

An aerial photograph of a flooded agricultural field. The water is a deep blue-green color, and the surrounding land is a mix of green and brown, indicating some flooding and some dry areas. A single, large, green tree stands prominently in the water, its reflection visible below. The sky is a pale, hazy blue.

Vontobel

Investors' Outlook

Checking for storm damage

May 2025
For US, Canadian and Latin American Clients

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Checking for storm damage



Dr. Pascal Köppel
Chief Investment Officer,
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Dear readers,

We have seen a significant spike in market volatility in the past month. On April 8, 2025, the VIX index, which measures implied equity market volatility, exceeded the 50 point threshold levels that are typically only seen when major crises occur, such as the global financial crisis (GFC) and during Covid-19. That said, markets eased somewhat with expectations of trade deals and de-escalation leading to lower volatility. The VIX index had fallen below 25 points again by the end of April.

The initial GDP growth estimate for the first quarter was negative, in line with expectations. The report does not reveal much about the underlying economy and was severely distorted due to front-loading of imports and inventory buildup. Macroeconomic visibility in the US is currently low.

At this stage, we're interested in damage assessment. How much confidence has been lost among consumers and small businesses—two cornerstones of the US economy? What are companies signaling through their capital expenditure (capex) plans? How are supply chains adapting to ongoing tensions with China? Until we have clearer answers, we believe it is too early to sound the all clear.

From a macro perspective, we are not bearish but cautious—scanning the horizon and waiting for better visibility. That clarity is unlikely to come before the end of the second quarter and its earnings season, and we have clearer data to hand on real activity. China too is subject to significant uncertainties due to ongoing internal imbalances and a severe escalation on the trade front. The outlook is somewhat more positive for Europe, thanks to a pragmatic approach to finding solutions and especially because of some significant growth initiatives coupled with sizeable fiscal impulses.

Valuations also offer limited direction. Since although US equity valuations have eased, they are still not cheap given the risk of further downward earnings revisions and potential multiple compression.

It is not the time for bold moves. We may see a shift toward deregulation and tax relief ahead, which could be the break markets are waiting for. But for now, patience and diversification are key to us. Until we have more clarity on the direction of the global economy, all-weather portfolios and the ability to withstand different kinds of shocks, whether positive or negative, are crucial. Diversification across assets, regions and currencies remains essential in our view. This implies there is scope for longer duration investment grade bonds, gold, exposure to growth assets in other regions such as Switzerland or Europe, and being exposed to currencies other than the US dollar, like the Swiss franc or the euro.



—
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Lingering clouds

Clouds are gathering over the US economy as consumers and companies alike try to navigate through the fog of the trade war fallout. While “peak trade uncertainty” may (hopefully) be behind us, the economy may already have taken a hit.

We believe a sharp downturn can be avoided. Consumers have deleveraged significantly since the financial crisis and corporate balance sheets remain sound. We also expect more stimulus ahead. Inflation has largely normalized, opening the door to rate cuts for several central banks. The Fed is in wait-and-see mode but we believe it will eventually cut rates once it has sufficient evidence of weakening growth, despite temporary increases in inflation.¹ History has shown that when economic growth weakens significantly, the Fed acts decisively with monetary policy stimulus.

Market volatility has eased and we have seen corrections across markets where expectations were overly optimistic. These had led to some assets being overvalued, including US equities and the US dollar. We are also seeing improvements in currencies that were significantly undervalued, like the euro, Japanese yen and the Swedish krona.

Although equity valuations, measured by the price-earnings (P/E) ratio, have moderated somewhat, not much fundamental weakness has been priced into earnings estimates. The same goes for credit markets, where spreads were well below the long-term average (i.e. expensive in a historical context). These have now widened to a level that is in line with the long-term average. It is fair to say that significant earnings headwinds have not been priced in here either. That said, investment grade bonds are attractive from an absolute return perspective against a background of uncertain macroeconomic developments. In case of more pronounced economic weakness, spreads would indeed widen further. However, higher-quality investment grade bonds (at least A-rated) with a longer duration would benefit more from central bank rate cuts and a flight to safety. Finally, despite the considerable gold rally, we continue to see the added value of an allocation of gold in a broader portfolio. Gold can benefit further from elevated uncertainty stemming from either the political or economic side. See page five for an overview of our current tactical allocation stance.

¹ The Fed has a dual mandate: maximum employment and price stability (inflation at 2 percent).

	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		
	significantly	slightly		slightly	significantly	
1 Liquidity	→					We are keeping a significant underweight in liquidity, as we see scope for bonds to outperform versus cash.
2 Bonds					→	The outlook for high-quality fixed income bonds remains positive with a moderately upward sloping curve and decent real yields. We remain overweight in investment grade (IG) credit. We continue to prefer high-quality (investment grade) bonds and remain underweight in high-yield credit. In our opinion, companies with weaker balance sheets and a greater reliance on external borrowing are more vulnerable in a deteriorating economic outlook, and spreads over higher-quality bonds do not sufficiently compensate for this risk.
3 Equities			→			The overall outlook for economic growth has become less clear, accompanied by increased downside risks. However, investor sentiment is very bearish. The former implies that earnings growth could still be disappointing, while the latter suggests that the market could equally rebound on positive news flow, whether driven by macro or geopolitical events. We judge it appropriate to remain neutral overall on equities. Regionally, we remain committed to a relative trade with an overweight in Switzerland versus the UK.
4 Commodities / Gold			→			We continue to hold a positive view on gold. The yellow metal rallied strongly in 2023 and 2024, and got off to a strong start in 2025 too. Heightened geopolitical uncertainties and ongoing strategic purchases of gold, especially by central banks in emerging markets, remain positive drivers.

Economic fog

Uncertainty about trade conditions remains high and can count on frequent media coverage. Uncertainty among businesses, consumers and investors has increased. Market volatility has spiked at times to levels last seen during the 2008 GFC and announcement of Covid-19 lockdowns. How will it impact economic growth?



—
Dr. Pieter Jansen
Chief Investment Strategist,
Vontobel SFA

Economic growth can be impacted via several channels. The first and most obvious one is the trade channel, where higher prices can impact corporate profitability and consumer spending power. Second, growth can be impacted by the confidence channel. Falling confidence can make businesses and consumers less willing to spend or invest. Finally, we have the wealth channel. Falling asset prices can make consumers (feel) poorer and less willing to spend. In the end, it comes down to economic behavior, with the exception of the direct trade channel.

Indications of growth impact

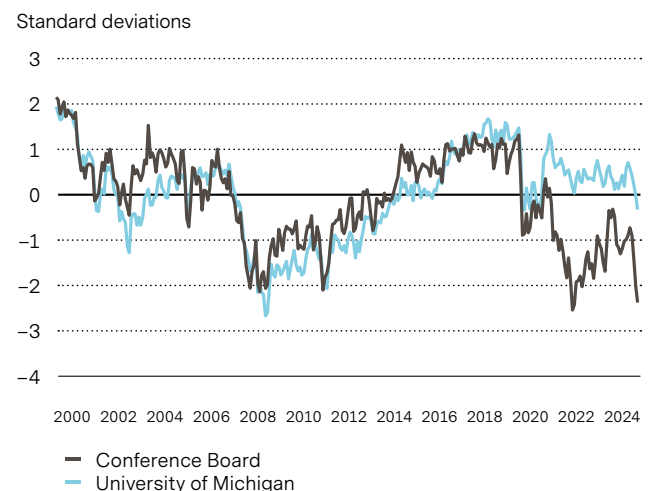
The first GDP growth estimate in Q1 already makes it difficult to read the economic direction. Although growth was slightly negative, the components were significantly distorted as consumers and businesses frontloaded purchases and investment in anticipation of expected tariffs. This resulted in a spike in imports and in business spending on equipment and inventory building. It doesn't offer much insight into whether consumption and investment are slowing overall, only that the sequencing has changed.

That said, surveys have shown that consumers and businesses are becoming more prudent. The US Conference Board Consumer Confidence Index and University of Michigan Consumer Sentiment Index have both eased (see chart 1). The decline in the University of Michigan

survey is far more pronounced, which seems down to the more significant focus on inflation. The Conference Board index, on the other hand, is concentrated more on the labor market, which is still doing well. However, the combination of the two indices does indicate that consumers are becoming more wary, which could potentially lead to a lower willingness to spend.

On the commercial side, we are seeing a decline in capital expenditure intentions. Levels are at a historic low and not that dissimilar to previous recessions (see chart 2), so that there are also indications here of a potential negative impact on growth. Nevertheless, April PMI data weakened only slightly and remains strong. Sentiment shocks in the past led to sharp drops in PMI data. For instance, the ISM manufacturing indicator dropped by nine points in one month in October 2008 and by seven points in April 2020. It only dropped 0.3 points in April 2025 and the

Chart 1: Falling US consumer confidence



Source: Bloomberg, Vontobel SFA

indicator was only 2.2 points below the peak of January. In short, economic momentum is somewhat weaker but does not suggest that businesses are in panic mode, at least not at this point.

Where is the evidence?

Survey-based data showing deferred spending and investment at least provide an indication of a potential slowdown. We will get “proof” of GDP growth in the second quarter at the end of July at the earliest. In the meantime, we have to focus on “growth trackers” and other data. Chart 3 shows two of those indicators that correlate well with GDP growth: the NY Fed’s weekly growth trackers and the Chicago Fed National Activity Indicator (CFNAI). Neither currently point to any significant weakness in growth. The same can be said for a broad set of labor market data. Employment growth remains decent, jobless claims are low and, despite a slowdown in job openings, the layoff rate remains low according to the job openings and labor turnover survey (JOLTS).

Lacking visibility on US growth

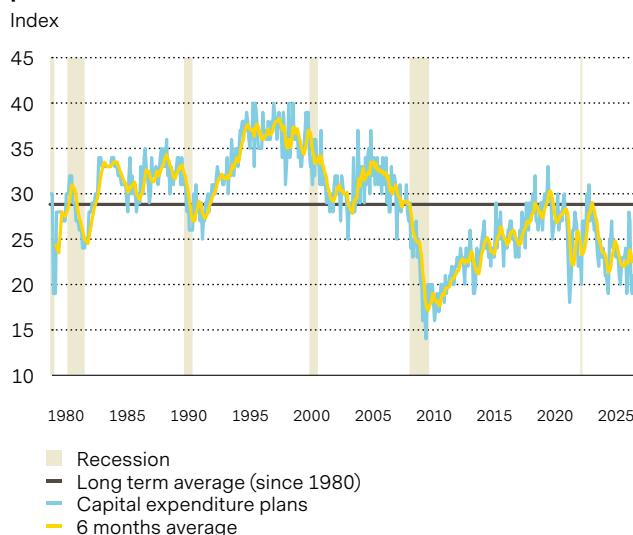
The data that is currently to hand does not provide much evidence of a meaningful slowdown in US growth. It is still early days and there is significant distortion in the economic data due to front loading of spending. As surveys indicate, business could quite possibly defer their capital expenditure decisions. This would lead to weaker growth numbers from the second quarter onwards but it remains

to be seen whether it translates into a soft landing or a mild recession. We believe a deeper recession is unlikely, as these tend to go hand-in-hand with a banking crisis. Based on data to hand, corporate and consumer balance sheets look healthy, with low debt levels relative to income and profits. Furthermore, businesses are currently benefitting from a high profit share of GDP and have used high levels of profitability to reduce their debt burden. The ongoing boost in productivity growth due to the artificial intelligence revolution is positive for income and profits. There is little cyclical visibility right now, as it is dependent on consumer and business behavior rather than on fundamentals in the short run.

What does it mean for other regions?

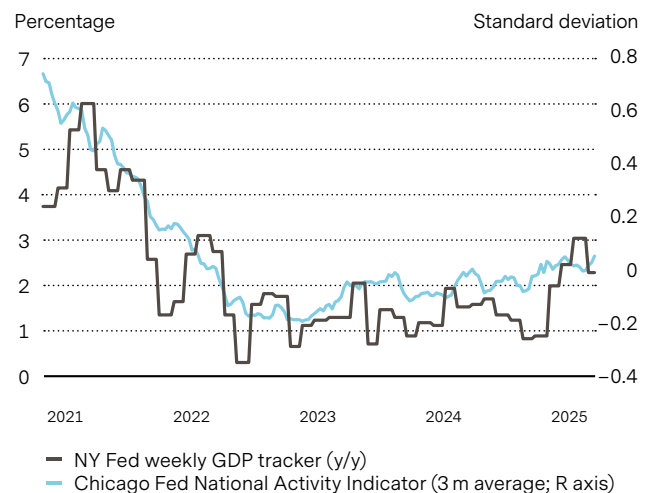
A US economy’s growth slowdown would impact growth in other regions too. In conjunction with high tariff levels, this will have negative repercussions for China in particular. In Europe, there are some compensating factors. Europe, and especially Germany, have committed to sizeable fiscal spending (defense and infrastructure) and deregulation. Europe still has considerable capacity to improve the functioning of the EU internal market and will focus on removing some of the internal barriers. Historically, Europe tends to join forces in times of crises. This kind of action will support growth in the euro area in the years ahead. The outlook for growth in Europe therefore remains positive, even if there is a moderate economic slowdown in the US.

Chart 2: Small business capital expenditure plans have fallen



Source: Bloomberg, Vontobel SFA

Chart 3: Real GDP growth trackers



Source: Bloomberg, Vontobel SFA

Value in bonds



—
Philipp Wartmann
Senior Investment Adviser,
Vontobel SFA

US 10 year Treasury yields were in the spotlight during April. They were also very volatile. Yields fell significantly at the start of April to below 4 percent before climbing to 4.5 percent at the end of the month.

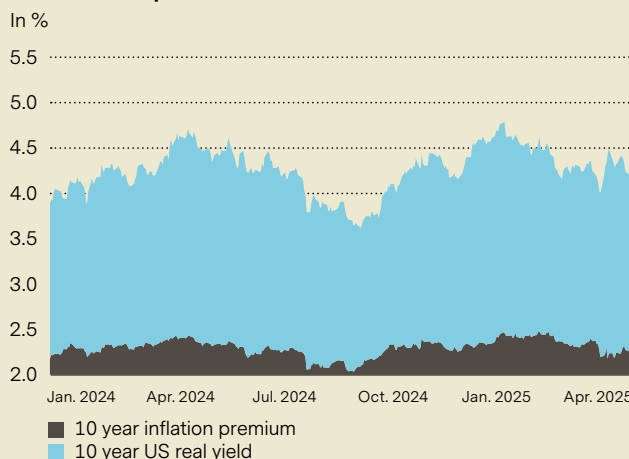
On the one hand, higher volatility drove investors into high quality bonds, but yields then started to rise as some investors started to worry about US solvency. We therefore also saw widening US government credit default swap (CDS) spread, from around 30 basis points in March to over 55 by the end of April. This is a sharp increase and an unusually high level for the US. It is also higher than the CDS spread for higher-rated countries like Germany (13bp) or of those with a weaker credit rating, such as Spain (36bp). At the same time, this spread does not reflect real concerns about solvency. To put this into context, during the European sovereign crisis when investors became concerned about European solvency, Italian CDS spread rose to over 500 basis points while their Greek counterpart soared to over 2,000 basis points.

The direction of the 10-year Treasury yield is driven principally by the real yield. The inflation premium has remained stable this year and is trending downwards since March. This is due to falling economic growth expectations (see chart 1). The real yield has been most volatile and has fluctuated between 1.5 percent and 2.3 percent since the start of the fourth quarter. The inflation premium moved in a 30-basis point range over the same period.

We favor the higher quality segment of the Investment Grade market

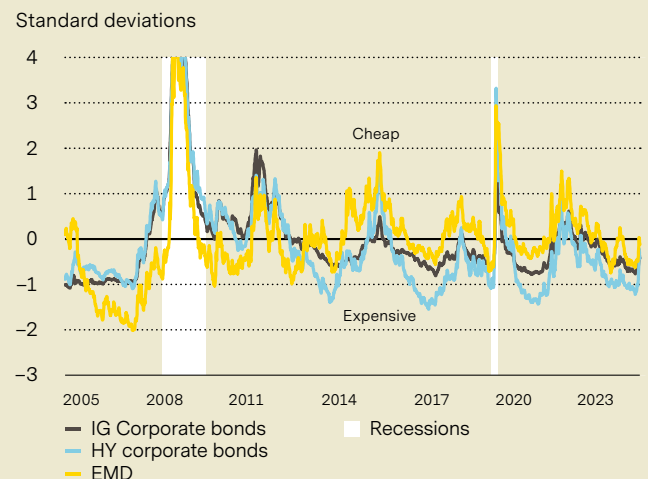
Declining growth prospects and volatility in financial markets have led to wider corporate bond spreads too. However, these were very tight at the beginning of the year, as investor sentiment was positive about the outlook for economic growth and corporate earnings. This means that spreads were historically expensive. Having widened, spreads have returned to the long-term average across different rating categories. From a long-term perspective, the investment grade market is fairly priced. We favor higher quality names with a minimum single A rating within investment grade US and Europe with a tilt to longer duration bonds. These companies have stronger balance sheets and, although spreads may widen further in case of weakening macro developments, longer duration bonds will get support from lower rates due to monetary easing. We therefore prefer longer-dated corporate bonds with at least an A-rating.

Chart 1: 10 year US treasury yield split in real yield and inflation premium



Source: Bloomberg, Vontobel SFA

Chart 2: Standardized corporate and EMD spreads



Source: Bloomberg, Vontobel SFA

Mastering market volatility—diversification is important!



—
Susanne Knorr
Head Managed Solutions,
Vontobel SFA

April was a historic month for the stock market, with potential US-China trade talks being the most bullish news after the postponed implementation of tariffs. However, the constant noise and daily shifts in the narrative make it difficult to predict what direction markets will take from here?

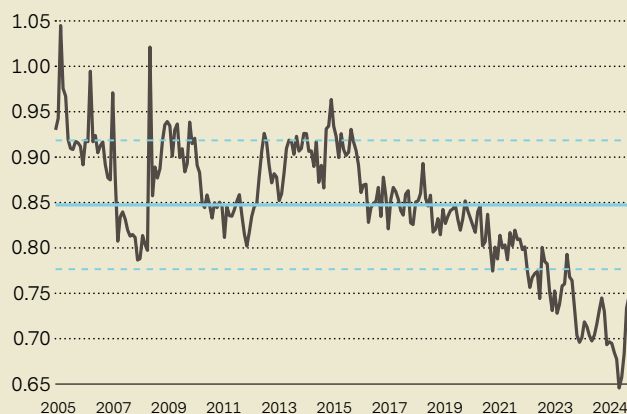
European equity markets (including Switzerland) rebounded swiftly after a significant dip due to the tariffs announced on April 2, 2025. The initial uncertainty led to market volatility, with the VIX index rising above 50. However, just one week later, the White House's announcement of a 90-day pause on reciprocal tariffs for countries seeking negotiated settlements led to a market rally. The EU also paused on retaliatory tariffs, aiming to negotiate potential trade agreements. Trade tensions intensified initially before the US-China situation improved amid signs of slight de-escalation. Tariff rates soared to 145 percent and China retaliated by imposing 125 percent duties on US goods. Meanwhile, the EU is strengthening ties with China, planning a July summit in Beijing. In addition to these developments, the long-held perceptions of the US as a safe haven are being reassessed. The ongoing trade war narrative remains complex.

Despite the uncertainty, European markets are expected to continue outperforming, with indices such as DAX, Euro Stoxx and SMI rebounding strongly since the lows of early April. The US-led slowdown, less flexible fiscal positioning, the weak US dollar and still elevated US valuations make Europe attractive for investors (chart 1 shows the P/E ratios of the MSCI Europe ex UK versus the US). Equity markets in Europe have benefitted from the capital flight out of the US. This trend could potentially continue, combined with some tailwind from any improved sentiment in the US. There is no question that pullbacks may still occur, but they could be viewed as buying opportunities in Europe and Switzerland.

European markets have also seen more downside revisions of earnings than the US since 2024 (chart 2 shows the earnings per share of the MSCI Europe ex UK versus the US). The lack of EPS downgrades in the US could potentially indicate a delay, rather than an immunity to the impacts of the trade war, suggesting that caution might still be warranted.

How should we navigate these markets? Amidst the incessant noise and ever-changing daily narratives that can easily lead to a perpetual cycle of doom, our initial strategy is to remain humble and nimble. Consequently, determining the timing of trades could prove to be quite challenging. To trade in these volatile markets, we must focus on positioning and long-term implications. Innovation, competition and access to robust capital markets are a proven recipe for companies' success.

Chart 1: Forward Price Earnings ratios (fwd PE): MSCI Europe ex UK relative to MSCI USA



Source: Bloomberg, Vontobel SFA, as of April 30, 2025.

Chart 2: Earnings per share (EPS) consensus estimates: MSCI Europe ex UK relative to MSCI USA



Source: Bloomberg, Vontobel SFA, as of April 30, 2025.

Gold's Groundhog Day



—
Christoph Windlin
Deputy Head
Investment Management,
Vontobel SFA

In the modern classic movie “Groundhog Day”, a grumpy weatherman find himself trapped in time, reporting the same story over and over again. Writing about the price of gold these days feels oddly similar. Repetitive, yes, but far less grumpy thanks to gold’s stellar performance.

Once again, gold has already surpassed even the most optimistic forecasts this year. Strong and sustained central bank demand along with rising geopolitical tensions have been supporting the precious metal for some time.

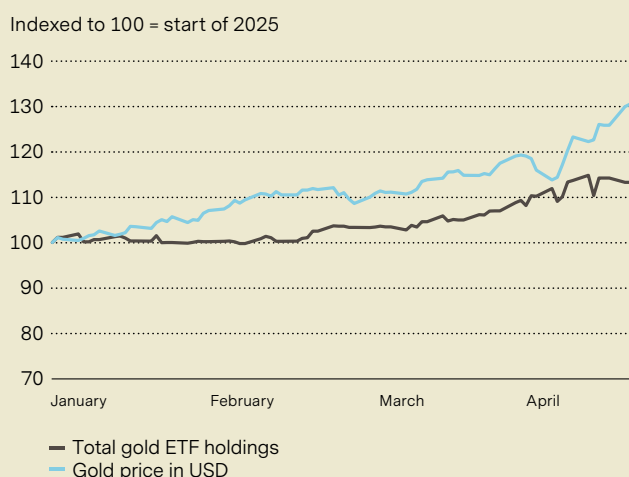
That may also help explain the sharp uptick in inflows into gold exchange-traded funds (ETFs) in recent months (see chart 1). According to data from the World Gold Council, 226.5 metric tons flowed into gold ETFs in the first quarter alone, representing a value of more than USD 21 billion. ETF investors had previously remained sidelined for quite some time.

We are regularly asked if gold has peaked now and frankly these questions have been posed consistently throughout the rally of more than two years. The drivers of a higher gold price are still in place and remain supportive. These

comprise the ongoing economic and geopolitical uncertainty but also the strategic demand for gold by emerging market central banks. In a broader portfolio context, gold can continue to diversify against a variety of shocks that negatively impact equities (see chart 2).

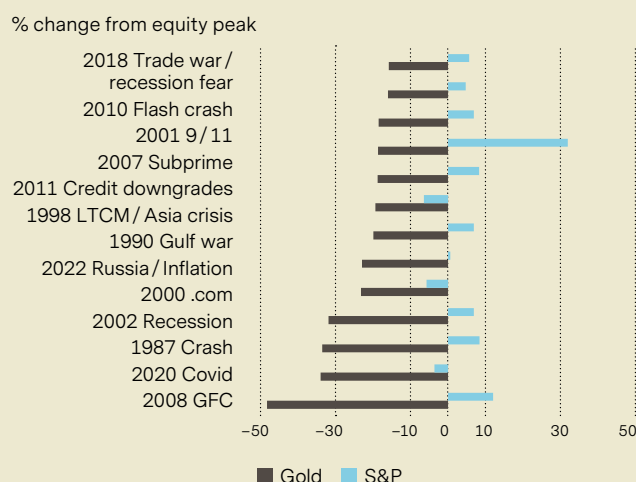
The price of gold can correct at times, when some investors lock in their profits. This was the case in April, after which gold returned to its upward trajectory. We believe gold still has room to run in today’s world, but short-term corrections are possible.

Chart 1: Positive exchange-traded fund flows continue



Source: LSEG, Vontobel; as of April 23, 2025.

Chart 2: Gold protects against different shocks



Source: Bloomberg, Vontobel SFA

Under pressure



—
Dr. Pieter Jansen
Chief Investment Strategist,
Vontobel SFA

Uncertainty surrounding US economic policy uncertainty and fears of an economic slowdown have pushed the US dollar to its lowest level since 2022. Traders remain bearish and the euro gains ground, supported by narrowing growth differentials and increasing fiscal stimulus in Europe relative to the US.

The dollar has declined sharply since mid-January. The world's reserve currency has weakened alongside US equities, as uncertainties have increased.

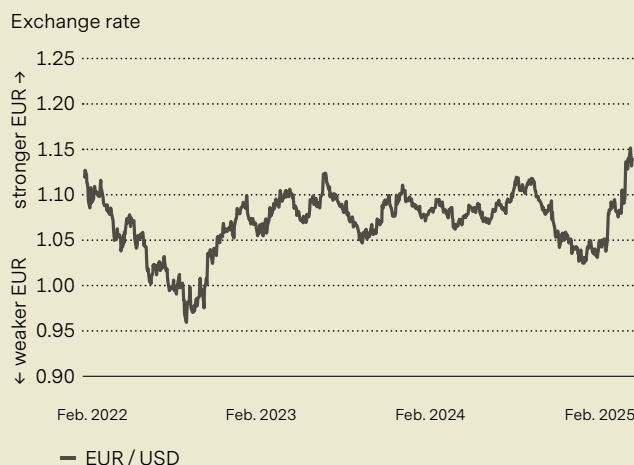
Although the euro has benefited from the US dollar weakness, the positive European growth story played its part (see chart 1). In addition to fiscal stimulus, the ability of the ECB to reduce interest rates more aggressively also supports the cyclical growth outlook. This was all against a starting point where the euro was significantly undervalued versus the dollar on the basis of purchasing power parity estimates.

This shift is evident in currency futures and options markets, where bullish bets on the euro have increased. Given the central focus on the US economy, the dollar is not benefiting this time round from its traditional safe haven status.

Swiss franc rally fueled by search for safe havens amid US tariffs

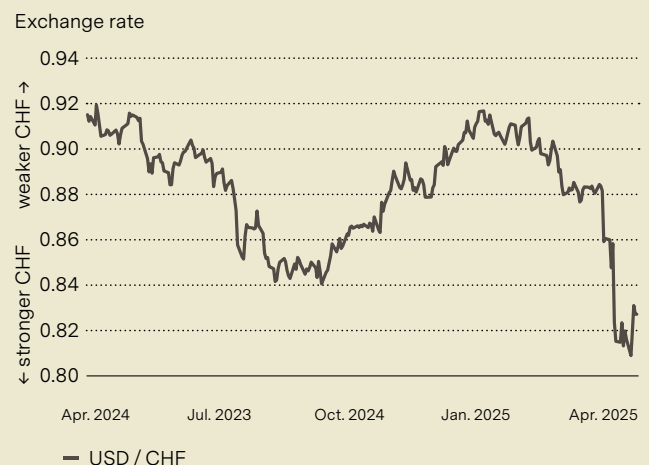
As attention focused on US economic uncertainty and global market volatility, Switzerland quietly reported March inflation at just 0.3 percent year-over-year—below expectations. Inflation is expected to stay under target through to year-end. Global investor uncertainty has led to safe haven flows into Swiss assets, which in turn has sharply strengthened the Swiss franc (see chart 2). This could add to deflationary pressure in Switzerland. With low inflation and a strong franc, intervention by the Swiss National Bank (SNB) would normally be expected. But US scrutiny of currency practices may limit that option. Instead, the SNB may first step up its rhetoric about lowering interest rates toward zero or below to curb franc strength.

Chart 1: Tariff turmoil has fueled the euro's strength



Source: LSEG, Vontobel; as of April 24, 2025.

Chart 2: Safe haven flows have sharply strengthened the Swiss franc



Source: LSEG, Vontobel; as of April 25, 2025.

12 Forecasts

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 %)	2024¹	CURRENT²	2025 CONSENSUS	2026 CONSENSUS	
Global (G20)	3.0	3.0	2.3	2.5	
Eurozone	0.9	0.9	0.8	1.2	
USA	2.8	2.5	1.7	1.9	
Japan	0.1	1.1	1.0	0.8	
UK	0.9	1.5	0.9	1.2	
Switzerland	1.3	1.6	1.1	1.5	
Australia	1.0	1.3	1.9	2.3	
China	5.0	5.4	4.2	4.2	

INFLATION	2024³	CURRENT⁴	2025 CONSENSUS	2026 CONSENSUS	VONTOBEL VIEW IN 2025⁵
Eurozone	2.4	2.2	2.1	1.9	↓
USA	3.0	2.4	3.0	2.7	↓
Switzerland	1.1	0.3	0.4	0.7	↓

KEY INTEREST RATES (IN %)	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
EUR (deposit rate)	3.00	2.25	1.91	1.87	→
USD (Fed funds rate, upper bound)	4.50	4.50	4.20	3.70	→
CHF	0.50	0.25	0.15	0.15	↓

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
EUR (Germany)	2.37	2.47	2.63	2.77	→
USD	4.57	4.28	4.24	4.16	↓
CHF	0.33	0.42	0.53	0.62	↓

FOREIGN EXCHANGE RATES	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
CHF per EUR	0.94	0.94	0.95	0.96	↑
CHF per USD	0.91	0.83	0.86	0.86	↓
USD per EUR	1.04	1.14	1.10	1.12	↑

COMMODITIES	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
Brent crude oil, USD per barrel	75	66	70	70	→
Gold, USD per troy ounce	2,625	3,293	2,950	2,950	↑
Copper, USD per metric ton	8,768	9,393	9,200	9,600	↓

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

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