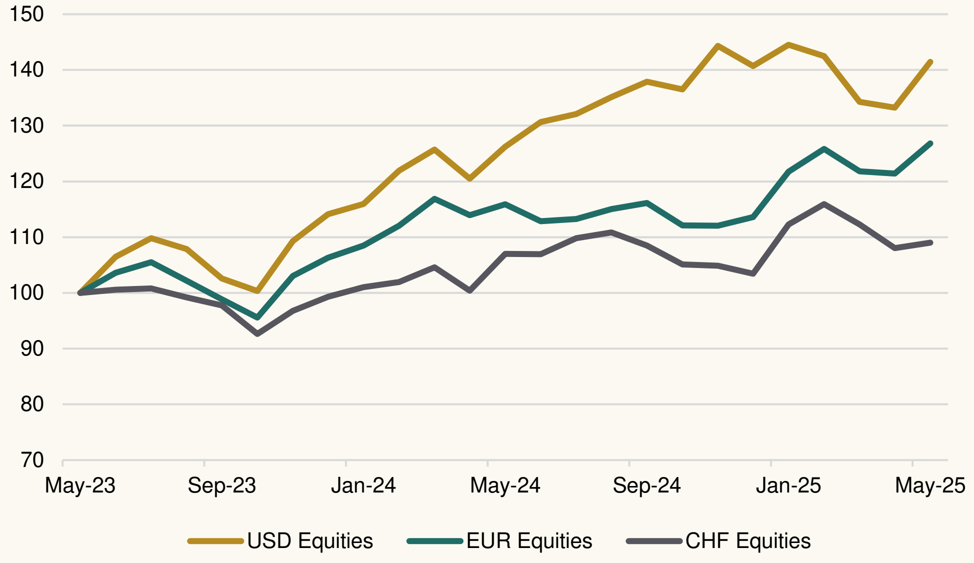
The final weeks of the Q1 2025 earnings season also whetted investors' risk appetite. Unsurprisingly, the first quarter turned out to be a solid one. FactSet reports that 78% of S&P 500 companies beat profit expectations (63% beat revenue consensus). **All eyes were on corporate guidance**, which many feared would deteriorate significantly due to ongoing uncertainties around trade and U.S. growth. But FactSet notes that of the 250+ companies that issued guidance, only 8 either withdrew it or failed to update it. **Over 50% maintained their profit forecasts for 2025.** And while 15% revised them downward, just over 25% actually revised them higher. Management teams appear fairly confident in their ability to weather the shocks. However, if things remain as they are, tariff stabilization would occur at elevated levels (well above 10%, compared to under 3% in 2024). The threat of re-escalation is never far off—Trump's renewed pressure on Europe is a case in point, with threats of 50% tariffs on all imports if no agreement is reached by July 9. Additionally, upward pressure on long-term interest rates—driven by fiscal slippage tied to the Republicans' Big Beautiful Bill—is also a major risk: "Sell America" is never far from investors' minds.

With sentiment still positive, the Magnificent 7 reclaimed their role as market drivers (BM7P: +13.3%). Looking closer, Apple (-5.5%) is going through a rough patch: the tech giant is under pressure from the U.S. administration to repatriate its manufacturing operations. Conversely, Nvidia (+24.1%) continues to surprise—not by massively exceeding sales or profit expectations as it did last year, but by its ability to stay afloat despite geopolitical tensions (last month, Nvidia had to provision over $5 billion in losses due to the ban on selling certain chips in China). At the other end of the spectrum, **the healthcare sector was the worst performer** (-5.7%), while all other S&P 500 sectors closed in the green. The White House is increasing pressure on pharmaceutical companies to lower drug prices. And nothing seems to be spared for insurer United Health (-26.6%), which is under investigation for fraud.

European markets are keeping pace with their U.S. counterparts (Stoxx Europe 600: +4.0%). Defense may well be the hit of the summer (after already leading in spring), with Rheinmetall up 25.8%. Hopes surrounding the German stimulus plan continue to buoy names like Siemens Energy (+26.6%). In sympathy with U.S. markets, the healthcare sector (+0.0%) ends at the bottom of the leaderboard.

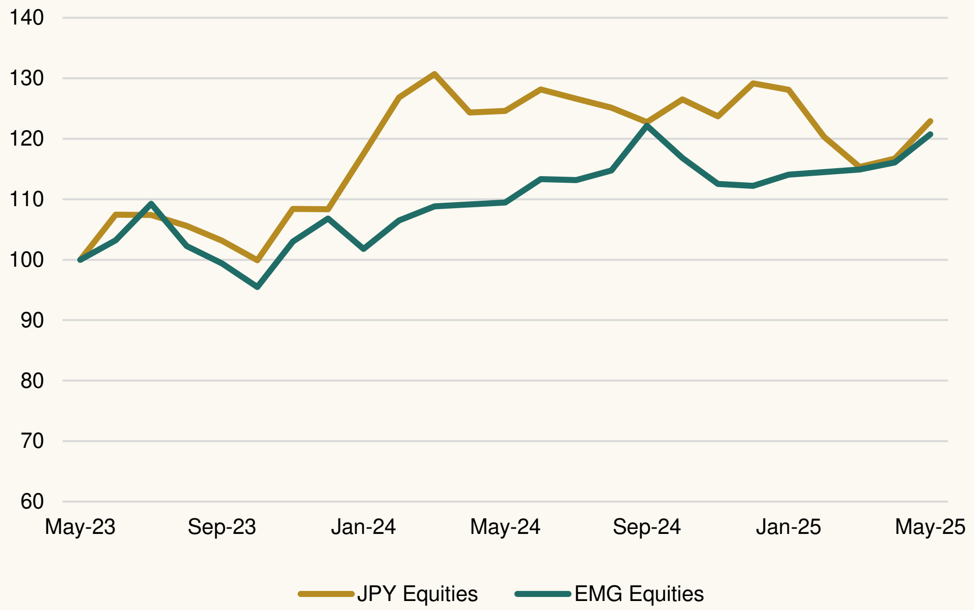
EQUITY MARKETS

EQUITY MARKETS EUR USD CHF
PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 31/05/2025

EQUITY MARKETS JAPAN – EMERGING MARKETS
PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 31/05/2025
Past performance is not indicative of future performance

BOND MARKETS

May was a favourable month for credit markets, even though rates continued to show signs of weakness in the US and Japan. The 10-year US yield, which started the month at 4.22%, ended at 4.4%, reflecting concerns about the upcoming 2026 budget and the rise in debt that is expected to accompany it. The tax reduction plan (estimated at $3.8 trillion over 10 years) is far from being fully financed by spending cuts and will therefore see the deficit rise.

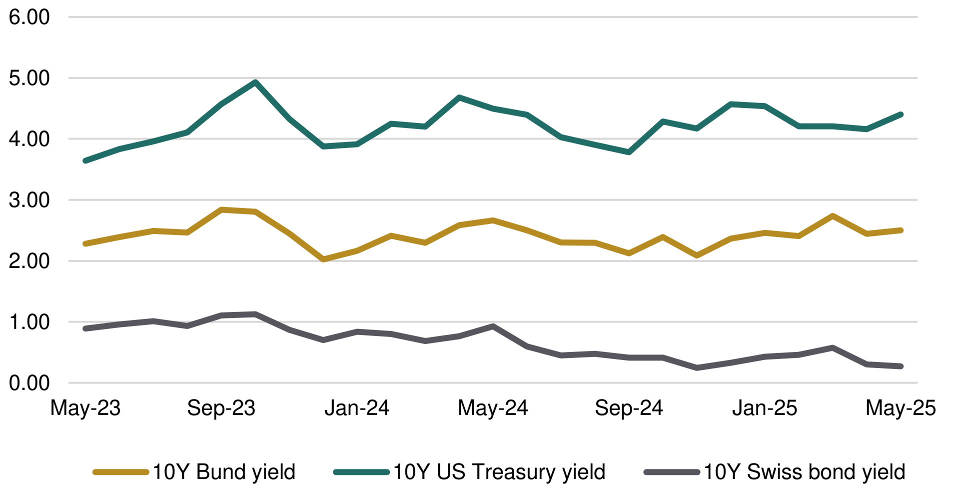
In Europe, rates were more positive: the Bund ended at 2.5% (up 5bp over the month), but Italy was upgraded, allowing its spread with Germany to fall below 100bps. The so-called peripheral countries continue to perform better, with Greece in particular continuing its recovery. The disinflationary trend in Europe, helped by sharply lower wage pressure in the first quarter, should enable the ECB to continue its monetary policy and cut its key rate to 1.75%.

For once, Japan raised the temperature on the bond market with 30-year yields exceeding 3%. This sharp rise in very long-term rates is weighing on the JGB exposures of major banks and domestic insurers, resulting in significant unrealized losses. The financial world therefore feared a new episode of forced unwinding of carry trades, reminiscent of the sell-off in August 2024. The situation will force the Japanese Treasury to favour shorter maturities for its upcoming maturities.

On the credit side, spreads recovered very well after widening in April: IG tightened by around 10bp, while HY outperformed with a compression of 40bp to 50bp, with US HY performing particularly well. The primary market has largely made up for its low activity in April, with all segments contributing to an exceptional month. **As for the secondary market, it proves that investor appetite for credit remains intact, with investors systematically buying the dips... a good sign for the coming months.**

> **May was a favourable month for credit markets**

10Y SOVEREIGN BOND YIELDS
EVOLUTION OVER 2 YEARS



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CURRENCIES

The dollar remained almost stable in May (-0.1%). **But the DXY broke below 100, a support level that had held for over three years**. Although the correction was clearly milder than in March and April, the trend remains downward. The temporary trade agreement signed with China wasn't enough to brighten the greenback's outlook, as the risks posed by the trade war to U.S. growth remain visible. Added to this is investors' growing distrust of Donald Trump's *Big Beautiful Bill*, which has revived the bond vigilantes and triggered portfolio reallocations away from the dollar sphere. In this environment, where a "Sell America" narrative is never far off, Bitcoin's sharp rise (+10.8%) certainly doesn't go unnoticed.

The euro gained a few basis points against the dollar (EURUSD: +0.2%). The trade agreement between the United States and China initially brought EURUSD down to 1.10, the upper limit of its 2022–2024 range. This level provided support for the pair, which then climbed back toward 1.14. As the growth advantage of the United States has narrowed in recent months, the widening rate differential in the ECB's disfavour is no longer enough to convince investors to sell the single currency.

Sterling posted the best performance among developed market currencies in May (GBPUSD: +1.0%). The UK can indeed boast of being among the first to reach common ground with the United States on tariffs. The *hawkish* tone taken by the BoE during its rate cut from 4.5% to 4.25% also signalled that the Old Lady of Threadneedle Street intends to keep rates high this year. And outside the USD, few regions offer yields as attractive as the UK's insular economy.

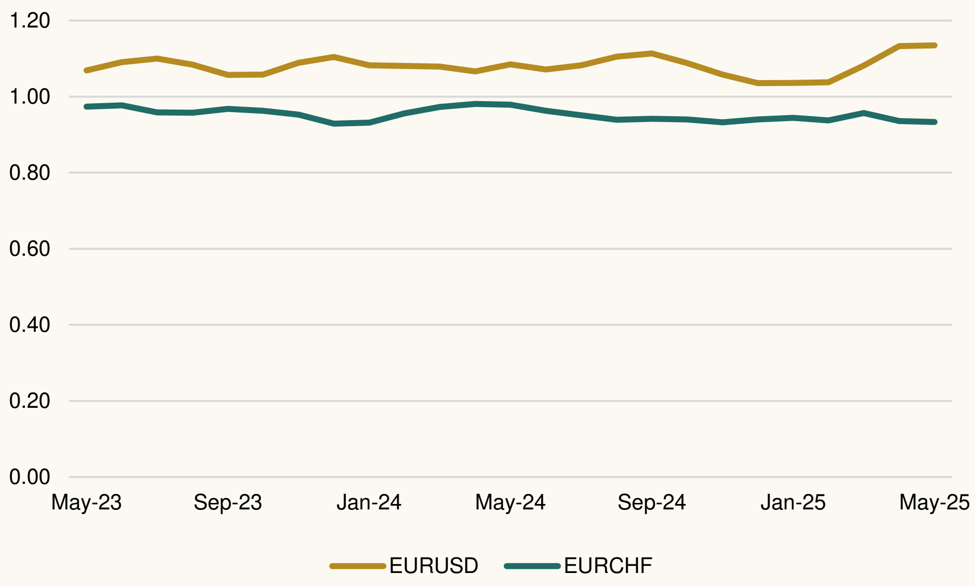
The Swiss franc also gained ground, despite the looming slowdown in the Swiss economy (CHFUSD: +0.4%). The looming period of "zero rates" (or even negative) isn't deterring investors either. The safe-haven nature of the Swiss currency remains fully in play, pushing the CHFUSD pair toward its historical highs at 1.20.

The yen lost ground (USDJPY: +0.7%). Trade uncertainty is a drag on the Japanese economy, preventing the BoJ from continuing its monetary tightening campaign. However, the yen remains significantly undervalued relative to the dollar, and the USDJPY pair is expected to resume its downward path.

> **In May, the dollar declined less sharply than in March and April, but the trend remains downward**

USD & CHF

EVOLUTION OVER 2 YEARS AGAINST THE EUR



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COMMODITIES

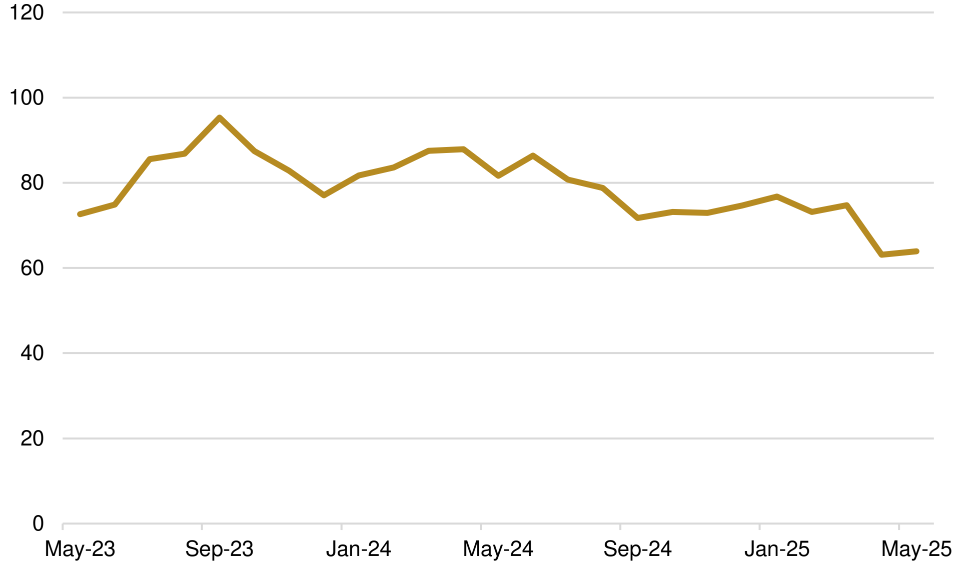
OIL

A timid rebound for oil after April's plunge (Brent: +1.3%). WTI (+4.4%) rebounded a bit more strongly, having suffered more in the aftermath of Liberation Day. **Overall, demand expectations continue to fluctuate with Trump's trade-related announcements.** The U.S.-China agreement helped push Brent back toward the $70 mark, but hopes for a demand recovery were offset by the risk of a sharp increase in supply. The Saudis are reportedly pressing OPEC+ to open the taps further. **The production hike from 100,000 to over 400,000 bpd, already in effect in May and June**, could be extended into July. This is a way for the kingdom to exert downward pressure on prices to punish "cheaters" within the alliance who keep pumping above agreed quotas. As a result, Brent stabilized around $65 in the second half of May.

Timid rebound for oil after April's plunge

OIL

EVOLUTION OF BRENT PRICES OVER 2 YEARS



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COMMODITIES

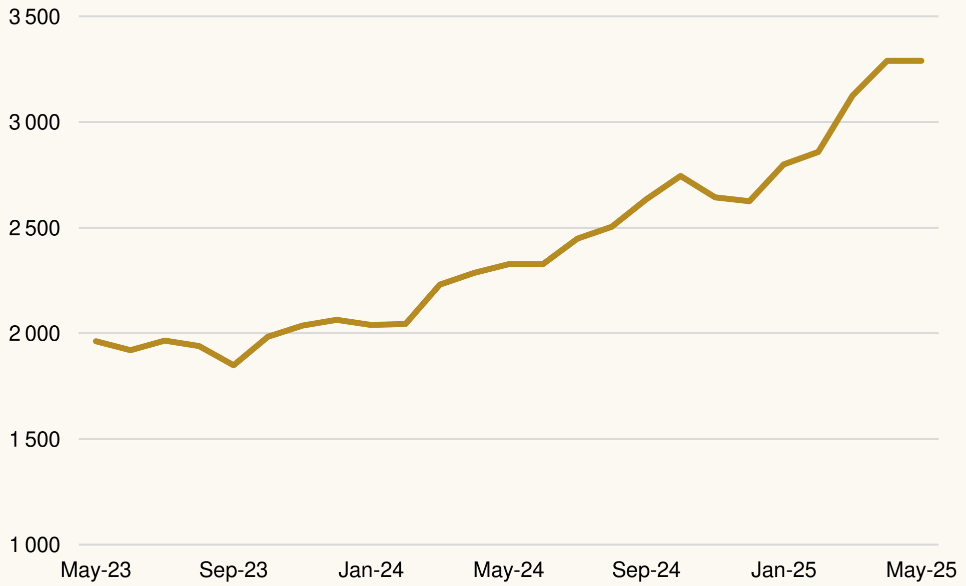
GOLD

The easing of trade tensions allowed silver to rise (+1.1%). Unlike last month, the cyclical nature of the grey metal proved to be an advantage. **However, risk aversion hasn't completely disappeared: gold remained flat over the month** (+0.0%). We continue to favour the yellow metal, which has shown a negative correlation with equities in recent months. Moreover, it benefits from continued interest from central banks and investors—especially in China and India. In this environment, gold has maintained its status as the top-performing asset since the start of the year (+23.8% since January 1st).

Gold gains ground during periods of distrust toward the dollar and long-term U.S. rates

GOLD

EVOLUTION OVER 2 YEARS



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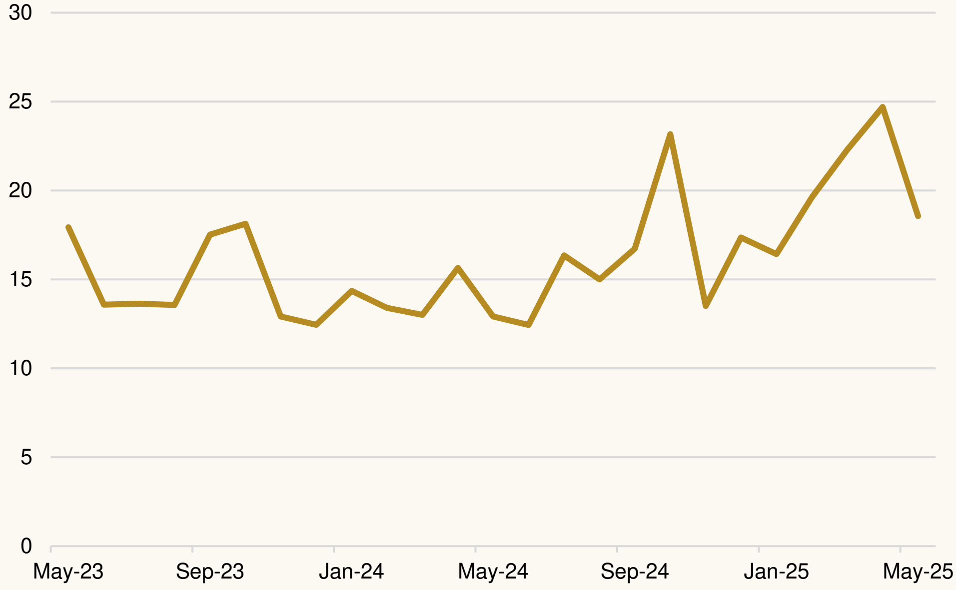
VOLATILITY

VOLATILITY – VIX INDEX
EVOLUTION OVER 2 YEARS



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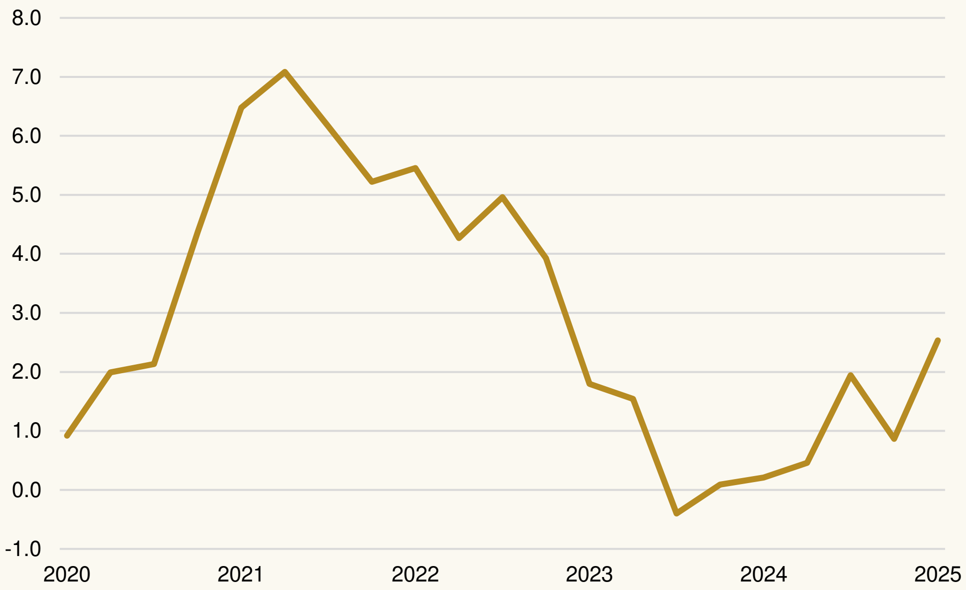
REAL ESTATE

SWISS RESIDENTIAL REAL ESTATE
ANNUAL PRICE CHANGE



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CALENDAR

Date	Country	Economic Data	Period	Previous
02 June	US	Manufacturing PMI	May-25	48.7
	Eurozone	Markit Manufacturing PMI	Jun-25	49.4
	UK	Markit Manufacturing PMI	Jun-25	45.1
	Japan	Nikkei Manufacturing PMI	Jun-25	49.4
	Switzerland	Manufacturing PMI	May-25	45.8
	Switzerland	Real GDP (QoQ)	Mar-25	0.2
03 June	China	Caixin Manufacturing PMI	May-25	50.4
	Eurozone	Inflation (YoY)	May-25	2.2
	Eurozone	Unemployment Rate (%)	Apr-25	6.2
	Switzerland	Inflation (YoY)	May-25	0.0
04 June	US	ISM Non-Manufacturing Index	May-25	51.6
	Eurozone	Markit Services PMI	Jun-25	48.9
	UK	Markit Services PMI	Jun-25	50.2
05 June	Eurozone	ECB Interest Rate (%)	May-25	2.3
	Switzerland	Unemployment Rate (%)	May-25	2.8
06 June	US	Employment (000s)	May-25	177.0
	US	Unemployment Rate (%)	May-25	4.2
	Eurozone	Employment (QoQ)	Jun-25	0.3
	Eurozone	Real GDP (QoQ)	Jun-25	0.3
	Germany	Industrial Production (MoM)	Apr-25	3.0
09 June	China	Exports (YoY)	May-25	8.1
	China	Inflation (YoY)	May-25	-0.1
	Japan	Real GDP (QoQ)	Jun-25	-0.7
	UK	Unemployment Rate (%)	Apr-25	4.5
11 June	US	Inflation (YoY)	May-25	2.3
13 June	US	Consumer Confidence	Jun-25	52.2
	Eurozone	Industrial Production (MoM)	Apr-25	2.6
	Japan	Industrial Production (MoM)	May-25	-0.9
16 June	China	Retail Sales (YoY)	May-25	5.1
	China	Industrial production (YoY)	May-25	6.4
17 June	US	Industrial Production (MoM)	May-25	0.0
18 June	US	Federal Reserve Interest Rate (%)	Jun-25	4.5
	UK	Inflation (YoY)	May-25	3.5
19 June	UK	Bank of England Interest Rate (%)	Jul-25	4.3
	Switzerland	Swiss National Bank Interest Rate (%)	Nov-24	0.0
20 June	US	Philadelphia Fed Business Survey	Jun-25	-4.0
24 June	Germany	Ifo Business Climate	Jun-25	87.5
26 June	US	Real GDP (QoQ)	Jun-25	-0.2
27 June	UK	Real GDP (QoQ)	Jun-25	0.7
30 June	Switzerland	KOF Leading Indicator	Jun-25	98.5

LET'S TALK ABOUT IT.

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DISCLAIMER