BELVALOR
Vermögensbetreuung

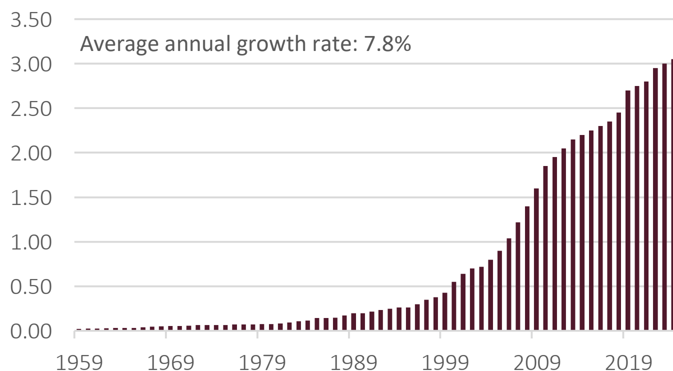
Financial Markets 2025: Solid Start Despite Geopolitical Uncertainty

Mixed markets in the first quarter

In the first quarter of 2025, global financial markets were largely shaped by the unpredictable trade policies of the United States. Since Donald Trump's inauguration on January 20, tariff threats against key trading partners and allies – followed by countermeasures and sharp rhetoric – have dominated economic policy discussions.

European equity markets remained largely resilient in the face of uncertainties surrounding US economic policy. Instead, they found support from Germany's pivot, including recent decisions to boost investments in defense and infrastructure. The Swiss equity market also performed well, benefiting from its close economic ties with Germany and its traditionally defensive orientation. Low interest rates continue to make Swiss equities attractive, particularly those offering reliable dividend yields. Nestlé, for instance, has either increased or maintained its annual dividend every year since 1959. A trend likely to persist despite economic uncertainties.

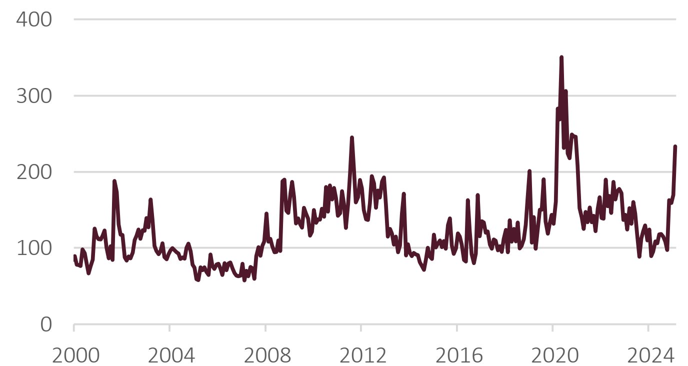
Graph 1: Nestlé's dividend history (1959-2024)*



*Source: Nestlé, Belvalor; *annual paid dividend per share in Swiss francs*

While the long-term effects of the current US economic policy remain difficult to quantify, early signs of a slowdown are already becoming apparent. Leading indicators of the US economy have weakened noticeably in recent weeks, and consumer sentiment has deteriorated. Inflation expectations have risen sharply due to protectionist measures. Although the US economy continues to grow, the pace is clearly slowing. This deceleration reflects increasing concerns over trade disruptions and policy unpredictability, which are beginning to weigh on business confidence and investment decisions.

Graph 2: US Economic Policy Uncertainty Index



Source: Policyuncertainty.com, Belvalor

Conclusion and positioning

Despite uncertainties in global trade policy, we remain constructive for the investment year 2025 – although the positive market performance in Europe is unlikely to continue at the same pace. We maintain our positive outlook on the Swiss equity market, which is home to numerous high-quality companies and remain committed to our long-term investment approach. Trump's policies continue to pose a significant source of uncertainty for now. However, the political noise is expected to diminish over the course of his presidency – an outcome that would be clearly welcomed from a market perspective.

Noise is the enemy of good decision-making

Daniel Kahneman, Nobel Prize Winner in Behavioral Economics

As outlined in our 2025 investment outlook, we remain cautiously positioned in the US equity market, given that high valuations leave little room to absorb a potential economic slowdown. We maintain a critical view of the US dollar, particularly from a medium- to long-term perspective, which should be taken into account when investing in US equities. Moreover, the reform of Germany's debt brake (our thoughts on this can be found on the next page) is expected to provide growth stimulus within the Eurozone, as already reflected in a stronger euro. However, this euro strength is likely to be temporary, especially against our preferred currency, the Swiss franc. Gold, while susceptible to short-term corrections, will continue to fulfill its role as a safe haven in an environment marked by global disruptions and uncertainty.

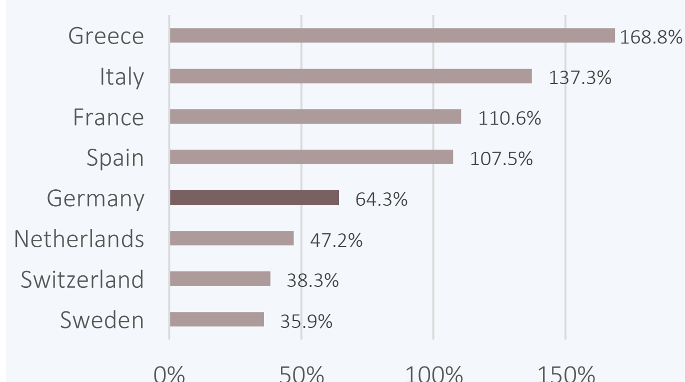
Fiscal discipline in retreat? Our thoughts on the recent reform of Germany's debt brake, the resulting shift in fiscal policy and its implications for investors

Since its introduction in 2009, Germany's debt brake has imposed strict limits on new government borrowing. While it successfully prevented excessive debt accumulation, it also contributed to a growing investment backlog – particularly in areas such as infrastructure, digitalization, energy, and defense. External crises, demographic shifts and rising social expenditures have further strained fiscal capacity. The repeated activation of emergency exemptions recently intensified political and legal pressures, leading to increasing calls for structural reform.

The reform approved in March 2025 marks a fundamental shift in Germany's fiscal policy: Over the coming years, up to EUR 1'000 billion (in figures: 1,000,000,000,000) will be invested outside the existing debt brake framework. The reform includes two key components: Defense expenditure exceeding 1% of the country's gross domestic product (GDP) will be permanently excluded from the debt brake. This adjustment is expected to require approximately EUR 400 billion in additional funding by 2035. A dedicated fund of EUR 500 billion will be established to invest specifically in infrastructure, digitalization, education, and climate protection – entirely outside the regular budget framework.

In sum, the reform marks a decisive break from Germany's traditional role as a fiscal benchmark in Europe. A comparative analysis across the continent highlights the extent to which debt positions have already diverged and the potential impact Germany's strategic realignment could have on further accelerating this divergence.

Graph 3: Debt of selected countries in Europe*



*Source: International Monetary Fund (IMF), Belvalor; *Government debt as a percentage of GDP, as per 31.12.2023*

In the short term, the announced investment offensive is already having a positive impact on Germany's growth potential – driven not least by expectation effects and initial government contracts, particularly in the defense sector. In addition to the defense industry, the construction sector stands out as a key beneficiary. Swiss industrial companies that we favor, such as Geberit, Sika and Holcim, are also likely to benefit disproportionately from this trend. However, tangible real effects from the program are not expected before 2026. Over the medium to long term, the effectiveness of these measures will depend heavily on the quality of implementation and the efficiency of fund allocation. This presents a structural challenge, particularly for Germany. The ifo Institute for Economic Research in Munich stated in a study published at the end of 2024: "Excessive bureaucracy costs Germany up to EUR 146 billion in economic output per year."

Germany's policy has noticeable consequences for capital markets. The planned borrowing substantially increases the federal government's annual financing requirements, expanding the supply of government bonds and pushing interest rates higher. This rise in rates not only makes financing more expensive for infrastructure projects but also raises borrowing costs for businesses and mortgages for German homeowners. Additionally, the anticipated increase in government demand is likely to drive up prices for building materials and labor, further intensifying inflationary pressures.

Conclusion and positioning

The implications for investors should not be underestimated: In an environment of active fiscal policy, structurally higher government spending and potentially rising inflation risks, real assets – particularly equities – are gaining increased relevance as a preferred investment choice.

The euro remains structurally weak

We view the current developments critically, as the announced expenditures are effectively based on additional borrowing rather than additional revenues. Through this reform, Germany is abandoning its traditional role as a fiscal model within the Eurozone – sending a signal that undermines the institutional credibility of the monetary union. If this approach gains broader acceptance, it could lead to a further weakening of Europe's common fiscal rules. For the Euro, this implies increasing fiscal and political uncertainty, especially during times of crisis. Against this backdrop, we are avoiding long-term government bonds. The Swiss franc is likely to gain additional appeal as a safe haven in this environment. More than ever, we are actively managing currency risks.