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From euphoria to disillusionment – disappointment hits US investors

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PostFinance

Editorial

From euphoria to disillusionment – disappointment hits US investors

The US stock markets got off to a flying start following Donald Trump's election victory last November. Hopes of tax cuts, massive deregulation and its positive effects on the economy initially produced strong tailwinds. The leading US index, the S&P 500, and the tech-heavy Nasdaq saw strong price gains, even reaching new highs before Christmas. "Trump's gonna fix it" was the consensus on the financial markets.

Philipp Merkt
Chief Investment Officer

Around three months later, the winds have changed. The initial optimism has now been overtaken by economic and political reality. Although many market participants had hoped that Trump would focus on the growth-boosting measures set out in his election programme, he has so far mainly pursued trade policies that are strongly protectionist. At the heart of them are punitive tariffs against China, Mexico and Canada – regularly announced, cancelled and then revived.

> "Trump's volatile trade policies are causing huge uncertainty on the markets."

It's difficult to predict what Trump might do in the future, but some initial consequences of his political intentions are already clear: consumer confidence in the USA has deteriorated sharply and consumption, a key pillar of economic growth, was unexpectedly weak in January. On top of that, the tariffs announced have massively increased inflation expectations among American households. For 2026, households now anticipate inflation of just under 5 percent – significantly higher than the current rate of 3 percent.

This expectation is well-founded, given that prices for the goods affected by tariffs are likely to rise significantly in the USA. Their US competitors also have little incentive to keep their prices low – experience has shown that domestic companies use situations like this to raise their prices and improve their profit margins. And production capacities first need to be increased, or in some cases even completely reestablished in order to close the supply gaps caused by punitive tariffs. Given that inflation expectations, in turn, have a significant impact on actual price trends, economic performance during Trump's second term so far has been sobering.

These developments have also recently weighed on US stock markets. Although the European markets, including the Swiss stock market, have been surprisingly stable and even risen since the beginning of the year, the S&P 500 and the Nasdaq have both seen significant corrections. The two indices are currently trading at around 6 and 10 percent below their respective highs – back at the levels they were before Donald Trump took office. Ironically, the markets suffering the most are those that were originally supposed to make the greatest gains from Trump's presidency.

It means the economic risks and fears of inflation we've been warning about for some time are now increasingly reflected in the markets. We are therefore further strengthening our already defensive positioning towards US equities. After all, when the winds shift and the seas get rougher, calm and clear navigation is what keeps you safely on course.

Positioning

The winds have shifted

The new US government's trade policies are causing palpable uncertainty on the markets. We are strengthening our cautious stance and increasing our underweight in US equities.

The financial markets made a strong start to the new year. At first, the looming trade war had surprisingly little impact on this, with US stock markets even reaching new all-time highs in mid-February. Over the past month, however, the winds have clearly shifted and there is growing uncertainty about the economic consequences of the Trump administration's changing trade policies. Consumer confidence in the USA has deteriorated significantly since Trump took office, and companies are also showing greater caution with regard to future investments. This is putting pressure in particular on private consumption, which is key to the economy, increasing the risk of recession in the USA.

"The US government's trade policy is causing considerable uncertainty on the markets. We are therefore reducing our position in the US equity market."

US financial markets unsettled by erratic Trump scorecard

The US financial markets were unable to avoid this development any longer. On the contrary, the US stock markets suffered considerable losses. The price losses were so severe that the leading US indices are now trading back at the levels seen shortly before Donald Trump's election. It means the stock markets' verdict on President Trump's economic policies is quite sobering. It's worth noting that the big tech stocks are suffering the most. While the leading US index, the S&P 500, is down only around 3 percent since the beginning of the year, the "magnificent seven" stocks have lost more than 10 percent in value. Our decision, going back to April 2024, to reduce our position in the expensive US tech sector and instead focus more closely on global value stocks has proven to be right.

Performance of asset classes

Asset class		1M in CHF	YTD[1] in CHF	1M in LCY[2]	YTD[1] in LCY[2]
Currencies	EUR	1.3%	1.8%	1.3%	1.8%
	USD	–2.3%	–2.7%	–2.3%	–2.7%
	JPY	0.9%	3.6%	0.9%	3.6%
Fixed Income	Switzerland	–2.4%	–2.9%	–2.4%	–2.9%
	World	–0.9%	–0.4%	1.4%	2.4%
	Emerging markets	–1.5%	–0.5%	0.8%	2.3%
Equities	Switzerland	–1.0%	9.8%	–1.0%	9.8%
	World	–9.5%	–5.4%	–7.4%	–2.7%
	USA	–12.1%	–8.8%	–10.0%	–6.2%
	Eurozone	–0.6%	11.0%	–1.9%	9.0%
	United Kingdom	–0.7%	6.4%	–1.4%	5.8%
	Japan	–2.1%	–0.4%	–3.0%	–3.8%
	Emerging markets	–2.7%	0.4%	–0.5%	3.2%
Alternative Investments	Swiss real estate	–1.6%	0.1%	–1.6%	0.1%
	Gold	–0.3%	10.9%	2.0%	14.0%

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

Data as of 13.3.2025
Source: Allfunds Tech Solutions, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

There's a high risk that the recent price losses on the US stock market don't mark the end of the correction as the outlook remains clouded. The US government is likely to continue to use punitive tariffs to exert political pressure, further increasing uncertainty on the markets. In this context, we are strengthening our cautious positioning by reducing our position in the US stock market and holding on to the Japanese yen. At the same time, given the increased risk of recession in the USA, we see further upside potential in US government bonds and are maintaining our overweighted position.

Normalization of the Swiss yield curve

Whereas the US stock markets are under pressure, the equity markets in Europe and Switzerland are proving much more resilient. Most equity markets in Europe have gained more than 10 percent since the beginning of the year. Conversely, the European bond markets have suffered losses. Long-term interest rates have risen significantly as a result of the extensive EU and German economic stimulus and rescue packages. Swiss capital market interest rates have also been caught up in this development.

At the same time, pressure for an easing of monetary policy is growing in Switzerland. Inflation rates are continuing to fall and the Swiss franc is likely to come under further upward pressure in the face of the high debt packages in Europe. As a result, the previously sharply inverted yield curve is increasingly normalizing. We're taking this opportunity to liquidate our underweighted position in Swiss bonds and take profits in the process.

Positioning relative to long term strategy: Swiss focus

Asset class		**TAA[1] old**	**TAA[1] new**	**underweighted[3]** −−	−	**neutral[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**	**33.0%**	**35.0%**				■	
	Switzerland	15.0%	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**	**50.0%**	**48.0%**		■			
	Switzerland	23.0%	23.0%			■		
	USA	10.0%	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%			■		

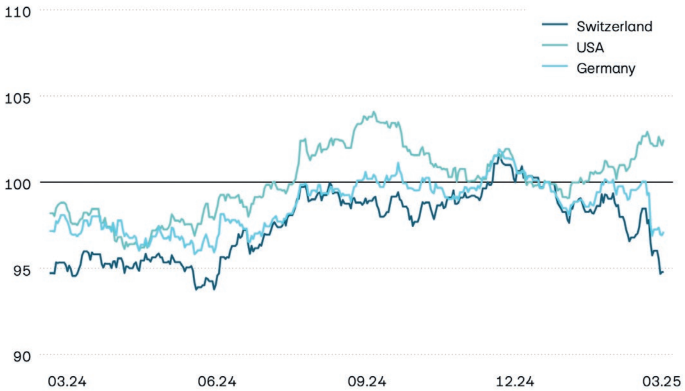
[1] Tactical Asset Allocation: short to mid-term orientation
[2] Currency hedge to CHF
[3] Positioning relative to our long-term asset allocation
□ Adjustment compared to last month

Market overview

Fixed income

Long-term US interest rates fell amid renewed fears of recession, primarily in response to the Trump administration's economic policies. At the same time, capital market interest rates in the eurozone rose significantly as defence and economic stimulus programmes were announced.

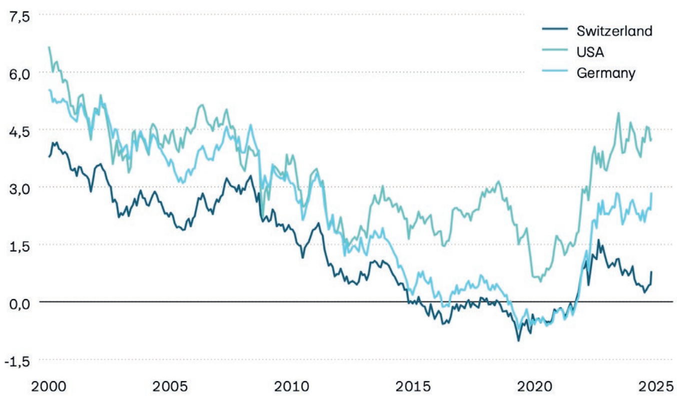
Indexed performance of government bonds in local currency
100 = 01.01.2025



The picture on the bond market was mixed last month. While US government bond prices continued to rise, the European markets registered losses. In the USA, a renewed focus on concerns about recession, partly in response to the Trump administration's economic policies, is likely to have contributed to falling interest rates and the resulting rise in bond prices. Conversely, the eurozone's significant losses are likely related to the recent economic policy measures – in particular the future German government's planned 500 billion euro economic stimulus programme and the EU's 800 billion euro armaments programme. Swiss government bonds were also affected by this development, and suffered losses.

Source: SIX, Bloomberg Barclays

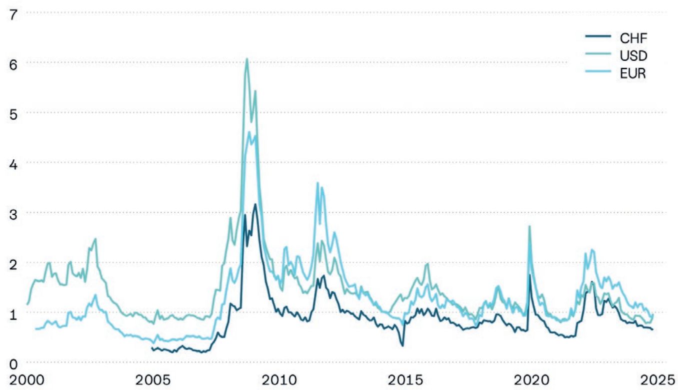
Trend in 10-year yields to maturity
In percent



Long-term capital market interest rates in the USA fell significantly last month. Whereas the yield on 10-year government bonds stood at 4.5 percent in mid-February, it is now at 4.3 percent. Fears of recession associated with weaker consumer data and the new US government's economic policies are likely to have contributed to this development. Conversely, we are seeing the opposite trend in the eurozone and Switzerland. Yields to maturity have risen sharply following the announcement of huge economic stimulus packages by the EU and the incoming German government.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



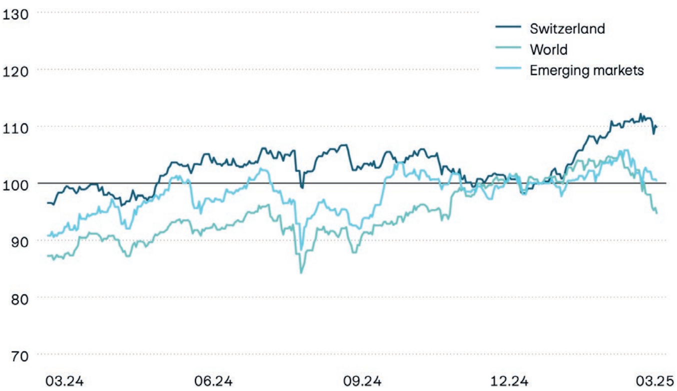
Credit spreads on corporate bonds in the eurozone and Switzerland continued to fall last month. By contrast, US corporate bonds rose significantly for the first time, a development that likely reflects increased fears of recession in the USA.

Source: Bloomberg Barclays

Equities

The successful start to the year was clouded in the USA last month as concerns resurfaced about a possible recession. Conversely, European stock markets performed well – largely due to the defence and economic stimulus packages announced by the EU and the incoming German government.

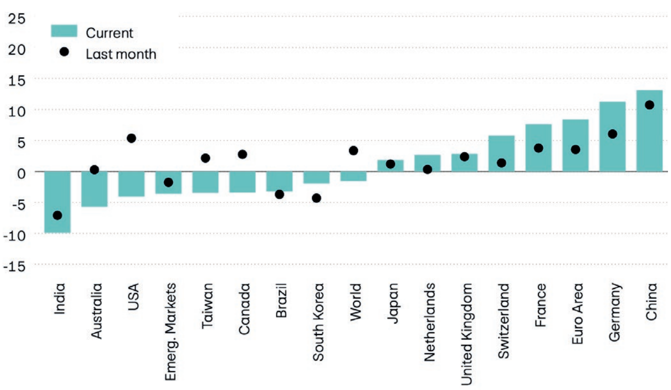
Indexed stock market performance in Swiss francs
100 = 01.01.2025



The divided picture on the bond markets is also reflected on the stock markets. US stock market prices fell so sharply last month that they are now below the level seen in early November 2024. The price gains on the US stock market that accompanied the rally following Trump's election have been wiped out. By contrast, both European and Swiss stock markets held up well. Emerging markets also performed solidly, helped by the strength of the Chinese stock market. In a portfolio denominated in Swiss francs, however, this still had a negative impact given the strength of the franc.

Source: SIX, MSCI

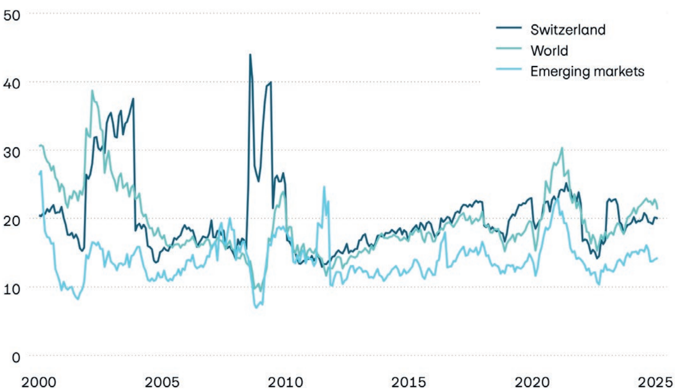
Momentum of individual markets
In percent



The change in mood on the US stock markets last month is reflected in its momentum, which is now clearly negative in the USA. Conversely, European stock markets maintained and even built on the previous month's positive momentum. The strongest momentum is currently on the Chinese stock market. It has been on a high since the breakthrough of Chinese company DeepSeek in artificial intelligence, and was likely shored up even more recently on hopes of fiscal policy measures.

Source: MSCI

Price/earnings ratio
P/E ratio



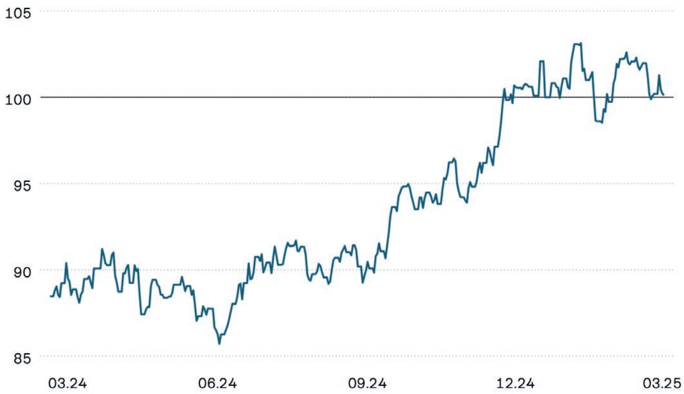
The performance of price/earnings ratios (P/E ratios) over the past month has also been mixed. Worldwide, the P/E ratio fell considerably, while P/E ratios in the emerging markets and Switzerland continued to rise. These trends are largely due to the performance of share prices. While the global equity market fell as a result of weaker US stocks, the European and Chinese equity markets rose.

Source: SIX, MSCI

Swiss real estate investments

Swiss real estate funds fell in value slightly last month and are now only just above their year-opening level.

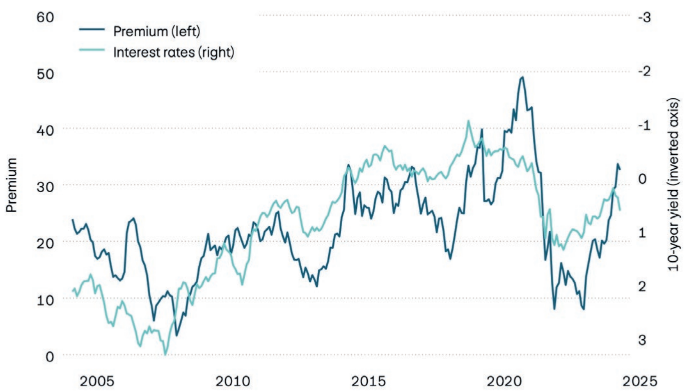
Indexed performance of Swiss real estate funds
100 = 01.01.2025



Swiss real estate funds were again volatile this month. Over the course of the month, real estate funds fell slightly in value, likely due in part to the recent sharp rise in capital market interest rates in Switzerland. Following this weaker month, real estate fund prices are only slightly above their year-opening level.

Source: SIX

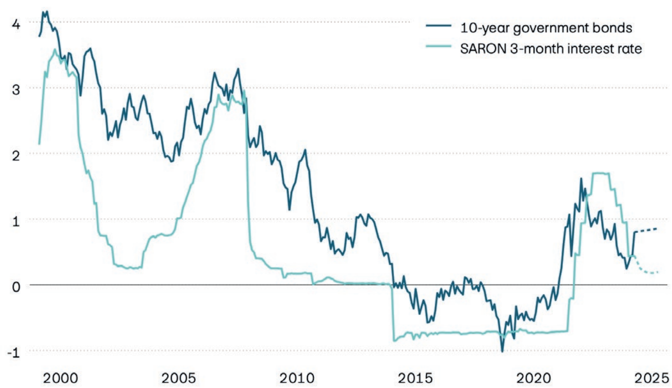
Premium on Swiss real estate funds and 10-year yields to maturity
In percent



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. A key driver of this development is likely to have been the sharp rise in capital market interest rates in Switzerland. Nevertheless, premiums remain at a high level and above the historical average.

Source: SIX

3-month Saron and 10-year yields to maturity
In percent



Yields to maturity on 10-year Swiss government bonds rose significantly last month. Still at 0.4 per cent the previous month, they are now yielding over 0.7 percent again. This means long-term interest rates are again somewhat clearer above the 3-month Saron. This difference is likely to widen further as market participants have currently priced in a policy rate cut by the Swiss National Bank (SNB), despite slightly higher core inflation.

Find out more in our interest rate forecast for mortgages.

Source: SIX

Market overview

Currencies and cryptocurrencies

The correction in the US dollar continued this month. Both the euro and the Japanese yen made significant gains against the US dollar.

The US dollar came under further pressure this month, likely due to ongoing concerns about Donald Trump's trade policies and renewed worries about the economic situation in the USA. Over the month, the US dollar lost around 4 percent on a trade-weighted basis. The euro gained significantly against the US dollar on the back of the economic stimulus package announced. The Swiss franc also performed strongly against the US dollar last month, rising by 2 percent. By contrast, the Swiss franc lost over 1 percent against the euro.

Currency pair	Price	PPP[1]	Neutral area[2]	Valuation
EUR/CHF	0.95	0.90	0.83 – 0.97	Euro neutral
USD/CHF	0.88	0.79	0.69 – 0.90	USD neutral
GBP/CHF	1.13	1.20	1.04 – 1.36	Pound neutral
JPY/CHF	0.60	0.87	0.71 – 1.03	Yen undervalued
SEK/CHF	8.70	10.04	8.98 – 11.10	Krona undervalued
NOK/CHF	8.19	10.53	9.30 – 11.77	Krona undervalued
EUR/USD	1.08	1.13	0.98 – 1.28	Euro neutral
USD/JPY	147.27	91.38	70.22 – 112.54	Yen undervalued
USD/CNY	7.26	6.23	5.76 – 6.71	Renmimbi undervalued

Cryptocurrency	USD rate	YTD in USD[3]	Annual high	Annual low
Bitcoin	83'606	–10.55%	106'149	78'561
Ethereum	1'887	–43.44%	3'685	1'864

[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

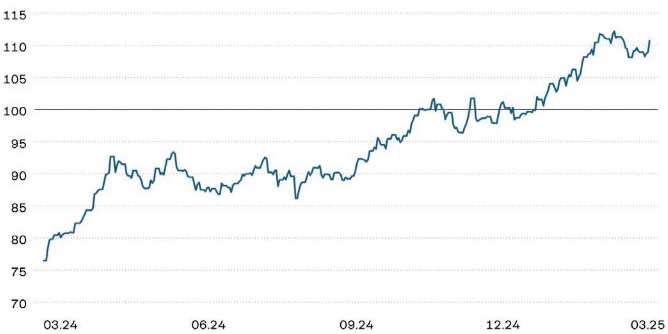
Source: Allfunds Tech Solutions, Coin Metrics Inc.

Gold

The gold price, measured in Swiss francs, again reached a new high last month and has risen by more than 10 percent since the beginning of the year.

Indexed performance of gold in Swiss francs

100 = 01.01.2025



Demand for gold as a safe haven is also likely to have led to the precious metal reaching new highs last month. Although the rally stalled somewhat at the beginning of March, it then continued. Gold remains strong, and has risen almost 10 percent in value since the beginning of the year.

Source: Allfunds Tech Solutions

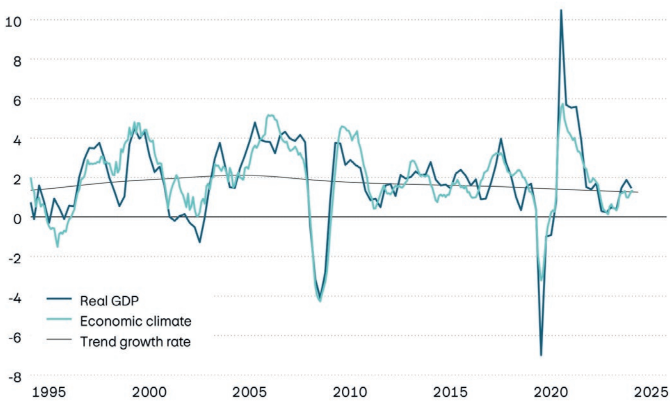
Economy

Growing economic uncertainty

The last few weeks have seen a marked increase in negative economic news. On the one hand, there is a palpable sense of uncertainty in response to the American president's aggressive trade policy. This uncertainty is not limited to American households and companies, but also evident, for example, among Swiss consumers. And on the other, some real economic data has also been disappointing. In the USA, consumer spending declined appreciably in January, while in China the inflation rate slipped back into negative territory, increasing concerns about the global economy.

Switzerland

Growth, sentiment and trend
In percent

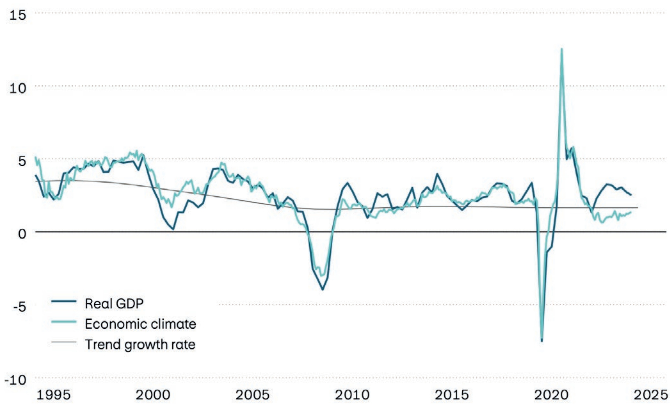


According to an initial estimate by the State Secretariat for Economic Affairs (SECO), the Swiss economy grew by 0.2 percent in the fourth quarter. Positive growth impetus was seen mainly in the chemical and pharmaceutical industries, hospitality and government-related sectors. Conversely, there was a significant decline in the entertainment sector, due in particular to the major Swiss-based sporting associations. The sector's value added normalized in the fourth quarter, having risen sharply in the summer months thanks to the Olympic Games and the European football championship. Looking at the first two months, the new year also seems to have got off to a good start. Consumer spending among private households remains robust for the time being, even though sentiment indicators point to growing uncertainty about future economic performance.

Source: Bloomberg

USA

Growth, sentiment and trend
In percent

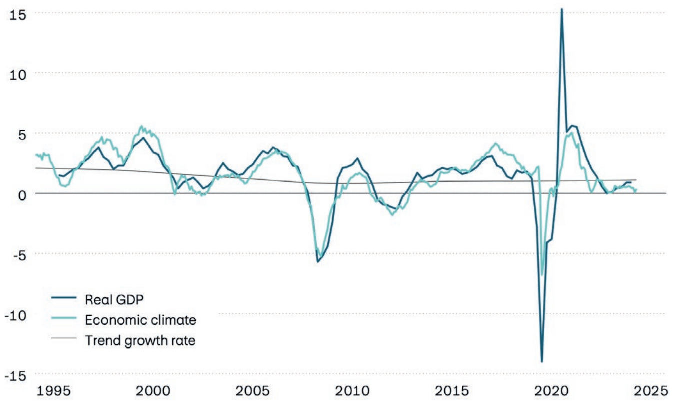


US economic data has been somewhat disappointing so far this year, once again highlighting the risk that a significant slowdown may be imminent. This has come, in particular, due to a substantial deterioration in consumer confidence, a decline in companies' willingness to invest and lower consumption figures. However, economic data was not all weak, with order books at American companies still healthy and a labour market that remains close to full capacity. Activity in the construction sector, a key driver of economic performance, also continues to be stable, although significantly below the levels of 2021 and 2022.

Source: Bloomberg

Eurozone

Growth, sentiment and trend
In percent

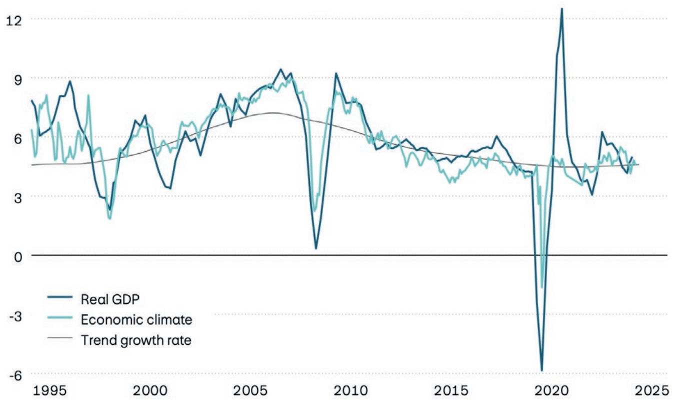


The economic stagnation of the eurozone's two heavyweights, Germany and France, continues to weigh on the region's economy, which remains weak. Economic data in the first few months of the new year saw little improvement. Against this backdrop, huge fiscal policy stimulus measures are now expected to pave the way for an upturn. Germany is looking to establish a special fund of 500 billion to modernize its infrastructure, while also increasing defence spending by exempting parts of the budget from its debt brake. The European Union has also signalled its intention to increase defence spending significantly through new borrowing. However, given that the investment cycles for infrastructure and defence spending tend to be long, the short-term economic impact is likely to be limited.

Source: Bloomberg

Emerging markets

Growth, sentiment and trend
In percent



The latest economic figures from China, by far the largest emerging market economy, were unexpectedly disappointing. The country's official statistics office reported an 8.4 percent decline in import volumes for January and February compared to the same period last year, indicating continued weakness in domestic demand. At the same time, there was a huge drop in inflation, with core inflation, which excludes volatile energy and food prices, falling from 0.6 percent to –0.1 percent in an unwelcome return to negative territory. By contrast, the economic data from India, the second-largest emerging economy, is far more encouraging. The Indian economy appears to be gradually overcoming its temporary low last year, reflected with a significant upturn in business confidence.

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%	1.0%	0.7%	5.6%	4.1%	4.6%
GDP Y/Y[1] 2024Q4	1.5%	2.5%	1.2%	1.4%	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%	2.8%	2.4%	3.0%	4.0%	3.6%	5.1%	–0.7%
Key rates	0.25%	4.5%	2.65%[4]	4.5%	0.5%	6.25%	13.25%	3.1%

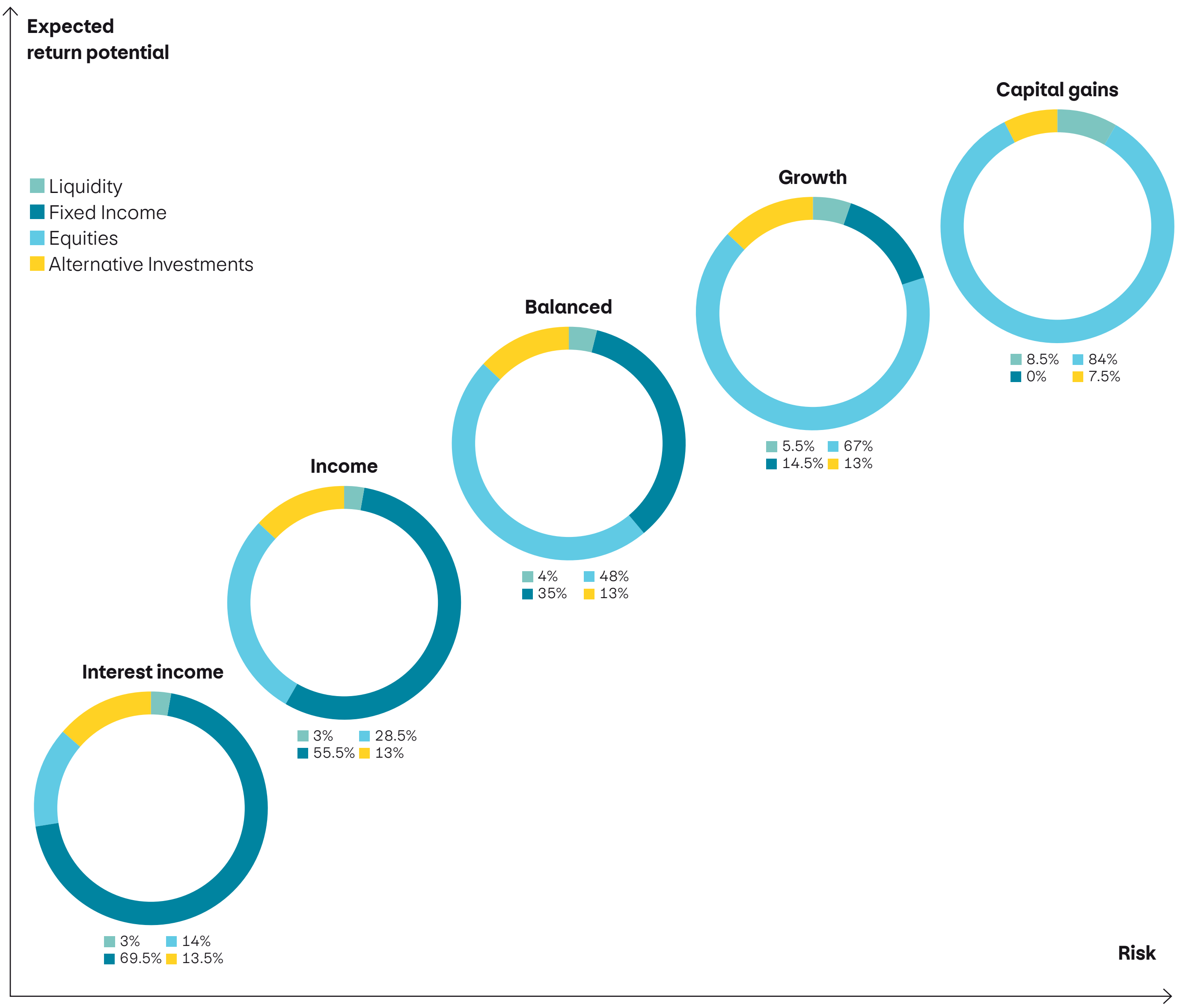
1 Growth compared to year-ago quarter
2 Indicator, measuring the overall sentiment and typically leading 1 to 2 quarters in advance of GDP. Green arrow indicates an increasing economic growth, red arrow a slowing.
3 Potential growth. Long-term change in gross domestic product with sustainable capacity 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

Restraint on the US stock market

After the financial markets reacted surprisingly calmly to the tariffs announced by the US administration last month, the situation has now changed significantly. Uncertainty about the economic consequences of this trade policy has increased noticeably, and both consumer confidence and the willingness of US companies to invest have fallen significantly. This development is having a particularly negative impact on the US equity markets, which suffered significant price losses last month. However, it remains unchanged that the US government will continue to use tariffs as a means of exerting political pressure. In view of this difficult outlook, we are reducing our position in the US equity market. We are also realising gains on the Swiss bond market and neutralising our underweight.



Source: PostFinance Ltd

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PostFinance Ltd
Mingerstrasse 20
3030 Bern
Switzerland

Phone +41 58 448 14 14
www.postfinance.ch

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