Market Commentary
1st Quarter 2025

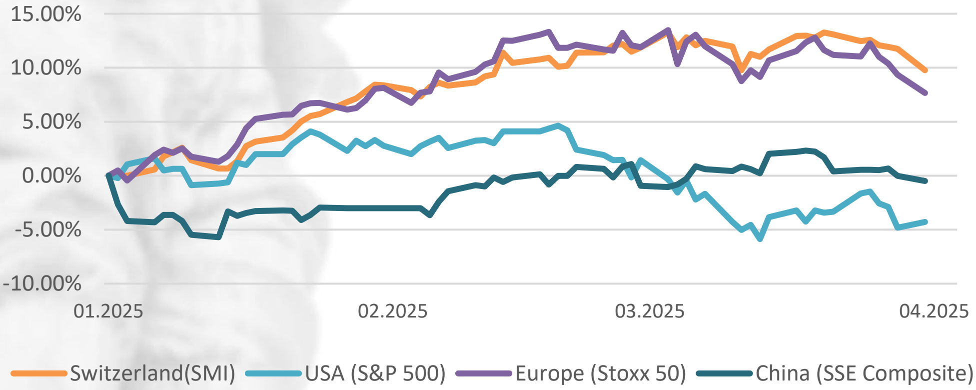
Business Activity and Global Economy

In contrast to 2024, when U.S. equities outperformed European stocks, markets on the old continent had a stronger start into the year 2025. Notably, the German stock market emerged as a key beneficiary in 2025, posting substantial gains through mid-March, before being caught up in the global market corrections towards the end of the quarter.

The European equity rally was primarily fueled by geopolitical tensions within the U.S., investment commitments from Germany, and interest rate cuts by the European Central Bank. The announcement by the incoming German government to issue new debt for infrastructure modernization and to bolster Germany's defense capabilities was particularly well-received by investors. Simultaneously, many institutional investors were deterred by President Trump's trade policies and tariff threats, resulting in a capital shift towards European markets. A detailed analysis of the impact of Trump's tariff strategy on the equity markets is provided on the final page.

Sector performance data reveals that technology stocks, particularly those that had been buoyed by last year's AI hype, were among the largest underperformers. The release of the DeepSeek AI model in China, which was developed in a short timeframe without the newest microchips, raised concerns over the valuation of U.S. tech companies. Nvidia, a market leader in semiconductor development, was notably affected, with its stock shedding more than 16% in a single trading session. On the automotive front, the market reacted negatively to the Trump administration's tariff proposals, delays, and eventual implementation. European automakers and suppliers were disproportionately impacted, as they face, additionally to the tariff threats, a shrinking market share in China, their second-largest market. In this volatile environment, gold benefitted as a safe-haven asset amidst heightened uncertainty.

Figure 1: Stock Indices in Local Currency in the 1st Quarter of 2025



Source: Refinitiv, Datastream as of 31.03.2025

Key Takeaways

- European and Swiss equity markets had a stronger start in 2025 compared to their U.S. counterparts
- The announced and partially implemented tariffs on U.S. imports created market uncertainty, leading to volatility
- Gold benefited in this environment, maintaining the positive performance from the previous year
- The USD continued to weaken against the EUR and CHF due to persistently high interest rates and the trade policy pursued by the current U.S.-administration
- The release of the DeepSeek AI model created uncertainty among investors, leading to significant declines in stocks that had been buoyed by the AI hype
- The announced issuance of additional government debt in Germany to restore military capabilities and modernize infrastructure supported equity markets and caused yields on government bonds to rise

Monetary Policy

In light of the ongoing uncertainty surrounding economic and inflationary developments, the U.S. Federal Reserve decided to hold rates steady, leaving the federal funds target range at 4.25% - 4.5%. While consumer sentiment in the U.S. deteriorated over the quarter and the labor market appears to be gradually loosening, the impact of existing and future tariffs on inflation remains difficult to assess.

U.S. inflation remains above the 2% target, rising to around 3% from September to January before cooling slightly in February. In this environment, the Trump administration has announced or implemented potentially inflationary measures, such as a restrictive immigration policy, tax cuts, and tariffs on imports.

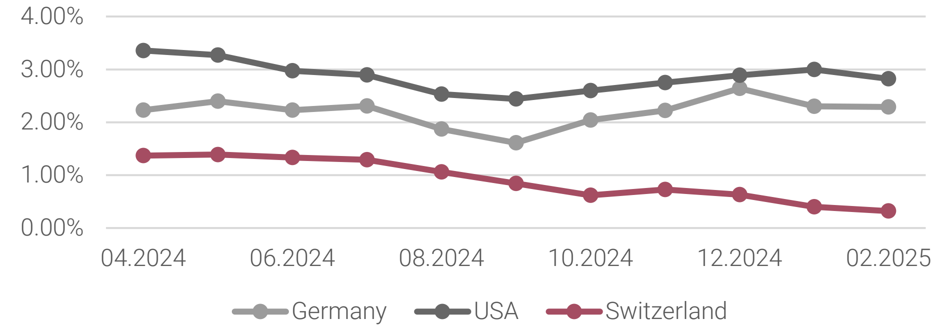
Despite high inflation, investors, driven by higher volatility in the equity markets, have increasingly sought refuge in U.S. Treasury bonds, pushing up their prices and consequently driving down yields. This trend was further supported by the Republican Party's political dominance in both chambers of Congress, which facilitated the passage of the debt ceiling increase in February without any discussions.

In Europe, the European Central Bank (ECB) opted to reduce the main refinancing rate to 2.5% in two steps during the first quarter. ECB president Christine Lagarde responded to the declining inflation figures and the persistently challenging conditions in the real economy, particularly in the manufacturing sector, which has been struggling due to, among other factors, declining demand from Asia. In this context, the U.S. government's announced tariffs on EU goods present a particularly unfavorable development. Inflation in the Eurozone has also moderated in recent months, with March estimates at 2.2%. However, there are significant disparities between countries, with large economies like France and Italy showing inflation rates below 2%, while Spain and Germany have also seen inflation approaching the 2% mark in recent months.

In Switzerland, the Swiss National Bank (SNB) lowered its policy rate by a quarter percentage point to 0.25%, bringing Swiss monetary policy back close to negative interest rates, though such measures have been assessed as unlikely by policy makers going forward. This decision was made to solidify the low inflation rate of 0.3% (February) within the target band of 0% - 2%, support the weak but solid economic growth, and make the Swiss franc less attractive. The U.S. government's announced tariffs could have a double impact on Swiss exports, particularly in the heavily represented pharmaceutical sector. First, directly through tariff duties on Swiss goods entering the U.S., and second, through a potential appreciation of the Swiss franc against the U.S. dollar due to geopolitical uncertainty, which would further increase the cost of exports.

In Asia, the Bank of Japan (BoJ) raised interest rates to 0.5% in January, reaching the highest level since the financial crisis in 2008. Given solid economic and wage growth, the BoJ expects inflation to remain sustainably high, justifying further rate hikes. As a result of the interest rate increase and ongoing uncertainty in the U.S., the Japanese yen strengthened against the U.S. dollar throughout the first quarter.

Figure 2: Inflation Rates Over Time (Annualized Rates)



Market Data

Equity Markets Perf.	2025*
SPI	8.58%
DAX	11.32%
Euro Stoxx 50	7.66%
S&P 500	-4.27%
Nasdaq Composite	-10.42%

Yield to Maturity of Government Bonds	in %
10Y Swiss Federal Bond	0.56%
10Y German Federal Bond	2.77%
10Y US Treasury	4.21%

Gold (oz.) Perf.	2025*
in CHF	16.22%
in EUR	14.12%
in USD	19.04%

Commodities Perf.	2025*
Oil Brent	3.55%

* Performance in local currency, as of 31.03.2025

Source: Refinitiv, Datastream

Source: Refinitiv, Datastream as of 31.03.2025

Financial and Capital Markets

In the beginning days of the first quarter of 2025, it appeared that technology stocks and U.S. equities were continuing their upward trajectory. However, the approaching inauguration of Trump and the contradictory statements from his administration led to increased volatility and a trend reversal in equity markets.

In the initial phase, European and Swiss stocks emerged as beneficiaries, posting significant gains over the quarter. Particularly, value stocks, those with relatively low price-to-earnings ratios and stable cashflows, outperformed growth stocks. Additional factors boosting Europe and Switzerland included ongoing interest rate cuts of the European Central Bank amidst falling inflation. Simultaneously, announcements from the incoming German government regarding increased debt issuance supported equity prices and propelled certain sectors to new highs.

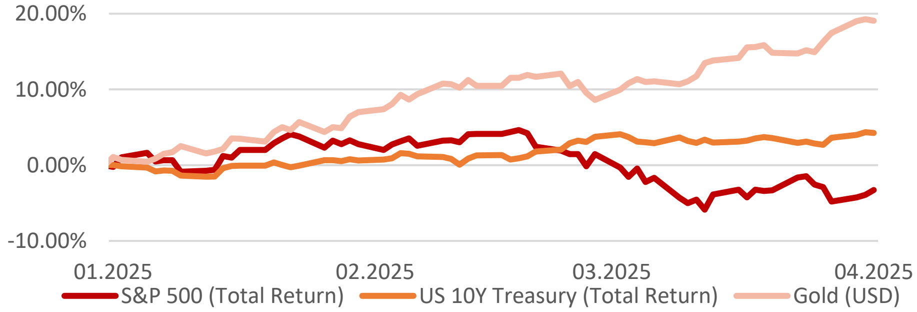
German defense stocks, such as Rheinmetall, saw significant gains, likely due to their anticipated role in the modernization of European military forces. Defensive stocks like Nestlé, after a modest 2024, saw also a strong rebound in the first quarter of 2025. Other Swiss stocks that stood out positively included insurers and healthcare blue chips like Novartis and Roche.

In contrast, technology stocks faced challenges in the first quarter of 2025. Alongside declining expectations for interest rate cuts amidst persistently high U.S. inflation, the release of the DeepSeek AI model heightened investor uncertainty. The model was developed without the latest-generation chips and at a lower cost than the largest U.S. models. This marked a turning point in the AI industry, as the prevailing market belief had been that only expensive chips and larger datasets could enable developers to build better models. As a result, companies specializing in the development of AI training hardware, such as Nvidia and Broadcom, saw declines in market value. Nonetheless, large firms like Microsoft and Nvidia continued to see robust growth in operational revenues and remain highly profitable.

Also among the losers were U.S. companies in the discretionary consumer goods sector, such as travel agencies, restaurant and hotel chains, and automakers, which saw declines due to weakening consumer sentiment in the U.S. Automakers, in particular, faced significant sell-offs due to the threatened and partially implemented tariffs. The decline was particularly pronounced for Tesla, which struggled not only due to U.S. consumer sentiment but also due to increased competition from Asian automobile manufacturers like BYD.

Geopolitical uncertainty, stemming not only from U.S. tariff policies but also from the ongoing conflict in Ukraine, tensions in the Middle East, and issues surrounding Taiwan, pushed investors into safe-haven assets like bonds and gold. While bond yields in Europe rose in anticipation of new debt issuance, yields on U.S. Treasuries continued to decline. Gold, however, remained a constant, continuing the price gains from the previous year into the first quarter. The sustained demand from central banks, coupled with increased investor interest, led to higher inflows into gold-backed ETFs. Additionally, persistent inflation likely prompted many investors to diversify their portfolios by adding gold alongside fixed-income securities, further driving up prices.

Figure 3: Total Return of the S&P 500, 10Y Treasuries and Gold for the Q1 of 2025



Asset Allocation

Asset Class	Positioning
Cash	Overweight
Fixed Income	Underweight
Equity	Small Underweight
Gold	Strong Overweight

- We continue to maintain an overweight in liquidity, ensuring a strong position to navigate market volatility
- We remain underweight in fixed income, although we have modestly increased our bond holdings over the quarter
- Within fixed income, our focus is on quality, particularly corporate bonds from companies with low leverage
- Our equity allocation remains underweight, with a notably low exposure to the U.S. market. As a result, we are positioned defensively within equities
- An overweight position in gold is maintained due to the uncertainty surrounding U.S. tariffs, contributing to strong portfolio performance in the first quarter

Quelle: Refinitiv, Datastream as of 31.03.2025

Current Asset Allocation

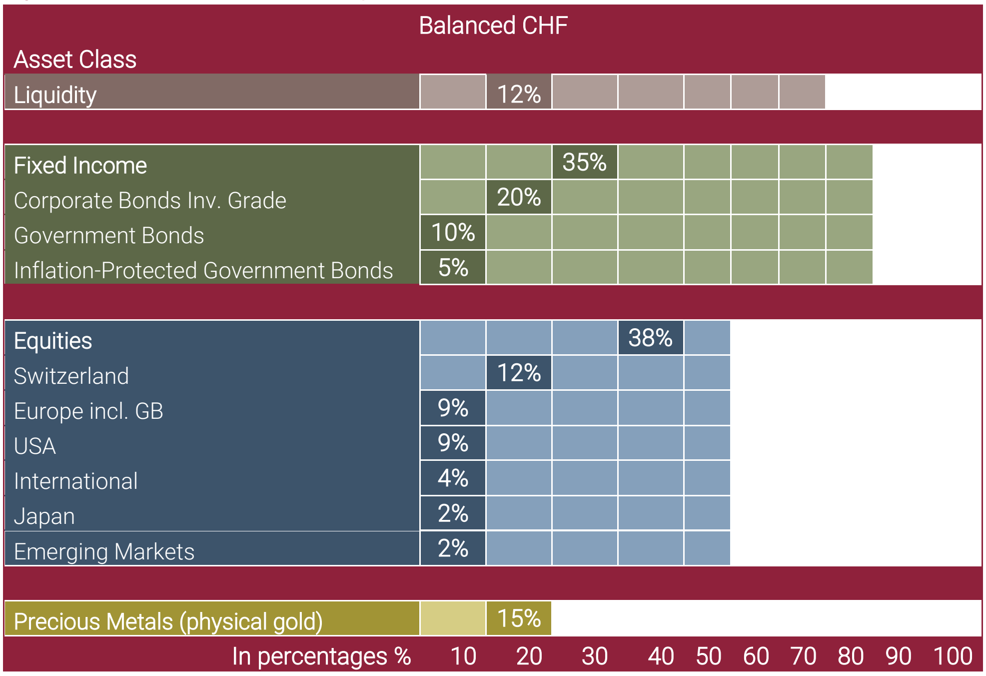
In the first quarter of 2025, we maintained our previously defensive strategy. An overweight position in gold was upheld, while equities and bonds remained underweighted. Within the equity component, we were overweight in the conservative Swiss market, while significantly underweighting growth stocks and the U.S. market. As a result, the mandates at Bank von Roll benefited from the market conditions between January and March, significantly outperforming both the internal benchmark and competitors in terms of performance.

As part of our strategy, periodic rebalancings were carried out. In January, we realized gains on positions that had seen significant appreciation in recent months by reducing our equity holdings. This action further solidified our cautious positioning, preparing us for the volatile days toward the end of the quarter.

The cautious allocation was also supported by an increase in the bond allocation within the mandates. This step was taken to proactively prepare for potential market disruptions related to U.S. political developments. Bonds are considered an alternative to equities and are generally sought after as a safe-haven investment during periods of high equity market volatility. This was evident in the final days of the first quarter when initial tariff announcements sent the equity market downward, while bond prices rose.

For the second quarter, we expect further fluctuations in global markets, driven by announcements from the White House and other geopolitical actors, who are increasingly disregarding international norms. At the same time, the challenge of elevated inflation remains widespread and could intensify further due to reciprocal tariffs. Nonetheless, market corrections have historically also presented long-term entry opportunities.

Figure 4: Asset Allocation as of 3rd April of 2025



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This report was created on the 7th of April 2025.

Special Report: U.S. Tariff Policy and Its Impact on Global Financial Markets

On April 2nd, 2025, U.S. President Donald Trump announced the "Liberation Day" from the Rose Garden of the White House. As part of the announcement, Trump revealed that reciprocal tariffs would be imposed on most countries. "Reciprocal" means that these tariffs are designed to counterbalance existing import duties on U.S. goods entering other countries. However, the Trump administration views not only the tariffs of trade partners as duties, but also a range of other factors, some of which remain undefined. The primary focus is on the trade balance between the U.S. and its trading partners. Trump perceives a trade deficit, where the U.S. imports more than it exports, as detrimental to his country. Notably, cross-border trade in services, such as subscriptions to streaming services like Netflix, is excluded from these calculations, therefore creating a distorted picture. These calculations lead to (additional) tariffs that can be extremely high, often reaching around 30%.

Following the announcement of tariffs, major stock indices experienced significant declines, a trend that continued as of the writing of this report. Sharp losses were particularly observed on Friday, April 4, and Monday, April 7, after the Chinese government threatened retaliatory tariffs and Trump also announced potential tariffs on the previously exempt pharmaceutical industry. After the significant daily losses, uncertainty remains high, as there is potential for further declines in asset prices. When loans are secured by equities or real estate, and prices suddenly drop, margin calls may occur. As a result, assets must be liquidated, exacerbating the downward pressure on markets. This is a phenomenon which was seen during the 2008 financial crisis.

Investors reduced their equity holdings and shifted part of their liquidity into perceived safer fixed-income bonds. Commodity markets also suffered under the sell-off pressure, especially crude oil, which is seen as an indicator of future economic conditions. Even precious metals like gold experienced losses.

There is considerable uncertainty regarding the next steps the Trump administration will take, as deferrals, eliminations, or even increases in tariffs remain possible. This uncertainty was already evident in the preceding months with tariffs announced, then postponed, and subsequently partially implemented on Mexico and Canada. A tightening of tariffs against China was also observed, which had already faced increased import duties in the first phase in February. It remains to be seen what potential measures the European Union will take and how Trump will ultimately respond to eventual tariffs on U.S. goods. As a result, future developments are difficult to predict, and uncertainty remains high, even though all trading partners have reaffirmed their willingness to engage in talks.

In addition to focusing on tariff policies and short-term announcements, it is also valuable to consider the long-term perspective. The U.S. stock market has been fundamentally overvalued for years, and the Shiller P/E ratio, a more long-term indicator of valuation levels, has also pointed to high valuations. Furthermore, it must be considered that a hasty sale during a correction phase is often suboptimal, as the recovery that typically follows is missed. The key takeaway here is: "Time in the market beats timing the market." This means that investors with a long-term strategy, tailored to their risk preferences, often fare better than those engaging in rushed short-term buying and selling.

Bank von Roll remains defensively positioned, as reflected in our equity and individual stock selection. In our balanced portfolios, we hold less than 40% in equities, while most of our competitors hold over 50%. We have been significantly underweight in U.S. equities for some time, with a large part of our portfolio allocated to assets like gold and bonds. On the individual stock level, we prefer companies with low debt and solid business models. Overall, the bank remains well-positioned with its stability-focused portfolios, even in these turbulent times.

Key Takeaways

- On April 2, Donald Trump announced additional tariffs on most countries worldwide, using the U.S. trade deficit as the basis for the calculations
- In response, global equity markets, including the U.S., experienced significant declines
- Investors favored safer assets such as fixed-income securities, leading to price increases in bonds
- Historically, stock sales during market corrections have rarely been advantageous, as investors often miss the subsequent re-entry point
- Bank von Roll maintains an overweight position in liquidity and stable assets like gold, while being underweight in equities

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