Capicura Partners – Outlook 3rd Quarter 2025

June 19, 2025

«Overheated markets and geopolitical clouds»

- ***High US-valuations leave little room for disappointment***
- ***Trump's tariff tango – threats, deals and chaos***
- ***US debt pile – «OBBDP» instead of «OBBBA»***
- ***SNB caught «between a rock and Trump»***
- ***Defensively positioned***

Global stock markets have been on a veritable rollercoaster ride since «Liberation Day» on April 2, 2025. Donald Trump's announcement of far-reaching tariffs, with an average tariff rate on US imports that is unparalleled since the 1930s, caused the markets to plummet. But the recovery came quickly – too quickly. Thanks to the suspension of many tariffs by the US government – derisively referred to by Wall Street as the «TACO trade» (Trump Always Chickens Out) – most indices have regained pre-crisis levels. For Swiss investors, however, the impression remains clouded: Adjusted for the US dollar's loss of almost 10% against the Swiss franc since the beginning of the year, US equities are still in the red. This discrepancy shows that the apparent recovery is deceptive. In Trump's second term, unpredictability remains the only constant and the markets are facing an uncertain summer.

US economy surprisingly robust

Despite the turbulences, the US economy has so far been surprisingly robust. Labor market data remains stable, inflation is under control and expected earnings growth 2025 of the S&P 500 is at a solid 9%. However, market sentiment appears to be overheated. The S&P 500 is trading at a 2026 P/E ratio of 22x, a level that is vulnerable given the fragile global economy and escalating geopolitical tensions. The Middle East conflict, particularly between Israel and Iran, has the potential to escalate further. Added to this are the faltering Ukraine-Russia peace negotiations and China's tough negotiating tactics in the trade dispute. The new normal seems to be a bipolar world with deglobalisation on the rise and with some tariffs remaining. Regardless of how all of the above pans out, it does not look rosy – financial markets can handle a lot, but uncertainty not!

Tariff turmoil by design

Mr. Trump's recent actions and behavior demonstrate that his words are not to be trusted. The tariff announcements initially caused chaos but were suspended for 90 days in mid-April. To date, the UK remains the only country with a deal that is signed. While the discussions with China are repeatedly commented on, the negotiations with Europe – one of the US' most important trading partners – remain surprisingly quiet. Reemergence of volatility is expected on July 8, 2025, at the latest, when the suspension of the amended tariffs expires. But Trump's erratic behavior, first making grand announcements followed by backpedaling, seems to have been fully priced in by the markets. This unreliability is undermining confidence in the US as a global leader. Companies are faced with planning uncertainty, while the risk of another surge in inflation is looming. Rising consumer prices would lead to higher interest rates in the long term, which brings us to the problem of rising US debt.

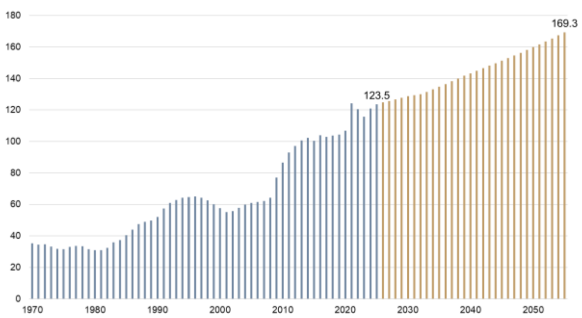

Fig. 1) US debt in percent of GDP
Data: FRED & CBO / Chart: Capicura Partners

America's debt illusion: the price of fiscal recklessness

The hope for US fiscal discipline was wishful thinking. US government debt is over 120% of GDP and could rise to over 150% by the middle of the century according to forecasts (see Fig. 1). The debate surrounding the «One Big Beautiful Bill Act» (OBBBA) has led to nervousness and rising yields on the bond markets. In reality, the OBBBA looks more like an OBBDP (One Big Beautiful Debt Pile). The US will not become insolvent, as it is indebted in USD and can theoretically print its own currency indefinitely. However, the «valve» remains the US currency, which has lost more than 9% against a basket of six major currencies (USD index) since the beginning of the year. In the short term, sentiment for the Greenback is excessively negative, which makes a technical rebound likely. Nevertheless, confidence in the USD remains fragile. In contrast, Switzerland as an «island of bliss» offers stability and security.

Switzerland – solid as a rock

The CHF remains a safe haven in times of global uncertainty, even if the Swiss National Bank is under pressure due to the strength of the currency. Large-scale currency interventions are unlikely as they could lead to trade tensions with the US. The only option is therefore to cut key interest rates (as seen today, -0.25% points to 0.0%). The markets are already pricing in negative interest rates for the second half of 2025 and the Swiss government is being rewarded for borrowing up to four years (Fig. 2)! This interest rate landscape makes Swiss dividend stocks increasingly attractive, which is why we continue to feel comfortable with our «home bias».

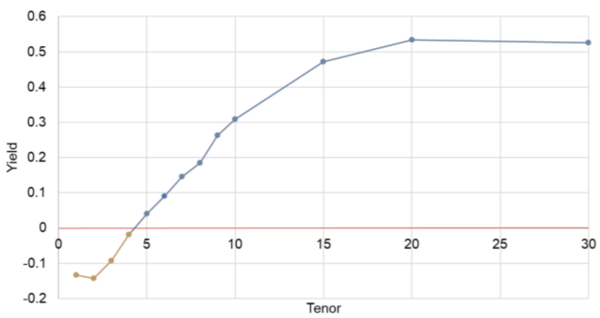

Fig. 2) Yield curve for Swiss government bonds
Data: Bloomberg / Chart: Capicura Partners

Silver in the slipstream of gold

In addition to Swiss equities, gold is also considered a safe haven in uncertain times. But caution is warranted. The precious metal has recently turned into a «crowded trade» – many investors are already invested, which increases the risk of a technical correction. Silver currently seems more exciting (Fig. 3). The technical picture is strongly reminiscent of the breakout of gold in March 2024. We have therefore reduced the gold allocation in our balanced mandates from over 8% to 6% and implemented a 3% position in silver.

Fig. 3) Silver in USD
Data: Bloomberg / Chart: Capicura Partners

Steer with caution

We expect a more difficult market environment in the third quarter of 2025. Sentiment, valuations and political risks suggest increased volatility. There are also mounting signs of a weakening US economy, and the risk of stagflation is elevated. Our strategy remains defensive: We have further increased our portfolio hedging via S&P 500 puts, which brings the delta-adjusted equity allocation in a balanced mandate to around 48% (53% without hedging).

Asset Allocation	Q3 25	Q2 25	Q1 25
Cash	8%	6%	6%
Fixed Income	20%	22%	22%
Equities	48%	50%	53%
Alternatives	24%	22%	19%

Fig. 4) *Suggested asset allocation for a Balanced Portfolio in Q3 2025*