REVIEW & OUTLOOK

HYPOSWISS ADVISORS

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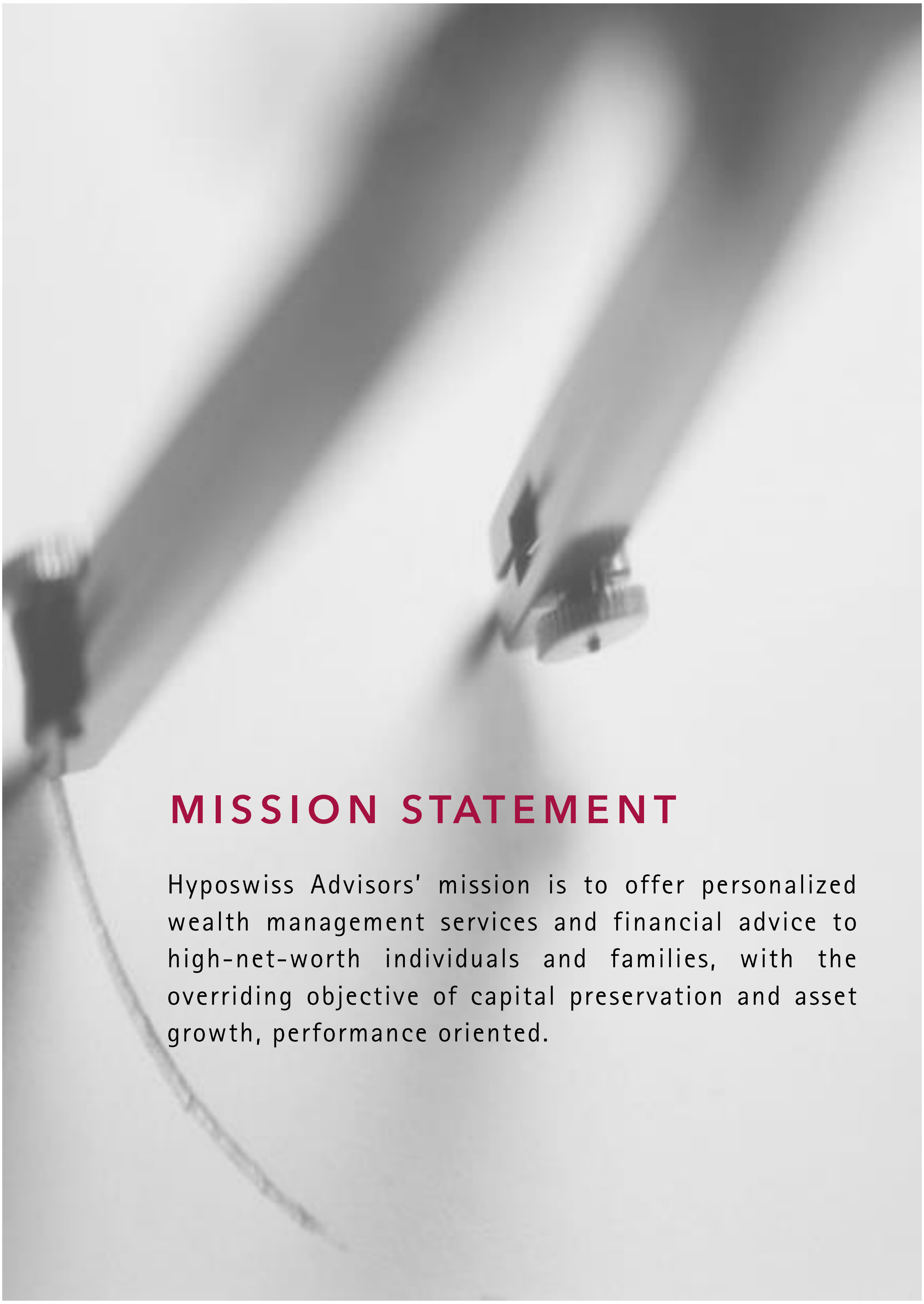
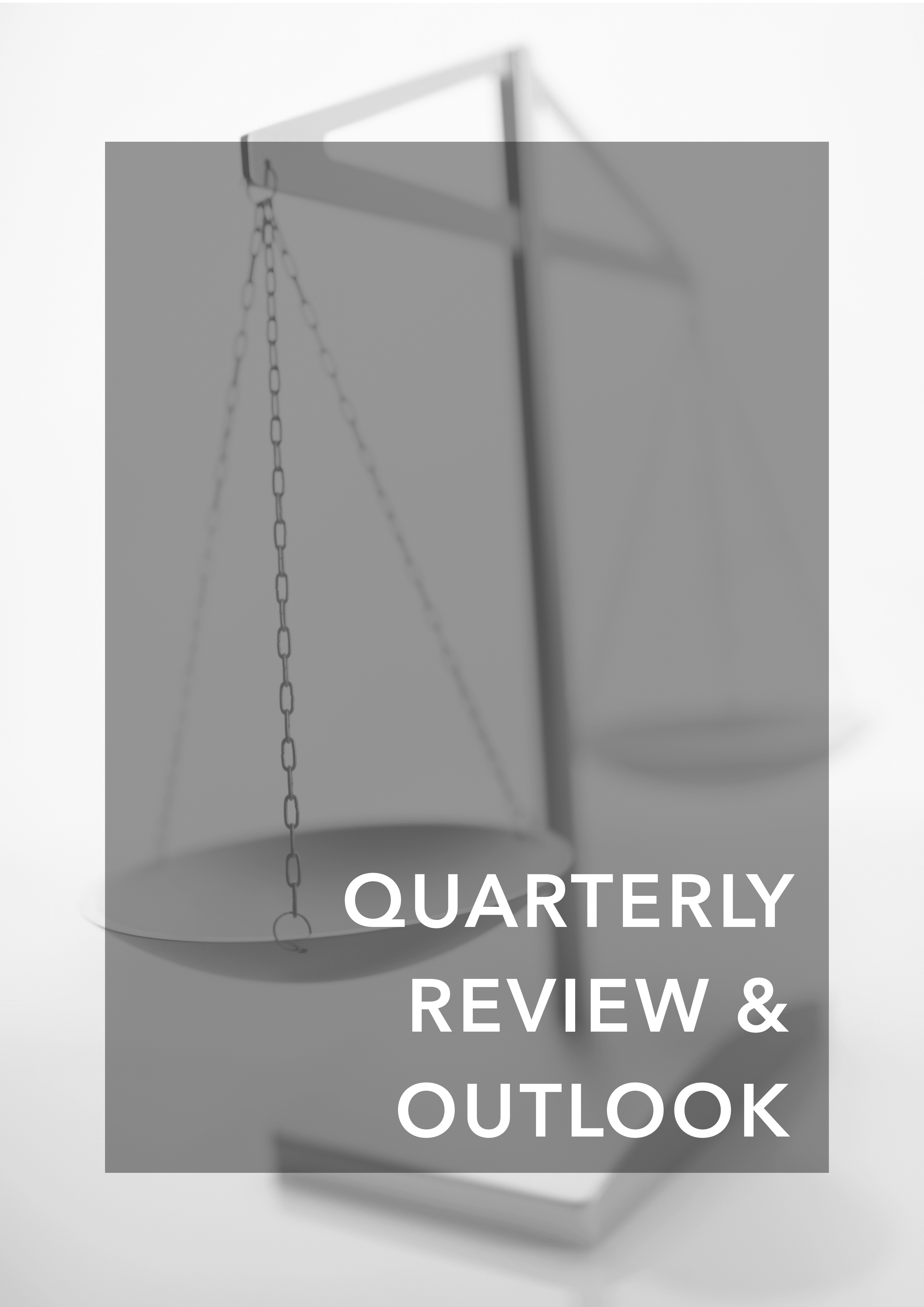


MISSION STATEMENT

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 WITHOUT A MACRO ANCHOR

Our last quarterly review was headed *Investing with High Uncertainty*. Entering Q3, we acknowledge that the level of uncertainty really hasn't changed. At the time of writing, most US trade relationships are not settled and the impact of the tariffs that will ultimately be imposed on inflation are highly uncertain. What has changed is that:

- The risk of extreme events has been reduced, as it became clear to the US administration that tariffs above a certain threshold would be punitive for the US economy.
- Underlying US inflation has been lower than expectations, perhaps because some of the tariffs have been absorbed in margins.
- Worries on the long end of bond markets stemming from larger budget deficits have been contained so far.
- The ceasefire achieved between Israel and Iran has reduced the risks to the world economy from an oil shock. More broadly, the return of the US to a (limited) interventionist role is regarded as having the potential to create some near-term stability.
- Earnings delivery in the US has been solid, especially regarding Artificial Intelligence (AI).
- US monetary policy is on hold due to tariffs uncertainty, but the FOMC retains an easing bias.

The June meeting ended with a *dot plot* forecasting two rate cuts in 2025. Several voices in the FOMC have explicitly diverged from the current consensus and are advocating resuming the rate cutting cycle despite the tariffs uncertainty ahead. Central banks outside the US have broadly continued with their easing measures, with the Euro area cutting rates to 2% and Switzerland returning to a 0% policy rate.

In Financial markets, the quarter can be summarized as follows:

- US equities ended the quarter at all-time highs, achieving a remarkable 28% recovery from the intra month lows in April.
- Credit spreads tightened back to their February lows, in both High-Grade and High-Yield, fully reversing the *Liberation Day* selloff.
- The USD continued its descend, leading to a cumulative decline of more than 10% year-to-date on a trade weighted basis.

Overall, world economic activity was resilient during the first half of the year, and inflation behaved better than expected. We expect this trend to persist in the second half, but will be watching the following points of vulnerability:

- The level of pass-through from tariffs to US inflation.
- The resilience of the US labor market.

Facing extreme volatility in Q2, we had recognized that financial markets had both upside and downside risks, which were larger than usual. On this basis, we have limited our portfolio activity to USD currency hedges for EUR and CHF based portfolios and marginally reducing the overall equity exposure. In general, we can observe that investors who adopted longer term investment horizon fared better during the quarter.

IMPLICATIONS FOR ASSET CLASSES

FIXED INCOME

In early April, investors lived through a scary episode: The US bond market sold off, together with the US dollar and US equities. This went contrary to all long-term historical correlations and pointed to an erosion of the risk-free status of US Treasuries.

Fortunately, financial markets have settled down after a few days, but we suspect some scars remain. Thus, we can now return to our traditional analysis tools for US bonds and suggest the following conclusions:

- The short end of the yield curve will be supported by renewed Fed easing over the next 12-18 months, where we expect Fed funds to reach a level of around 3-3.5%.
- Real rates and yields at the longer end of the curve will maintain a "term premium" derived from the elevated US fiscal deficit and the absence of credible measures to address it.

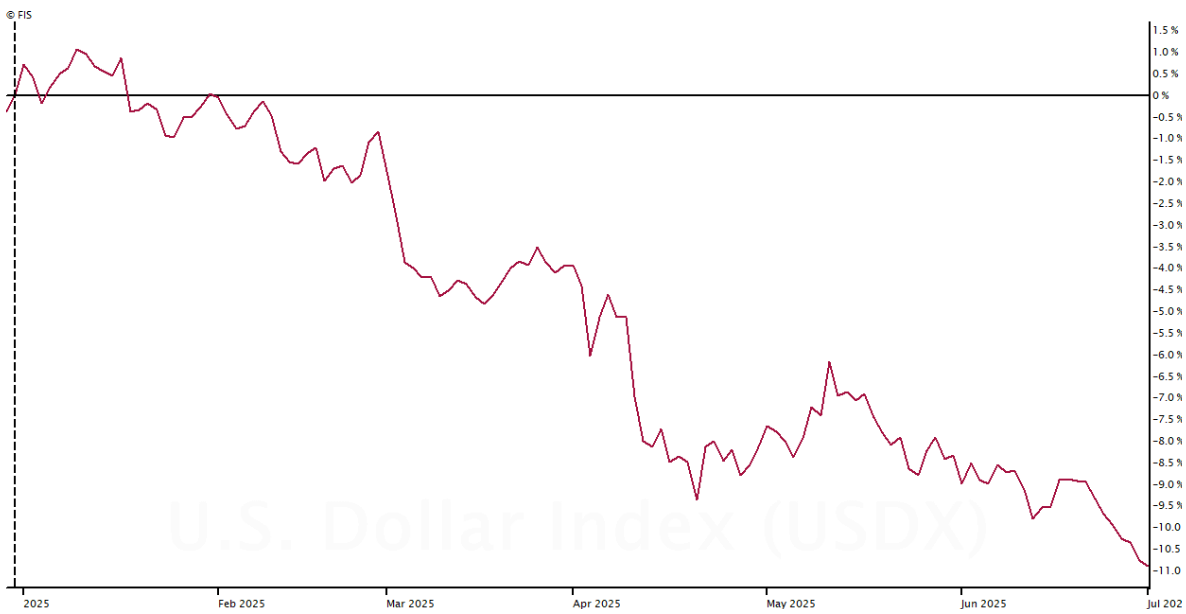
The position we recommend in US bond market is a concentration on investment-grade credits with short to intermediate maturities. Outside of the US, the monetary easing cycle is more advanced and fully reflected in bond yields, leaving little opportunity for diversification.

CURRENCY MARKETS

As the quarter ends, the US currency stands out as the only remaining casualty from *Liberation Day*. Equities and credit spreads have fully recovered from their April tariffs induced sell off, and the bond market is back to its normal functioning. The US dollar; however, has continued to decline and is now 10% lower year-to-date on its trade-weighted index. This weakening trend has been in force irrespective of the short-term gyrations of risk markets or of interest rate differentials, and therefore appears structural. The underlying forces behind these moves are:

- The absence of any credible policy to address US budget deficits and the associated long-term doubts around US fiscal sustainability.
- The overhang of accumulated USD holdings by non-US investors.
- Shifting trade policies which are reducing capital flows into the US.

We continue to advocate for a significant hedge ratio to cover the USD exposure in non-USD portfolios.



US Dollar Index (USDX), from 31.12.2024 to 30.06.2025

Source: MarketMap FIS

EQUITY

For equities, the news flow related to AI investment spending continues to be impressive. Q1 results and NVIDA's earnings in late May highlighted how the infrastructure build-out phase of the AI revolution is continuing, regardless of uncertainties affecting other areas of the economy. Going forward, the fundamental strength of some of the largest market capitalizations, the strong earnings delivery so far in 2025 and the solid outlook for earnings into 2026 (+7% expected) keep us fully invested in this asset class. We cannot exclude near-term earnings weakness linked to the implementation of tariffs but expect investors to mostly look through this type of weakness.

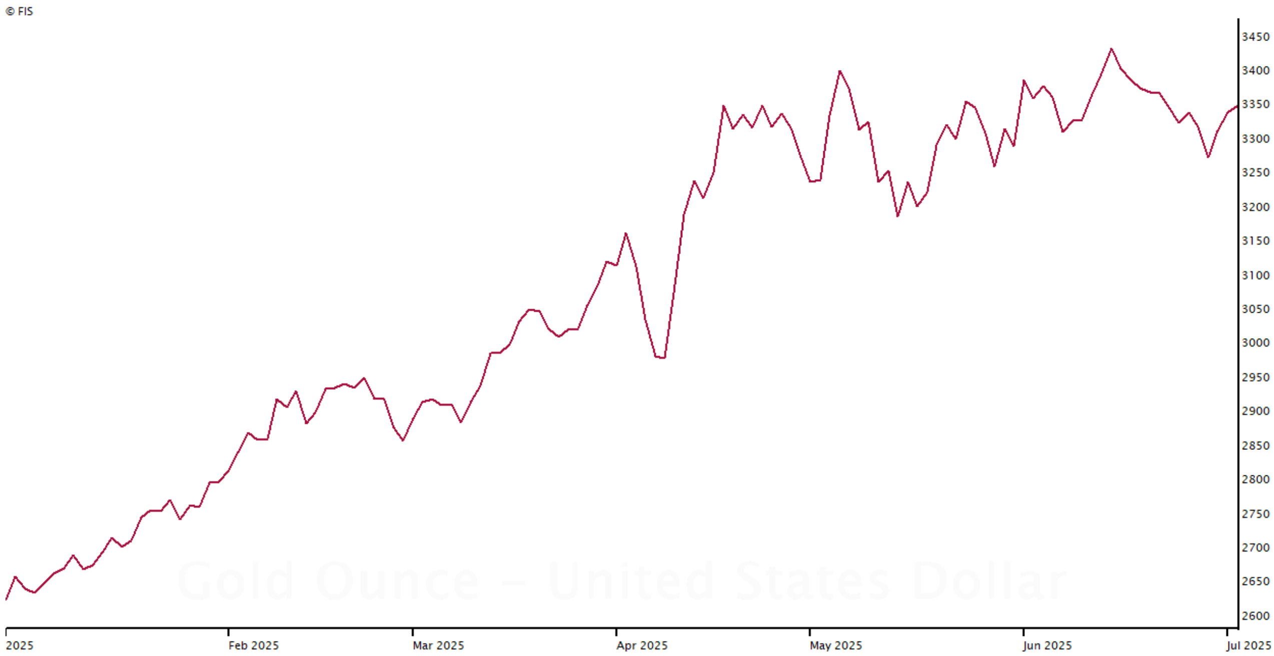
Outside of the US, the German budget unveiled in June indicates large fiscal easing with a more front-loaded implementation, boosting near-term growth in the Euro area.

We expect a range of European corporates to benefit from this improving environment.

GOLD

Gold has acted as a reliable hedge against many of the risks that have materialized during Q2 (geopolitics, attacks against the Fed independence, weaker USD and excessive fiscal expansion).

We expect the precious metal to be supported by structural doubts on long-term fiscal sustainability and continued purchases from central banks.



Gold spot prices in USD, from 31.12.2024 to 30.06.2025
Source: MarketMap FIS

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