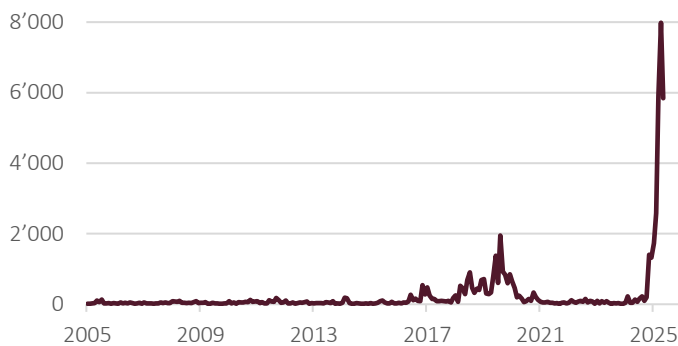


## Financial Markets 2025: A Challenging First Half of the Year

### Trade and Geopolitics Set the Tone

We had anticipated geopolitical tensions in our 2025 investment outlook, as well as a growing focus on national economic interests in U.S. trade policy. What came as a surprise was not the tariffs themselves, introduced on April 2 under the label «Liberation Day», but rather their scope, abrupt implementation and political staging.

Graph 1: U.S. trade policy uncertainty index\*



Source: Baker Bloom & Davis, Belvalor; \*Trade policy component of the U.S. economic policy uncertainty index, 01.07.2005 - 30.06.2025

The brief escalation in the Middle East in June marked the next geopolitical test, driving up energy prices and triggering a flight to safe havens such as the Swiss franc (CHF). However, the financial markets' response remained subdued. A sign that Iran's isolation and the still limited scope of the conflict are keeping the economic impact in check.

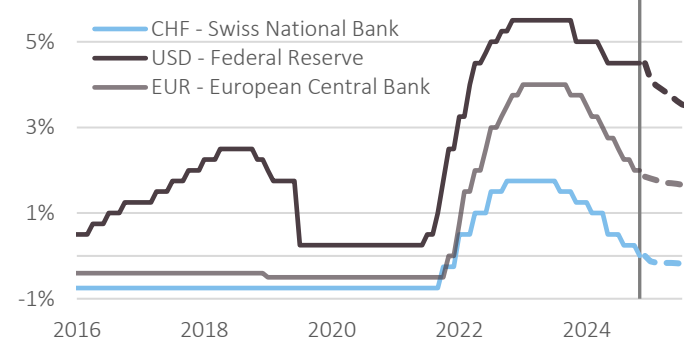
Despite these developments, markets remained resilient and setbacks proved short-lived. This suggests that a more optimistic view of the global economy is already being priced in. Infrastructure investments and increased defense spending in Europe are contributing to this outlook.

### Switzerland's interest rates return to zero

The Swiss National Bank has continued its interest rate cutting cycle, lowering the policy rate to 0%. While not strictly necessary, this move is understandable given low inflation, a weak domestic economy, and a strong CHF. This creates a challenging environment for savers and conservative investors, as it is becoming increasingly difficult to generate interest income. In the long term, this raises the risk of misallocation of capital, as investments

flow into less productive sectors and thus support weaker companies as well as individuals. In contrast, the U.S. Federal Reserve is maintaining its restrictive monetary policy despite increasing signs of economic fatigue and growing pressure from the White House. Inflation trends remain the crucial factor determining America's monetary policy direction.

Graph 2: Key interest rates of selected central banks



Source: Bloomberg, Belvalor; 01.07.2016 - 30.06.2026 (options market expectations from 01.07.2025 onwards)

### Conclusion and positioning

Investors are currently facing a complex environment: trade tensions, international crises and diverging interest rate policies continue to unsettle markets. Nonetheless, our fundamental view remains unchanged: in the absence of viable alternatives, equities remain indispensable for long-term investors. What matters is quality. Solid business models, healthy balance sheets and global competitiveness have once again proven to be reliable pillars in recent months.

Gold continues to serve as a store of value and the CHF remains, in our view, a dependable instrument of stability. However, the current monetary landscape presents new challenges for investors with CHF as their reference currency: traditional CHF bonds offer little to no positive yield.

Our assessment of the dollar's weakness this year can be found on the next page.

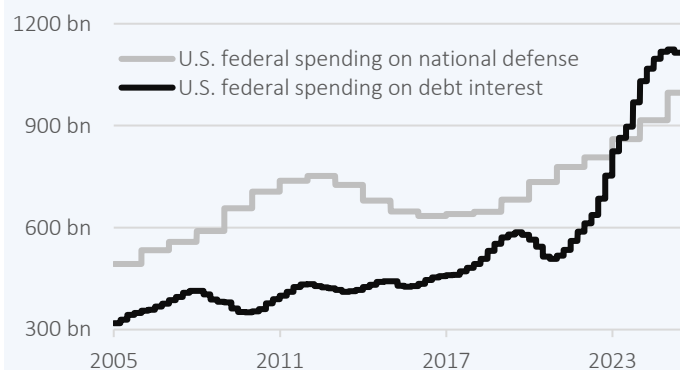
## Global Reserve Currency Under Pressure – Our View on the U.S. Dollar

The U.S. dollar (USD) has lost significant value in recent months. Since the beginning of the year, it has depreciated by a double-digit percentage against the CHF. The USD has also weakened notably against the euro (EUR), despite a still favorable interest rate differential. Is this the beginning of a broader structural trend, or merely a temporary response to political and economic disruptions?

### Government debt growth accelerates

Evidence is mounting that the USD is coming under pressure not just temporarily, but increasingly due to structural factors. In recent years, a significantly negative debt dynamic has developed in the USA, driven by high government spending and persistent budget deficits. Political gridlock and an apparent lack of reform willingness are further exacerbating the situation. Adjustments to the tax or spending system are barely implementable given the deep polarization. Consequently, annual interest costs have now surged to approximately 3% of Gross Domestic Product (GDP), making them the second-largest expenditure category in the US budget.

Graph 3: U.S. expenditures for debt service and defense

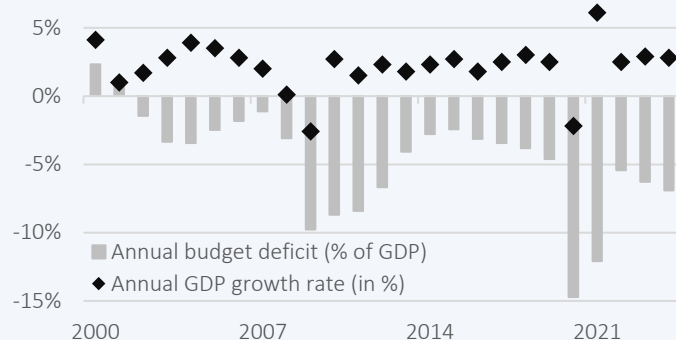


Source: St. Louis Fed, Belvalor; data in USD, 01.01.2005 - 31.12.2024

The political environment is also weighing on confidence in the USD. Economic policy communication appears erratic and the country's fiscal stance remains expansionary. President Trump is pursuing an explicitly export-oriented agenda and has repeatedly signaled that a weaker USD is seen by his administration as desirable in order to boost the international competitiveness of products made in the U.S.

When measured by fundamental valuation metrics such as purchasing power parity and comprehensively taking into account broader global capital and trade flows, the USD remains overvalued. This makes it vulnerable to further setbacks, particularly amidst waning confidence.

Graph 4: U.S. annual deficit spending and GDP growth



Source: St. Louis Fed, Belvalor; 01.01.2000 - 31.12.2024

### The world's dominant reserve currency

Despite current developments, the USD remains unrivaled for the time being in its role as the world's leading reserve currency. The U.S. maintains military, economic, and technological dominance. The USD is deeply embedded in global financial markets: commodities are priced in USD, many currencies are pegged to it, and the U.S. bond market is among the most liquid in the world. Institutional stability and an independent central bank further reinforce confidence in the USD as reserve currency.

At the same time, there is a lack of convincing alternatives. The EUR suffers from political gridlock and the structural flaw of a shared monetary policy without a unified fiscal framework. The Chinese Yuan is hampered by a lack of rule of law, capital controls, and geopolitical mistrust. Cryptocurrencies like Bitcoin possess neither stability nor broad acceptance.

### Conclusion and positioning

The USD will not disappear overnight, as its global function is deeply embedded in the international system. However, warning signs are mounting: the structural debt dynamics, the political environment and the increasing tendency to inflate away debt are subtly undermining the intrinsic value of the USD. The recent depreciation confirms our critical stance towards the USD.

For investors, this means that the CHF should remain the preferred choice, while USD risks should continue to be strategically reduced. Furthermore, a weaker USD could make emerging market investments attractive again – a segment that deserves a fresh look in the context of the current currency cycle.