

Outlook Q2 2025



Reuss Private

The Big Picture I

Structural Environment

- High indebtedness + adverse demographic developments + low productivity growth = low global trend growth. Among other things, the high level of indebtedness leads to a more unequal distribution (Gini index). This is one of the reasons for shifts in political constellations (polarization).
- Re-nationalisation of economic and social policies. Stronger focus on distributional effects within countries.
- Supply shortages in labour markets are easing only gradually.
- A de-dollarisation and possible decoupling from the West of an enlarged BRICs group seems possible, but this would result in two newly competing currency systems.
- Geopolitical tensions – especially the conflicts in the Ukraine and in the Middle East – remain heightened.
- The polarisation between the "West" and the "Global South" can make it more difficult to finance Western debt in the long term – also due to the confiscation of state assets.

Economy

- Global growth is recovering slightly. Compared to the past decade, macro-economic volatility and nominal growth remain elevated for longer.
- **The long-term outlook for the US economy remains favourable given its high trend growth, but there are signs of a temporary period of weakness due to President Trump's economic policies.** We see a subdued growth environment across Europe. China's weak domestic demand but growing production capacities threaten the industrial sectors in the advanced economies.
- Inflation and interest rate cycles have been synchronized globally since the pandemic but will diverge more strongly again in the future.
- Both the Fed and the ECB will likely cut rates by less than is generally expected.
- In the longer term, (government-led) investment should increase and support growth.

The Big Picture II

Influencing Factors

- Geopolitical risks (i.e. Ukraine, Israel, Iran, Taiwan and Turkey) have increased and will remain elevated for a prolonged period. This reinforces the deglobalization trend.
- Fiscal policy will remain expansionary, and no austerity policy is likely to be pursued.
- Political risks, with the potential for long-term very adverse outcomes, remain substantial, especially amid the ascent of EU/Euro critical parties in Europe and protectionist measures by the US government. Global risks, and thus the potential for markedly negative long-term scenarios, remain pronounced. **The risk of a technological decoupling between the US and China and an economic bloc building has increased.**
- An escalation of the global trade war – especially between the US and China – will have lasting consequences and will ultimately be a burden for global growth and financial markets.
- Birth rates have fallen sharply recently. This can lead to social tensions and put additional pressure on trend growth in the longer term.

Market Environment

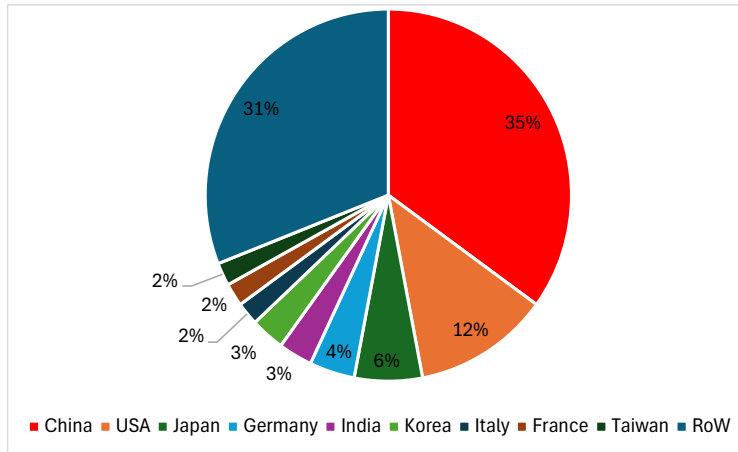
- Risk assets are attractive in the long term. However, due to diverging economic cycles, a selective allocation is advisable.
- The outlook for equities is volatile and accompanied by pronounced setbacks but remains fundamentally positive in the long term. Corporate profits can increase and will be the main contributor to a positive performance.
- The trend towards sustainable investments and "green finance" will intensify across all asset classes in the coming years.
- Yields of "safe" bonds such as German Bunds and US Treasuries will trade sideways on a multi-year horizon.
- With rate cuts, spread products become more attractive. Carry and roll-down remain important for fixed income investors.
- Positive for the US dollar. Cautious with EM currencies. Long-term downside risks for the Euro and the British pound.
- Longer term friendly environment for precious metals.

Positioning

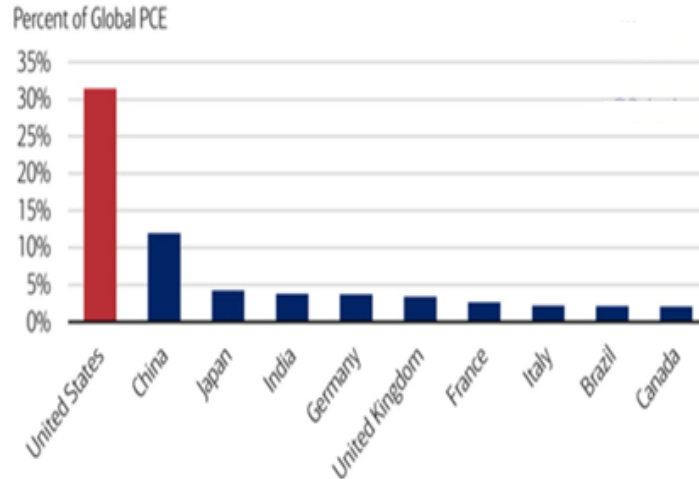
Asset Class	What we like	What we underweight
Liquidity		
Bonds	<ul style="list-style-type: none"> ▪ Short term to medium term investment grade assets (funds) ▪ Corporate bonds 	<ul style="list-style-type: none"> ▪ Long-term segment
Equities	<ul style="list-style-type: none"> ▪ Solid dividend stocks ▪ Sectors: Industrials, Financials, Technology and Energy ▪ EM: China and India 	
Alternative investments	<ul style="list-style-type: none"> ▪ Precious metals (focus on Gold and Silver) and Uranium (all physical) ▪ Crypto: Bitcoin ▪ US real estate bridge financing and Cat bonds 	
Currencies	<ul style="list-style-type: none"> ▪ CHF ▪ JPY ▪ USD 	

Global Economy

Distribution of global industrial production



Distribution of global consumption

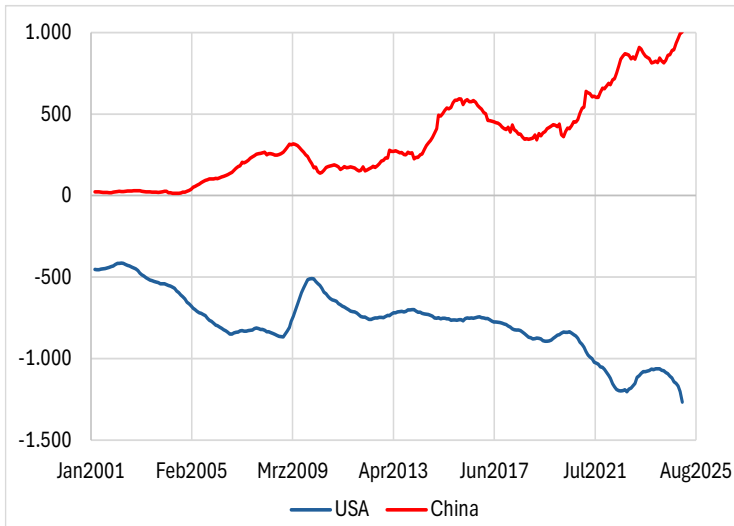


Source: IMD, Merrill Lynch

- Not surprisingly, the outlook for the global economy is dominated by developments in the US and in China. These are by far the world's two largest economies. The US accounts for 26.3% of world GDP and China for 16.8%. Germany follows in third place with 4.3%.
- However, the structures of the US and Chinese economies are fundamentally different. China dominates global industrial production with a share of 35%. What happens in the Chinese industrial sector therefore has a significant impact on the rest of the world ('China shock 2.0'). The US share is only 12%. By contrast, the US economy plays a dominant role in global consumption with a share of just over 30%. The outlook for US consumption is therefore crucial for the rest of the world.

US-Trade Policy

Trade balance goods (in USD bn)



Trade policy

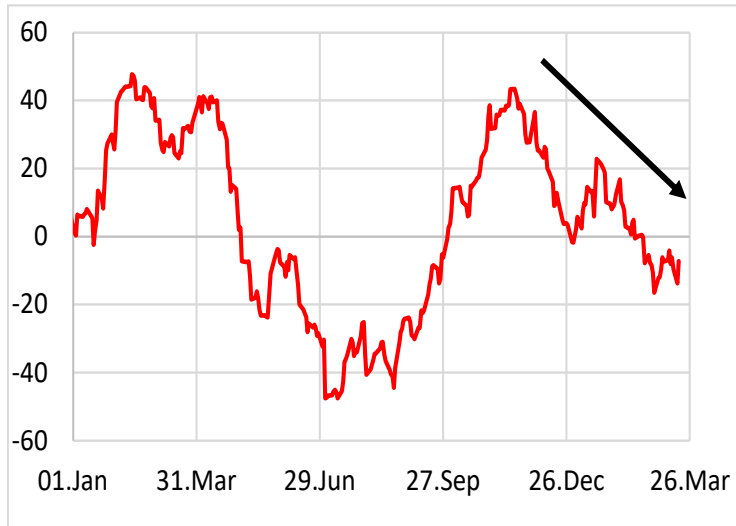
problem of the trade deficit	the USA is being exploited	national security is being weakened
goal of trade policy	restoration of fair trade relations & deficit reduction → balanced trade	reduction of dependencies, strengthening of the domestic industrial base → less trade
measures	(reciprocal) tariffs, pressure on trading partners to buy more US goods	(prohibitive) tariffs, export restrictions, import bans, investment controls
scope for negotiation	large	small
who is affected?	all	strategic rivals, especially China

Source: Bloomberg

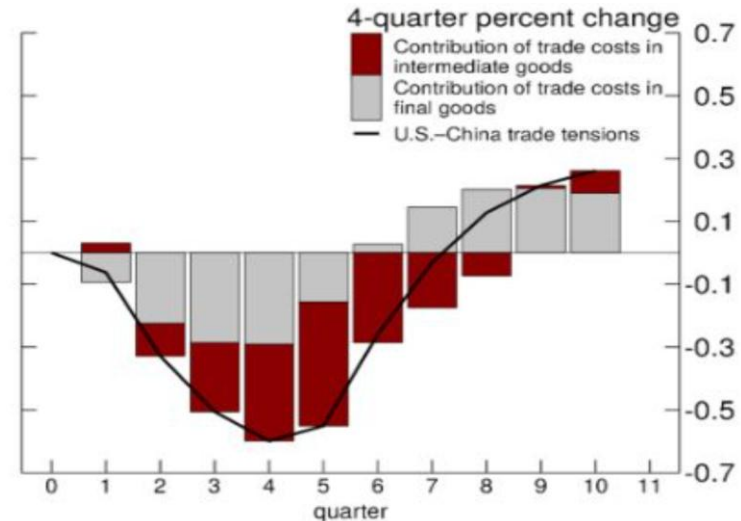
- China's excessive share of industrial production is associated with a large trade surplus, while the US's excessive share of consumption is associated with a large trade deficit.
- In his first presidency, US President Trump declared that the trade deficit was a reflection of the US being exploited by its trading partners. For him, tariffs are almost a panacea that will help reduce the trade deficit, bring production back to the US, generate government revenue and pressure and punish other countries. In contrast to his first presidency, Trump is now taking a much broader and faster approach to tariff policy. At the same time, he is using tariffs as leverage to achieve other goals (e.g. reduced immigration, increased defense spending, anti-China alliance).
- In addition to creating fair trade conditions from the US perspective, US national security interests have become much more important. China is seen as a strategic rival across party lines which means that in addition to high tariffs, non-tariff barriers such as import and export restrictions as well as investment controls are also coming into focus.

USA

Economic data surprises USA (January 2024 to present)



GDP effects of tariffs on Chinese imports (in %)

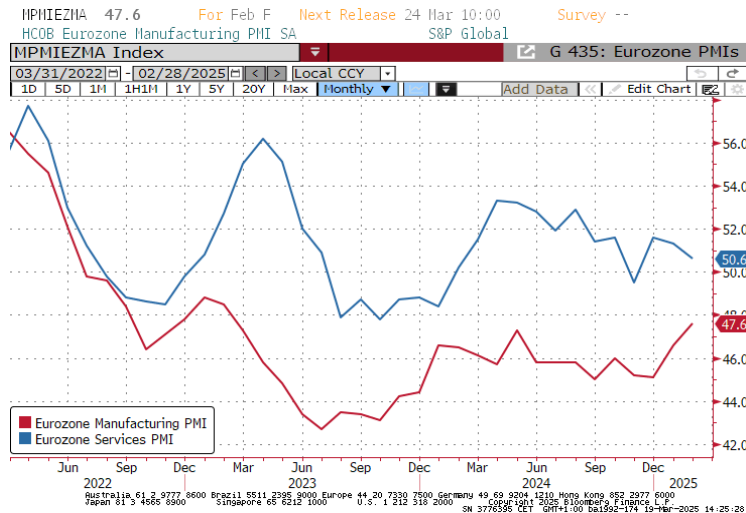


Source: Bloomberg, US Fed

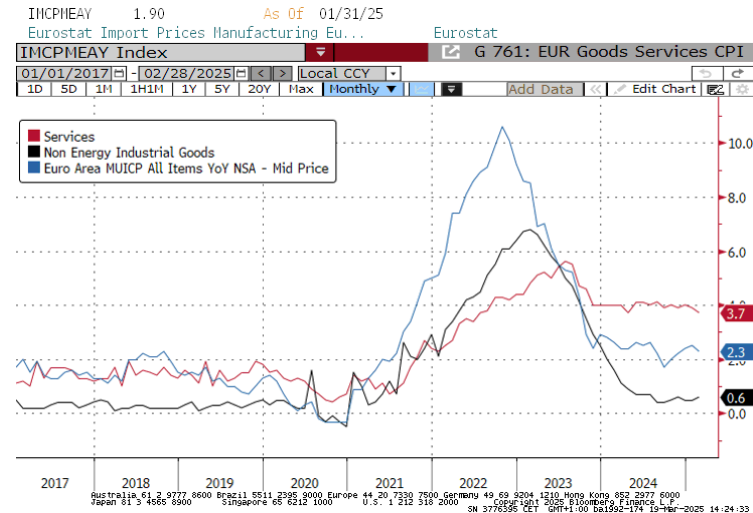
- US economic data has been very disappointing in recent weeks. In January, cold and snowy weather weighed on economic activity. More importantly, however, President Trump's policies are currently dampening growth momentum. The main factors are the massive drop in illegal immigration, layoffs of government workers, contract cancellations by DOGE and higher tariffs. Tariffs affect both final and intermediate goods. The latter, in particular, have a negative impact on economic activity. Not only do they lead to higher prices, but they also undermine the competitiveness of the industrial sector. The number of new jobs created in the labour market could fall in the coming months. Inflation is likely to be somewhat higher, although the extent of this will depend on the actual implementation of higher tariffs. The growth-enhancing effects of promised deregulation, increased energy subsidies and tax cuts will take much longer to materialise and may not be felt until next year. This means that the economic environment will temporarily deteriorate significantly.
- The outlook for the Fed's monetary policy currently remains unchanged, with two rate cuts during the course of the year.

Eurozone

Purchasing manager indices



Inflation rates (yoy in %)

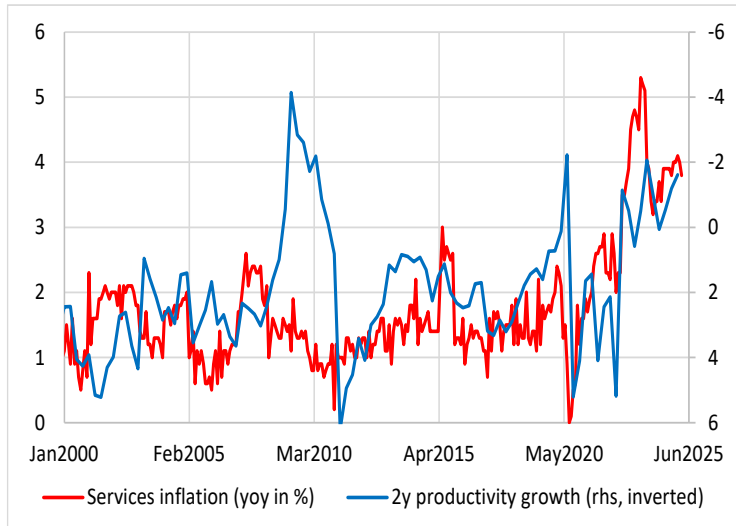


Source: Bloomberg

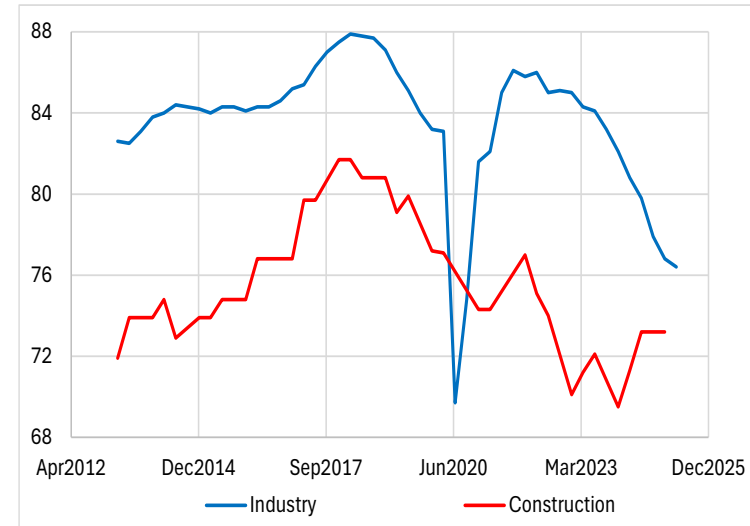
- In the Eurozone, employment is rising and wage pressures are easing only slowly. As a result, purchasing power is increasing. The service sectors are driving the economic recovery. The easing of monetary policy will support economic activity with the usual time lag. The environment for the industrial sector is more difficult as a result of the China shock 2.0.
- Europe is strongly affected by the re-orientation of US economic and security policy. US tariffs are likely to rise, but unlike China, non-tariff barriers are unlikely to play a role and there is more room for negotiation. At the same time, the US is pulling back on security policy. Europe will therefore have to fill the resulting gap itself. Defense spending is set to increase massively. At the EU level, this will be accompanied by a further program of joint borrowing and a relaxation of debt rules.
- Services inflation remains high and is easing only slowly. The ECB can ease its policy rates with two additional cuts. With a potential significant fiscal easing, rate hikes could move on the agenda towards the end of 2026.

Germany

Services inflation and productivity development



Capacity utilisation (in %)



Source: Destatis, European Commission, Bloomberg

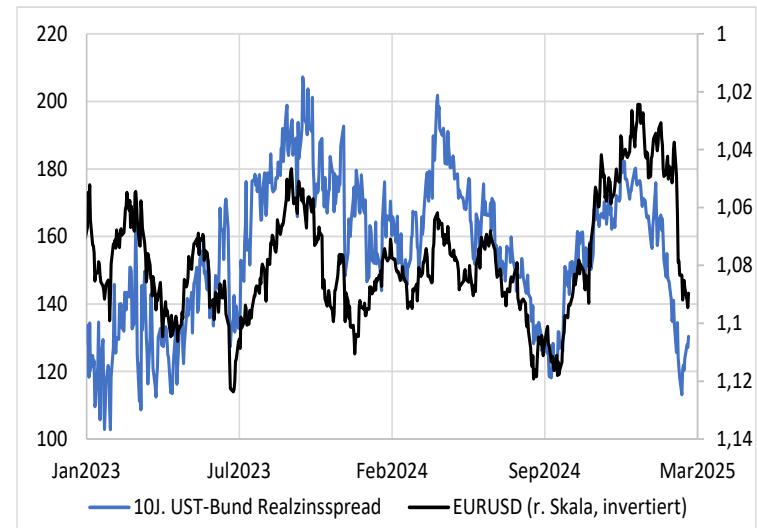
- Germany suffers from over-regulation and a fiscal policy focused on higher social transfers. This has contributed to an environment of weak productivity growth but increased wage pressure and thus higher domestic inflation.
- The plans presented to amend the constitution are likely to lead to a fiscal loosening in favour of infrastructure and defense spending in the order of 2% p.a.
- Defense and investment spending will increase over the long term, providing planning certainty for the private sector. Fiscal easing will make use of the spare capacity that has been built up in recent years and will stimulate demand. At the same time, dependence on exports is decreasing. This is an advantage in an environment of rising trade barriers.
- Such a program can sustainably boost productivity and growth, especially if it is combined with a reduction in bureaucracy and an improved energy policy. However, price risks are rising. The long-term outlook for Germany is brightening and the underperformance of the German economy should come to an end in the coming quarters.

Fixed Income & EUR/USD

10y yields government bonds (USTs, Bunds, Gilts and Confs)



EUR/USD & 10y UST-Bund real yield spread

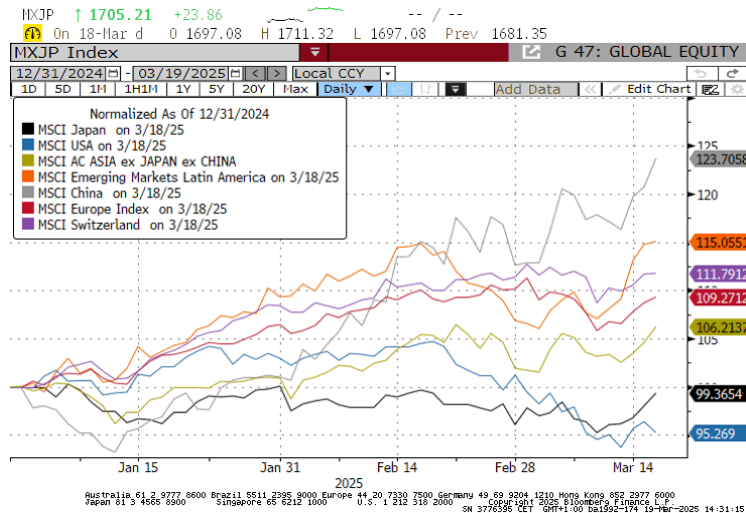


Source: Bloomberg

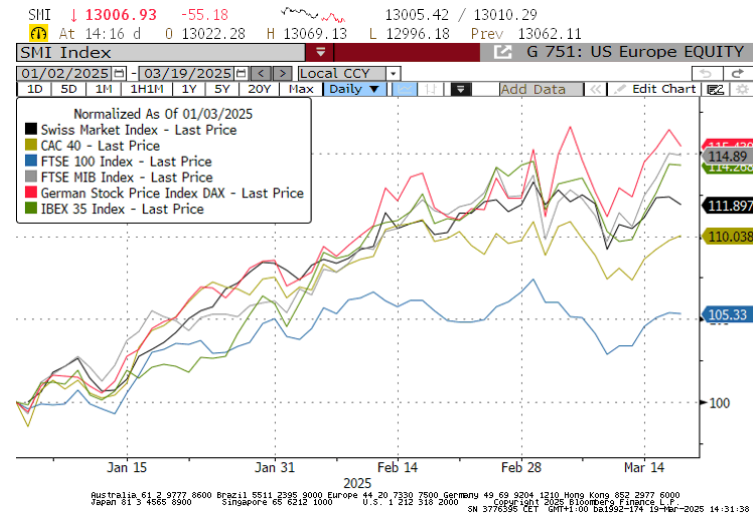
- Central banks can continue to cut interest rates. The environment for short-dated government bonds is therefore neutral. By contrast, yields on medium-term and especially long-term bonds can move sideways to higher on a strategic basis. Supply of government bonds remains substantial against the backdrop of persistent budget deficits and further fiscal easing to finance additional defense spending in Europe, combined with quantitative tightening by central banks. Carry products can remain overweight. However, a focus on short- and medium-term maturities and on good quality and more defensive sectors is recommended.
- The Euro has performed well following the announcement of a fiscal turnaround in Germany and the simultaneous slowdown in the US economy. This could continue in the short term. Longer term, however, the downside risks for the Euro remain pronounced, not least because price competitiveness is suffering. Should President Trump return to a more pro-growth economic policy, the US dollar is likely to strengthen again.

Equity Markets

Global equity market performance



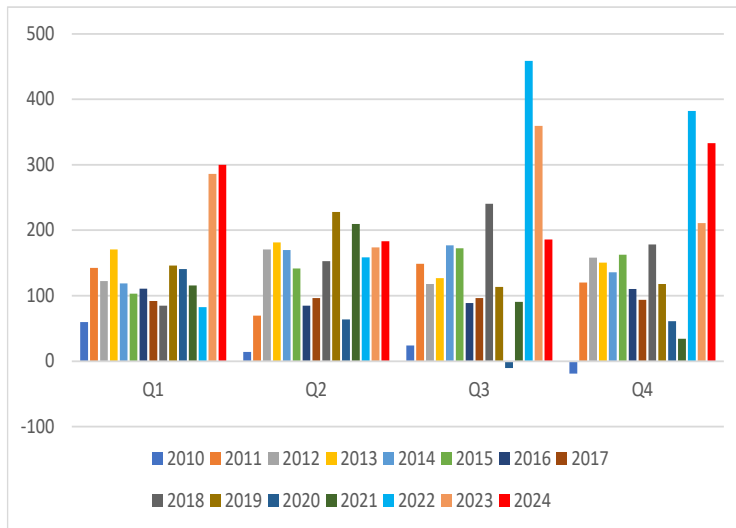
European equity market performance



- Chinese equities and European indices have outperformed since the beginning of the year. China is benefiting from developments in the technology sector (e.g. DeepSeek) and increased macro-economic support measures. However, the outlook remains challenging due to weak domestic demand and a possible decoupling of the US from China. European markets are benefiting from recent upside surprises in economic data, further monetary easing and favourable valuations. In Germany, the potential fiscal turnaround provides additional support.
- US markets, on the other hand, have gone into correction mode. Disappointing economic data and, in particular, the Trump administration's anti-growth measures are fuelling expectations of a significant economic slowdown.
- Strategically, a moderate overweight in equities is still advisable. Tactically, however, the environment is more challenging due to the Trump-triggered trade conflicts and the temporary slowdown in US growth, and at present investors should be cautious in the US.

Gold & Cryptos

Central bank gold purchases (in tons)



Cryptos



Source: World Gold Council, Bloomberg

- The confiscation of Russian financial assets by the West has increased the value of gold for many sovereign institutions. Gold inflows from central banks in the Global South have been increasing accordingly. In 2024, central banks bought a total of 1'002 tonnes of gold. This corresponds to a market value of around USD 90 billion. China had suspended its gold purchases in the spring, but resumed them after Trump's election in November.
- Geopolitical developments continue to support gold as the only valid “safe haven” alternative. Long positions remain attractive.
- US President Trump has announced the creation of a strategic reserve of digital assets which will include Solana, Ripple and Cardano in addition to Bitcoin and Ether. However, the reserve will be made up of confiscated holdings rather than active purchases.
- For cryptos to establish themselves as a sustainable asset class, more regulation is needed. However, regulation in the US could be weakened. The focus of crypto investments should be placed on Bitcoin. Cryptos however remain very volatile and subject to major setbacks.

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