REVIEW & OUTLOOK

Q1 2025

HYPOSWISS
ADVISORS

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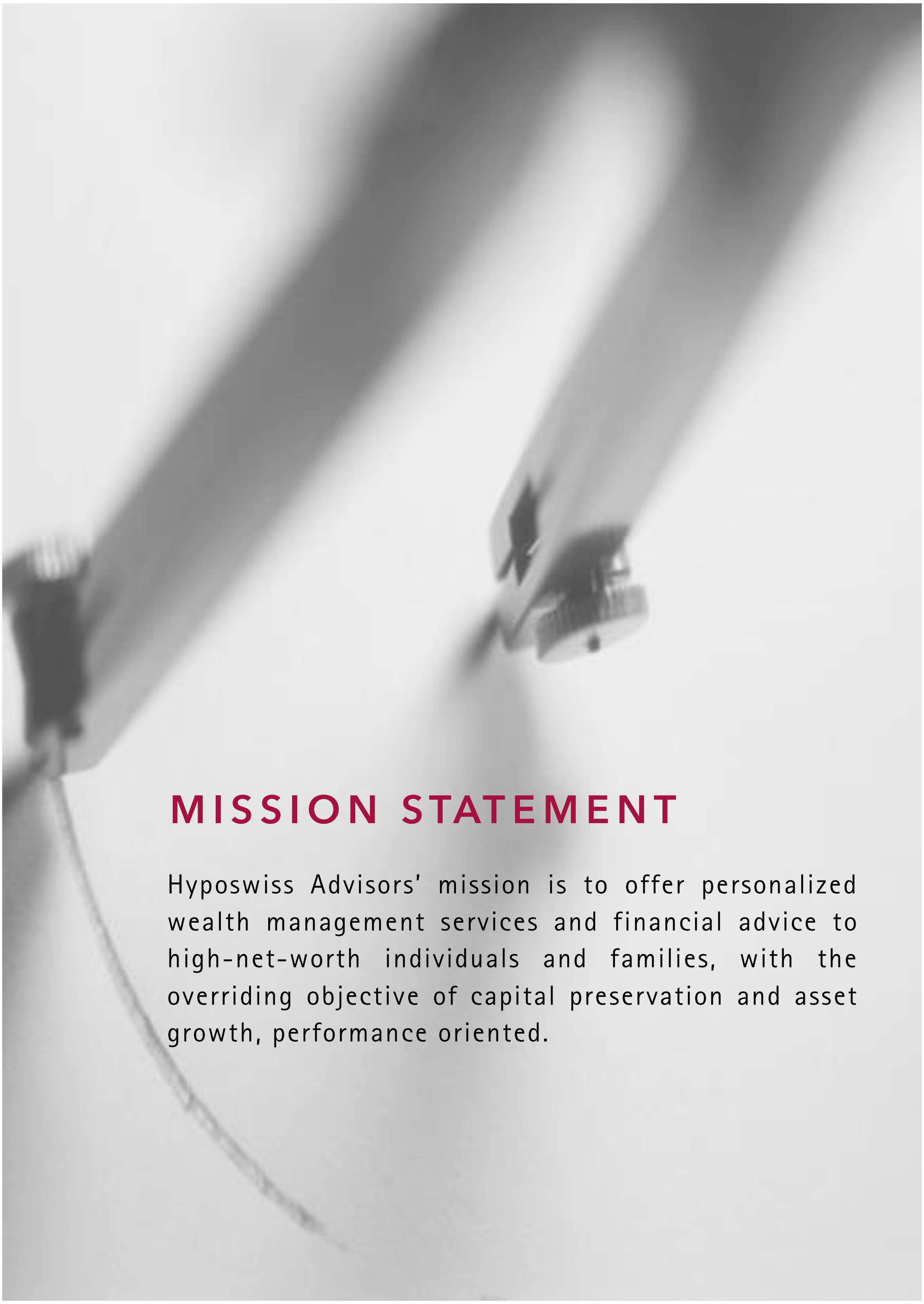
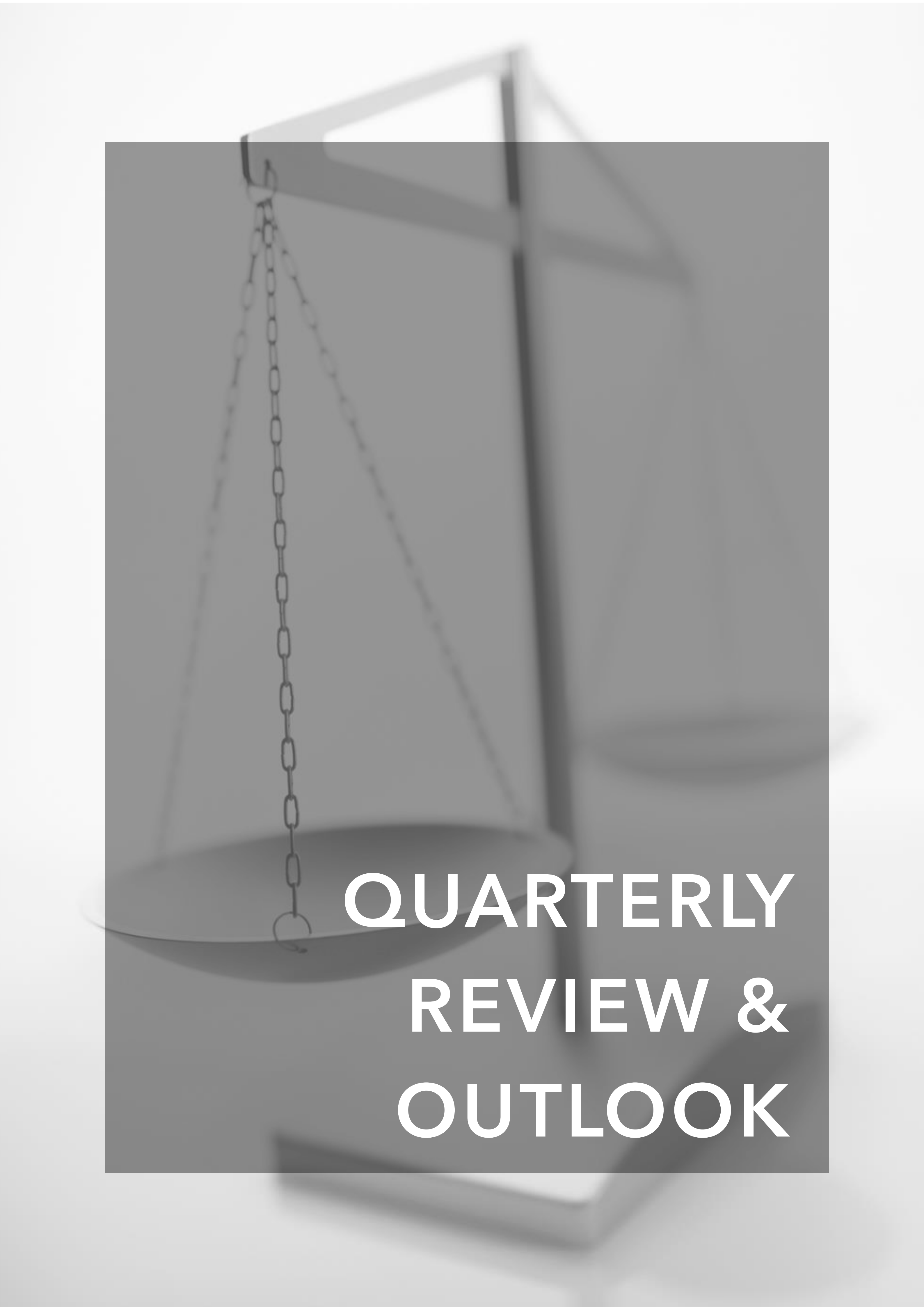


MISSION STATEMENT

Hyposwiss Advisors' mission is to offer personalized wealth management services and financial advice to high-net-worth individuals and families, with the overriding objective of capital preservation and asset growth, performance oriented.



QUARTERLY REVIEW & OUTLOOK

INVESTING WITH HIGH UNCERTAINTY

We usually start our quarterly reviews with a discussion on the macro-economic data released during the period. Unfortunately, the initial imposition by the United States administration of much higher-than-expected reciprocal tariffs on April 2nd renders this exercise pointless. There is nothing we can do with data showing a recent improvement in US inflation or an acceleration in Chinese exports.

The survey data has already heralded a slowdown in growth and a rise in inflation expectations; however, any *hard* macro data will be irrelevant until June at the earliest.

For the short term, investors are at the mercy of the ebb and flow of US economic policy news. We are unlikely to get much help from corporate guidance. To some extent, this low visibility a reminder of the early Covid-19 period.

The U-turns in official policy over the last few weeks have been unprecedented.

- Imposition of much higher-than-expected reciprocal tariffs on April 2nd (comprised of a universal US component of 10%, plus country-specific surcharges, increasing the effective tariffs rates in the US to around 25%).
- A 90-day suspension of the individual country surcharge to allow for bilateral negotiations, except for China, on April 9th.
- Subsequent increase of the tariffs on China to levels that amount to a trade embargo. This move has been matched by China and qualified as a "joke".
- Exclusion of electronic components from the bilateral China tariffs. Announcement of a sectoral tariff to be determined and announced later for semiconductors and related equipment.
- Floating of possible exemptions from the auto tariffs on certain parts to allow US manufacturers time to repatriate production to the US.

Each one of these changes, when put into economic models, has very large implications for growth and inflation. The dispersion of possible outcomes is currently extremely wide and assigning probabilities to them is nearly impossible.

The crux of the issue will be:

- What demands the US will make in its bilateral negotiations to reduce/eliminate reciprocal tariffs?
- How the China - US trade relationship will look once the extreme phase of posturing is over?

News about tariffs policy, country agreements and sectoral tariffs could go both ways. We recognize the potential for both positive and negative developments over the next 60-90 days and feel it would be unwise to "bet" either way.

IMPLICATIONS FOR ASSET CLASSES

FIXED INCOME

The US bond market has not acted in line with the historical playbook in this crisis. Yields on the long end went up (by 50 bps on 10-year Treasuries) and the US Treasuries cheapened versus swap rates, pointing to a gradual erosion of the "risk-free" status of the US Treasuries. This represents a very concerning trend if maintained.

The position we advocate in bond market is a concentration on short and intermediate maturity investment grade credits.

CURRENCY MARKETS

In the currency markets, we are witnessing a very unusual relationship. The USD is weakening despite:

– Its historical "haven" status in times of turmoil.

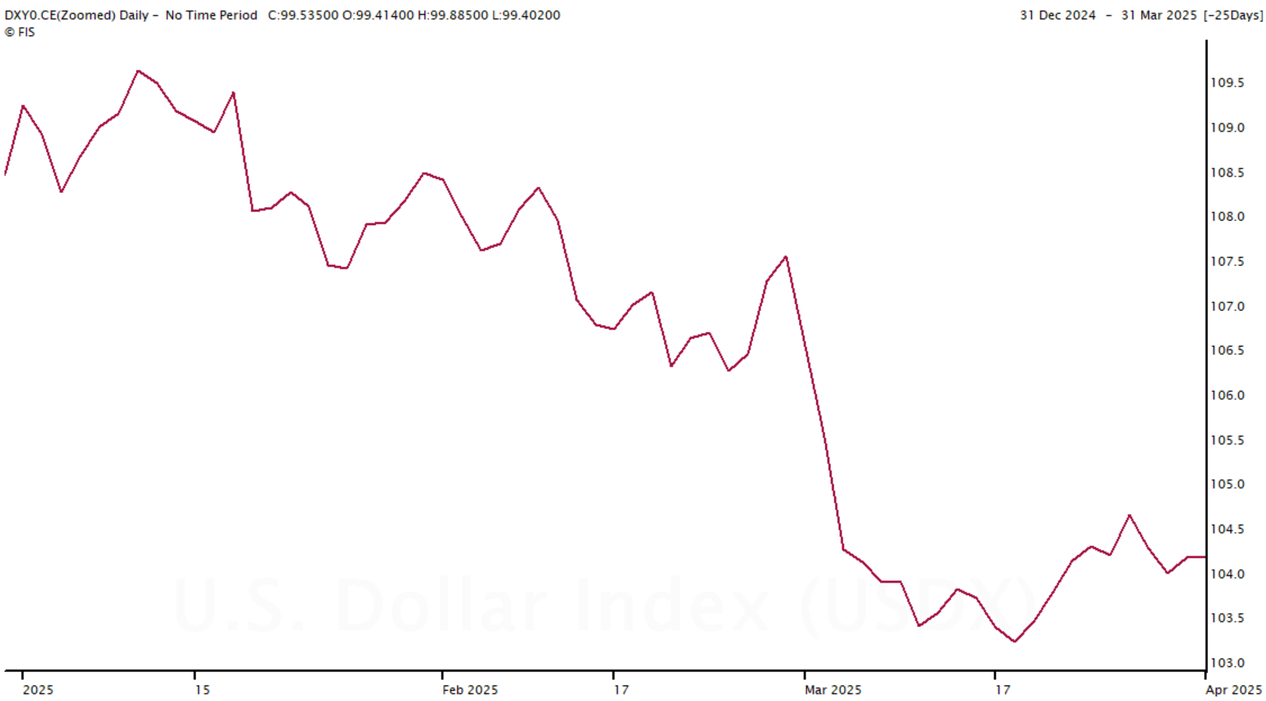
– High tariffs rates that should, in economic theory, be contributing to strengthening it (and have done so under the first Trump presidency).

– Higher bond yields in the US that should also act as a support.

All of this adds to the confusion, as positions that should historically be diversifiers or hedges end up adding to the aggregate risk of portfolios. If these correlations are maintained, they will be pointing towards a general reassessment of US assets by foreign investors.

Such a reassessment cannot be countered by the US Federal Reserve actions, as it will flow through the capital accounts. The threat of combined higher yields and a weaker USD is becoming a real concern for foreign investors in the US bond markets.

The position we advocate in currency markets is a risk averse overweight of the reference currency, and a wariness towards USD exposure in non-USD portfolios.



US Dollar Index (USDX), from 31.12.2024 to 31.03.2025
Source: MarketMap FIS

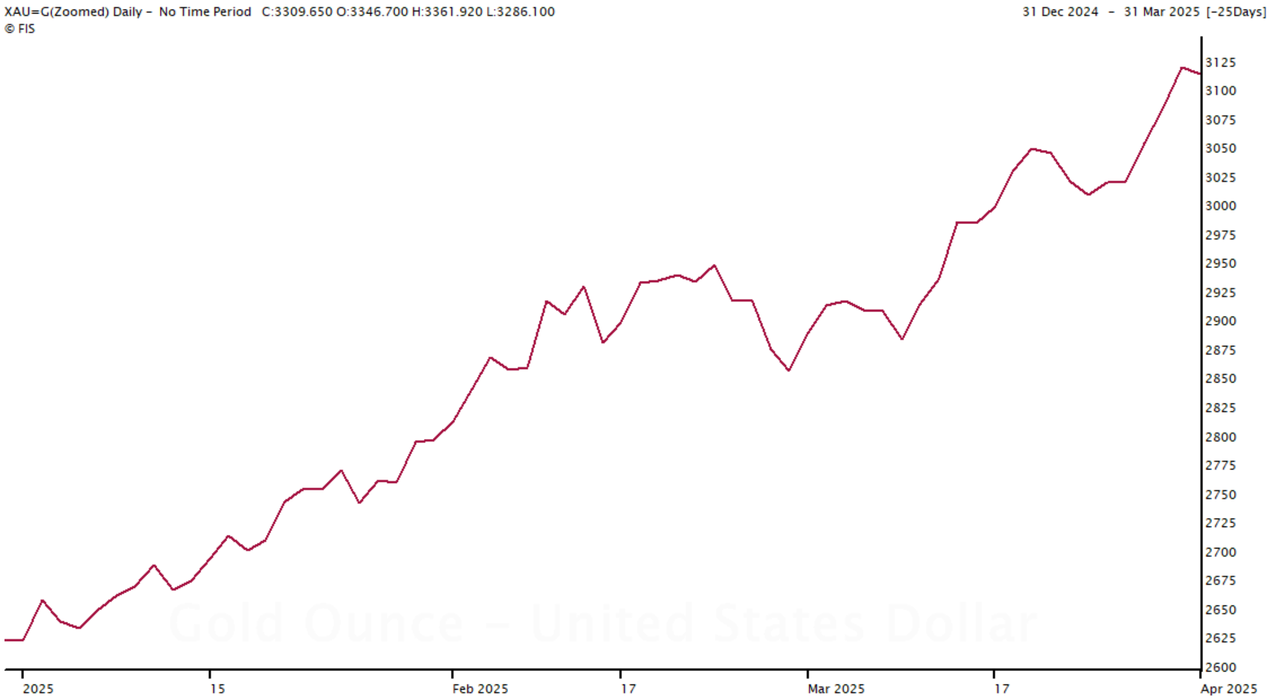
EQUITY

For equities, we recognize that the policy related news flow could go both ways in the next 60-90 days. However, the starting point is high valuations (P/E ratios around 21x for the overall US market on optimistic earnings assumptions) and for the time being high volatility. This leads us to continue to advocate a conservative allocation on a 6 to 12-months horizon. It is hard to see how macro or earnings data can be supportive of the market in the next 3 months.

Diversification outside the US has been useful for the equity part of the portfolio, and we continue to expect it to provide a positive contribution.

GOLD

Gold has proven to be an extremely effective portfolio hedge in this turmoil, and we continue to expect it to play this role as we are facing policy risks and a higher probability of a temporary stagflation scenario.



Gold spot prices in USD, from 31.12.2024 to 31.03.2025
Source: MarketMap FIS

CONTACT

HYPOSWISS ADVISORS SA

Office Address: Rue Bovy-Lysberg 10
Mailing Address: Bd du Théâtre 10
1204 Geneva – Switzerland
Tel. +41 22 310 76 40

info@advisors.hyposwiss.ch
www.hyposwissadvisors.ch

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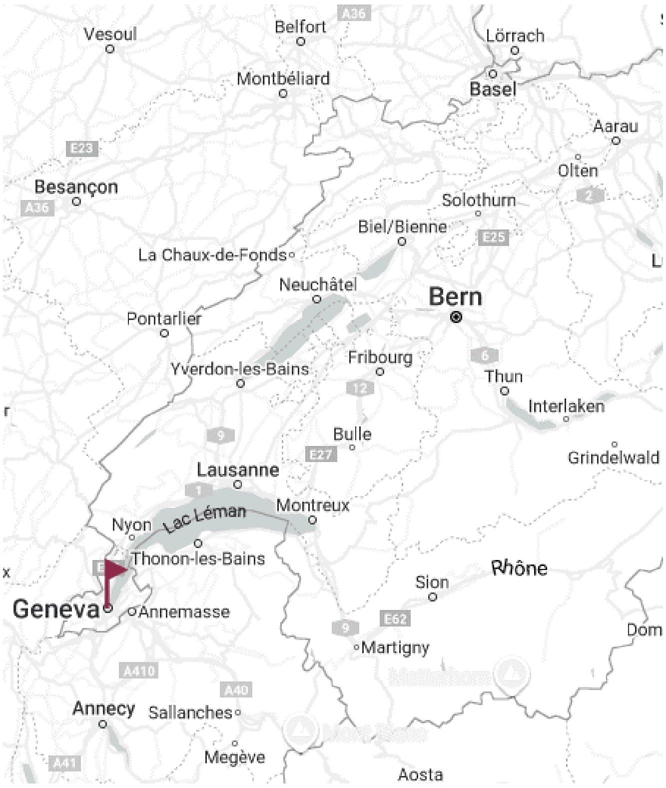

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