

Outlook Q3 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

- Compared to the last decade, macro-economic volatility and nominal growth will remain elevated for longer.
- Downside risks to growth are pronounced. There is a great deal of uncertainty about the development of the global economy, particularly the US economy, due to its tariff policy.
- 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, Turkey, Syria and Taiwan) have increased and will remain elevated for a prolonged period. This reinforces the de-globalization 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

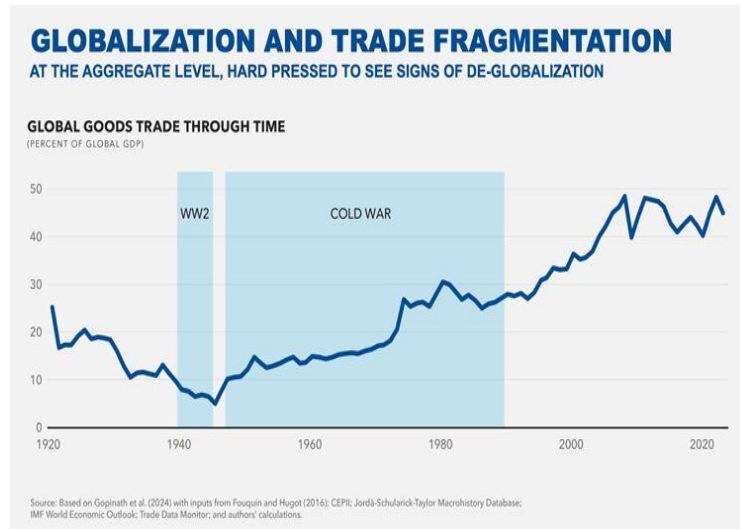
- Risk assets are attractive in the long term. However, due to diverging economic cycles, a selective allocation is advisable.
- The outlook for equities is volatile and accompanied by pronounced setbacks but remains fundamentally positive in the long term. Corporate profits can increase and will be 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.
- Cautious view for EM currencies. Positive for the Swiss Franc and for the Japanese Yen.
- Longer term friendly environment for precious metals.

Positioning

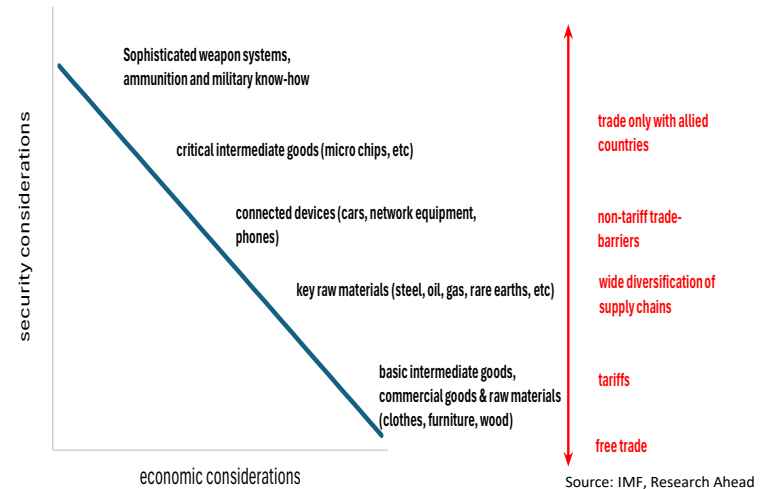
Asset Class	What we like	What we underweight
Liquidity		
Bonds	<ul style="list-style-type: none"> ▪ Short- to medium-term investment grade assets (funds) ▪ Corporate bonds 	<ul style="list-style-type: none"> ▪ Long-term segment
Equities	<ul style="list-style-type: none"> ▪ Solid dividend stocks ▪ Sectors: Industrials, Financials and Technology ▪ 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 	

Global Trade Architecture

Global goods trade as a % of GDP



Trade in goods in the context of security & economic aspects



- The US trade policy which was previously rules-based and reliable, has given way to a discretionary, confusing and less robust regime. A multitude of different rules have emerged regarding tariff levels, quotas and market access. Uncertainty for households, businesses and market participants will therefore remain very high for the foreseeable future.
- In addition to economic factors, national security aspects have become increasingly important in shaping the trade landscape. Especially with China, the US is relying on non-tariff trade barriers such as export restrictions (for example for semiconductors) and import restrictions (for example for connected vehicles) as well as investment controls. Trading partners are also expected to further push back against China. As a result, there are increasing signs of a technological decoupling between the US and China.
- The globalisation is over. Still, what is currently being observed is not yet de-globalisation, but rather the fragmentation of global trade and an increase in bloc formation. The more national security aspects take center stage, the more trade between blocs is likely to be restricted. Non-aligned countries are mitigating the negative economic consequences of the competition between the US and China.

USA

Betting probability US recession



Recession this year?



27% chance ▼ 17.9 ①

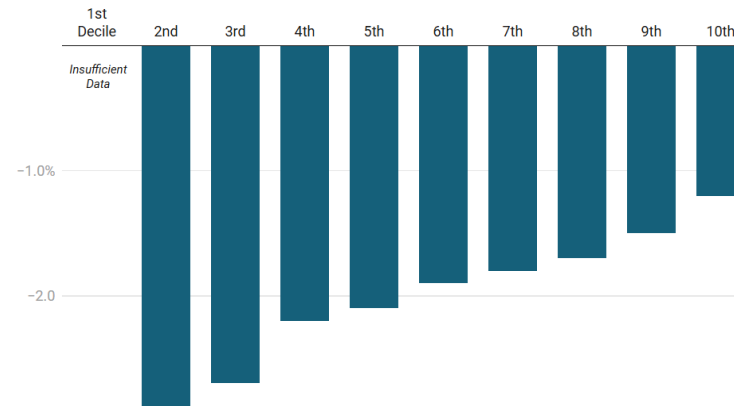
Kalshi



Income effects tariff increases

Through May 12

Percentage points of disposable income by household income decile



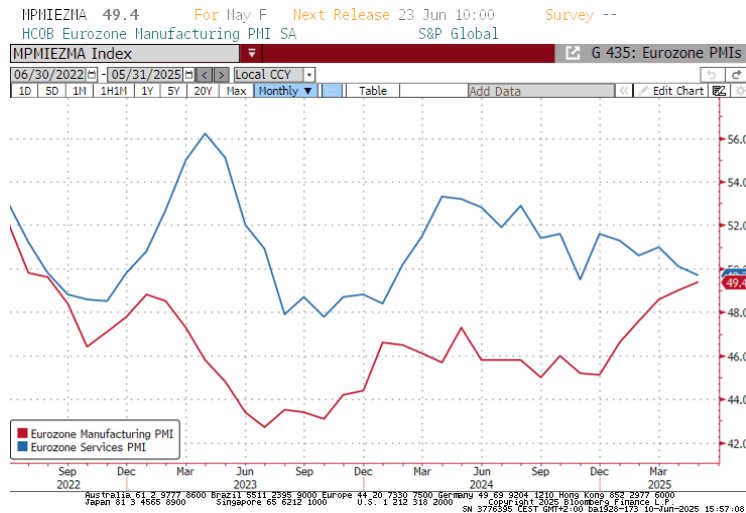
Source: Kalshi, Yale Budget Lab

Chart: The Budget Lab • Source: GTAP v7, Census, BLS, BEA, The Budget Lab analysis. • Created with [Datawrapper](#)

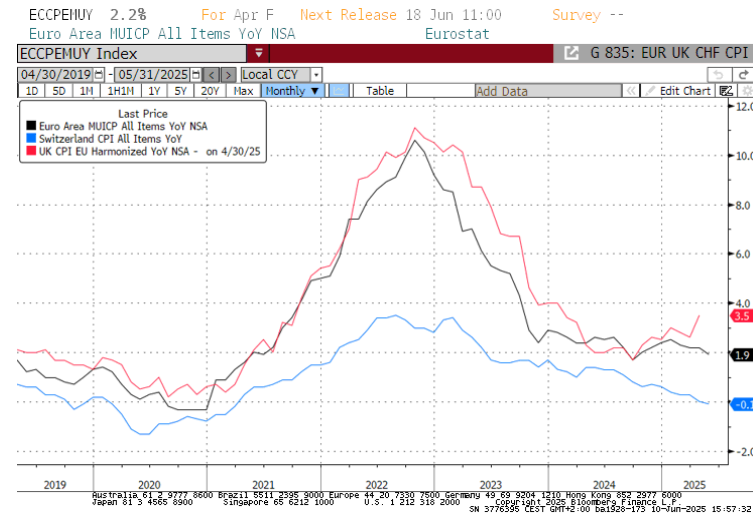
- The tariff increases that have come into effect so far equate to a fiscal tightening of around 1.5%. The tariffs also affect intermediate goods. This undermines the price competitiveness of the industrial sector. In the current environment, the long-term outlook for trade is unclear. Therefore, it is sensible for companies to wait before making investment decisions. This is weakening the economy. However, trend growth in the US remains high by international standards due to substantial productivity gains. Therefore, the US should be able to avoid a recession without further escalation in its trade conflicts.
- Tariffs disproportionately burden low-income households, while high earners particularly benefit from tax cuts. This will make the two-tiered consumption landscape more pronounced.
- Import tariffs represent a stagflationary shock, meaning growth is declining while prices are rising. Monetary policy is currently slightly restrictive, and thus the US Federal Reserve is likely to maintain its wait-and-see approach for the time being. Moderate interest rate cuts may occur towards the end of the year.

Eurozone/Europe

Purchasing manager indices



Inflation rates Eurozone, Switzerland & United Kingdom



- Growth in Europe may recover in the medium term but will remain subdued overall. Recent monetary easing, increased government spending on defence and infrastructure as well as ongoing gains in consumer purchasing power offset the negative impact of US trade policy. At a country level, Spain for example is relatively unaffected by US tariffs due to its trade flows. Its outperformance may therefore continue. Germany, however, is more severely affected, although fiscal policy is expected to be significantly loosened in the coming quarters. This will strengthen domestic demand.
- In both the Eurozone and in Switzerland, cuts in central banks' policy rates will likely end soon. Interest rates could be cut once more in Q3. After that, a pause is expected which will mark the end of the rate cutting cycle. However, in the risk scenario of a further escalation in the trade conflicts – for example if President Trump were to raise the recently threatened tariffs on EU imports to 50% – would give central banks further scope for rate cuts. Meanwhile, policy rates in Great Britain remain high at 4.25%, giving the Bank of England a somewhat greater potential for rate cuts.

Fixed Income I

10y US Treasuries term risk premium



Global yield curves: 2-30y interest rate spread



Source: Bloomberg

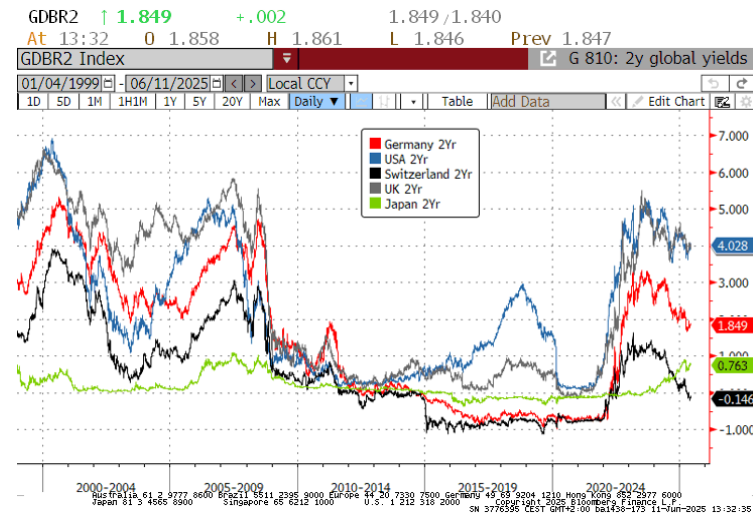
- During the 2010s, term risk premia declined. This was likely due to low nominal growth resulting from very low inflation, as well as monetary policy involving negative policy rates, forward guidance and quantitative easing. Falling term risk premia also caused yield curves to flatten.
- Since the outbreak of the pandemic, however, term risk premia have risen again. Inflation, and thus nominal growth, has increased significantly. Consequently, central banks have abandoned negative interest rate policies as well as forward guidance and simultaneously switched to a policy of quantitative tightening. This has normalised term risk premia.
- Moreover, the supply of government bonds is substantial due to high deficits, and debt dynamics have deteriorated considerably in some countries. At the same time, demand for long maturity bonds from major investors such as pension funds and life insurers has weakened.
- The trend towards higher term risk premia likely continues on a global basis in the coming years.

Fixed Income II

2y government bond yields



30y government bond yields

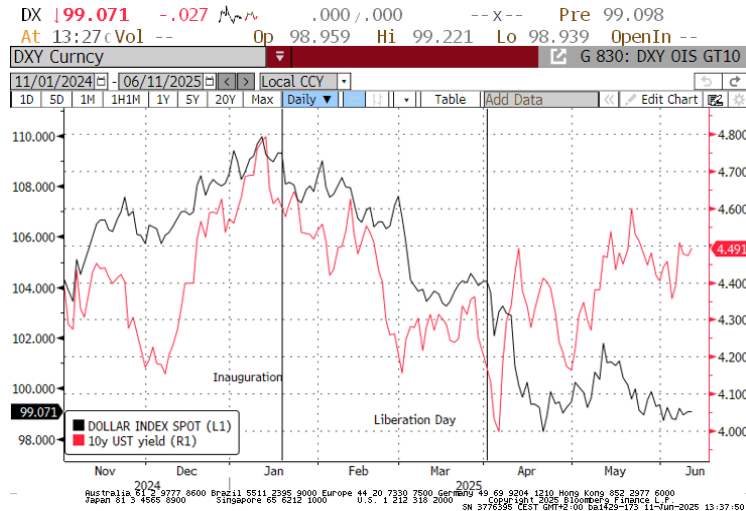


Source: Bloomberg

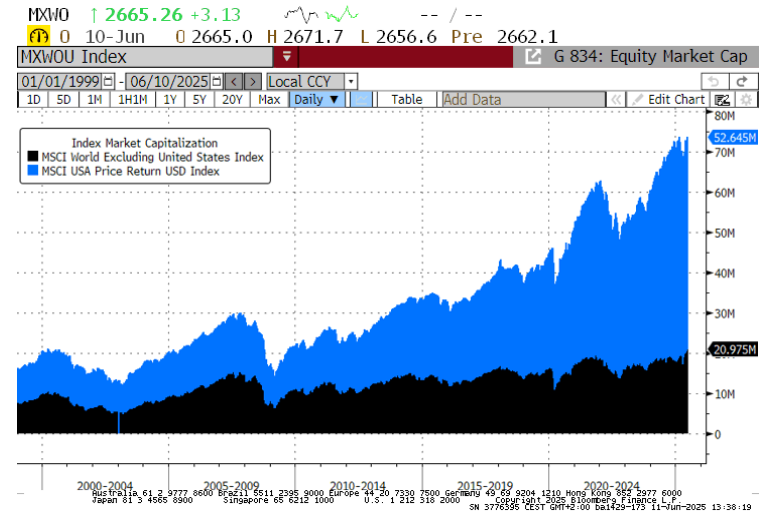
- Yields on very long-term government bonds have risen significantly across the globe due to an increase in term risk premia. This increase was most pronounced in countries with high deficits and higher debt-to-GDP ratios, such as the US and Japan. The Eurozone and especially Switzerland are faring significantly better, with lower yields and smaller interest rate increases.
- In the shorter-term maturity segment, however, two-year bond yields have fallen since the fall of 2023, except for Japan. This is due to central banks' rate cuts. Japanese yields have risen contrary to the global trend due to the Bank of Japan's monetary policy of raising rates since spring 2024.
- The outlook for bond markets remains unchanged, with bond yields likely to move sideways in short maturities and sideways to higher at the long end. In general, an overweight in spread products such as corporate bonds or peripheral government bonds in Europe can be maintained. However, investors should exercise caution with regards to longer maturities. The focus should instead be on short- to medium-term investments as well as defensive sectors.

US-Dollar

Dollar index & 10y US Treasuries yield



Equity market capitalisation US vs. rest of the world

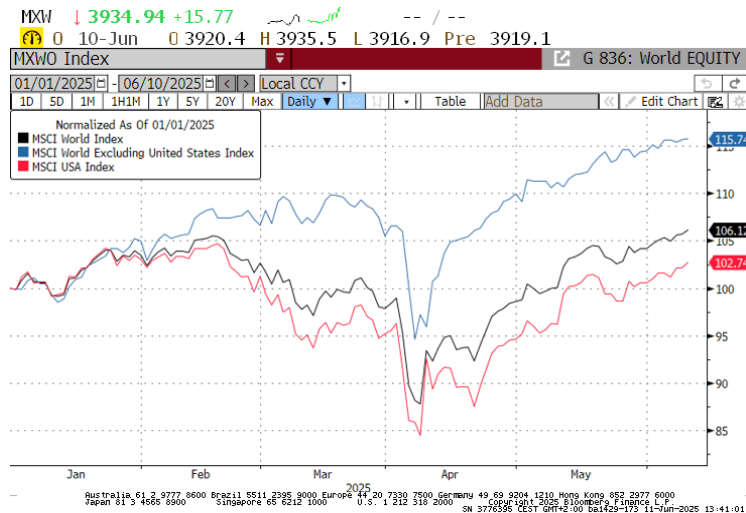


Source: Bloomberg

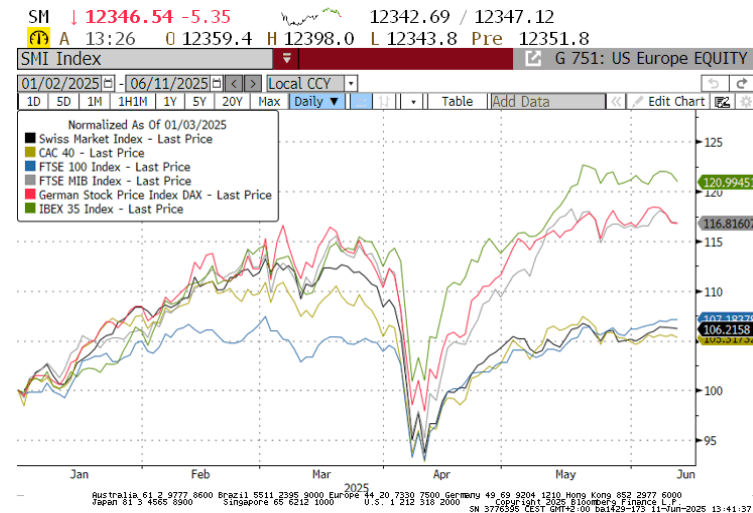
- In recent years, the US Dollar has benefited from high growth and consequently high real interest rates as well as a favourable stock market performance. However, President Trump's policies have reversed the trend in the US Dollar. The simultaneous sell-off of US Treasuries and the US Dollar after 'Liberation Day' in early April was unusual and may indicate capital outflows from the US.
- The problem is that many investors are overweight US assets and therefore also the US Dollar due to years of strong economic development and favorable stock market performance. Nevertheless, Trump's policies are casting doubts over the growth outlook and undermine key constitutional institutions, particularly the rules-based trading system and the independence of the central bank. Investors have therefore begun to reduce their US Dollar exposure. This stands in the way of a further significant appreciation. For global investors, an allocation to US Dollars and US assets which is more oriented towards the US share of global GDP (approximately 30%) than to the US stock market's share in the MSCI World Index (almost 70%) seems preferable.

Equity Markets

Global & US equity market indices (performance 2025)



European equity market indices (performance 2025)

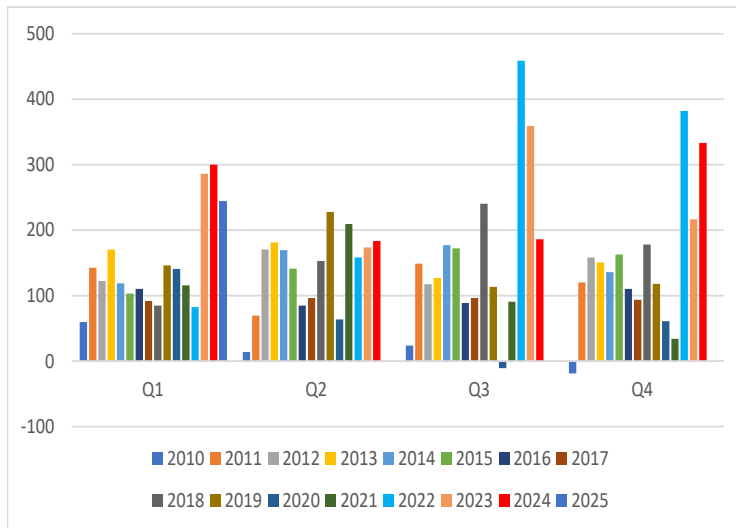


Source: Bloomberg

- For financial markets, it is crucial that the US does not fall into recession as assumed in the baseline scenario. Corporate profits can therefore continue to rise. This supports risk assets which can remain overweight. However, the environment remains characterised by heightened uncertainty. US policy is temporarily weighing on growth and is accompanied by a reallocation in favor of non-US equity markets. This will be reflected by an underperformance of the US equity market.
- The situation in Europe remains more favourable. Although the economy has also been negatively affected by the US policies, the impact has been less severe. Furthermore, the shock in the US is stagflationary, whereas in Europe it is disinflationary. This increases purchasing power and enables the central banks to lower interest rates. The US Fed, on the other hand, is adopting a wait-and-see approach for the time being. Furthermore, fiscal easing in favour of defense and infrastructure is emerging in Europe which should support growth in the medium term. Therefore, an overweight position in Europe seems attractive, particularly in the periphery of the Eurozone and in Germany as well as in Switzerland and in the United Kingdom.

Gold & Cryptos

Central bank gold purchases (in tons)



Cryptos



Source: World Gold Council, Bloomberg

- The outlook for precious metals, especially for gold, remains positive in the long-term. Due to geopolitical developments, central banks have significantly increased their gold purchases, and this trend is likely to continue in the coming years. Debt dynamics in the USA threaten confidence in the US Dollar as the main reserve currency.
- Therefore, from a long-term perspective, gold is the only valid 'safe haven' alternative and remains attractive.
- A decline in the status of the US Dollar would also support cryptocurrencies, particularly Bitcoin. However, for cryptos to establish themselves as a sustainable asset class, more regulation is ultimately needed. The focus of crypto investments should be placed on Bitcoin. Unlike gold, cryptocurrencies remain highly volatile and subject to significantly larger setbacks.

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