PostFinance investment compass April 2025

The costs of irrationality – when protectionism shakes world markets

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PostFinance

Editorial

The costs of irrationality – when protectionism shakes world markets

The introduction of far-reaching US tariffs has shaken the global financial markets. The US government's turn towards protectionism calls basic economic policy principles into question and is likely to lead to a significant economic slowdown.

Philipp Merkt
Chief Investment Officer

Not long ago, a scene in which a president announces the biggest trade restrictions in recent economic history and calls the day on which he proclaims them "Liberation Day" might have been good as a draft for a mediocre political satire. But this is now reality, and an expression of a political policy that questions the fundamental principles of world trade.

"Any attempt to create prosperity through trade barriers contradicts everything our economic experience has taught us."

It has long been proven that blanket tariffs achieve little economic good, but have many negative effects. In a global economy based on the principle of the division of labour, they don't lead to greater prosperity, but instead to higher prices and inefficiencies, and ultimately to less growth.

The impact on the financial markets was anything but liberating. Stock markets around the world came under enormous pressure, in some cases losing more than 10 percent within a few days. After an initial decline, interest rates on US government bonds also rose significantly again as doubts about the reliability of US economic policy grew. If nothing else, the US political leadership at least failed to remain unperturbed – following the intense market reaction and increased risks to financial stability, it suspended the country-specific additional tariffs for 90 days.

That said, there's no sign of any quick return to the old order. The basic tariff of 10 percent remains in place and could lead to a renewed rise of up to 2 percent in inflation in the USA. Following a period of reciprocal escalation, tariffs on China – with some exceptions – now amount to 145 percent. This is tantamount to a trade embargo. But far beyond the tariffs, which are changing almost on a daily basis, what concerns us is the ongoing uncertainty.

Experience tells us that it's precisely such uncertainty that leads companies to postpone investments – at a time when US consumers are under pressure from the threat of a renewed rise in inflation. It means we can expect the US economy, which has already weakened recently, to slow down even further.

We'll also feel the effects of the trade conflict in other economies, whether through lower demand as a result of tariffs or because the economic stakeholders in these economies are increasingly unsettled. Take Switzerland, where consumer confidence in future economic performance has declined sharply.

Nor are there any quick solutions in sight in the political sphere, the economy or on the financial markets. This means it's all the more important to prepare for a more difficult period for investment. Our current positioning has proven successful in recent weeks. Our underweight position in US stocks and equities as a whole, along with our preference for Swiss real estate and the Japanese yen, have helped to cushion the setbacks. We're maintaining this positioning. As long as the political and economic uncertainty continues to dominate, a cautious policy is not only sensible, it's essential for stability and value preservation.

Uncertainties remain high

Although the temporary suspension of the announced trade tariffs has brought about a slight recovery, there are still uncertainties, which continue to cloud the economic outlook, particularly in the USA. We remain cautious.

Last month was marked by unparalleled ups and downs. The VIX index, a measure of uncertainty on the US stock market, reached more than 50 index points, a high last exceeded at the beginning of the coronavirus pandemic. The trigger was the announcement of huge tariffs on "Liberation Day" in early April, when the US government said it would levy a basic tariff of 10 percent on its trading partners, along with additional, country-specific reciprocal tariffs. For most countries, this resulted in punitive tariffs in the range of between 10 and 50 percent. These tariffs were significantly higher than expected by the financial markets, which responded accordingly with a flight to safer investments.

"Our cautious positioning, in particular with regard to the US stock market, has proven to be correct."

Turmoil on the financial markets

Within a few days, the stock markets recorded losses of more than 10 percent, while investments such as bonds, which are considered safer, made gains. In turbulent times like these, this is a typical pattern of investor behaviour. However, these gains didn't last long, at least in the US government bond market, which again lost a great deal of value, while European government bonds maintained their price gains. It's an unusual picture, which, besides a loss of confidence, gave rise to fears that the financial system could be under substantial stress. A sharp sell-off of investments considered a safe haven in a turbulent environment is fuelling fears that speculative positions in the financial system could become unstable and will need to be covered by selling off government bonds.

Performance of asset classes

Asset class		1M in CHF	YTD[1] in CHF	1M in LCY[2]	YTD[1] in LCY[2]
Currencies	EUR	–2.7%	–1.3%	–2.7%	–1.3%
	USD	–4.3%	–7.3%	–4.3%	–7.3%
	JPY	–2.2%	0.7%	–2.2%	0.7%
Fixed Income	Switzerland	1.0%	–1.3%	1.0%	–1.3%
	World	–2.2%	–2.7%	0.5%	3.0%
	Emerging markets	–7.7%	–8.3%	–3.6%	–1.1%
Equities	Switzerland	–15.3%	–5.6%	–15.3%	–5.6%
	World	–11.1%	–13.0%	–7.2%	–6.2%
	USA	–9.4%	–13.9%	–5.4%	–7.2%
	Eurozone	–16.6%	–5.7%	–14.3%	–4.5%
	United Kingdom	–16.0%	–10.0%	–11.3%	–4.8%
	Japan	–15.3%	–15.4%	–13.1%	–16.0%
	Emerging markets	–15.4%	–13.8%	–11.7%	–7.1%
Alternative Investments	Swiss real estate	–2.9%	–2.7%	–2.9%	–2.7%
	Gold	0.4%	9.6%	4.9%	17.9%

1 Year-to-date: Since year start
2 Local currency

Data as of 9.4.2025
Source: Allfunds Tech Solutions, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

Pause in tariffs triggers countermove

These developments seem to have left even the US President feeling somewhat perturbed. On the day the reciprocal tariffs came into force, US President Donald Trump announced a 90-day suspension for a large number of countries – with the exception of China. In an spiral of escalation, the US government increased its tariffs on China to no less than 145 percent, while China has now imposed tariffs of 125 percent on the USA. Nevertheless, the pause brought about something of a recovery on the financial markets. The stock markets reacted with an appreciable countermove although they have yet to recover from the slump. More importantly, however, the US government bond market has now calmed somewhat. Our cautious positioning, particularly with regard to the US stock market, has therefore proven to be correct.

Cautious positioning maintained

However, the uncertainties on the financial market remain high: the threat of further tariffs has not been averted. Additionally, the basic 10-percent tariffs, the tariffs on aluminium and steel and the increased tariffs on China remain in place. The fact that, before the announcement of massive tariffs, sentiment among US service providers had already fallen to its lowest level since the coronavirus pandemic is fuelling concerns about the economic impact of current US economic policy. In this context, the risk of recession has increased even further. We therefore remain underweighted in the US stock market and the equity market as a whole and continue to prefer Swiss real estate funds, which have proven their worth in these volatile times, and the Japanese yen, which is considered a safe haven.

Positioning relative to long term strategy: Swiss focus

Asset class		TAA[1] old	TAA[1] new	underweighted[3] – –	underweighted[3] –	neutral[3]	overweighted[3] +	overweighted[3] ++
Liquidity	**Total**	**4.0%**	**4.0%**		■			
	CHF	1.0%	1.0%			■		
	Money market CHF	1.0%	1.0%	■				
	Money market JPY	2.0%	2.0%				■	
Fixed Income	**Total**	**35.0%**	**35.0%**				■	
	Switzerland	17.0%	17.0%			■		
	World[2]	10.0%	10.0%			■		
	Emerging markets[2]	6.0%	6.0%			■		
	US government bonds[2]	2.0%	2.0%				■	
Equities	**Total**	**48.0%**	**48.0%**		■			
	Switzerland	23.0%	23.0%			■		
	USA	8.0%	8.0%	■				
	Eurozone	4.0%	4.0%			■		
	United Kingdom	2.0%	2.0%			■		
	Japan	2.0%	2.0%			■		
	Emerging markets ex China	5.0%	5.0%			■		
	China	2.0%	2.0%			■		
	World Value	2.0%	2.0%				■	
Alternative Investments	**Total**	**13.0%**	**13.0%**				■	
	Swiss real estate	8.0%	8.0%				■	
	Gold[2]	5.0%	5.0%			■		

[1] Tactical Asset Allocation: short to mid-term orientation
[2] Currency hedge to CHF
[3] Positioning relative to our long-term asset allocation

Market overview

Fixed income

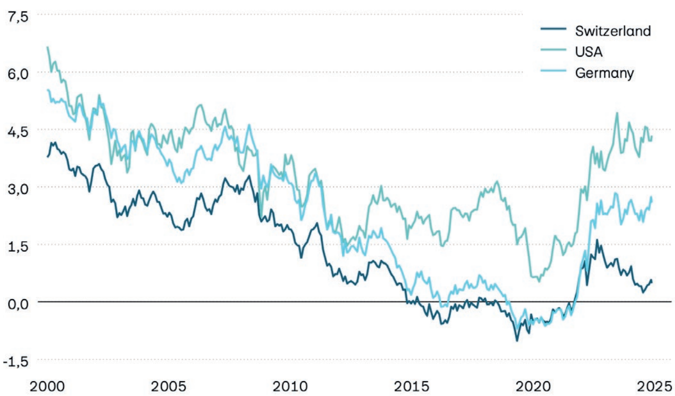
The trade war instigated by the US government led to huge price gains on the bond markets to begin with, only for most of these gains to be lost again. However, prices of long-term US government bonds are now back near the previous month's level in the USA, and slightly above the previous month's level in Europe.

Indexed performance of government bonds in local currency
100 = 01.01.2025

At the end of March, against the backdrop of the promised "Liberation Day", bonds were already showing signs of nervousness on the market, causing government bonds to rise significantly in value. But the tide turned again shortly afterwards. Within a few days, there was a huge increase in long-term yields to maturity on US government bonds, which almost returned to their level at the beginning of March. This increase was likely due to the prospect of further escalation of the tariff war with China and will probably have further increased investor scepticism towards the USA, while fuelling concerns about persistently high inflation. With the recent unexpected pause in reciprocal tariffs against numerous countries, the situation has now calmed somewhat, with the rise in government bonds month-on-month limited to Europe and Switzerland.

Source: SIX, Bloomberg Barclays

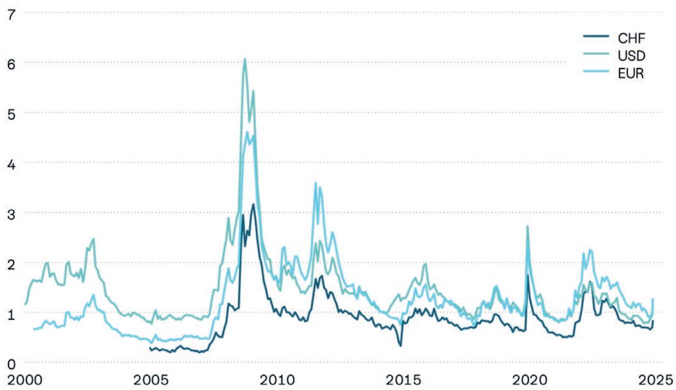
Trend in 10-year yields to maturity
In percent



Long-term capital market interest rates have been on a rollercoaster ride, particularly in the USA. One month ago, 10-year yields to maturity on US government bond were still at around 4.3 percent, before falling briefly to below 4.0 percent when the trade war broke out and then returning to 4.3 percent. But while long-term interest rates in Europe have also experienced ups and downs, they are currently still below the previous month's level, in particular in Switzerland. The pause in tariffs seems to have calmed the anxiety on the bond market for the time being.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



Despite the temporary suspension of retaliatory tariffs, the effects of the trade war also left their mark on the corporate bond market. Although reduced, the tariff measures are fuelling legitimate fears of recession in the US economy, which, in turn, are likely to have had an impact on the corporate bond market. Spreads on corporate bonds and in particular on US corporate bonds, initially rose sharply. However, credit spreads remain below the levels typically seen in times of recession.

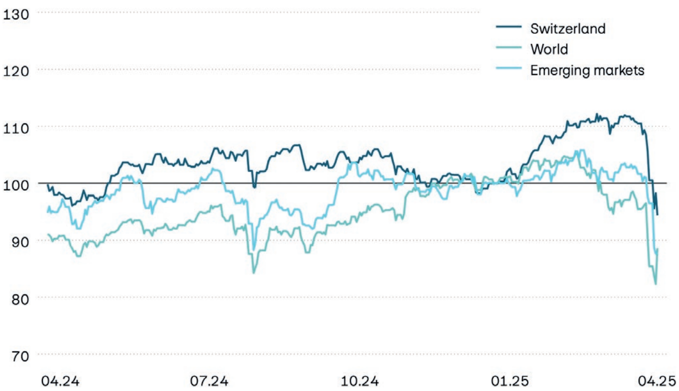
Source: Bloomberg Barclays

Market overview

Equities

The announcement and subsequent temporary suspension of trade tariffs led to huge fluctuations on the equity markets.

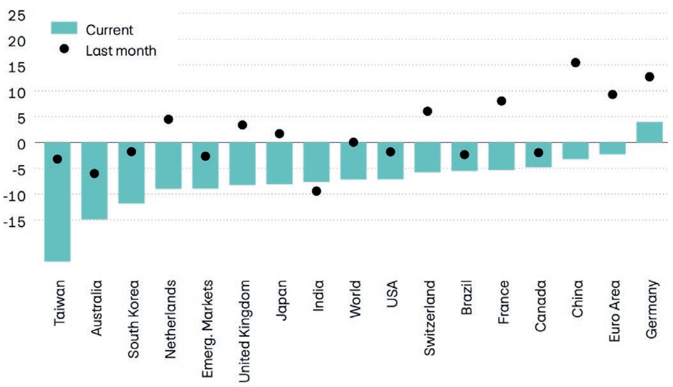
Indexed stock market performance in Swiss francs
100 = 01.01.2025



The stock markets last month were very much dominated by the trade war initiated by Trump. The tariffs have significantly clouded the outlook for future global economic performance. Stock markets around the world plummeted by 10 to 20 percent within days of the announcement of trade restrictions. US stock markets suffered the biggest losses, at times falling 20 percent below their February high. Following strong performance at the beginning of the year, the Swiss stock market traded well below its year-opening level. Trump's announcement of a pause in retaliatory tariffs for numerous countries triggered skyrocketing prices around the world, allowing US and European markets to recoup some of their losses.

Source: SIX, MSCI

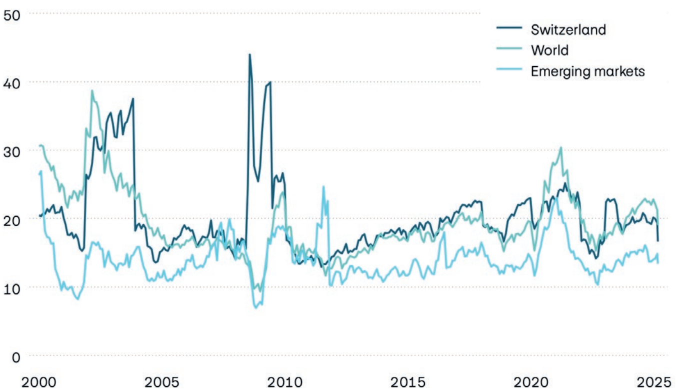
Momentum of individual markets
In percent



The heavy price losses on global stock markets also had an impact on momentum. Whereas European markets were still in euphoric mood last month following the announcement of new economic stimulus packages, their momentum this month also veered clearly into negative territory. The USA was particularly hard hit, as were countries like Taiwan, which are heavily dependent on trade with the USA. Momentum also shifted sharply on the Chinese market, which has recently seen only a slight countermovement. This is likely because rather than suspending the retaliatory tariffs against China in response to countermeasures, the USA actually increased them to 145 percent.

Source: MSCI

Price/earnings ratio
P/E ratio



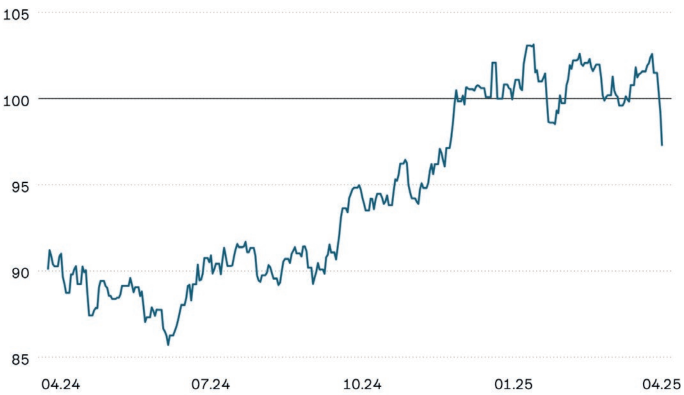
The price losses on equity markets are also reflected in the performance of price/earnings ratios (P/E ratios). Price/earnings ratios have fallen significantly worldwide, with the most pronounced movements in US and European stock indices.

Source: SIX, MSCI

Swiss real estate investments

Swiss real estate funds also lost value this month and are now below their level seen at the beginning of the year.

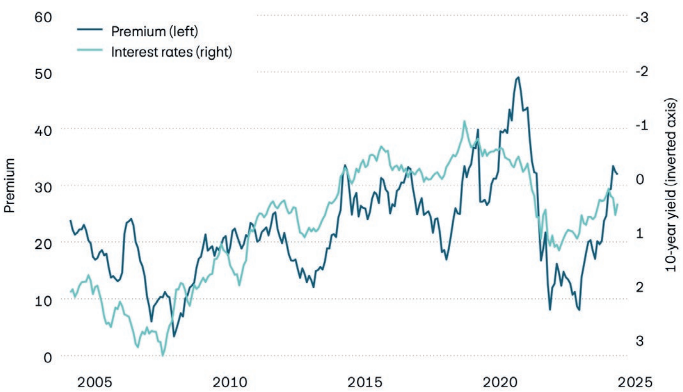
Indexed performance of Swiss real estate funds
100 = 01.01.2025



Swiss real estate funds were initially less affected this month by financial markets that were otherwise very volatile. Nevertheless, exchange-listed funds have recently lost significantly in value and are now down over the year as a whole. The decline of almost 30 basis points in capital market interest rates in Switzerland is likely to have helped to maintain robust demand for real estate funds and limit losses compared to the stock markets.

Source: SIX

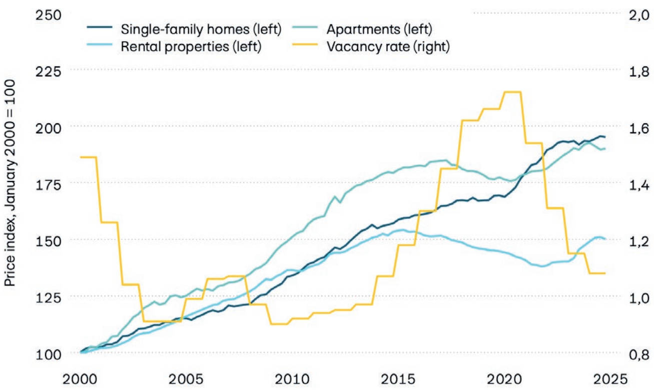
Premium on Swiss real estate funds and 10-year yields to maturity
In percent



The negative performance of exchange-listed Swiss real estate funds led to a slight decrease in the premium that investors usually have to pay on the stock exchange versus the actual net asset value (NAV) of properties. Uncertainty on the global financial markets is likely to have been a key driver of this development, probably supported by the decline in Swiss capital market interest rates. Premiums remain above the historical average.

Source: SIX

Vacancy rate and real estate prices
100 = January 2000 (left) and in percent (right)



Real estate prices have lost some of their momentum in recent months. Both single-family homes and rental apartments have seen a slight decline in prices, with only owner-occupied apartments recording a slight increase. A key factor in the subdued price performance overall is likely to have been the significant increase in capital market interest rates at the beginning of the year. Despite this downturn, the current price level remains high, supported by tight supply that is reflected in a very low vacancy rate.

Source: SNB, FSO

Currencies and cryptocurrencies

The global trade war led to a weaker US dollar this month. Conversely, the Swiss franc, which is seen as a safe haven, was in demand and made gains against the US dollar and the Japanese yen.

The trade war dominated events on the world's financial markets. The prevailing uncertainty was also reflected in currencies, where demand for safe havens remained robust this month. The Swiss franc gained 1.5 percent against the euro and almost 3 percent against the US dollar, taking the Swiss franc to its highest level against the euro and the US dollar since the beginning of the year.

Currency pair	Price	PPP[1]	Neutral area[2]	Valuation
EUR/CHF	0.94	0.90	0.83 – 0.97	Euro neutral
USD/CHF	0.86	0.80	0.69 – 0.90	USD neutral
GBP/CHF	1.10	1.20	1.04 – 1.36	Pound neutral
JPY/CHF	0.58	0.87	0.71 – 1.03	Yen undervalued
SEK/CHF	8.60	10.06	9.00 – 11.13	Krona undervalued
NOK/CHF	7.95	10.54	9.30 – 11.78	Krona undervalued
EUR/USD	1.10	1.13	0.98 – 1.27	Euro neutral
USD/JPY	147.74	91.83	70.48 – 113.17	Yen undervalued
USD/CNY	7.35	6.25	5.77 – 6.73	Renmimbi undervalued

Cryptocurrency	USD rate	YTD in USD[3]	Annual high	Annual low
Bitcoin	82'595	–9.58%	106'149	76'244
Ethereum	1'664	–49.67%	3'685	1'471

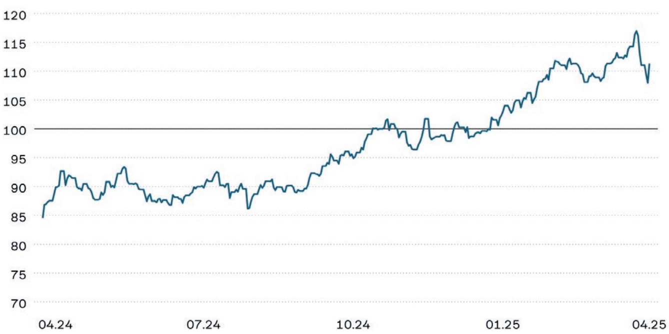
[1] Purchasing power parity. This metric calculates an exchange rate using relative inflation rates.
[2] Range of historically normal fluctuations.
[3] Year-to-date: Since year start

Source: Allfunds Tech Solutions, Coin Metrics Inc.

Gold

Although the gold price measured in Swiss francs fluctuated last month, it again temporarily reached a new high.

Indexed performance of gold in Swiss francs
100 = 01.01.2025



The precious metal established itself as a safe haven this month despite fluctuations. The gold price hit new record highs in April, despite temporary setbacks. Nevertheless, with an annual return of over 10 percent, gold remains strong and is now providing a significantly higher return than the stock markets.

Source: Allfunds Tech Solutions

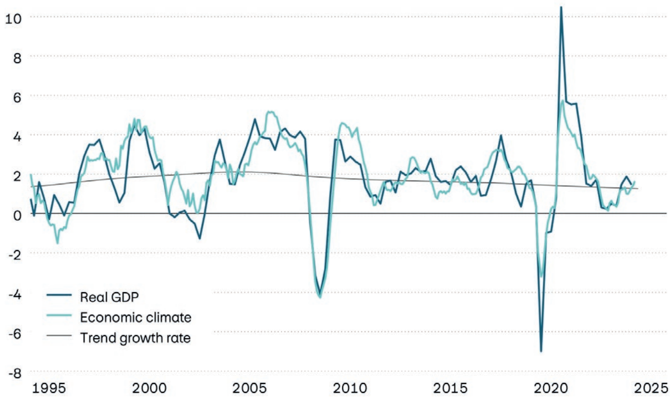
Economy

Untimely trade war

Global economic data in the year to date has been disappointing. There is little sign of economic recovery in China and Europe, while consumption in the USA – a key driver of strong economic growth in recent years – has clearly slowed. Against this backdrop, US President Trump's trade war comes at an inopportune moment, because the massive uncertainty caused by the ongoing back and forth on tariffs alone is likely to be enough to further weaken the global economy.

Switzerland

Growth, sentiment and trend
In percent

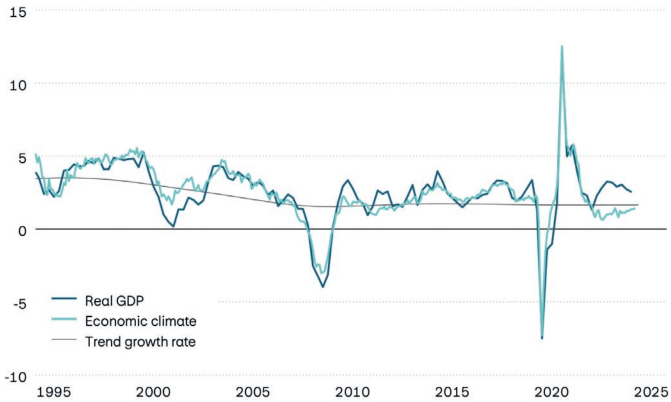


The mood among Swiss industrial and service companies deteriorated sharply in March. Swiss consumer spending, as measured by retail sales, also rose far less than in previous months. However, with strong momentum in the export sector, first quarter economic growth is expected to be solid, partly because many companies brought forward deliveries before the announced US tariffs took effect. If significant tariffs come into effect, the Swiss economy would be disproportionately affected. As a small, open economy, Switzerland is heavily dependent on the export sector, not to mention that the USA is our most important trading partner.

Source: Bloomberg

USA

Growth, sentiment and trend
In percent

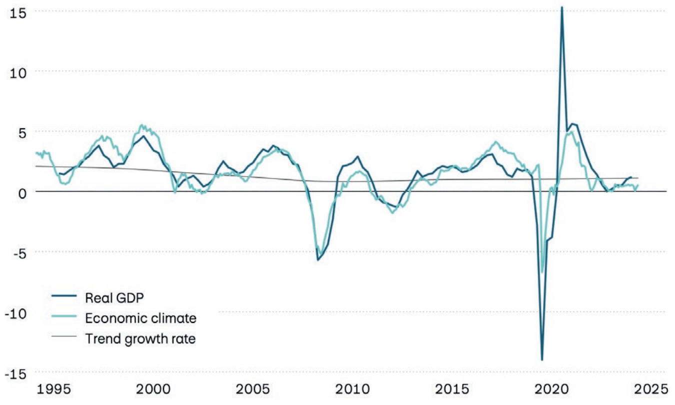


Economic growth in the USA slowed appreciably at the beginning of the year, mainly due to the weakening of private consumption, which has been a key pillar of growth in recent years. This slowdown comes as little surprise as many households are currently facing pressure on two fronts: on the one hand, income growth has been lagging behind the increase in consumer spending for some time now, while, on the other, reserves built up during the pandemic have now been largely spent. There is also a palpable sense of uncertainty caused by the trade conflict that is clearly weighing on consumer confidence. On top of that, high tariffs on imported goods, which lead to rising prices, are likely to put additional pressure on budgets. It means the US Federal Reserve (Fed) finds itself in an extremely difficult position, with an economy showing weakness with simultaneous high price pressure.

Source: Bloomberg

Eurozone

Growth, sentiment and trend
In percent

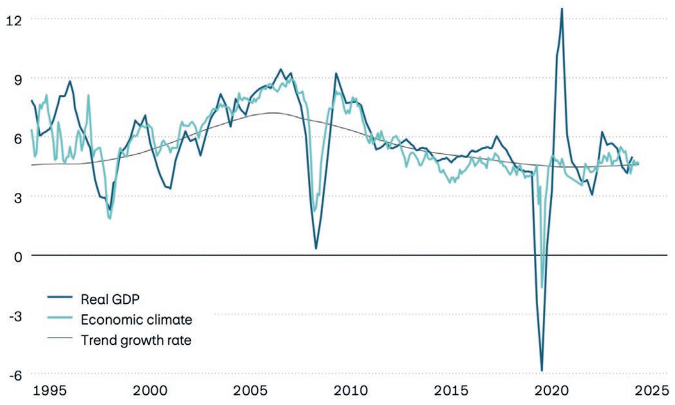


The eurozone economy continues to trend sideways, as shown, in particular, by sentiment among both companies and consumers, which has seen little change in recent months. The huge fiscal policy measures put in place by the German government, and to some extent by the European Union have as yet failed to restore optimism. However, inflation has at least slowed somewhat against the backdrop of a weak economy. In March, core inflation, which excludes volatile price components beyond the influence of the central bank, fell from 2.6 to 2.4 percent, bringing inflation trends gradually closer to the targets set by the European Central Bank (ECB).

Source: Bloomberg

Emerging markets

Growth, sentiment and trend
In percent



Among the major emerging markets, the strongest growth momentum continues to come from India. Here again, however, growing uncertainty about possible US tariffs has made itself felt recently, weighing on business sentiment. By contrast, economic performance in China is still well below average. Private demand in the form of consumer spending and construction investment remains weak. In response, the Chinese government has announced targeted fiscal policy measures in an effort to take the pressure off private households in particular. However, the negative effects of the trade war, with a spiral of tariffs and counter-tariffs that now includes US tariffs of 145 percent on Chinese imports and retaliatory Chinese tariffs of 125 percent on US imports, are likely to outweigh these measures and continue to slow growth.

Source: Bloomberg

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y[1] 2024Q3	1.9%	2.7%	1.0%	1.2%	0.7%	5.6%	4.1%	4.6%
GDP Y/Y[1] 2024Q4	1.5%	2.5%	1.2%	1.5%	1.1%	6.2%	3.6%	5.4%
Economic climate[2]	→	↘	↘	↘	↗	↗	↘	→
Trend growth[3]	1.3%	1.6%	0.8%	1.8%	1.1%	5.3%	1.8%	3.7%
Inflation	0.3%	2.4%	2.2%	2.6%	3.7%	3.3%	5.5%	–0.1%
Key rates	0.25%	4.5%	2.65%[4]	4.5%	0.5%	6.0%	14.25%	3.1%

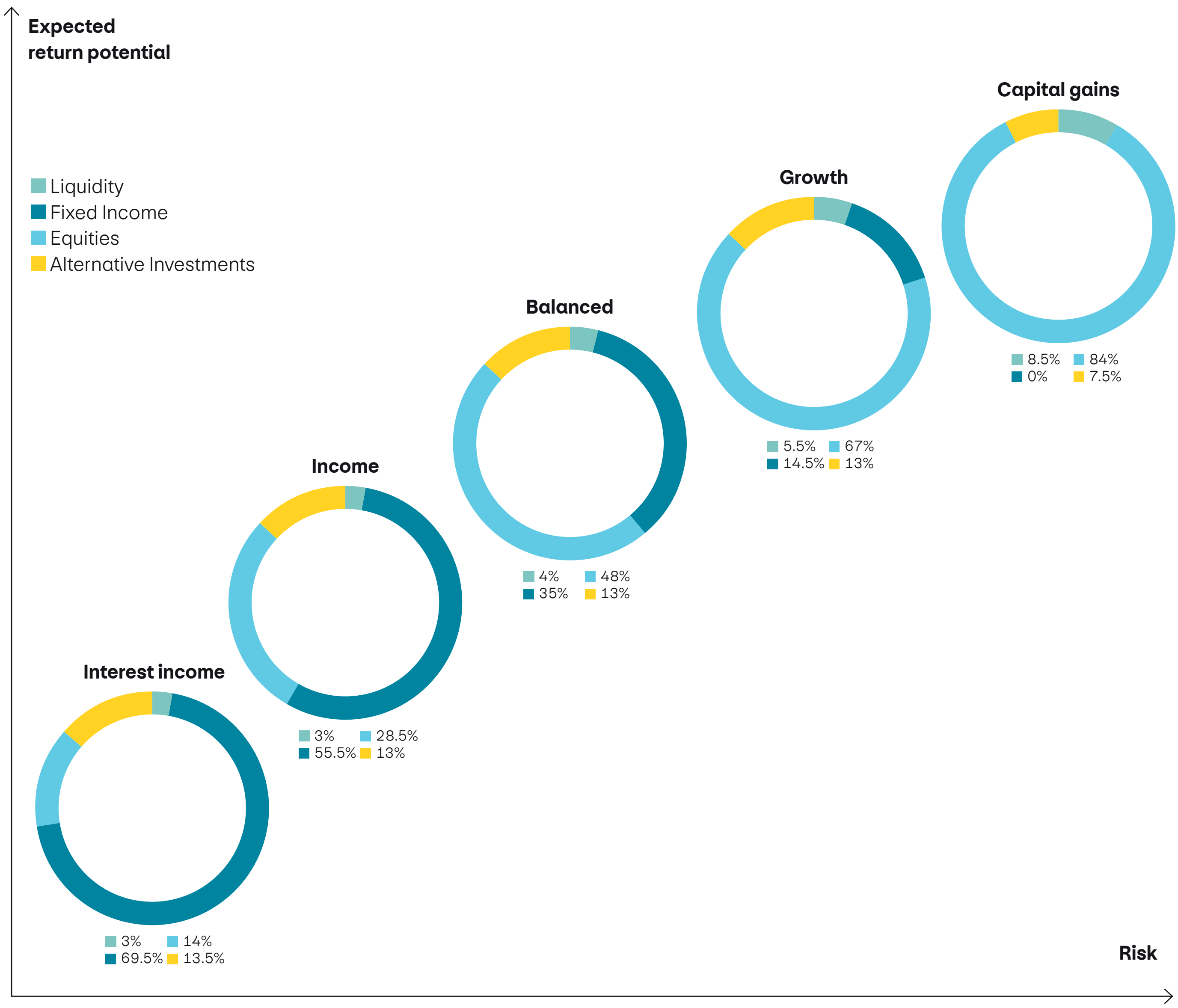
1 Growth compared to year-ago quarter
2 Indicator, measuring the overall sentiment and typically leading 1 to 2 quarters in advance of GDP. Green arrow indicates an increasing economic growth, red arrow a slowing.
3 Potential growth. Long-term change in gross domestic product with sustainable capacity utilization.
4 This is the ECB's main refinancing rate, the deposit rate is 0.15 percentage points lower.

Source: Bloomberg

Model portfolios Swiss focus

Turbulent times

The past month has been dominated by the US government's tariff policy. On 'Liberation Day', the US government announced significant punitive tariffs against its trading partners, sending the financial markets into turmoil. The stock markets in the US, but also worldwide, suffered significant losses and safe investments were in demand. After the rather surprising suspension of countervailing tariffs on a large number of countries, the financial markets have now calmed down somewhat. However, the losses on the stock markets, particularly in the US, remain high. Our recently strengthened defensive positioning has proven to be the right approach. Uncertainties remain high and are likely to continue to weigh on the economic outlook. We are therefore maintaining our defensive positioning and remain underweighted in both the US equity market and the overall equity quota. By contrast, we are staying invested in the Japanese yen, which is considered defensive, and are maintaining our overweight in Swiss real estate funds, which have so far proven their worth in these turbulent times.



Source: PostFinance Ltd

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Data as of: 9 April 2025
Editorial deadline: 14 April 2025

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