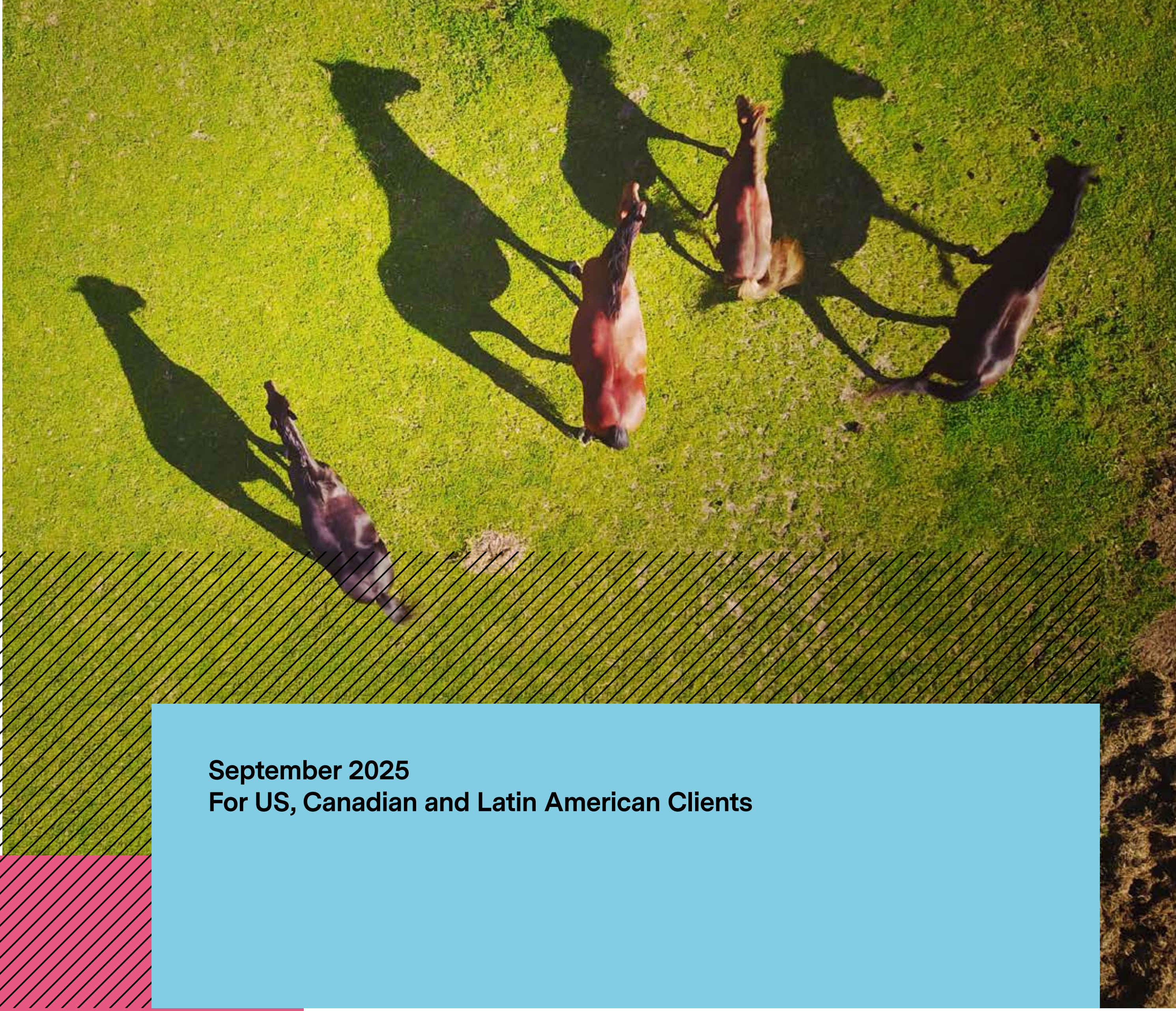
Vontobel

Investors' Outlook

Of carrots and sticks



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For US, Canadian and Latin American Clients

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Of carrots and sticks

—
Dr. Pascal Köppel
Chief Investment Officer,
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Dear readers,

As July segued into August, markets found themselves facing a scenario of carrots and sticks, as each new headline either dangled relief or struck a blow. Tariffs and geopolitical posturing tested the markets at times, while strong company earnings and relief measures suggested optimism. With more trade deals announced with the larger economic blocks, the tariffs topic moved somewhat into the background.

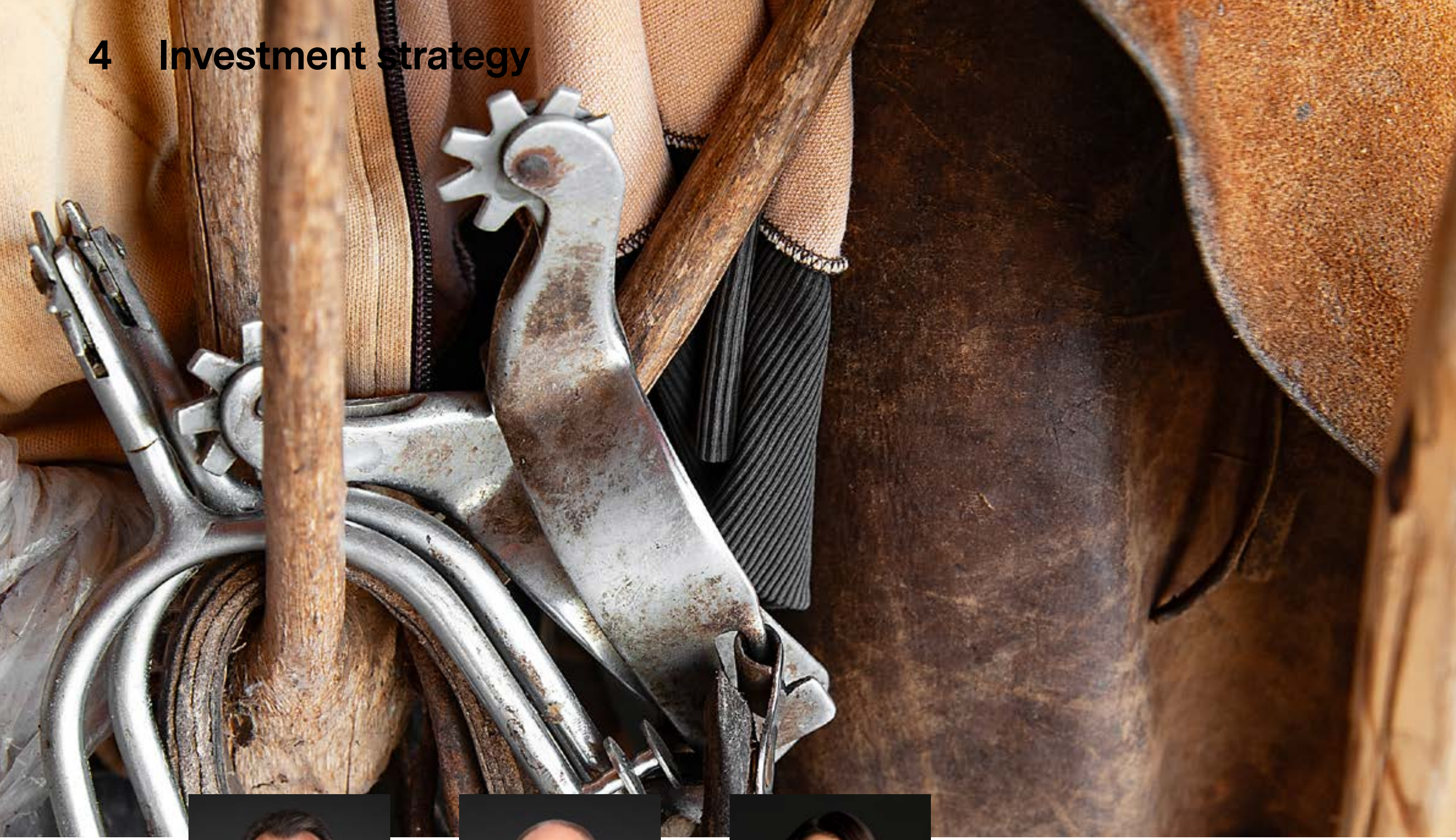
Investor sentiment appeared to improve gradually, coinciding with equity markets moving higher. Market participants justified this development with expectations of upcoming rate cuts by the US Federal Reserve. And those hopes were only reinforced when Chair Jerome Powell, speaking at the annual Jackson Hole Economic Policy Symposium in Wyoming, cautiously signaled that the first cut in nine months could indeed be on the table as early as September. Softer labor market data are also increasingly making a case for rate cuts.

Strong earnings results contributed to positive equity market performance, even amid tariff news. Consumers seem to be resilient; we've seen stimuli ranging from European spending to NATO budgets and even the prospect of a ceasefire in Ukraine. Donald Trump and Vladimir Putin met in Alaska in early August, and while the talks produced no breakthroughs, the dialogue stirred hopes of cooling hostilities. As investors return from their summer holidays, they appear to be ready to put their money to work again.

Some investors continue to question whether markets have become too optimistic on equities. We maintain an equity allocation that is in line with the strategic allocation. We still favor a tactical overweight in Swiss equities, despite the surprisingly high 39 percent tariff that was announced on August 1, 2025 for Swiss exports. It is important to distinguish between the Swiss economy and the Swiss equity index. Many large Swiss companies operate on a global level. Those companies that sell their products in the US, also to a large degree produce those products in the US. Further, Swiss equities also have cyclical exposure to the European economy and especially Germany, which has recently shown signs of an improving outlook. We will discuss this in the market highlight section. Finally, Swiss companies have grown used to external pressure, for instance, stemming from a structural appreciation of the Swiss franc. In our view, Swiss equities are well-positioned to weather these higher tariffs, based on current company fundamentals and global operations. The announcement had minimal impact on both Swiss equities and the Swiss franc, with the Swiss Leader Index (SLI) outperforming the MSCI in US dollar terms after the tariff announcement until the end of August.

Our preference to remain invested with a tactically balanced stance remains unchanged and we see opportunities across equities and fixed income. We remain underweight in cash.

Our objective is to help our clients reach for the carrots while shielding portfolios from the sticks.



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More spurs than brakes?

During the summer months, investors remained focused on global political and economic news flows. With trade deals being approved, the discussions about tariffs have shifted somewhat into the background. The resultant gradual easing of bond market volatility pushed equity markets higher.

Earlier rate cuts are still filtering through to the economy and the Fed may resume easing this month. Although US economic data is somewhat difficult to read due to an import spike and inventory building in Q1, it is equally clear that the US economy is holding up well. While labor market data and capital expenditure are showing some softness, at this point they are more indicative of a continuation of a soft landing. If anything, it has made a September Fed rate cut more likely. We believe the Fed will steer interest rates back to neutral territory, a level that neither stimulates nor hinders economic growth.

In Europe, the ECB and the SNB have already made significant progress in reducing monetary policy interest rates, and Germany has also already announced fiscal measures. We may see more fiscal measures in China too later this year in response to softening economic activity data.

Overall, the global economy has become more balanced and remains well supported. Policy measures, both fiscal and monetary, can provide further support. Within equities, significant valuation differences still persist, as do medium term risks to the US dollar. However, the short-term direction will depend on the flow of US economic data and geopolitical developments.

The Investment Committee has decided to refrain from making changes to its asset allocation. Find the details on page 5.

	UNDERWEIGHT significantly	UNDERWEIGHT slightly	NEUTRAL	OVERWEIGHT slightly	OVERWEIGHT significantly	
1 Liquidity	→					We are keeping a lower allocation to cash. This reflects our current assessment that fixed income investments may offer a more favorable risk-adjusted return potential than cash in the current environment.
2 Bonds					→	We believe the outlook for high-quality fixed income is constructive, with support offered by current market conditions, including a moderately upward-sloping yield curve and positive real yields. Our current positioning within fixed income continues to emphasize investment-grade credit. Our current strategy remains focused on higher-quality issuers, with a reduced allocation to high-yield bonds, reflecting a cautious approach to market conditions. In our opinion, companies with weaker balance sheets and a greater reliance on external borrowing may face challenges if the economic outlook were to deteriorate. Based on our analysis, current valuations, as suggested by the spreads between high-yield and investment-grade securities, may not fully reflect potential risks.
3 Equities			→			The near-term outlook for economic growth remains uncertain, although short-term downside risks have eased somewhat. Given this balance of risks, we find a neutral stance on equities to be appropriate. Regionally, we continue to favor a relative overweight in Swiss over UK equities. We believe the impact of higher US trade tariffs on Swiss equities may be limited, given that many of the companies produce goods for the US market domestically. The equities in the Swiss Leaders Index (SLI) are largely global companies that produce a relatively high proportion of the goods they sell in the US in the US itself. Additionally, Swiss companies are positioned to potentially participate in any cyclical improvement in the European economy. Finally, the Swiss franc tends to benefit from global uncertainty, as it has done this year too.
4 Commodities / Gold			→			Our positive view on gold remains intact. Gold rallied strongly in 2023 and 2024, and this trend extended into 2025. Heightened geopolitical and macroeconomic uncertainties, and ongoing strategic purchases of gold, especially by emerging markets central banks, continue to support this asset.

Changes month-on-month: same → higher ↗ lower ↘

Euro area growth prospects

Discussions about economic developments and prospects generally focus on larger countries like Germany and France. This is understandable as the two represent nearly 50 percent of the region's GDP. However, of the 27 European Union members, 20 share the euro currency with a common monetary policy. The euro area (EA) has a GDP of USD 17 trillion and is home to 351 million people, while another 100 million live in other countries in the European Union with their own currencies.

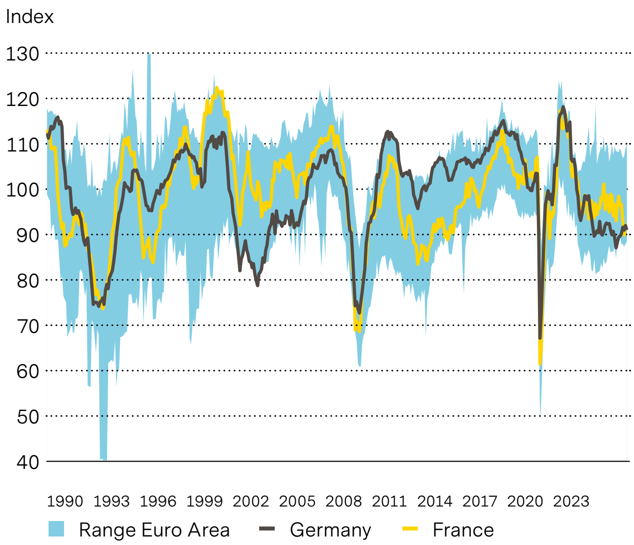
—
Dr. Pieter Jansen
Chief Investment Strategist,
Vontobel SFA

The "other" half of the euro area (outside of Germany and France) is a diverse group. It includes some larger countries, like Italy (15 percent of euro area GDP) and Spain (10 percent) but also some very small ones, like the three Baltic states of Lithuania, Latvia and Estonia, which together represent 1 percent of the region's GDP. GDP per capita in the euro area is USD 48,000 but with large differences between some relatively rich countries, such as Luxembourg (141k), Ireland (109k) and the Netherlands (71k) and the low-end countries like Greece (26k) and Latvia (24k)[1]. Small and / or countries with a lower GDP per capita, in particular, have exceeded the region's average growth rate. While the German economy shrank and the French economy grew by just over 1 percent in 2024, three EA countries had growth rates of over 3 percent (Spain, Croatia, Cyprus). Another four grew by over 2 percent (Ireland, Lithuania, Greece, Slovakia). The latest Bloomberg economic consensus shows a similar pattern for 2025. The difference is also clearly visible in the development of the Economic Sentiment Indicator (ESI), published by the European Commission for each euro area country. The chart shows a significant divergence over time, depicted in the blue marked area (see chart 1). The chart also shows that Germany and France are currently among the weakest in this survey.

Can Germany be the economic engine again?
Despite Germany's disappointing economic performance in recent years, the outlook has improved significantly. The reform of the constitutional debt brake has paved the way for substantial fiscal stimulus, with increased government investments in defense and infrastructure expected to boost medium-term growth. The ECB's reduction of interest rates (from 4% to 2%) following inflation normalization has further supported the recovery.

The euro, previously undervalued against the dollar on a purchasing power basis, has seen some correction, though valuations remain near the long-term average. European equities continue to trade at a notable discount compared to the US. While the equity rally has been concentrated in sectors benefiting from announced reforms, broader participation across the European economy could follow if Germany's growth stimulus and reforms in other countries are implemented effectively.

Chart 1: Euro area economic sentiment



Source: European Commission, Bloomberg, Vontobel SFA, July 2025

[1] IMF World Economic Outlook 2025

The Commission is fostering a more growth-friendly environment through diverse policy measures, following a review led by former ECB President Mario Draghi that emphasized improving European competitiveness. Delivering on these reforms is crucial to sustaining momentum, particularly with Germany's fiscal initiatives.

The growth gap between the US and the euro area has narrowed significantly in recent years (see chart 2). While US growth peaked in 2023 and has since slowed to trend levels. European growth, which bottomed out the same year, has gradually improved - driven largely by peripheral countries rather than Germany. According to Bloomberg consensus forecasts, this gap is expected to remain narrow over the next two years.

How vulnerable is German industrial growth?
Germany remains a global industrial powerhouse. It is well known that Germany is a large exporter of automobiles, however, the car sector represents only 17 percent of German exports, closely followed by industrial machinery and industrial appliances (16 percent). Chart 3 shows the export share of the top sectors as a percentage of total exports over the first half of 2025.

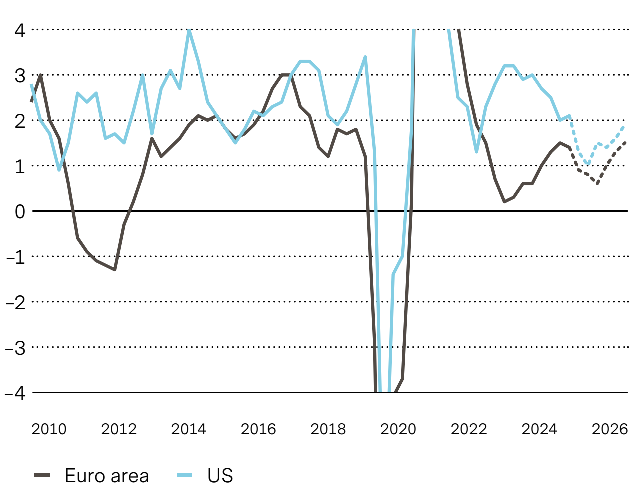
Germany's large trade surplus can make it vulnerable to external shocks, such as global growth shocks or increased tariffs. The trade deal reached between the US and the EU has now pushed this risk to the background.

The European policy stimulus shock stems more from within. The need for defense spending, in particular, will be a positive development for industrial production in the region. The potential positive growth shock in Germany will also affect neighboring countries. For instance, Swiss companies play an important part in the German supply chain, especially those that focus on high-end machinery and electrical equipment.

What are the implications for investors?
European equities have shown relatively strong performance year-to-date compared to other markets, particularly when measured in US dollars[2]. At the start of the year, European equity valuations were relatively cheap, and the euro was undervalued relative to the dollar on a purchasing power basis. Although we have seen a correction here, valuations remain close to the long-term average and European stocks continue to trade at a sizeable discount vis-a-vis the US. So far, the European equity rally has been concentrated more in sectors that appear to have responded positively to the announced reforms, but if the rising tide of German growth stimulus combined with efforts in other countries can lift all boats, this could also support broader participation across the European economy and other sectors.

[2] Past performance is not a reliable indicator of future results.

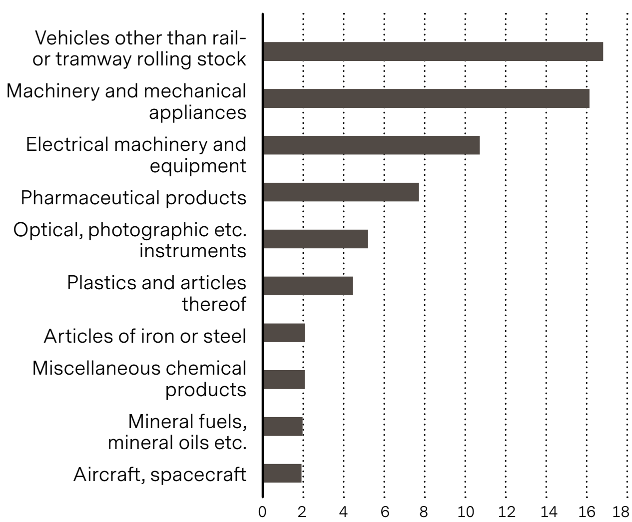
Chart 2: Euro Area and US real GDP growth (year over year, in %)*



*Forecasts based on Bloomberg consensus

Source: Bloomberg, Vontobel SFA, August 2025

Chart 3: sector share in German exports during the first half of 2025



Source: International Monetary Fund, LSEG, Vontobel; as of June 17, 2025.

Fixed income returns mainly driven by carry

—
Philipp Wartmann
Senior Investment Adviser,
Vontobel SFA

The Fed kept rates on hold in July as inflation remained above target and hiring slowed. Tariff uncertainty and the debate over the neutral rate initially left policymakers cautious about signaling near-term rate cuts. However, Fed Chair Jerome Powell opened the door to that possibility at the Jackson Hole Symposium. The market has fully priced in one rate cut at this month's meeting.

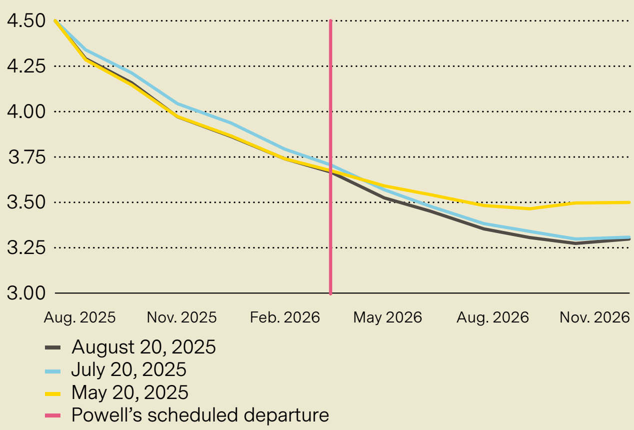
Investors have become concerned about the sustainability of US debt and policy uncertainty. Among factors like a deteriorating fiscal deficit, more difficult demand / supply dynamics, a higher term premium for US treasuries and the implications from tariffs on inflation have supported the trend for globally steeper yield curves.

Investment-grade credit is trading at cyclically tight levels, with spreads in the mid-seventy bps over US Treasuries, the tightest since 1998. However, investors should not refrain from investing in credit just because of tight credit spread levels. They should favor high quality investment-grade (IG) credit over government bonds issued by countries with high fiscal risks and debt levels. We believe credit is well-positioned, based on current market conditions and valuations, especially since credit spreads might not be as tight as they seem, given the higher risk premium already embedded in US Treasury yields.

Fixed income is regaining its role as a portfolio diversifier. We believe it is well-positioned to offer strong defensive benefits in today's more complex economic and market environment. This is supported by our expectations that the bond-equity correlation will normalize further (see chart 2). Regardless of future correlations, fixed income remains a useful tool for managing a portfolio's volatility. Instead of relying on falling interest rates or tighter spreads, Fixed income returns may be driven by carry, which is currently at historically elevated levels, potentially supporting portfolio income.

Chart 1: Futures imply a "Powell effect," with markets pricing in deeper cuts after his final meeting in April

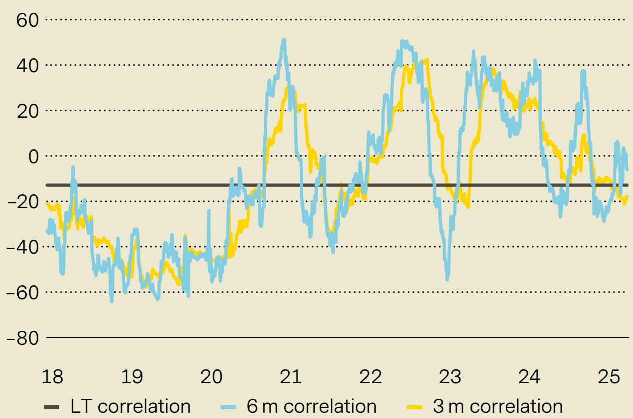
Fed Funds implied rate, in %



Source: LSEG, Vontobel; as of August 20, 2025.

Chart 2: Bond and Equity correlations are normalizing*

In %



*based on daily returns of the MSCI USA and USD Treasuries 7 – 10y total return

Source: Bloomberg, Vontobel SFA

Regional divergence: Europe outshines as US valuations stretch

—
Susanne Knorr
Head Managed Solutions,
Vontobel SFA

While the MSCI World Index has maintained its upward trajectory, significant regional disparities persist in performance. Among key markets, the euro area has emerged as the strongest performer, while the US lags (see chart 1). A major driver of this divergence lies in currency movements.

The US dollar depreciation against the euro and Swiss franc has bolstered the relative performance of European and Swiss equities when measured in dollar terms. However, US equities have rebounded in local currency terms, thereby regaining momentum.

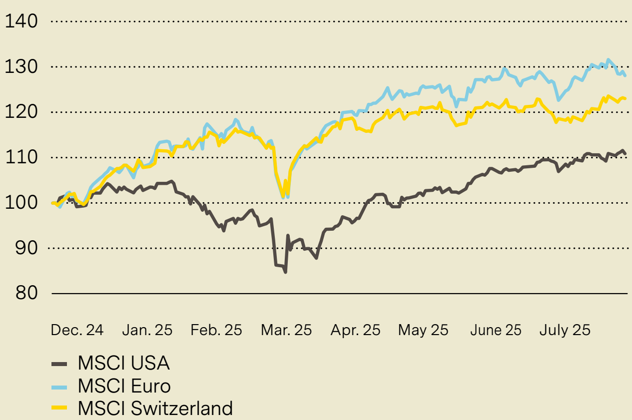
Notably, US equity valuations have returned to historically elevated levels once again and are comparable to where they stood at the start of the year. While this is sustainable if US companies continue to meet earnings expectations, it leaves significant allocation to US equities vulnerable, particularly given their sector concentrations. In contrast, valuations in the euro area and Swiss markets remain closer to their long-term averages, signaling more balanced opportunities for investors.

Recent developments have further shaped the competitive landscape. Switzerland experienced a moderate equity market response to the announcement of 39 percent tariffs, while Europe gained a competitive edge with the implementation of 15 percent tariffs. European policymakers have also prioritized sovereignty, aiming to reduce reliance on external markets and strengthen regional resilience.

Despite the EA's year-to-date outperformance, the valuation gap between Europe and the US has only narrowed slightly (see chart 2). US equities remain "priced for perfection", with price-to-earnings ratios significantly exceeding one standard deviation above their long-term median. This valuation dynamic has led some market participants to explore opportunities in regions with more moderate valuations.

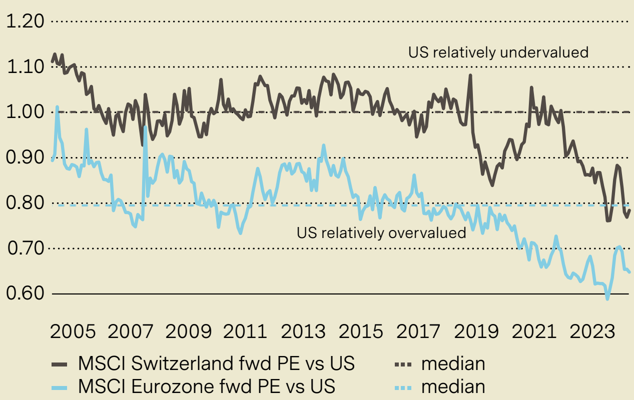
In summary, regional divergence in equity market performance and valuations underscores the importance of a nuanced approach to global asset allocation. While European and Swiss equities present relatively fair valuations, the US market's stretched metrics warrant caution, particularly in the face of evolving macroeconomic dynamics.

Chart 1: Regional equity performance year-to-date (end 2024 indexed at 100; in USD)



Source: Bloomberg, Vontobel SFA

Chart 2: Relative valuation of the Euro area and Switzerland versus the US*



*P/E ratio of respectively Switzerland or Euro area divided by P/E ratio of the US

Source: Bloomberg, Vontobel SFA, August 29, 2025

Performance rebalancing within precious metals

—
Christoph Windlin
Deputy Head
Investment Management,
Vontobel SFA

Gold prices have risen significantly since September 2022, more than doubling in USD terms[3]. However, we have seen some consolidation since April this year with the price remaining in a price range of USD 3,250 to 3,500 per ounce.

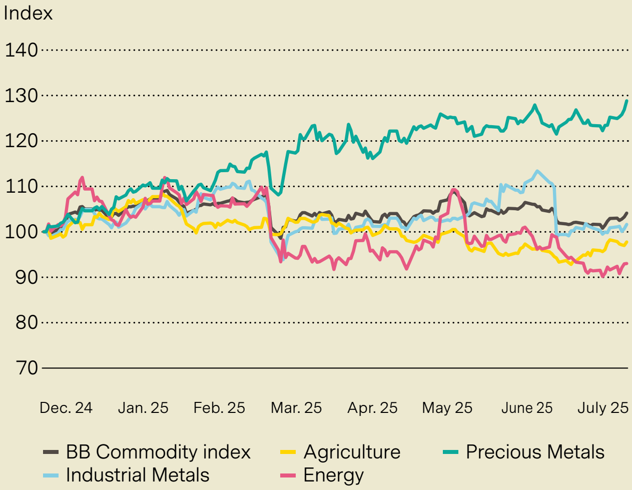
The Bloomberg Commodity Index has trended largely sideways since the start of the year and closed the month of August up 4 percent year-to-date. While there are some clear differences between the sectors, one stands out in particular: precious metals (see chart 1). The Precious Metals Index climbed nearly 30 percent this year, while Energy and Agriculture are currently trading at a year-to-date loss and industrial Metals are only marginally positive.

There are some differences too within the Precious Metals Index. The consolidation of the gold price has given other metals in this index a chance to catch up (see chart 2). In fact, both silver and platinum have outperformed gold this year. The gold/silver ratio had risen to above 100 in April but has now returned to 85, which is also the five-year average. Platinum benefited from strong demand from China for the jewelry sector in the second quarter. In general, supply-demand conditions for platinum remain tight.

The consolidation of the gold price is a healthy development in our view. According to Commodity Futures Trading Commission (CFTC) data, that move has led to investors reducing their tactical overweight somewhat. The factors that supported gold's price appreciation over the past three years—such as geopolitical risk and central bank demand—remain present. These are the relatively elevated uncertainties concerning the global macro and political landscape, and the ongoing de-dollarization by Asian central banks in particular. This benefits gold more than the other precious metals.

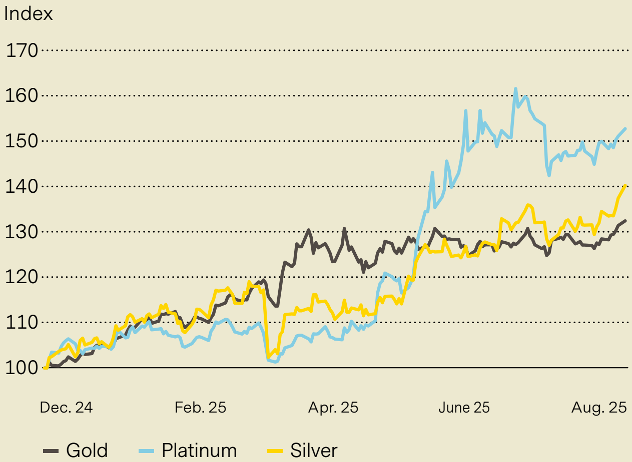
[3] Past performance is not indicative of future results

Chart 1: Commodity sector performance (indexed at Dec 2024 at 100, in USD)



Source: Bloomberg, Vontobel SFA, August 28th 2025

Chart 2: Precious metal price developments (Dec 2024 indexed at 100; in USD)



Source: Bloomberg, Vontobel SFA, August 28th 2025

Can the euro continue its rally versus the US dollar?

—
Dr. Pieter Jansen
Chief Investment Strategist,
Vontobel SFA

At the start of the year, the euro was arguably undervalued versus the US dollar, at least on a purchasing power parity basis. A significant part of that undervaluation has disappeared, which begs the question, is the euro rally (nearly) over?

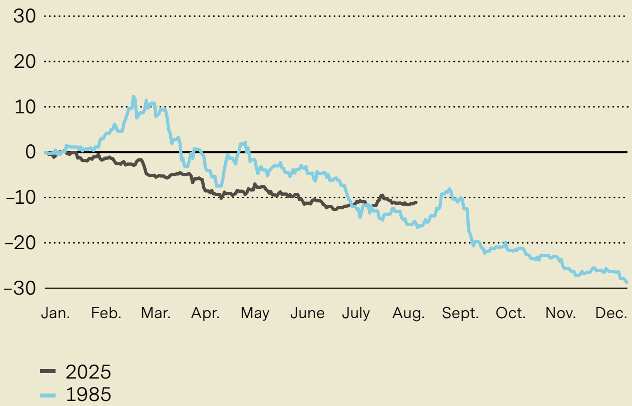
Last year's dollar rally was fueled by strong US growth and repeated upgrades to gross domestic product (GDP) but momentum faded in 2025. The US Dollar Index fell about 11 percent in the first half of the year—its worst start to a year in over five decades—marking the end of a structural bull run that began in 2010 and delivered a cumulative gain of around 40 percent by 2024. By late August the US dollar had clawed back part of this year's losses (see chart 1).

As we noted in the market highlights, we have seen a convergence of realized economic growth between the US and the euro area, which has also worked its way into the growth forecasts (see chart 2). The more positive growth outlook for the euro area, against a background of investors seeking to diversify out of US dollar-focused portfolios, continues to support not only euro area assets but also the currency. Historically, periods of undervaluation versus the dollar were followed by periods of overvaluation. Based on those parallels, there is potential at least for the euro to appreciate further, albeit at a slower pace given the sharp move this year. In the near term, the direction will also depend on US economic data. In case of a cyclical rebound in the US, the dollar would gain but if the Fed can or does reduce rates further, the dollar could weaken.

The surprise 39 percent US tariff on Swiss exports in August initially sparked a short-lived selloff of the franc. While such a levy may weigh on Switzerland's growth outlook, it doesn't drive the currency. The franc's strength is rooted to a lesser extent in domestic fundamentals or rate differentials and more in its role as a structural hedge. With diversification back in focus and de-dollarization themes resurfacing, we believe its defensive appeal is as strong as ever. These factors suggest that the longer-term case for a stronger franc remains supported, in our view.

Chart 1: The US dollar's worst start in decades rivals the Plaza-era collapse

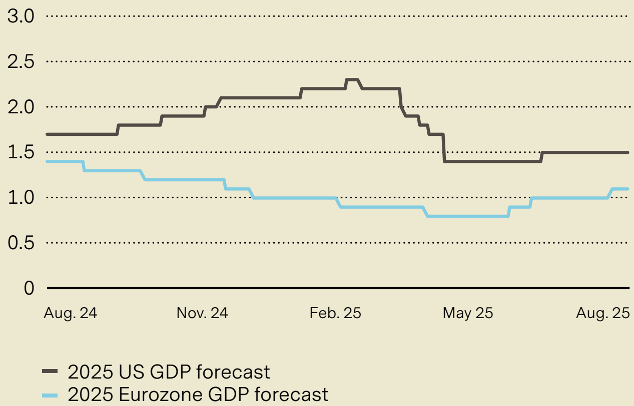
In %



Source: LSEG, Vontobel; as of August 21, 2025.

Chart 2: Converging EU–US growth expectations, with a US rebound the biggest short-term risk

Annual GDP economic forecast, in %



Source: LSEG, Vontobel; as of August 21, 2025.

Economy and financial markets 2024 – 2026

The following list shows the actual values, exchange rates, and prices from 2024, as well as consensus forecasts for 2025 and 2026 for gross domestic product (GDP), inflation / inflationary expectations, key central bank interest rates, 10-year government bonds, exchange rates, and commodities.

GDP (IN %)	2024[1]	CURRENT[2]	2025 CONSENSUS	2026 CONSENSUS
Global (G20)	3.0	2.9	2.2	2.4
Eurozone	0.9	1.4	1.1	1.1
USA	2.8	2.0	1.6	1.7
Japan	0.1	1.2	1.0	0.8
UK	0.9	1.2	1.2	1.1
Switzerland	1.4	1.9	1.1	1.4
Australia	1.0	1.3	1.6	2.2
China	5.0	5.2	4.8	4.2

INFLATION	2024[3]	CURRENT[4]	2025 CONSENSUS	2026 CONSENSUS	VONTOBEL VIEW IN 2025[5]
Eurozone	2.4	2.0	2.1	1.9	↓
USA	3.0	2.7	2.8	2.7	↓
Switzerland	1.1	0.2	0.2	0.6	→

KEY INTEREST RATES (IN %)	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
EUR (deposit rate)	3.00	2.00	1.81	1.83	↓
USD (Fed funds rate, upper bound)	4.50	4.50	4.05	3.55	↓
CHF	0.50	0.00	–0.09	–0.07	↓

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
EUR (Germany)	2.37	2.75	2.68	2.83	↓
USD	4.57	4.31	4.29	4.19	↓
CHF	0.33	0.33	0.43	0.54	↓

FOREIGN EXCHANGE RATES	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
CHF per EUR	0.94	0.94	0.94	0.95	↑
CHF per USD	0.91	0.81	0.81	0.81	↓
USD per EUR	1.04	1.16	1.18	1.20	↑

COMMODITIES	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
Brent crude oil, USD per barrel	75	67	64	65	→
Gold, USD per troy ounce	2,625	3,341	3,325	3,280	→
Copper, USD per metric ton	8,768	9,721	9,500	9,750	↓

Note: Views are as of August 2025. Subject to change without further notice.
Forecasts do not guarantee future results.

[1] Subject to revisions (e.g., potential revisions to 4Q data)
[2] Latest available quarter
[3] Subject to revisions
[4] Latest available month, G20 data only quarterly
[5] ↑ above consensus, → in line with consensus, ↓ below consensus

Source: Vontobel, respective statistical offices and central banks; as of August 21, 2025.

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