BRUELLAN
PANORAMA
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QUARTERLY OUTLOOK / JULY / AUGUST / SEPTEMBER 2025

NAVIGATING POST-LIBERATION DAY WATERS

SWITZERLAND
WHAT IF SWISS STOCKS WERE STILL ATTRACTIVE?

EUROPE
A RECOVERY NO ONE WANTS TO BELIEVE IN?

UNITED STATES
ADJUSTING TO A SLOWER BUT STILL RESILIENT AMERICA

ASIA
ENSURING ECONOMIC RESILIENCE AMID GEOPOLITICAL TENSIONS

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TABLE OF CONTENTS

EDITORIAL
NAVIGATING POST-LIBERATION DAY WATERS

FLORIAN MARINI, CFA, CMT / CHIEF INVESTMENT OFFICER

The 2025 macroeconomic outlook has been materially reshaped by the geopolitical and policy shock referred to as "Liberation Day." Prior to this event, global GDP was projected to grow by 3.0%, supported by resilient momentum in the US (2.1%) and China (4.5%). In its aftermath, growth forecasts have been revised downward across most regions, with global GDP now expected to expand by 2.7%.

The US underwent the sharpest downward revision, with growth estimates lowered to 1.4%, reflecting escalating trade disruptions and rising policy uncertainty. This adjustment is particularly stark when compared to the robust GDP growth recorded in 2023 (2.9%) and 2024 (2.8%).

In contrast, the Eurozone saw only a modest downgrade – from 1.3% to 1.1% – helped by a large-scale infrastructure and defence investment program that is expected to mobilise over EUR 1 trillion in public and private capital over the next decade. Switzerland, whose estimated GDP growth was also revised down slightly from 1.3% to 1.1%, remains supported by positive spillovers from both European and Chinese stimulus.

Notably, the 2025 growth forecast for China is maintained at 4.5%, reflecting proactive domestic policy support and a deliberate strategy of geopolitical restraint.

Resilient leading indicators despite trade uncertainties
Global leading indicators have held up better than expected, thanks in particular to sustained strength in services. The global composite PMI remains in expansionary territory, with the services sector having posted consistent growth for more than two years, even as manufacturing continues to lag.

In the US, the manufacturing PMI remains firm at 52.0, alongside a services PMI print of 53.7, both comfortably in expansion mode. In Europe, services are hovering around the 50 mark, but manufacturing has rebounded from 45 to 49 since the onset of the year – a sign of gradual normalisation.

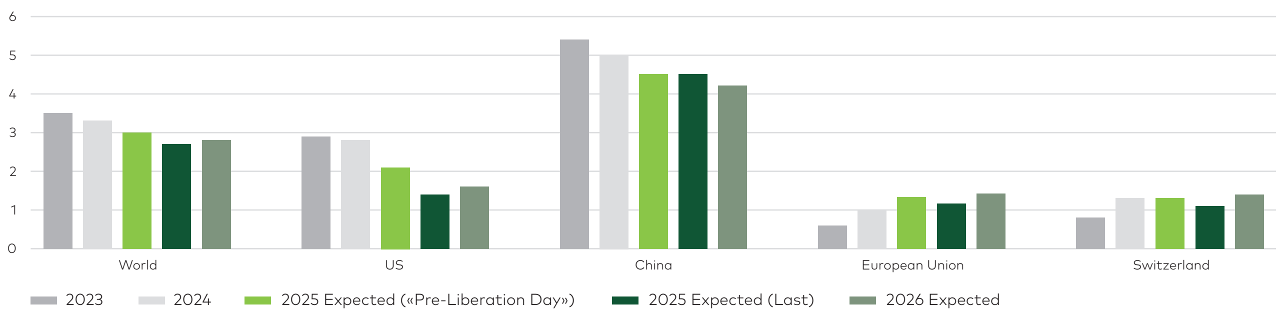
The fact that Eurozone monetary aggregates, which historically lead PMI trends by ca. 8 months, are showing improving dynamics suggests that manufacturing PMIs could continue to recover through year-end.

A temporary inflation spike will pressure Trump into trade compromises
On the inflation front, the overall picture is more mixed. While global inflation was initially expected to moderate to 3.7% in 2025, post-Liberation Day revisions have nudged forecasts slightly higher to 3.9%. The most affected region is the US, where inflation is now foreseen at 3.0% (vs. 2.5% previously). In contrast, the European inflation outlook remains largely stable, while Switzerland and China are experiencing continued disinflation, with risks tilted towards a scenario of outright deflation.

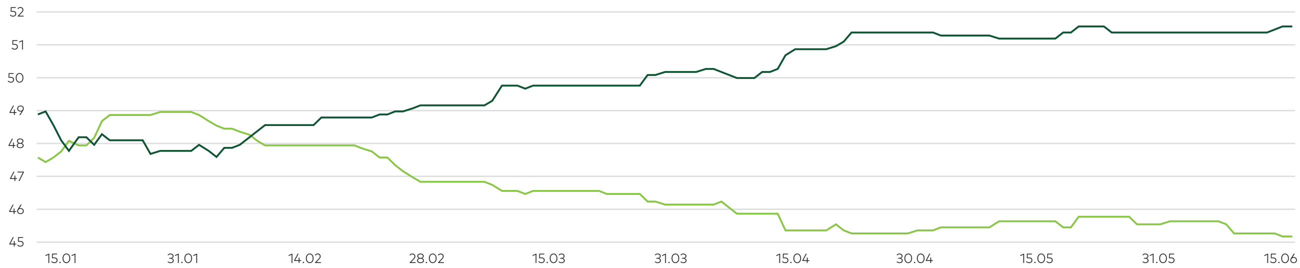
Although the inflationary shock from tariffs is likely to be temporary, it could have lasting political consequences. With inflation a key electoral concern, Donald Trump's approval rating – already the lowest at this stage of a presidency – may deteriorate further, increasing pressure on the administration to negotiate trade deals or ease some measures.

Consumer sentiment vs. consumption: the paradox holds
While consumer confidence remains low across the US, Europe and China, retail sales continue to surprise on the upside, with year-on-year growth of 5.2% in the US, 2.3% in

Trump tariffs and policy uncertainty are dampening GDP growth



A surge in inflation could worsen Trump's already historically low popularity (unfavorable polls in dark green / favorable in light green)



Europe and 6.4% in China last month. Growth in disposable personal income has slowed but remains in positive territory. We also note a modest uptick in the personal savings rate, a rational response to heightened uncertainty.

Importantly, household balance sheets remain solid, with lower leverage and debt levels than during the pre-2008 period. Employment conditions have weakened gradually over the past three years, largely due to restrictive monetary policy aimed at taming inflation, but labour markets continue to prove more resilient than expected.

Divergent central banks: Fed on hold, others loosening policy

The Federal Reserve (Fed) remains on hold, carefully balancing the risk of premature easing against a short-term rebound in inflation. In contrast, the global monetary policy landscape is markedly more accommodative: 18 of the 35 largest central banks (51%) have already cut rates in 2025, extending the trend that began in 2024.

Looking ahead, more than 65% of global central banks are expected to maintain either easing or neutral policy stances over the next 12 months – particularly in emerging markets and Europe. This environment is conducive to a cyclical recovery outside of the US, especially if trade tensions ease and tariffs begin to normalise – an outcome we view as increasingly plausible.

Although the Fed is on pause for the time being, we expect one – possibly two – rate cuts later this year, once there is confirmation that the recent resurgence in inflation is indeed transitory. Importantly, with the Fed funds rate still at 4.5%, the Fed retains ample policy space to respond should labour market conditions weaken meaningfully. In our view, the "Fed put" remains firmly in place.

Equity market valuation

Equity valuations remain elevated in the US, with the S&P 500 trading at 21x forward earnings – well above other regions such as Asia ex-Japan (13x), Europe (14x), or Switzerland and Japan (18x). Earnings forecasts have been revised lower globally due to slower growth and margin pressures from tariffs. US EPS growth is now expected at 5-6%, compared to 2-3% in Europe, Switzerland and Japan, and around 12% in Asia ex-Japan. Note, however, that US valuations are distorted by a few large-cap tech names; on an equal-weighted basis, the S&P 500 trades closer to 17x.

Outlook and positioning: mild stagflation but no recession in sight – we remain constructive

While geopolitical and policy shocks – particularly the Liberation Day tariffs and rising tensions in the Middle East – have increased uncertainty as regards the global outlook, the macroeconomic environment remains more resilient than feared.

To wrap up, the post-Liberation Day environment has weighed on both growth and inflation expectations. Yet, despite the slowdown, recession risks remain contained and corporate earnings revisions have started to stabilise. Outside of the US, accommodative monetary policy continues to support the potential for a cyclical recovery.

In our view, the bull market remains intact, supported by solid fundamentals and a still-accommodative global monetary backdrop. In an environment where volatility is likely to persist, we favour a diversified approach and continue to pursue a buy-on-dips strategy.

From a regional perspective, Europe and Asia look attractive relative to the US, on the back of proactive central banks, fiscal stimulus and more reasonable valuations. However, their year-to-date outperformance suggests short-term caution, justifying a neutral stance for now. Should the performance gap narrow in the coming months, a timely opportunity to upgrade regional allocations in favour of Europe and Asia could arise.

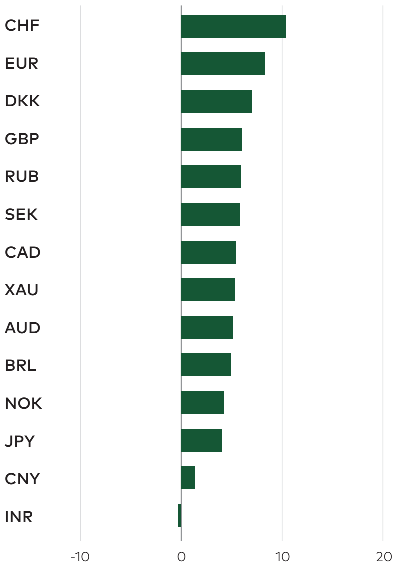
MARKETS PERFORMANCE

Current Economic Indicators

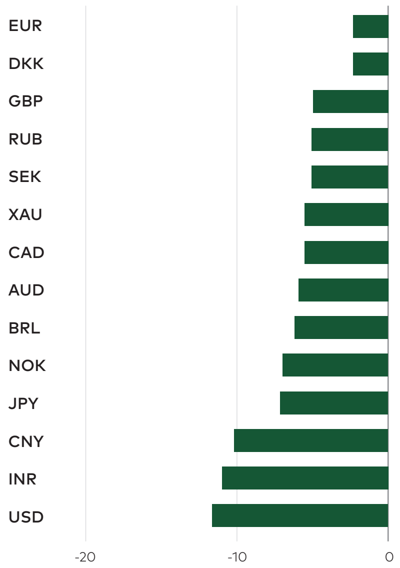
	Real GDP %		Inflation %		PMI	Debt % GDP	Current Account % GDP	Budget % GDP	Unemploy-ment %	Interest rates	
	2024	2025	2024	2025	Current	Current	Current	Current	Current	3 Months	10 Years
USA	2,8	1,5	3,0	2,9	52,0	97,8	-4,6	-7,0	4,1	4,3%	4,2%
Euro Area	0,9	1,0	2,4	2,0	49,4	87,4	2,9	-3,1	6,3	1,8%	2,6%
Switzerland	1,4	1,2	1,1	0,3	42,1	20,1	5,7	0,6	2,7	-0,1%	0,4%
UK	1,1	1,1	2,5	3,2	47,7	101,0	-2,9	-5,1	4,4	4,2%	4,5%
Asia ex Japan	5,3	4,4	1,3	1,1	-	4,6	1,5	-6,0	4,5	4,3%	3,5%
Japon	0,2	0,8	2,7	2,8	50,1	216,2	4,9	-4,0	2,5	-	1,4%
Brazil	3,4	2,3	4,4	5,3	49,4	62,0	-3,3	-7,9	6,4	-	13,5%
Russia	4,3	1,4	8,4	9,2	47,5	19,0	3,2	-1,7	2,4	-	-
India	9,2	6,3	4,8	4,6	58,4	46,5	-0,6	-4,8	8,5	6,2%	6,3%
China	5,0	4,5	0,2	0,2	50,4	330,0	2,9	-4,8	4,0	1,5%	1,6%
World	3,1	2,6	4,2	3,8	-	-	0,6	-	7,1	-	-

Market Performance (from 31.03.2025 to 30.06.2025)
Exchange-Rates

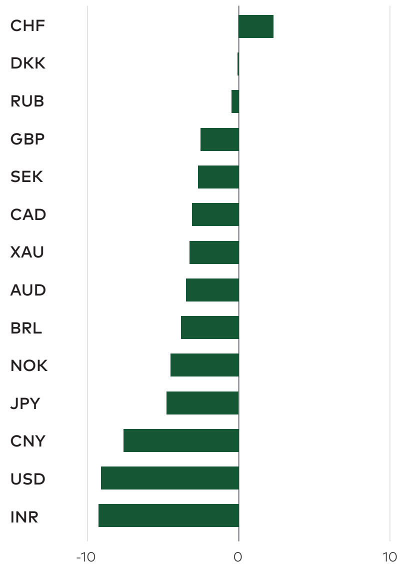
AGAINST USD (%)



AGAINST CHF (%)



AGAINST EUR (%)



Stock Markets / Total Return & Valuation (from 31.03.2025 to 30.06.2025)

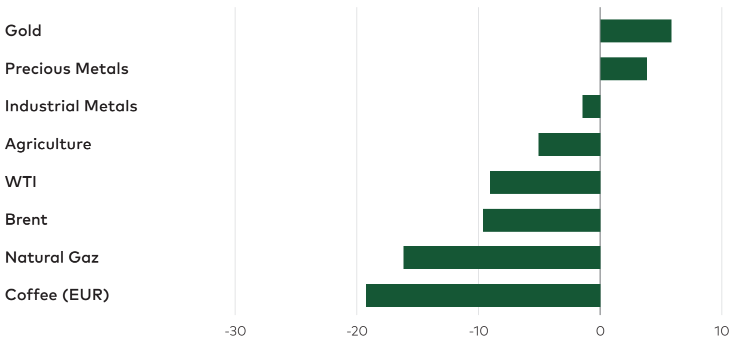
	USD	EUR	CHF	GPB	Leading PE	
					LT Median	Current
S&P 500	10,9%	2,0%	-0,4%	4,4%	18,1	23,6
Eurostoxx	11,7%	2,7%	0,3%	5,1%	13,8	15,6
Swiss Perf. Index	9,6%	0,7%	-1,6%	3,1%	19,2	18,2
FTSE 100	9,6%	0,8%	-1,5%	3,2%	14,2	13,5
MSCI Asia Ex-Jpn	12,8%	3,7%	1,3%	6,2%	14,8	14,4
Nikkei 225	18,3%	8,8%	6,3%	11,4%	20,5	20,1
Brazil Bovespa	12,2%	3,2%	0,8%	5,6%	14,2	8,6
MSCI Russia	-	-	-	-	5,9	-
India SENSEX	9,2%	0,4%	-1,9%	2,8%	21,1	23,1
China CSI 300	3,6%	-4,8%	-7,0%	-2,5%	15,5	13,7
MSCI World	11,5%	2,5%	0,1%	4,9%	17,5	21,0

Bond Market

Sectors / Returns & Valuation (Leading PE)

	USA	Europe	World	USA		Europe		World	
				LT Median	Current	LT Median	Current	LT Median	Current
Cons discr.	12,1%	-4,7%	10,3%	21,6	29,0	14,4	16,4	18,5	25,1
Cons. Staples	0,5%	-2,8%	2,5%	19,6	22,8	18,4	16,2	19,3	20,4
Financials	6,7%	2,8%	9,0%	14,4	18,0	11,4	11,0	13,6	15,0
Energy	-9,0%	-11,5%	-5,8%	14,4	16,0	10,4	9,8	13,3	14,4
Industrials	12,7%	8,1%	14,3%	18,4	26,4	18,9	22,3	18,3	23,3
Technology	23,5%	8,0%	23,0%	22,6	32,9	25,6	29,9	23,4	32,5
Materials	2,4%	0,1%	5,5%	17,8	21,5	14,8	17,3	16,3	18,1
Utilities	3,6%	7,2%	7,2%	16,9	18,9	14,0	14,1	16,7	16,9
Health Care	-7,0%	-6,3%	-4,4%	19,7	17,1	20,0	15,2	20,4	16,7
Telecom	18,6%	5,7%	18,7%	18,0	19,7	16,0	21,5	18,2	19,9
Real Estate	-1,1%	2,4%	9,7%	44,0	37,9	20,0	14,5	28,8	28,0

Commodities



ALLOCATION GRIDS

Global Asset Classes

	Overweight	Marketweight	Underweight	Main Drivers	Risks
Equities	●			With solid fundamentals and supportive policies, we see the bull market as intact and continue to favour a «buy on dips» approach amid ongoing volatility.	A trade war fuelling inflationary pressures and uncertainty weighing on growth remain key risks.
Bonds	●			Global bonds offer attractive yields, as the trade war increases growth risks. Bonds should maintain their diversification qualities should the economic slowdown prove sharper than anticipated.	Stickier-than-usual inflation and very expansive fiscal policies.
Gold		●		Central bank purchases and demand for gold as a hedge against uncertainty will continue to support prices.	Normalisation of the Trump administration's tariff policy and a potential peace agreement in Ukraine.
Cash			●		

Equities

	Overweight	Marketweight	Underweight	Main Drivers	Risks
US		●		The US enters Q3 in a fragile balance: growth is slowing amid tariffs and fiscal uncertainty, inflation may rebound, but consumer strength, Fed flexibility and stabilising earnings offer support.	Political risk remains high, and fiscal credibility is under pressure.
Europe		●		The central scenario remains constructive for European equities, buoyed by disinflation, proactive fiscal policy in Germany at long last, and earnings that are ceasing to disappoint.	Two major risks are identified: a shift away from the «Goldilocks» scenario in the US (overheating or slowdown) and an escalation of the trade war initiated by President Trump.
Switzerland		●		Against a backdrop of extremely low Swiss yields, equities offer an attractive alternative in terms of both the dividend yield (3%) and the earnings yield (5.4%).	A global recession and a sharp appreciation of the Swiss franc could prompt the SNB to move back to significantly negative interest rates, which could fuel an deflationary spiral.
Asia Pacific ex-Japan		●		Valuations are compelling, and several sectors are benefiting from renewed earnings momentum. On balance, we believe the risk-reward profile is improving.	A potential reinforcement of US tariffs.
Japan		●		Japan enters Q3 with slowing GDP growth (due to global trade headwinds), but domestic demand is cushioned by resilient private consumption and business investment.	A potential reinforcement of US tariffs.

Bonds

	Overweight	Marketweight	Underweight	Main Drivers	Risks
Developed Sovereigns	●			Inflation expectations already reflect higher tariffs, which might ultimately end up lower than initially feared. Actual inflation is moderating, oil prices have declined following the Middle East tensions-related spike, and the Fed could become more dovish.	The impact of tariffs on inflation might just be delayed, which would be a headwind. The US fiscal bill could turn out more stimulative.
Corporates (IG)	●			Investor appetite for corporate bonds remains strong. We maintain a constructive stance, favouring medium-term maturities.	A deeper economic slowdown or a credit event could pressure corporate balance sheets, driving spreads wider and impairing total returns.
High-Yield		●		High yield bonds have rallied with the declining recession risk and lower financial market volatility.	US policies have been unpredictable, so an escalation of the trade war rhetoric could sap investor confidence.
Emerging		●		EM bonds remain supported by the weaker US dollar and increased central bank flexibility in major markets. These conditions make for a constructive backdrop, especially for local-currency denominated bonds.	A broad-based trade war or renewed USD strength would pose meaningful headwinds, by tightening financial conditions and limiting policy space across EM economies.

Currencies

	Overweight	Marketweight	Underweight	
EUR vs USD		●		On a long-term view, the USD is expensive against the EUR, but the recent EUR upmove leaves little room for depreciation in the short term.
EUR vs CHF			●	The CHF should continue to moderately appreciate against the EUR.
USD vs CHF			●	The SNB has little leeway to curb CHF appreciation, with rates at 0.25% and a Trump administration opposed to central banks using reserves to «manipulate» their currencies.
EUR vs GBP			●	The growing interest rate differential in favour of the GBP should support appreciation against the EUR.
EUR vs JPY			●	Attractive entry point to go long JPY against EUR: the JPY is undervalued and the interest rate differential now plays in its favour.
USD vs GBP		●		Neutral position due to the significant shift in interest rates favouring the USD.

SWITZERLAND

WHAT IF SWISS STOCKS WERE STILL ATTRACTIVE?

ANICK BAUD / SENIOR FUND MANAGER

Even though first-quarter growth was artificially boosted by front-loaded exports and the rest of the year looks set to be sluggish at best, even though the manufacturing PMI has fallen back to near lows, even though the Swiss franc remains strong and the spectre of deflation is again rearing its head, we believe that the Swiss equity market retains some appeal.

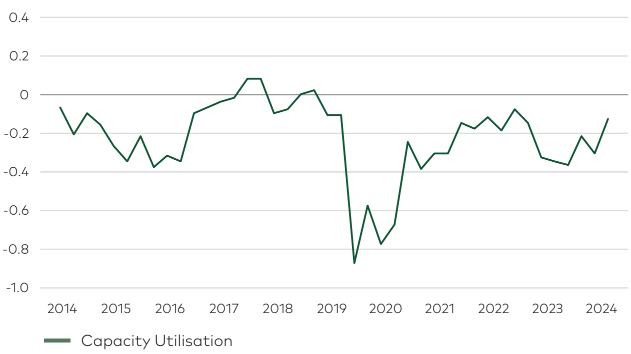
Deceptive momentum

The early 2025 macroeconomic surprise was the unexpected strength of the Swiss economy in the first quarter. While growth had been projected to fall well short of long-term potential, GDP – adjusted for the effects of sporting events – grew by 0.8%.

This momentum is, however, misleading, driven mainly by a sharp rise in exports (+3.6%), probably in anticipation of future custom duties. Without this one-off factor, the performance would have been considerably less impressive.

The upturn appears to have been only temporary, as evidenced by the April and May data: goods exports fell 9% and 14% in nominal terms on a month-over-month basis. This sharp drop will likely weigh heavily on second quarter activity. Although, given the extremely tense geopolitical situation in the Middle East, tariff issues seem to have been temporarily put on the back burner, the risk remains and continues to hamper the normalisation of growth. This global threat is compounded by a more specific risk: the threat to the pharmaceutical sector, particularly strategic for the Swiss economy and currently in the crosshairs of the US president. His demands for price cuts appear difficult to implement and are legally fragile. Indeed, for the government to be able to set drug prices, a legislative change would be necessary, requiring a vote by the Congress. Although this reform seems unlikely in the short term and would certainly be challenged in court by pharmaceutical companies, it contributes to the climate of pessimism and reinforces the lack of visibility. In such an uncertain environment, investment decisions are naturally being delayed, which largely explains why industrial capacity utilisation remains below average.

Industrial capacity utilisation remains below average



Overestimated risks

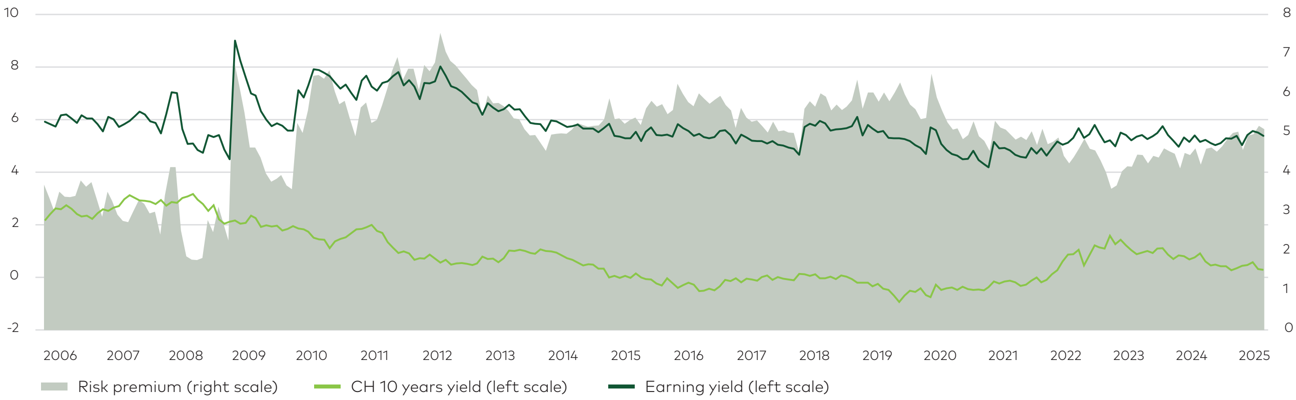
It is interesting to note that a sharp divergence has recently emerged between opinion polls (soft data) and economic reports (hard data). While the former reflect a certain pessimism, amid a cautious "wait-and-see" climate, the latter continue, for the time being, to point to a broadly resilient global economy. Switzerland is not immune to this dichotomy, particularly evident in the monthly manufacturing purchasing managers data. The manufacturing PMI has been below 50 for 29 consecutive months, signalling a contraction in activity – a completely unprecedented situation. At the onset of the year, optimism generated by the announcement of a major reform plan in Germany briefly raised hopes of an exit from this contractionary phase. May figures, however, dashed these hopes, bringing the indicator back to near-low levels, even though signs of improvement are multiplying in Europe and pessimism seems to be gradually fading. As we have already pointed out, these surveys are extremely volatile and largely influenced by respondents' perceptions, which do not always accurately reflect economic reality. As such, we believe that their predictive value should not be overstated. The responses appear to focus on risks rather than opportunities.

The SNB's delicate mission

While the Swiss National Bank (SNB) had recently taken to surprising markets, its decision on 19 June – a 0.25 percentage point cut – was widely anticipated. This brought key interest rates back to 0%, a level never before seen in the history of the institution, which up until now had only ever had either positive or negative rates.

Faced with marked year-to-date Swiss franc appreciation, mainly against the dollar and in nominal terms, but above all a backdrop of near-deflation (-0.1% in May) and sluggish economic growth, the SNB's task appears particularly complex. Admittedly, it has a second lever

Switzerland boasts a very attractive risk premium, with an earnings yield of 5.4%, while the risk-free rate is virtually zero.



at its disposal: foreign exchange market interventions. However, in a tense geopolitical environment, where the US administration seems quick to accuse its partners of currency manipulation, resorting to such interventions could reignite trade tensions, particularly on the still thorny issue of customs duties. Should upward pressure on the franc persist, fuelling a prolonged deflationary climate and further weighing on growth, a return to negative interest rates would be difficult to avoid. For the time being, however, the conditions do not appear to be in place to justify such a measure. The SNB has also indicated that the threshold for a lowering of its key rate is probably higher today than when rates were positive.

Although the Swiss franc appears overvalued in nominal terms, this assessment needs to be qualified in real terms: inflation remains significantly higher in the eurozone and the US than in Switzerland. Thus, once adjusted for the price effect, Swiss goods are not necessarily less competitive than at the beginning of the year. Furthermore, the major central banks do not appear inclined to adopt particularly expansionary monetary policies at this stage. The European Central Bank (ECB) seems to be pausing in its cycle of rate cuts, while the Fed still fears a resurgence of inflation. Ultimately, everything will depend on how the global economy evolves. If it slows significantly, prompting major central banks to further ease their monetary policies, the SNB could be forced to reopen the negative interest rate chapter in order to avoid a rush on the Swiss franc.

What if Swiss equities were still attractive in such an environment?

Last quarter, we highlighted the appeal of Swiss equities, owing particularly to their discount vs. the US market, to robust earnings momentum and to an enhanced attractiveness driven by the lack of alternatives amid historically low Swiss bond yields. Although the Swiss market, especially small- and mid-caps names, has rebounded well since its April low, the discount has narrowed and earnings momentum has slowed somewhat, Swiss equities remain fundamentally attractive. Historically, periods of low interest rates have coincided with increased trading on the stock market, the lack of alternatives pushing investors keen to invest in Swiss francs towards equities. As highlighted in a recent UBS study, during the negative interest rate phase (January 2015 – September 2022), Swiss equities posted a 7% average annual return, slightly above the 20-year historical average (6%). Even today, the risk premium remains attractive, whether in terms of dividend yield (3%) or earnings yield (5.4%), given the very low 10-year risk-free rate (0.35%). In an environment of durably low interest rates, growth stocks also benefit automatically from lower discount rates, which could prompt analysts to revise their fair value estimates upwards. As a result, increased exposure to small- and mid-cap stocks appears appropriate. These companies, which are often positioned in growth segments, are also more focused on Europe and therefore less sensitive to the risks of trade protectionism. Better still, their main export market tends to be Germany, a factor that has weighed on their performance over the past three years but could now become an advantage as German economic sentiment finally improves.

EUROPE
A RECOVERY NO ONE WANTS TO BELIEVE IN?

MALEK DAHMANI / FUND MANAGER

The European market is moving forward amid a climate of mistrust: despite improving fundamentals – moderate inflation, German fiscal stimulus, stabilising earnings – a wait-and-see consensus has formed. We think it underestimates the drivers of recovery but nonetheless remain clear-headed: there will be bumps along the way.

If Cassandra was never believed for her dire vision of the future, could it be that today investors refuse to believe in better days for Europe? Despite clear improvements in the economic landscape—ranging from price stability to a more supportive fiscal environment—persistent scepticism continues to cloud the European momentum. This mistrust, in our view, seems less rooted in objective analysis than in a psychological reflex: a preference for proving correct in pessimism rather than being surprised by progress.

Even after a solid year-to-date equity market performance (+8.6% for the Stoxx 600 as of date), many investors remain unconvinced. An implicit consensus has emerged, expecting markets to remain range-bound over the next 12 to 18 months. This view, however, appears to rest on circular logic: because markets have already performed well, further gains are deemed unlikely.

Yet, the current environment offers several compelling reasons to challenge this narrative. Historically, periods marked by tamed inflation and moderate GDP growth have provided a fertile backdrop for equities. Today, the combination of supportive policy measures, a more benign inflation environment, and resilient corporate earnings suggests that the case for European equities is stronger than prevailing sentiment would indicate. That said, we do not intend to sink into a state of naive bliss. A return of appetite for European equities does not mean that the road ahead will be smooth. There is no doubt in our mind that volatility will resurface, sometimes abruptly. Managing this volatility – rather than predicting it – will be a key performance factor during the coming months.

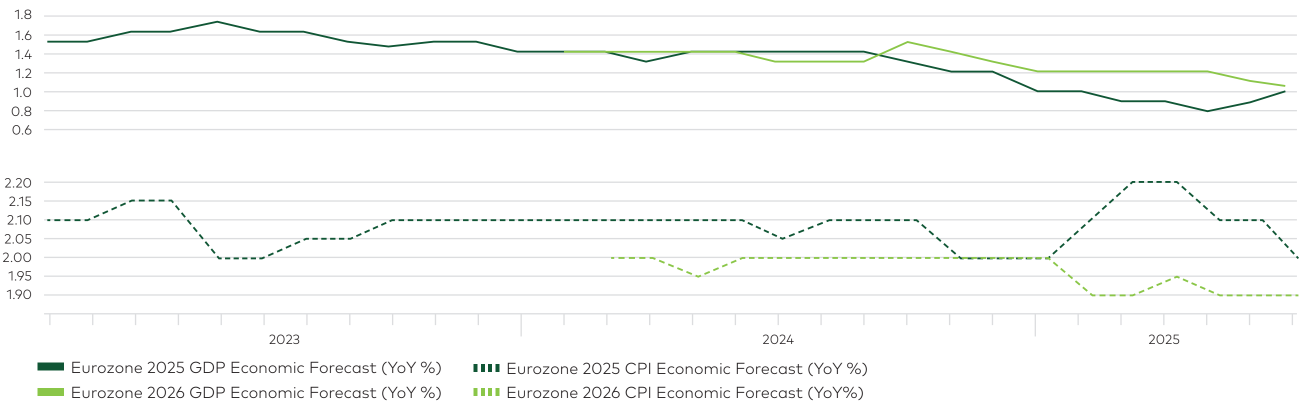
The German budget shock: psychological normalisation rather than a big bang

The main driver of market sentiment remains internal to Europe: Germany has enacted a profound budgetary transformation by reforming its debt brake. This decision has led to a turnaround in the domestic German climate, with confidence picking up at both the household and industrial PMI levels.

Although modest in absolute terms, this stimulus has a major psychological impact. It puts an end to austerity as an implicit dogma and sends a signal of lasting support for domestic investment and consumption. The effect may be even more pronounced in the current context, as the robust financial health of German households and businesses could amplify the multiplier effect: with confidence returning, the propensity to spend and invest

European GDP and Inflation Forecasts

A backdrop of tamed inflation and moderate growth has historically supported equity markets



German Business Confidence: IFO Survey

Recent gains in business sentiment—especially future expectations—reflect the positive impact of announced fiscal stimulus

rises accordingly. The MDAX index has rebounded by 17% since January, well ahead of the Stoxx 600, confirming the return to favour of domestic cyclical stocks.

The forgotten factor: earnings have (almost) no more bad news to absorb

An often overlooked fact is that downward revisions to earnings forecasts slowed sharply in 2025. This is no coincidence, but the result of a simple mechanism: the segments most exposed to China – commodities, luxury goods and automotive – had already undergone downward revisions since mid-2023.

The weight of these sectors in the negative revisions has thus shrunk automatically, creating a «bottoming» effect that stabilises expectations. This provides a more favourable basis for future earnings growth. In other terms, the bar is lower, hence easier to clear, which contributes to market resilience despite the tense environment.

Reasonable valuations and broad-based leadership

Equity market index gains have been accompanied by a moderate rerating: Stoxx 600 multiples have moved back up to their historical average (12.5-13x forward earnings), which remains reasonable given the monetary environment.

Notably, sector leadership has broadened. Banks, industrials, European technology companies and domestic consumption are all participating in the upturn, making the move healthier than the concentrated stock market rally at the end of 2024.

Volatility ahead

While the macroeconomic backdrop has improved significantly, the geopolitical scene is unusually unstable. The Middle East has spiralled into an uncontrolled regional conflict with multiple active fronts. In Ukraine, the battle line remains dynamic, with no credible prospect of a ceasefire. India and Pakistan are engaged in regular skirmishes, encouraged – like other regional powers – by the disengagement of the Trump administration, which has abandoned any pretence of stabilising diplomacy.

This US withdrawal is not innocuous. It has led to a growing perception among some actors that they can "settle" their differences themselves, which is multiplying high-intensity local conflicts. For the markets, this means recurring, often unexpected spikes in volatility and a geopolitical risk premium that is difficult to model.

Another latent source of volatility is President Trump's July 9th deadline for renegotiating a number of bilateral trade agreements. Markets have so far been strangely calm ahead of this date. Yet the signs are clear: renewed verbal threats, unrealistic demands on Europe and a tougher stance towards Asia.

As this deadline approaches, volatility will likely rise, fuelled by presidential tweets, orchestrated leaks and shocking announcements. Importantly though, one should keep in mind that the final outcome of these discussions could turn out to be very positive after a brutal negotiation phase – and vice versa. It is therefore essential for investors to be mentally and structurally prepared to absorb the shock, whatever it may be.

Trump has limited room for manoeuvre: the record level of US household exposure to equity markets restricts his options, as does the withdrawal of foreign investors from US Treasury auctions, which makes any bout of fiscal nervousness more costly.

Conclusion: clear-headed but not resigned

We are entering the second half of 2025 with measured optimism. The central scenario remains constructive for European equities, supported by disinflation, proactive fiscal policy at long last in Germany and earnings that are no longer disappointing.

However, it would be naive to ignore the scale of geopolitical tensions and market complacency in the face of critical deadlines, notably US trade negotiations. Conviction must not replace discipline. Risks exist, as do opportunities – provided we remain agile and ready to absorb shocks.

UNITED STATES
ADJUSTING TO A SLOWER BUT STILL RESILIENT AMERICA

FLORIAN MARINI, CFA, CMT / CHIEF INVESTMENT OFFICER

In the aftermath of the Liberation Day shock, the US economy is entering a slower but still resilient phase. Growth has moderated, inflation is set to reaccelerate temporarily, and political and fiscal uncertainty remains elevated. Yet key supports – consumer strength, earnings stability and Fed flexibility – suggest no imminent break in momentum. In this recalibrated environment, markets are adjusting, not unravelling, pointing to the need for a more selective but still constructive investment stance.

The immediate shock of "Liberation Day" is now behind us, and President Trump has since softened his stance. This shift appears to have been driven by a combination of deteriorating poll numbers – reaching levels unseen for an incumbent in modern history – and, perhaps more decisively, by pressure from the bond market. At this scale of indebtedness, a simple truth applies: when you owe this much, you do not make the rules – your creditors do.

Tariffs are a core element of the US geoeconomic strategy, not just temporary protectionist tools. Donald Trump is not reversing his predecessor's trade policy trajectory but rather intensifying it. While certain sector-specific agreements – such as the US-UK economic pact and the provisional truce with China – offer targeted relief, broader trade tensions remain unresolved. With the current tariff pause due to expire in July, there is a risk of renewed escalation, particularly toward the European Union. That said, we expect the Trump administration to strike comprehensive deals with major partners. Average tariff rates will likely stabilise in the 12-15% range, varying by sector and negotiation outcome.

The "Big Beautiful Bill": a short-term boost, with a long-term cost

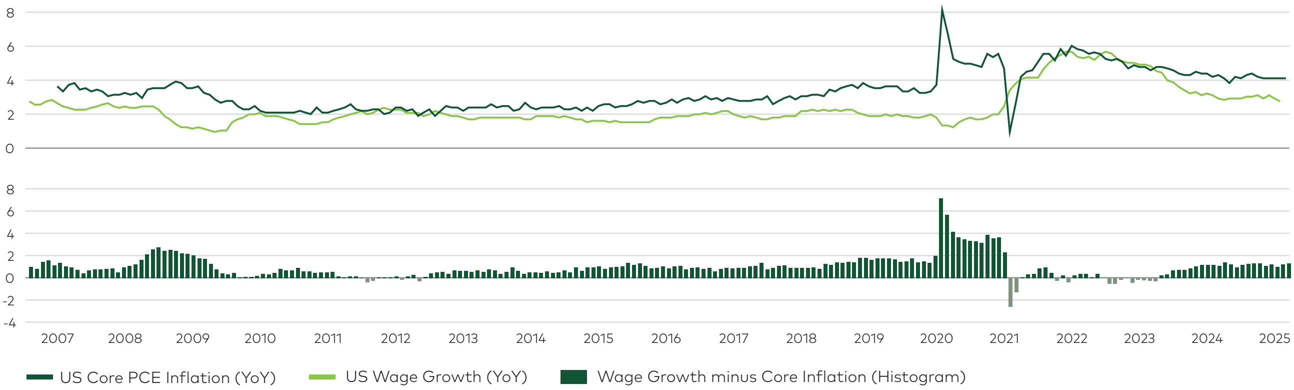
The current trajectory of fiscal irresponsibility did not begin with Donald Trump. Over the past three years, the Biden administration delivered exceptional GDP growth, at the cost, however, of a 6.2% average annual budget deficit. A trend that is now being extended – and amplified. Under Trump's proposed "Big Beautiful Bill", the US federal deficit is expected to rise to 6.5% of GDP in 2025, with similarly elevated levels projected for the next three years.

The premise behind the bill is that its stimulus will prove self-financing through higher growth. In our view, this is optimistic. The plan may provide a short-term boost to economic activity – assuming bond yields remain contained – but its longer-term implications are more concerning. Historical evidence suggests that when public debt exceeds 90% of GDP (the ratio currently stands at 99.5%), it tends to correlate with slower long-term growth.

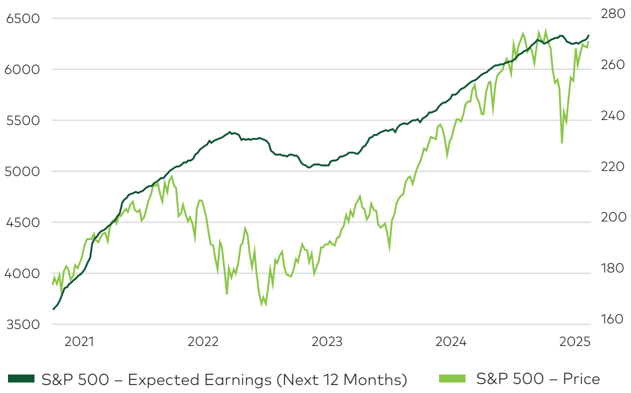
Debt servicing costs are projected to reach USD 952 billion in 2025, roughly equivalent to the entire US defence budget and already consuming 18.4% of federal revenues. The "Big Beautiful Bill" would add at least USD 50 billion more in

Nominal wage growth continues to outpace core inflation

Even with a 1 percentage point increase in headline CPI, real wage growth would remain flat – not turn negative.



Forward 12-month EPS are moving up again post-Liberation Day



interest costs, assuming stable interest rates. Any upward pressure on yields could make the fiscal picture materially worse.

Lower growth, higher Inflation – but no recession in sight
2025 US GDP growth estimates have been revised down significantly due to the impact of the new tariff regime. The economy, initially expected to expand by 2.3%, is now projected to grow by just 1.4%. This slowdown is particularly notable when set against the backdrop of strong momentum in 2023 (2.9%) and 2024 (2.8%).

Despite this moderation, we do not anticipate a recession, contrary to the consensus that emerged immediately after Liberation Day. Leading indicators remain solidly expansionary: the services PMI stands at 53.7 and the manufacturing PMI at 52.0, both comfortably above the neutral 50 mark, signalling ongoing – if slower – growth.

Inflationary pressures, however, are likely to re-emerge in the short term. After reaching a local low of 2.4%, the headline CPI is expected to rise temporarily during the coming months, driven primarily by the one-off effects of tariffs. That said, we expect this to be a transitory bump, with inflation ending the year slightly higher – at around 3.0% – before resuming its downtrend in 2026.

The Fed put is still in place

With inflation expected to rise modestly due to temporary tariff effects – likely peaking around 3% before easing in 2026 – the Fed will likely remain on hold through the second half of 2025. Although rate cuts have been delayed, the Fed Funds rate, currently at 4.5%, provides the central bank with significant dry powder should the labour market deteriorate. In our view, the Fed remains fundamentally sensitive to growth. If forced to choose between price stability and employment, it will prioritise supporting the labour market, reaffirming the "Fed put".

US consumer: resilient and still a driver of growth

Despite a more uncertain macro backdrop, the US consumer remains a key engine of growth, showing surprising strength. Retail sales continue to trend firmly upward, near their strongest trajectory since 2003, with no signs of inflection. On the income side, nominal wage growth remains well above core inflation: real wages are currently rising 1.4% year-on-year. Even if the headline CPI undergoes a temporary spike to 4%, real wage growth would simply flatten, not turn negative – before improving again as inflation eases in 2026.

Moreover, the consumer balance sheet is in solid shape. Since the 2008 crisis, US household leverage has declined significantly, with the household debt-to-GDP ratio falling from 98% to 69%. This deleveraging, combined with stable employment and wage gains, has left households better positioned to absorb short-term shocks. Put differently, the US consumer remains resilient and continues to provide a crucial buffer against slowing investment and global trade headwinds.

Corporate earnings and valuations

With slower economic growth and probable margin compression, earnings expectations for 2025 have been revised down significantly. Initial forecasts of double-digit EPS growth have been cut to around 5%, reflecting a more cautious corporate outlook. That said, a notable inflection has occurred since Liberation Day: 12-month forward EPS estimates have begun to recover, suggesting renewed earnings momentum despite macro headwinds.

Valuations remain elevated on headline measures, with the S&P 500 trading at 21x forward earnings. However, this is heavily skewed by a handful of mega-cap stocks. The equal-weighted S&P 500, which better reflects the broader market, appears more attractively priced at 17x, indicating that valuation risks are concentrated, not systemic.

Conclusion: a more fragile equilibrium, but no break in momentum

The US economy is entering the third quarter in a more delicate situation. Growth has slowed meaningfully under the weight of new tariffs and fiscal uncertainty, while inflation is set to reaccelerate temporarily. Yet key supports are intact: the consumer is resilient, the Fed retains flexibility to act if necessary and forward earnings are stabilising. Political risk remains high, and fiscal credibility is under pressure, but markets have adapted more smoothly than initially feared.

Valuations remain stretched, particularly in the large-cap segment, but the broader market looks more reasonably priced. In this recalibrated environment, we maintain a constructive stance on US equities, albeit favouring a diversified positioning.

ASIA

ENSURING ECONOMIC RESILIENCE AMID GEOPOLITICAL TENSIONS

FLORIAN MARINI, CFA, CMT / CHIEF INVESTMENT OFFICER

As China enters the third quarter of 2025, investors are confronted with a dual reality: a stabilising macroeconomic environment and intensifying geopolitical risks. Even as authorities reinforce their support for private enterprise and double down on strategic technologies such as AI, tensions with the US and instability around Taiwan continue to cloud the outlook.

The Chinese economy currently stands at a crossroads, having to balance resilience in manufacturing and trade against persistent structural domestic weaknesses. While the government is sticking to a 5% GDP growth target, achieving a 4.5% pace would in reality already be a success. Strong industrial output and resilient exports – particularly to ASEAN countries and the European Union – have partially offset the drop in trade with the US.

Despite weak household confidence and ongoing issues in the property sector, retail sales continue to improve, and have reached their highest level since December 2023. The real estate market, long a growth engine, continues its multi-year deleveraging cycle, limiting private investment and fiscal revenue for local governments. Inflation remains subdued, with the CPI hovering around 0.1%, reinforcing deflationary risks. In response, Beijing has pursued selective fiscal easing, alongside infrastructure spending and policy incentives targeting green energy, advanced manufacturing and low-altitude transport technologies (e.g., drones and electric vertical take-off and landing aircrafts).

Trade tensions: tactical thaw, strategic rivalry

After a brief spike in tensions in May – triggered by US accusations of Chinese export violations – US-China relations have entered a fragile détente. The June talks in London produced a new framework that extends the Geneva tariff truce, with both sides capping duties and China agreeing to ease restrictions on critical mineral exports. While Beijing maintains a posture of strategic patience, it has begun selectively targeting US firms and doubling down on technology self-sufficiency.

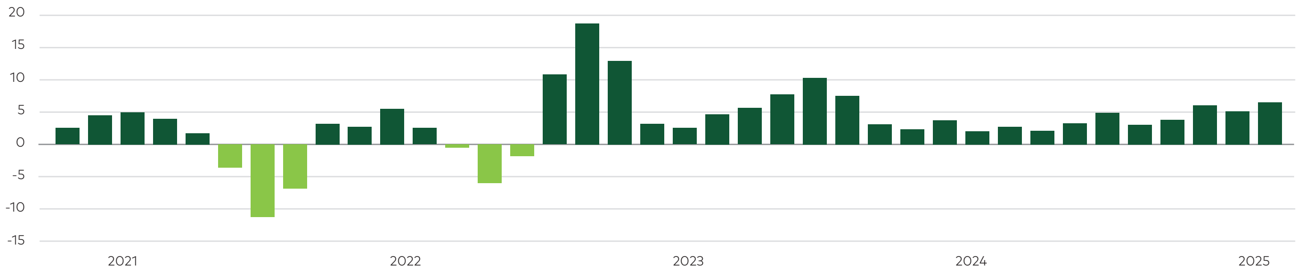
Despite this resumed dialogue and the prospect of a Trump-Xi meeting later in the summer, structural rivalry remains intact. Technology, industrial policy and geopolitical mistrust continue to define the relationship. Still, the latest diplomatic thaw reduces the risk of near-term escalation – offering markets a temporary reprieve.

Chinese military action against Taiwan "could be imminent" – US defence secretary

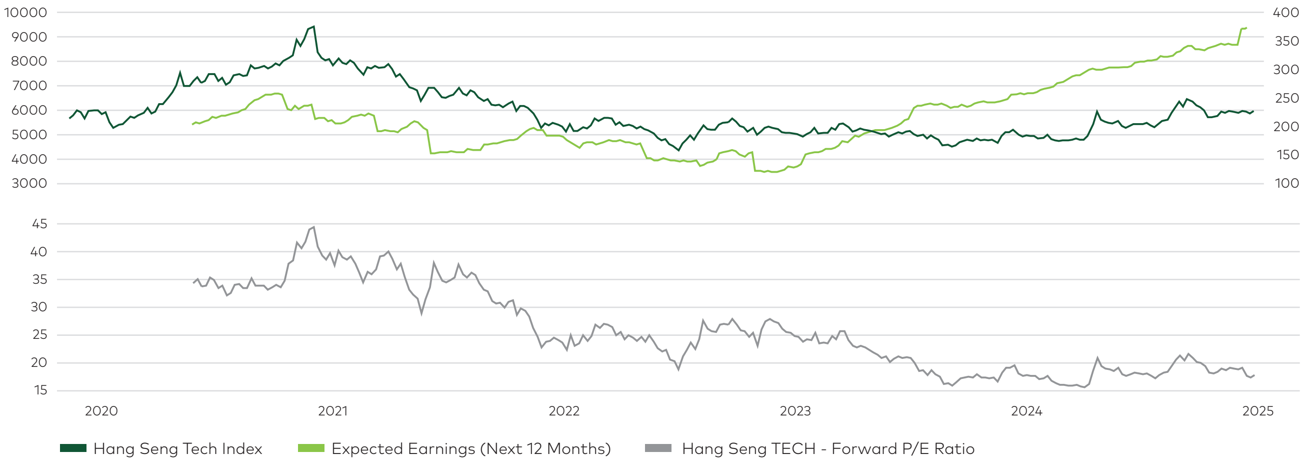
Geopolitical tensions in the Taiwan Strait have intensified alongside economic friction. US Defence Secretary Pete Hegseth recently warned that a Chinese attack on Taiwan "could be imminent," citing recent People's Liberation Army (PLA) exercises and strategic deployments. While China is making progress toward gaining the capability to invade by 2027, there is no hard evidence of a looming operation.

The situation is complex. President Xi sees Taiwan's reunification as part of his legacy but remains cautious – aware that the cost of a military operation could be too high. Hegseth's speech seemed designed not only to rally Indo-Pacific allies (Japan, South Korea, Philippines, Australia) into raising defence spending, but also to warn Europe that growing economic ties with China may conflict with transatlantic strategic alignment.

Firm and improving retail sales highlight consumer resilience



The Hang Seng technology index example: EPS rebound and attractive valuation



A more plausible near-term scenario may be a maritime blockade rather than a direct military assault. If an invasion proves too risky or costly, a siege-like approach remains a historically familiar – and strategically disruptive – alternative.

Corporate sector dynamics

After years of policy tightening, China's private sector is seeing tentative signs of a shift. In February, President Xi Jinping convened a high-level symposium with business leaders from firms such as Alibaba, Tencent, BYD, Meituan, Huawei and DeepSeek. Xi pledged to support private enterprise and protect the rights of entrepreneurs, calling on them to "show their talents" in revitalising growth.

This marks a potential end to the regulatory clampdown that began in 2020, which had weighed heavily on internet and technology firms. Chinese authorities appear increasingly focused on restoring investor confidence and catalysing business activity, particularly in sectors aligned with national priorities.

Chinese equity market outlook

Chinese equities appear attractive from a valuation perspective, with the MSCI China Index trading at just 11x forward earnings – almost half the S&P 500's 21x P/E ratio. Coupled with expected earnings growth of over 10%, this presents a compelling investment case.

Key sectors such as consumer discretionary, technology, financials, healthcare and communication services are showing signs of recovery, supported by solid earnings per share (EPS) growth.

Although investor sentiment toward Chinese equities remains fragile, the combination of improving corporate earnings, attractive valuations and renewed policy support suggests that the worst of the equity market downturn may now be behind.

Asia ex-Japan: a broader regional rebound

Beyond China (33% of the index), the broader MSCI Asia ex-Japan universe is also showing encouraging momentum. India (21% of the index), Taiwan (21%), South Korea (11%) and Hong Kong (5%) are all experiencing upward revisions in earnings forecasts, supporting the region's earnings recovery trend. India continues to benefit from strong domestic consumption and reform-driven investment flows, while Taiwan's tech-heavy market is rebounding in sync with the global semiconductor upcycle. South Korea, following recent elections and policy clarity, is regaining investor confidence, particularly in export-sensitive sectors. Overall, with over two-thirds of the index outside China showing improving fundamentals, the recovery in Asian equities appears increasingly broad-based and sustainable.

Conclusion: A Fragile Recovery with Selective Opportunities

China's macroeconomic and equity outlook remains mixed but is showing signs of gradual improvement. Geopolitical risks - particularly those related to Taiwan and US trade tensions – remain significant, and real estate sector issues are only barely stabilising. However, the domestic policy environment has become more supportive, and corporate fundamentals are recovering. The government's strategic focus on technological leadership – especially in AI and advanced manufacturing – points to the emergence of new long-term growth drivers. Valuations are compelling, and several sectors are benefiting from renewed earnings momentum. On balance, we believe the risk-reward profile is improving, justifying a cautiously constructive stance on Chinese assets for long-term, risk-aware investors.

FIXED INCOME

MANUEL STREIFF / CONSEILLER

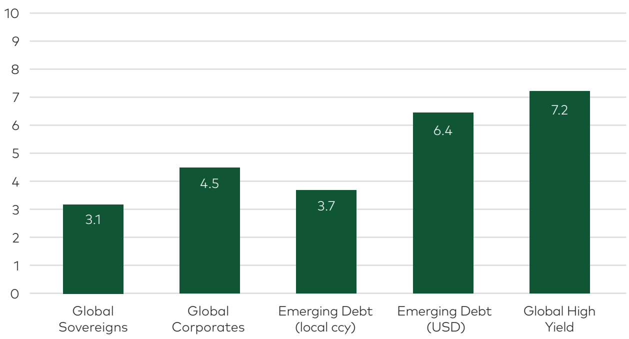
Ongoing trade negotiations and heightened geopolitical risks remain prominent sources of uncertainty for global investors. Persistent ambiguity surrounding new US tariffs has weighed on both business confidence and consumer sentiment, prompting many firms to front-load imports in anticipation of future disruptions. While employment has held firm, we anticipate a moderation in growth through the latter half of 2025.

Inflationary pressures, though currently subdued, remain a key risk. The recent escalation in US import tariffs is likely to gradually feed into domestic prices. A weaker US dollar since the onset of the year has added to upside inflation risks. Meanwhile, the spike in oil prices linked to Middle East tensions may prove transitory but, in combination with other shocks, it risks anchoring inflation expectations at elevated levels.

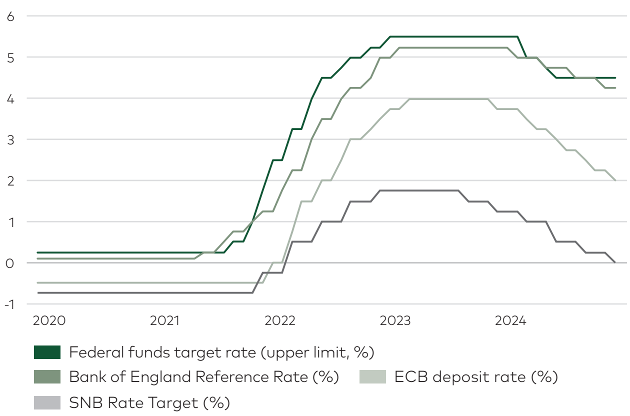
The Fed continues to adopt a cautious stance, seeking further clarity on the inflation trajectory. After misjudging inflation dynamics during 2021-2022, the Fed will likely remain patient until it is convinced of durable disinflation. However, in the event of a faster-than-expected growth slowdown, the Fed should rapidly proceed with policy rate cuts.

Trade frictions will exert more drag on European growth, though with less pronounced inflationary consequences. Increased defence spending may cushion the downturn, but a strong euro and higher energy costs will remain notable headwinds.

Yield to maturity per fixed income segments: Sovereigns, Corporates, Emerging debt in local currencies, Emerging debt in USD and High Yield



Key central banks target rates

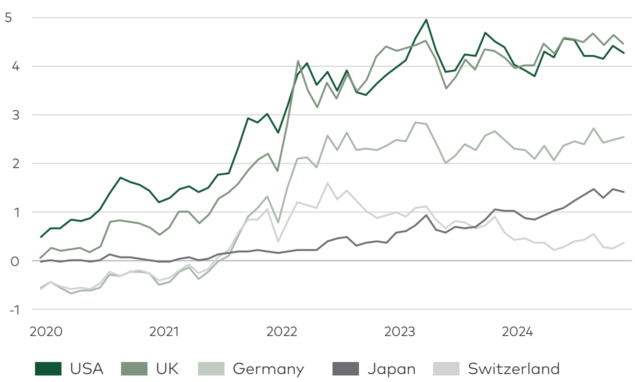


DEVELOPED MARKET SOVEREIGNS

Slowing growth into the second half of 2025 is likely to support bond markets. Fed easing is expected, with one or two 25 basis point cuts expected by year-end. Upcoming FOMC appointments are expected to lean more dovish. While fiscal imbalances and elevated debt levels stand to keep long-end yields under pressure, short- to mid-duration bonds should benefit from the policy easing.

European sovereigns are set to benefit from subdued inflation and continued international portfolio diversification. Higher-yielding European issuers also stand to gain from expanded German fiscal outlays and EU-wide defence investment.

Sovereign yield to maturity (10Y benchmarks)



With Swiss policy rates at zero and likely to move into negative territory by the end of the year, Swiss bonds have regained some of their appeal even though, from a global perspective, yields figure among the world's lowest.

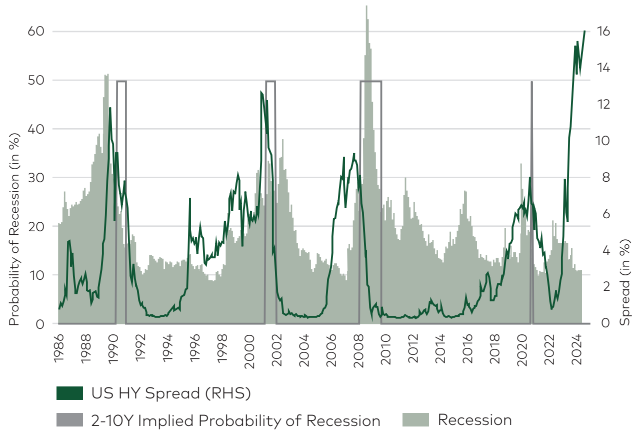
UK inflation-linked bonds have outperformed, supported by lingering concerns about inflation amid moderating growth.

US and European Corporate Spreads (Investment Grade)

DEVELOPED MARKET CORPORATES

After a brief episode of widening, credit spreads tightened significantly through May and June. Despite these narrow spreads, demand for quality corporate credit remains robust. The uptick in issuance towards the end of the second quarter was readily absorbed, reflecting ongoing investor confidence.

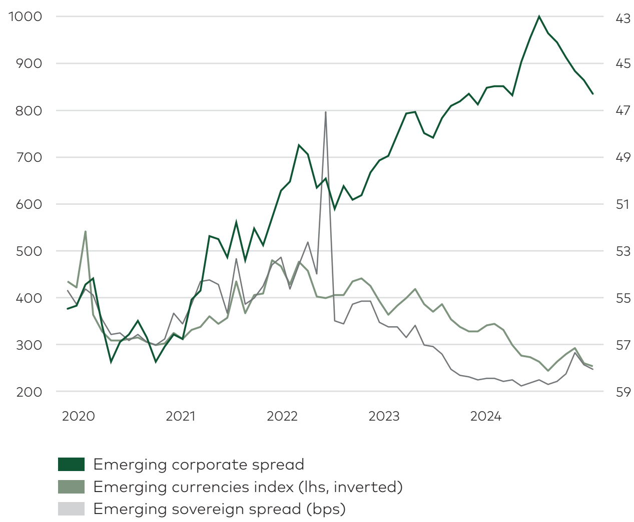
US High Yield spreads and probability of recession, as derived from the yield curve



HARD CURRENCY EMERGING MARKET DEBT

Emerging market (EM) hard currency debt has underperformed other fixed income segments but remains anchored by the prospect of lower global yields and a modestly softer US dollar. Many EM central banks now have greater flexibility to ease policy, supporting local macroeconomic stability.

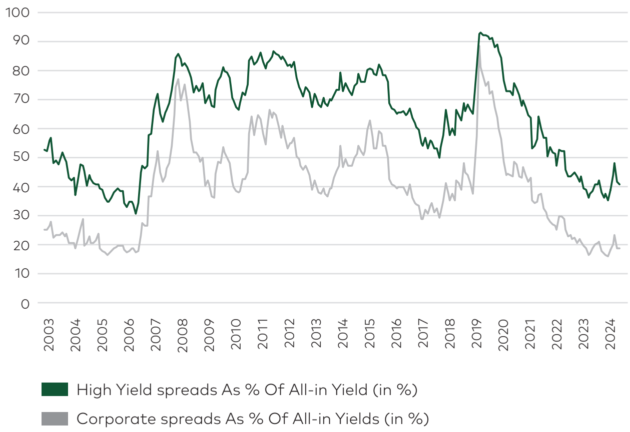
Emerging Spreads (corporate and sovereign) and emerging currencies index (vs. USD, inverted)



LOCAL CURRENCY EMERGING MARKET DEBT

Easier monetary policy in several EM economies, enabled by a weaker US dollar, continues to support local bonds. With diminished concerns about capital outflows, central banks have scope to cut rates. At the same time, EM currencies have strengthened markedly. Amid tariff discussions with the US, countries running current account surpluses have been cautious about weakening their currencies through forex purchases. In markets such as Taiwan and Korea, exporters have accelerated repatriation flows while investors have increased currency hedging, further boosting local currency strength.

Credit Spreads as % of all-in Yields



FIXED INCOME PROJECTION

Segments	Yeld (%)			Return View (12m horizon)
	USD	EUR	CHF	
Cash	4,09	1,74	-0,12	↘
Short-Term High-Yielding	4,95	2,37	0,05	↗
10y Government Bonds	4,24	2,57	0,41	↗
10y Government Inflation-Linkers	1,94	0,65	n.a.	↗

Segments	Spread over Sovereigns (bps)	Return View (12m horizon)
Developed Corporates	91	↗
Corporate Hybrids	176	↗
Developed High Yield	336	↗
Emerging Sovereigns	247	↗
Emerging Corporates	240	↗
Emerging Local-Currency Debt	n.s.	↗

Source: Bloomberg indices hedged in the respective currency

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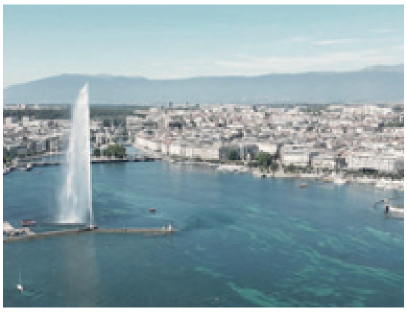

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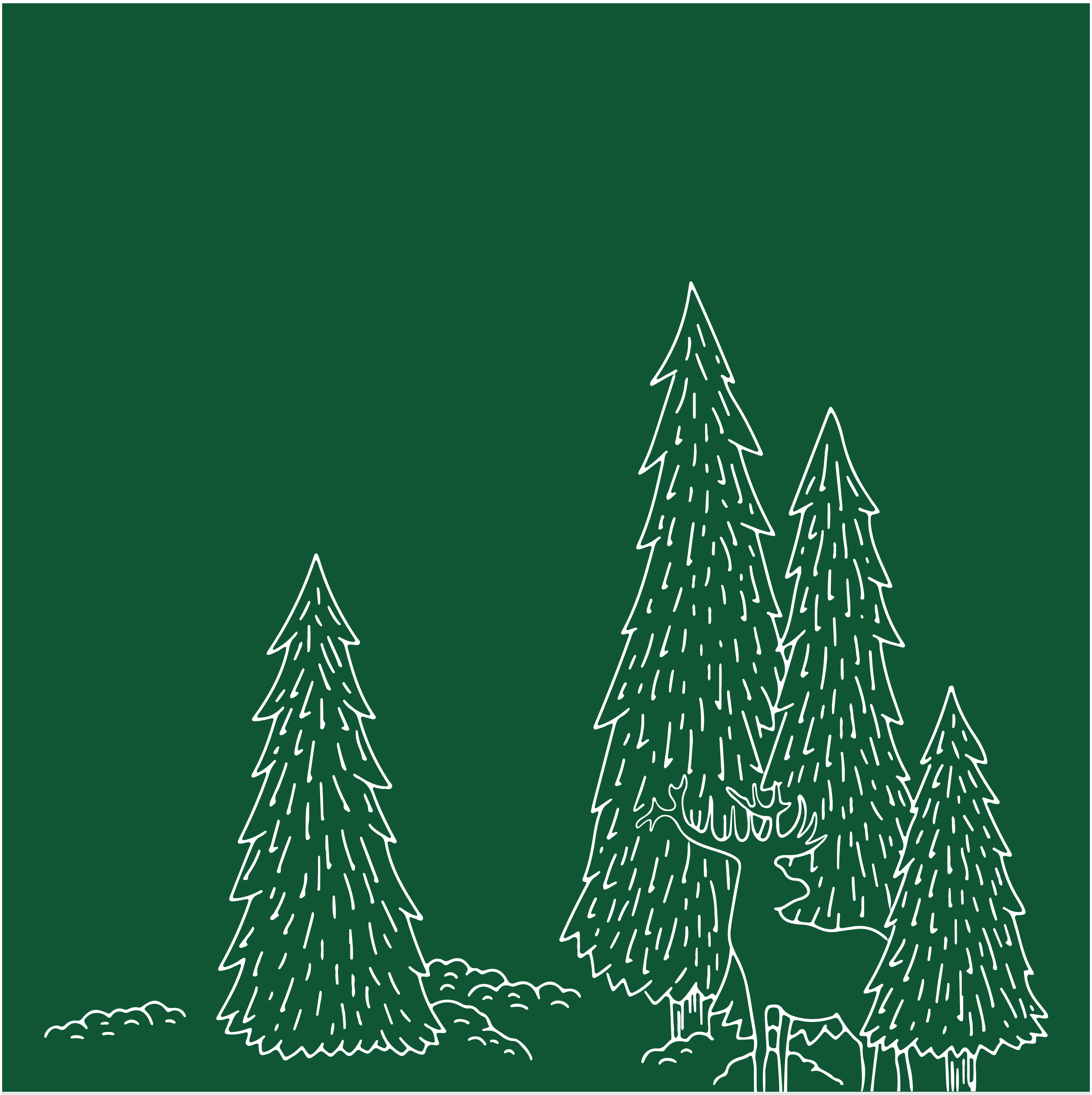

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