

REVIEW & OUTLOOK

Q3 2025



HYPOSWISS
A D V I S O R S

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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.

A pair of scales of justice, symbolizing law and equity. The scales are shown in a grayscale, slightly blurred image. The left pan is lower than the right pan, indicating it is heavier. The scales are suspended by a chain from a central point.

QUARTERLY REVIEW & OUTLOOK

RESILIENCE AT NEW HIGHS?

Our last quarterly review, written in July of this year, was headed *Investing without a Macro Anchor*. It turns out that a macro anchor is not needed when investors see a booming AI capex cycle.

For the third quarter, the fundamental trends in the world economy can be summarized as follows:

- The effects of tariffs on US inflation are contained so far, but risks for the next few quarters have not disappeared.
- A willingness to recognize the risk in the US labor markets and to preempt them through lower rates has been confirmed by the FOMC through its 0.25 points easing on September 17. Despite upside risks to inflation, the US central bank messaging implies a further two cuts in 2025.
- The business sector is sending conflicting signals. Labor demand is faltering, and job growth in developed markets has markedly slowed. Global Capex ex-China rose by 11% in the first half and appears to be continuing its upward trend. According to analysts, a full third of the current US GDP growth can be ascribed to the rise in capex.
- A series of financing deals announced in September have the potential to amplify and extend the AI capex cycle. The common thread of these transactions is that they transfer financing from weaker to stronger players and add debt to the funding mix (AI capex had so far been funded out of cashflow). These deals are accretive to overall capex, but inevitably add to the risks going forward in case monetization of these investments are not coming through.
- The absence of a settlement of the US – China trade relationship.
- Macroeconomic uncertainties stemming from the unknown duration of the US government shutdown.
- Uncertainty as to the effects of USD tariffs on inflation and economic activity going forward.

In Europe, the challenges arising from French political uncertainty are affecting the sovereign ratings and spreads. At the Eurozone level, improved credit metrics elsewhere, particularly in Italy, help offset these effects.

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

- US equities ended the quarter at all-time highs, achieving a total return of 8.12% for Q3 and a year-to-date return of 14.81%. The technology and industrial sectors are leading performance this year.
- Real rates declined substantially, benefiting from the onset of a Fed mini easing cycle. Ten-year inflation-indexed Treasuries are trading at a real yield of 1.80%, down from a cycle high of 2.50%.
- Credit spreads have remained historically low through the quarter, yet issuance levels have stayed strong.
- The USD continued its descent, leading to a cumulative decline of more than 10% year-to-date on a trade weighted basis.

Risk assets rallied sharply during the quarter, despite:

- Emerging signs of stress in US credit markets (e.g. First Brands Group's bankruptcy filing).

- Gold broke from its previous range and reached levels above USD 4,000 in early October. The fundamentals we had been pointing to in the past – structural concerns over long-term fiscal sustainability, continued central bank purchases, and risks to the Fed's independence – remain in full force. In September, we also observed private investors diversifying significantly into gold, as reflected by ETF flows.

Overall, world economic activity was resilient during the quarter, and inflation behaved in line with central banks expectations. For the future quarters we will be watching the following points of vulnerability:

- The level of pass-through from tariffs to US inflation and economic activity.
- The resilience of the US labor market.
- The upside and downside risks emanating from the AI investment boom. Technology investment continues to power US economic resilience. AI-related capital spending will likely remain a driver of US investment growth through 2026. Beyond that, continued investment in infrastructure (data centers and specialized chips) will depend on adoption and monetization trends. It is worth remembering that China is also aggressively building out a parallel AI infrastructure, helped by government incentives and industry adoption targets.

OUTLOOK FOR MAJOR ASSET CLASSES

FIXED INCOME

US markets gained in August, in anticipation of Fed easing, and were able to maintain the gains in September. The weakness registered in job markets was not enough to force yields much lower on the back of the effective easing move, because many other indicators (such as retail sales and GDP data) pointed in the opposite direction.

We expect expansive fiscal policies to remain a source of concern over time and to contribute to continued yield curve steepening. Hence, we continue to favor positioning on the short-to-intermediate part of the yield curve. This area stands to benefit from monetary easing without being exposed to unfavorable structural factors.

The Swiss National Bank left its policy rate unchanged at 0% during its September meeting, showing a high threshold for a return to negative rates. In its baseline scenario, the SNB "anticipates that growth in the global economy will be subdued over the coming quarters. Inflation in the US is likely to remain elevated for some time. In the euro area,

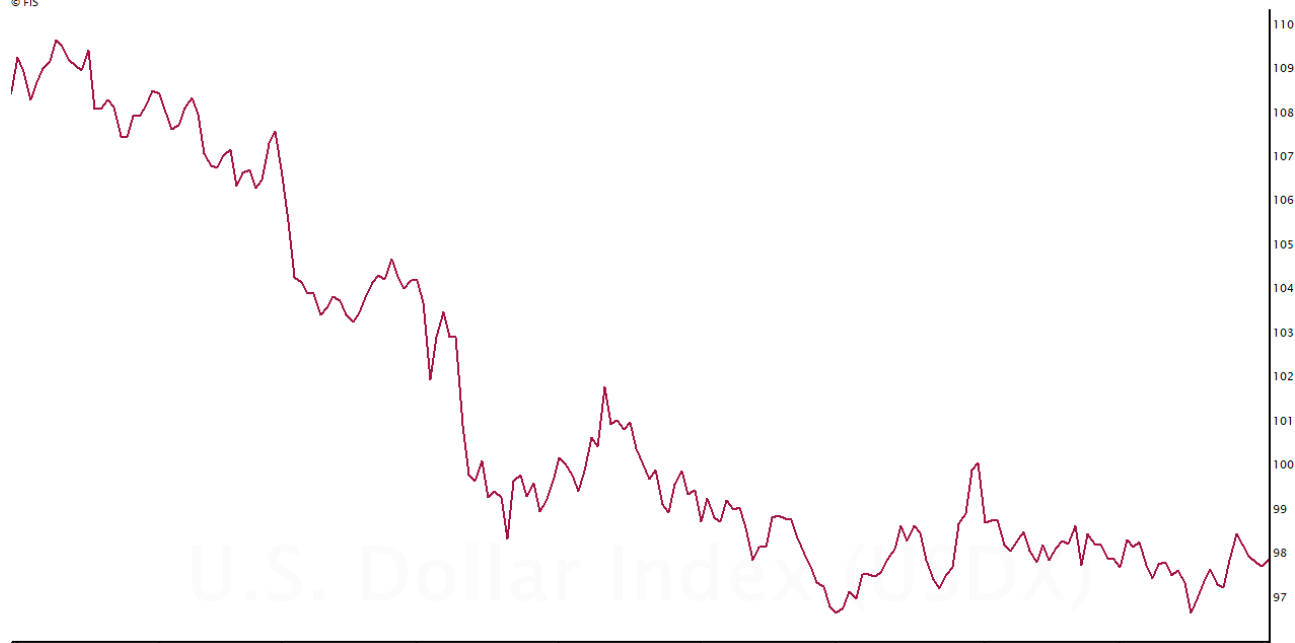
on the other hand, inflation is expected to stay close to target."

This leaves CHF fixed income investors with little-to-no yield in risk-free assets across the curve and is likely to continue and penalize the performance of CHF-based portfolios.

CURRENCY MARKETS

We continue to advocate for a significant hedge ratio to cover the USD exposure in non-USD portfolios. Over the longer term, we expect the USD to decline on the back of fiscal sustainability worries and a revealed preference for a weaker currency by the US administration.

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US Dollar Index (USDIX), from 31.12.2024 to 30.09.2025
Source: MarketMap FIS

EQUITY

In addition to the likely amplification and extension of the AI infrastructure investment cycle discussed above, equity markets benefitted from the removal of some of the uncertainty affecting the beleaguered healthcare sector. Specifically, tariffs into the US will be subject to extensive exemptions, and price controls on drugs sold in the US are likely to be less punitive than expected, based on the Pfizer's agreement template. The beginning of a Fed easing mini-cycle and stability in real yields provides macro support.

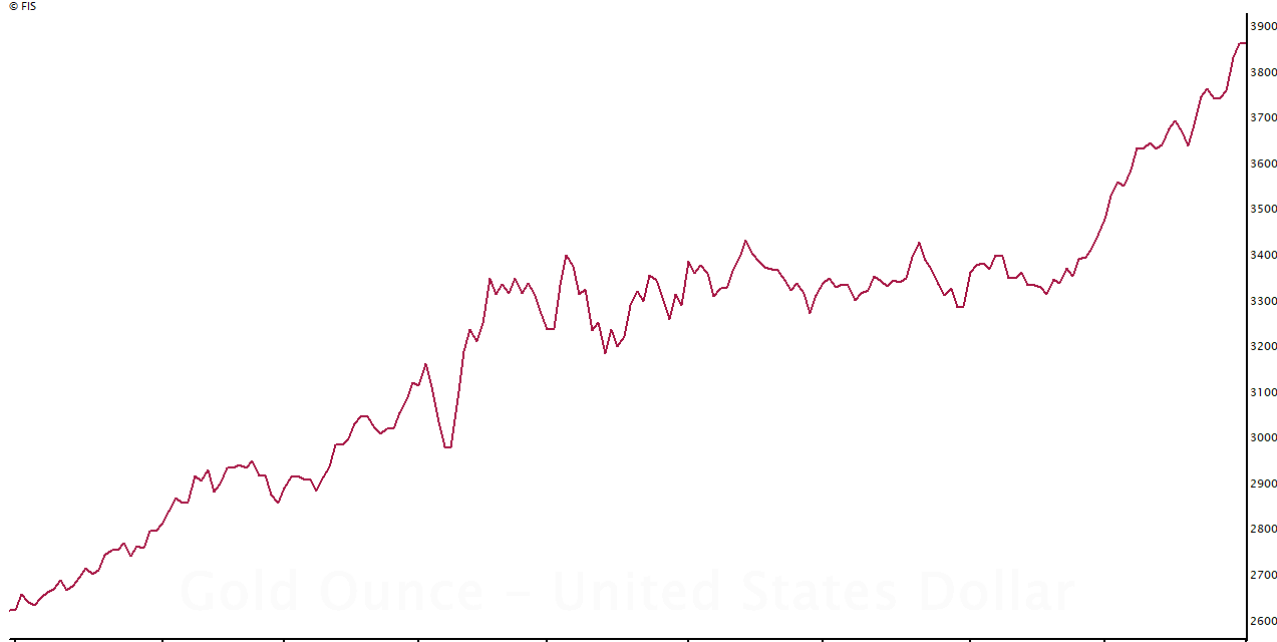
Going forward, further appreciation is somewhat contained by current expensive valuations. However, we are pointing out that the decline in real yields during the past two months means that the equity risk premium has not contracted during this period.

Despite the S&P 500 trading near record highs, and growing concern about an equity market bubble, US equity investor positioning remains in light territory, according to our preferred indicators.

GOLD

Gold has been a significant source of return for our portfolio's year-to-date, and we acknowledge that it also is a significant component of our risk allocation going forward. Given the arguments based on structural diversification flows from end investors, we maintain a large allocation to gold in portfolios, despite the substantial year to date rally. Analysts are flagging the relatively small size of the gold market – gold ETF holdings account for only about 1.50% of privately owned US Treasuries. Therefore, a relatively small diversification step out of fixed income may create additional upside even from current levels.

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Gold spot prices in USD, from 31.12.2024 to 30.09.2025
Source: MarketMap FIS

“Luck shouldn’t
be part of your
portfolio.”

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Expect the expected

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