BELVALOR
Vermögensbetreuung

Outlook 2025: United States in the Spotlight

A pro-business environment in the USA is setting the pace

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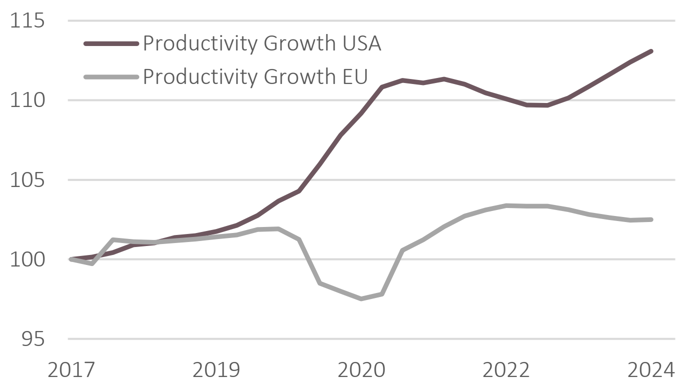
Political and economic uncertainties are shaping the global environment. Geopolitical tensions and intense technological competition between the United States of America (USA) and China are intensifying these uncertainties. However, Donald Trump's re-election as president sends a clear message: America remains the central pacemaker of the global economy and international politics. Issues such as energy independence, immigration, technology leadership and the reduced purchasing power of citizens will shape the future political direction. Despite the controversies surrounding Trump's policies, the Republicans' clear election victory has consolidated America's business-friendly course.

The contrast between the USA and Europe could hardly be more pronounced. While America is turning technological advances into productivity gains, Europe is struggling with high energy costs, increasing regulation and a fragmented market, which is stifling innovation. China, too, is facing a slowdown in growth and weaker export demand. America's dominance is increasing competition and forcing other economies to adjust their strategies and access to international markets. This may be painful in the short term, but it could sustainably strengthen their competitiveness and lay the foundation for future growth.

*Graph 1: U.S. and EU productivity growth comparison**



*Source: Bloomberg, Statista, Belvalor; *Moving average of quarterly productivity growth rates, indexed (30.09.2017 - 30.09.2024)*

The *"America First"* strategy also entails risks. A balanced budget is not to be expected under President Trump. A likely continuation of loose tax and spending policies, combined with possible tariffs, could reignite inflation, which is still slightly elevated, and delay the hoped-for interest rate cuts. The national debt – already over 36,000 billion U.S. dollars (USD) or 120% of gross domestic product – is likely to increase further. This entails long-term risks for economic flexibility and global financial stability.

From an investor's perspective, the U.S. economy's business-friendly policies and robust growth prospects are appealing. However, the high valuation of the stock market is a drawback, as it limits the potential for further significant price gains.

*Graph 2: Valuation of the U.S. equity market**

*Source: Bloomberg, Belvalor; *Basis: Monthly; Earnings: Consensus estimates for the next 12 months (30.11.2004 - 30.11.2024); Index: S&P 500*

The year 2025 will be marked by geopolitical conflicts and efforts to set new directions in politics and the economy. At the same time, productivity gains, technological advancements and potential geopolitical easing offer opportunities. Lower interest rates support economic growth but, from an investor's perspective, especially in Swiss francs (CHF), lead to renewed challenges in finding attractive investments. Despite these uncertainties, we remain committed to our long-term investment strategy and view equity market corrections as opportunities to make targeted additional investments.

Economic environment

The year 2025 unfolds against the backdrop of a global economic environment that presents both opportunities and significant challenges. The U.S. economy remains resilient, supported by robust consumer spending and substantial fiscal stimulus initiated under President Joe Biden's comprehensive economic package. However, government debt financing remains a double-edged sword, limiting the United States' long-term economic policy flexibility.

*Graph 3: GDP and Inflation 2024E und 2025E in %**

	Gross Dom. Product (GDP)		Inflation	
	2024E	2025E	2024E	2025E
World	3.1	3.1	4.6	3.5
USA	2.7	2.0	2.9	2.3
Eurozone	0.8	1.3	2.3	2.0
Germany	-0.1	0.7	2.4	2.1
United Kingdom	0.9	1.4	2.5	2.3
Switzerland	1.5	1.5	1.1	0.8
Japan	-0.2	1.2	2.5	2.0
China	4.8	4.5	0.4	1.1

*Source: Bloomberg, Belvalor, as of: 30.11.2024; *Year-over-year estimates*

Donald Trump's election brings additional momentum. His pro-business policies, including potential new tax cuts and a clear focus on the domestic economy, are expected to provide further short-term growth stimulus. However, his unpredictable political approach poses significant risks for financial markets. Potentially protectionist measures could disrupt global supply chains, exacerbate geopolitical tensions, and increase inflationary pressure.

A growing U.S. economy is President Trump's top priority

Europe is struggling with change and faces political discord that blocks necessary reforms. This not only hampers growth but also limits the region's ability to capitalize on technological advancements or to actively shape global trade flows. In China, a significant economic slowdown is evident, driven by a troubled real estate sector and a sluggish recovery in domestic demand. China's role as a global growth driver is diminishing, and fiscal stimulus measures are unlikely to reverse this trend. Additionally, demographic challenges such as a population in decline pose a growing obstacle, a reality that Europe must also contend with.

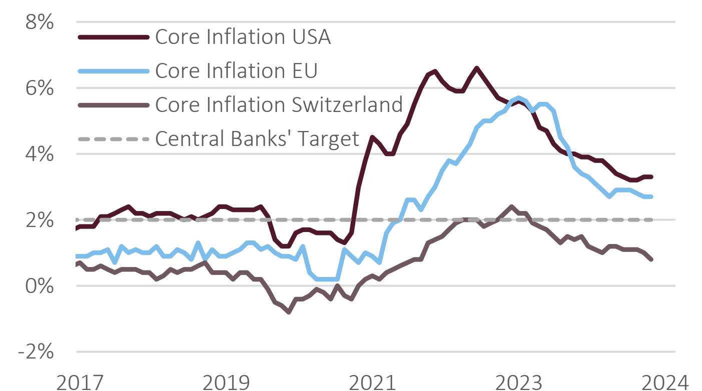
The Swiss economy remains relatively resilient despite the weakness in Europe, particularly in Germany. Key pillars of this strength include defensive sectors like pharmaceuticals, moderate increases in input costs, stable private consumption, and immigration. Low interest rates and Switzerland's political stability provide a solid foundation for its economic resilience. However, Switzerland is not entirely immune to the ongoing challenges in the Eurozone.

Geopolitical tensions amplify the risks of rising inflation

Commodity markets and geopolitical developments continue to carry the potential to trigger inflationary pressures, particularly impacting resource-importing economies like Europe. Inflation remains a key concern that warrants greater attention from investors. In many regions, core inflation (excluding food and energy) remains above the central banks' 2% target, limiting the scope for significant rate cuts in the near term.

In contrast, inflation is no longer a pressing issue in Switzerland, where deflationary risks are now coming into focus. The persistently strong CHF and prudent fiscal policies have provided stability but have also reignited discussions about the potential reintroduction of negative interest rates.

Graph 4: Core inflation rates in comparison*



*Source: Bloomberg, Belvalor; *Core consumer price index (Core CPI), Change in the annual rate on a monthly basis (30.11.2017 - 30.11.2024)*

Progress in resolving geopolitical conflicts could significantly revive the currently subdued investment activity, particularly in Europe. This would provide critical economic stimulus and have positive effects on the macroeconomic environment in 2025 and beyond.

Currencies

The interest rate cuts by major central banks had little noticeable impact on exchange rates through the summer of 2024, as they were largely synchronized and core inflation rates – except in Switzerland – remained elevated at similar levels. The election of Donald Trump and his anticipated "*America First*" policies led to a strengthening of the USD in the fourth quarter of 2024, even against the CHF. The CHF also weakened slightly against the British Pound (GBP), while remaining broadly stable against the Euro (EUR). Towards the end of the year, the Swiss National Bank likely intervened to prevent an excessive appreciation of the CHF against the EUR.

On a purchasing power parity basis, the USD is overvalued but remains supported by robust U.S. economic growth in 2024 and significantly positive real interest rates (nominal rates minus inflation). However, the rapidly increasing national debt and relatively higher inflation rates are likely to add pressure on the U.S. currency. We expect these negative factors to outweigh the positives in the medium term, leading to a weakening of the USD.

*Graph 5: EUR/CHF exchange rate over time**

*Source: Bloomberg, Belvalor; *daily closing prices (30.11.2004 – 30.11.2024)*

The EUR remains structurally weak, as the European Economic Area fails to fully realize its economic potential due to overregulation and idealistic policies. In contrast, we continue to view the CHF as a strong and stable currency. Moderate inflation, high competitiveness, as well as political stability and legal certainty, clearly support the CHF. Consequently, our recommendation remains to maintain a high allocation of CHF in portfolios and to selectively hedge foreign currency risks.

Interest rates / bonds

The significant decline in inflation across Western countries is a testament to the success of their central banks. In Switzerland, the target range of 0 to 2% has been met while inflation in the U.S. and the Eurozone remains slightly above the 2% target. Progress in combating inflation has led to lower interest rates in these economies. As a result, restrictive monetary policies have already been eased, which is expected to have a positive impact on economic activity. Markets currently anticipate further rate cuts next year. We consider the projected key interest rate levels by the end of 2025 – 0% for CHF, 4% for USD, and 2% for EUR – to be realistic.

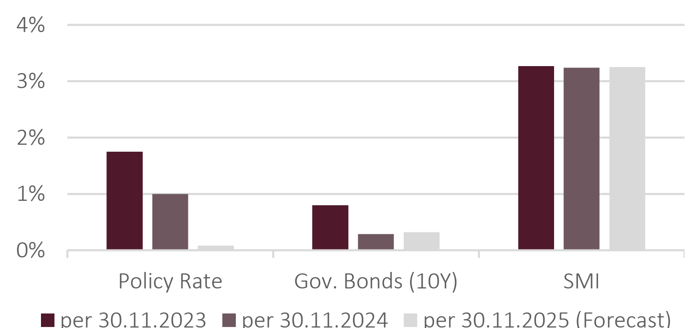
An economic downturn, whether regional or global, remains a downside risk for 2025 and could accelerate rate cuts, leading to even lower interest rates. Conversely, overly aggressive fiscal policies pose a risk, as financial markets could react to rapidly increasing debt levels with higher long-term interest rates.

The return potential of bonds – particularly in CHF – has decreased significantly

From an investor's perspective, the fixed-income market appears less attractive than a year ago. The real risk of rising inflation is currently barely priced into the market. Refinancing rates in CHF (excluding credit spreads) have noticeably declined and are approaching 0% across all maturities. While this trend is favorable for borrowers, it poses a challenge for investors. We therefore recommend a low-risk approach by focusing on high-quality corporate bonds with maturities of up to five years. For investors with USD, EUR, or GBP as their reference currency, the corporate bond segment offers slightly more appeal.

Given market forecasts that suggest no imminent reversal in CHF interest rate trends, equity investments in Swiss quality companies with dividend yields exceeding 3% are gaining relative attractiveness.

*Graph 6: Comparison of CHF interest rates and dividend yield of the Swiss Market Index (SMI)**

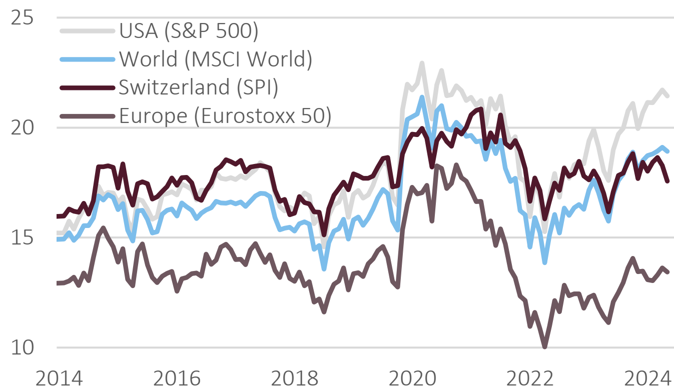


*Source: Bloomberg, Belvalor; *Estimates as of 30.11.2024*

Equities

Equities performed predominantly well in 2024. As shown in the graph below, equity prices in the U.S. equity market increased significantly more than corporate earnings, driven by valuation expansion. The rise in valuations, primarily influenced by major U.S. technology companies, accounts for roughly half of the U.S. equity market's performance, with the other half stemming from earnings increases. In Europe and Switzerland, valuation expansion was more moderate, resulting in lower returns for equity investors.

Graph 7: Price-earnings ratio of equity indices*

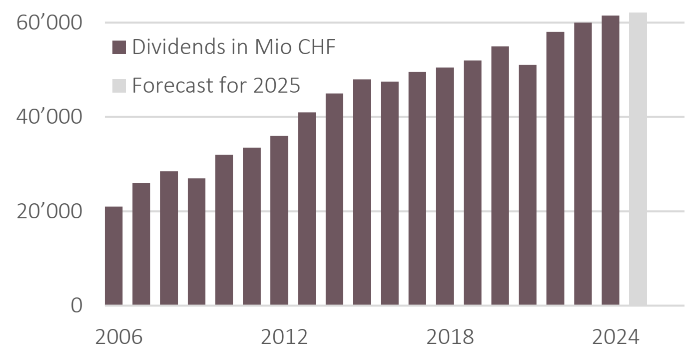


*Source: Bloomberg, Belvalor; *Basis: Monthly (01.06.2014 - 30.11.2024); Earnings: Consensus estimates for the next 12 months*

In times of widespread uncertainty, corporate earnings growth remains a positive highlight. In 2024, U.S. companies in particular demonstrated impressive resilience, supported by technological advancements and strong demand. This momentum is expected to continue in 2025, albeit at a more moderate pace. The U.S. equity market remains attractive due to its growth dynamics and pro-business orientation. However, high valuations weigh on return expectations.

We see continued opportunities in the stable and defensively oriented Swiss equity market. Many domestic quality companies have strengthened their positions and are well-prepared to benefit from a new economic cycle. Valuations remain reasonable, and expectations are correspondingly moderate. Switzerland is home to numerous companies that have consistently demonstrated their ability to adapt to technological advancements and long-term structural changes, positioning them to thrive in dynamic and evolving environments. This offers investors attractive and promising prospects. Additionally, as noted earlier, appealing dividend yields are a strong argument for Swiss equities. While dividend payouts are not guaranteed and can fluctuate, they tend to rise over the long term, further enhancing their appeal.

*Graph 8: Sum of dividend payments of Swiss companies**



*Source: Bloomberg, Belvalor; *Sum of yearly dividends in Mio CHF, Swiss Performance Index (SPI), 2006 - 2024, Forecast 2025*

We firmly believe that equities remain the most suitable asset class to protect and grow capital in real terms over the long term. While expectations for future earnings growth have risen, they remain reasonable and realistic in most regions. A revival in initial public offerings (IPO transactions) could further support the broader market. Additionally, the prospect of lower interest rates is a positive factor for equity investors. However, we recommend maintaining a degree of flexibility in investment strategies, as short-term setbacks driven by political and economic developments are a recurring feature of the markets.

Alternative investments

Precious metals have shown remarkable performance, with both gold and silver experiencing significant price increases in 2024. This surge is partly due to central banks in Asia and other regions diversifying their foreign exchange reserves to reduce dependence on the USD – a trend expected to continue, albeit at a slower pace. Given these dynamics, gold remains a recommended addition to portfolios as a long-term store of value and a means of diversification.

Private market investments remain attractive. Direct investments offer an illiquidity premium but require the willingness to lock up capital for a defined period. We invest both directly in selected investment solutions and indirectly through equity stakes in leading private market companies. Private equity, in particular, stands to benefit from the anticipated lower interest rates and the resulting reduction in financing costs.

We consider listed **real estate companies** on the Swiss equity market to be attractive due to the lower interest rate environment and their appealing dividend yields.