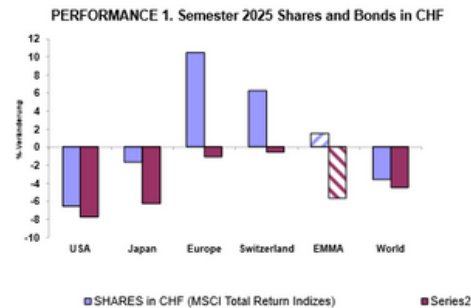


Comment on the investment policy in the 3rd quarter of 2025

The global economy in the hands of a tamer

The financial markets have been badly shaken up in the first half of Trump's presidency. Above all, he has frightened financial investors with the prohibitive reciprocal tariffs. Companies worldwide have lost around 15 percent of their value in a very short time. It was only this shock that prompted him to pause essential parts of the measures package. What will happen next is still open. With these poorly thought-out hasty exercises, a lot of confidence in the economic competence of this administration has been lost. Although share prices have recovered significantly, the dollar has lost around 10% of its value. The Swiss and Europeans have therefore suffered significant losses on their American investments.

Negative Performance for Shares and Bonds in CHF and Euro in S1 2025



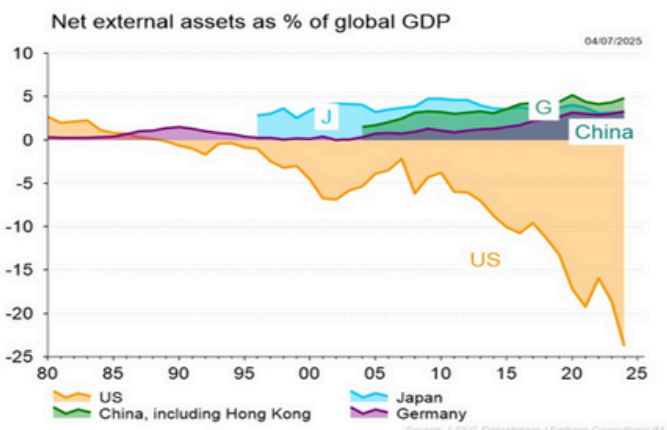
Long-term US capital market interest rates also remain at a high level. They contain a considerable risk premium for any price increases that could be triggered by the tariffs.

Europe, however, has clearly gained in profile. The politicians' insight to emancipate themselves from the USA has prevailed. With the promise at the NATO meeting in mid-June to increase military spending from around two percent today to five percent, far-reaching commitments have been made. The implementation of this goal will be difficult to achieve, because the average debt burden of NATO countries is over 100% of total economic output.

With the "Big Beautiful Bill (BBB)", the USA is also taking the path of further debt. This is particularly problematic because the US has had a large trade deficit for a long time.

This is primarily an expression of the fact that the USA invests significantly more than it saves. Foreign countries finance a significant amount of part of U.S. investment. US debt already reaches around 20% of global GDP. The main creditors are China, Japan and Germany. The Trump administration has already emphasized in the run-up to the elections that a trade system that stamps the US into a loser cannot be tolerated. Massive tariffs on foreign products are intended to eliminate this "grievance". Leading economists consider this method to be inefficient. Measures that reduce the imbalance between saving and investing would be much more effective. Reducing the budget deficit would be helpful. With the new law (BBB), the opposite will be done for years.

Japan, China and Germany are the owner of the assets the US is owing/Incentive for the US to get rid of the bur



This raises the question of the reliability of this administration with regard to the willingness to repay these debts. One should not underestimate the plans of the libertarian representatives of the Trump administration, who propose to replace government bonds with perpetual debt securities with 1% interest. This would allow the US to free itself from debt in one fell swoop. The Trump administration would certainly ensure that American holders of these government securities would be compensated for their loss of value. This decision should be all the easier for the administration because it would not have to fear that the dollar could be replaced as a reserve currency. This is not to be feared in the foreseeable future.

Even the high ratings of the rating agencies are no guarantee of this. This was shown by the financial crisis of 2008, when the securitized mortgage claims of the USA were given top marks shortly before their collapse.

More unpleasant, however, is the comparison with the year 1971, when the American President R. Nixon announced in a televised address that one was no longer willing to exchange the dollar debt for gold. This unilaterally broke the Bretton Woods Treaty, which had been initiated by the USA after the Second World War. The consequences for the global economy and investors were severe, as the dollar lost half of its value in three years. In Switzerland, the dollar slumped from CHF 4.30 to less than 2 francs. Anyone who believed that the dollar would lose its function as a reserve currency after this loss of confidence was mistaken. On the contrary, it expanded its position in the following years, as no substitute currency was available. Today, the situation is similar. It should be tempting for Trump to make America debt-free with the stroke of a pen. Whether and when this "opportunity" will be used is an open question. In the meantime, this threatening backdrop is having an effect as the dollar remains under pressure and accommodates exporters. In the spirit of the Maga concept.

At present, however, collective bargaining policy is becoming more important. We consider the assessment of the Trade Representative for Asia in the Trump I administration, Michael Beeman (NZZ, 4 July 2025, p. 25), to be realistic, namely that the deals are "Relationship agreements that include investment, cooperation, tariffs and the dismantling of trade barriers. It are total packages. Only the President will be able to decide whether it is worth it with his threats and the high tariffs."

The "deals" cannot be compared with classic trade agreements. They are unilaterally dictated, little concretized, even an arbitration court is missing and, as Beeman emphasizes, they can be terminated at any time. We consider this assessment to be realistic. We therefore assume that the tariff sanctions will continue to form an integral part of the Trump administration's foreign policy toolbox even after the deals are concluded. The aim is to threaten all states with the tariff hammer that do not subordinate themselves to the interests of the USA. This unprecedented arbitrary rule is to be expected as long as Trump remains in power.

In the short term, the US will be able to benefit from this. US exports will increase due to the lower dollar and the lower tax burden. This also benefits the US domestic market, as foreign companies are less competitive. However, it is questionable whether foreign direct investment in the USA will increase, as the USA is hardly an option as a production location for many successful export products. Namely, wherever there is a lack of the necessary specialists, a functioning infrastructure or reliable supplier networks. It is also certain that the tariffs on foreign products increase demand for US products and thus enable price and margin increases. This is likely to further increase the already high profits of US companies.

In the medium term, however, the United States will be able to benefit less from the international division of labor and specialization and will thus suffer a loss of prosperity.

The tariffs also leave many losers in the USA. US consumers are effectively confronted with a tax increase, as it can be passed on to a large extent from exporters to customers.

In the short term, however, exporting countries will also be hit hard, as the shock imposition of tariffs is tantamount to a demand shock. Price reductions, slumps in profits, layoffs and bankruptcies can be the result. Traces in this direction are already visible in China, Canada and Mexico. In the medium term, however, companies will adapt to the new relative prices and reposition themselves in the sales markets.

Overall, however, the erratic and conceptually misaligned trade policy brings a lot of unpredictability, inefficiency and price distortions into the market economy system.

However, investors have also been able to take note of the fact that Trump does not uphold morality or law, but does everything he can to keep the stock markets happy. The fact that he has withdrawn the tariffs pompously announced on April 2 within a few days shows that he continues to be guided by the benchmark of market capitalization. This has temporarily calmed the markets. The share prices, which lost around 15% of their value worldwide at the beginning of April, largely recovered as a result. The threatening letters announced on July 7 to 15 states that were not sufficiently accommodating also hardly moved the markets.

Investors were also able to take note of the fact that he is doing everything he can to expand the scope of action of American companies. For example, he has threatened states with tariffs that dare to burden American companies with taxes or other regulations. For example, it has explicitly spoken out against the OECD minimum tax, which provides that companies that are insufficiently taxed can be taxed extraterritorially in a supplementary manner.

Nor do large American companies with monopoly power have to fear that the competition authorities will take care of them. On the contrary, Trump supports them in their efforts to siphon off purchasing power in other countries. At least that makes their shareholders and thus America "great again".

Other aggressive projects also have the potential to make American shareholders happy, such as the annexation of Greenland or Canada. This could also pay off politically, as a dream would come true for MAGA voters.

Another pillar of the stock market is the reported earnings of US companies. At around 11% of GDP, they are still close to the peak of 12% reached during the pandemic.

The profit outlook is also positive for European companies, as the exceptional political decisions in favour of investment in security and infrastructure amounting to 5% of GDP are likely to lead to a real demand shock over the next decade. A preference for one of these two markets is not obvious, as the higher profit opportunities in the USA are compensated by the higher valuation.

The fact that the interest rate cut cycle in the USA is likely to pick up speed again is also having a supportive effect on the stock markets. Since the tariffs are likely to bring a slowdown in growth, the Fed will have more room to cut interest rates in the second half of the year. This is despite the fact that the tariffs are likely to lead to an increase in inflation figures. However, we consider this to be transitory. A monetary policy reaction to this does not make sense due to the long time lag.

In terms of investment policy, the hedging of dollar positions remains important, as a further depreciation of the dollar is sought for a politically desired purpose. For Swiss investors, there is now a hedge for euro investments, as the central bank is coming under increasing political pressure to abandon its loose monetary policy against the euro. It is held partly responsible for the strong expansion of the export sector. Switzerland now has one of the highest export shares in the OECD and is therefore highly exposed to risk policy. This is not without danger in times of increased protectionism and de-globalisation.

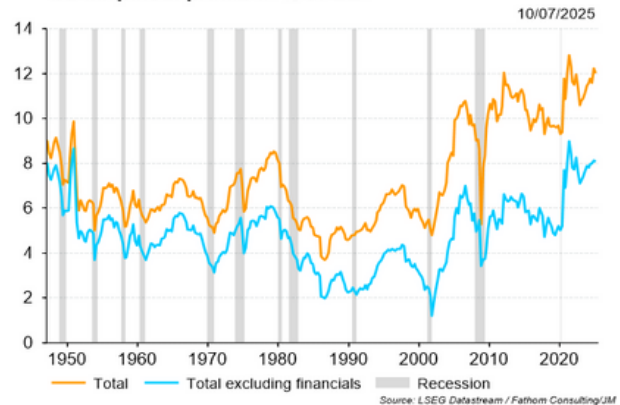
Overall, the investment policy environment can be assessed quite positively, if you concentrate on the fundamental factors and are not blinded by the smokescreens that the great self-promoter lets loose every day.

You can receive the detailed documentation on the decision-making process from your advisor.

Best wishes, Prof. Dr. Josef Marbacher & CORUM Investment Committee



US corporate profits in % of GDP



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