# Market Commentary
## 2nd Quarter 2025

### Business Activity and Global Economy

At the beginning of the second quarter, global equity markets came under pressure following the announcement of new import tariffs by the United States on «Liberation Day». As outlined in our previous quarterly report, President Donald Trump's tariff measures are aimed at reshoring manufacturing activity and narrowing the U.S. trade deficit.

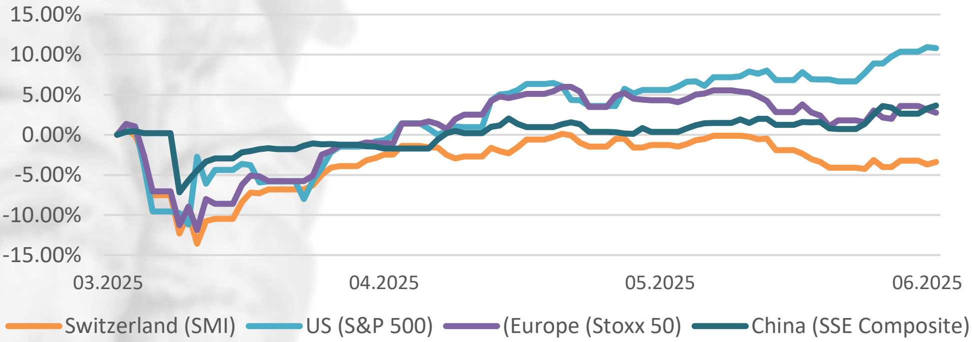
In response to these announcements, the price of gold surged noticeably, reaching a new all-time high, while economically sensitive sectors, such as energy and financials, saw significant sell-offs. Particularly notable were the developments in the currency and fixed income markets: On one hand, yields on U.S. Treasuries rose sharply, reflecting a temporary erosion of investor confidence in U.S. creditworthiness. On the other hand, the U.S. dollar weakened steadily over the course of the quarter.

Ultimately, President Trump reversed his trade stance temporarily until July 9, likely due to concerns over rising refinancing costs for government debt. This unexpected policy change triggered a sharp rally across global equity markets. As the quarter progressed, the United States also reached a preliminary trade agreement with the Chinese government, further supporting the recovery in global markets. Consequently, U.S. equity indices once again reached record highs by the end of the quarter.

In Europe, aside from developments in U.S. trade policy, investor focus shifted toward domestic political changes in Germany. With Friedrich Merz taking office as the new Chancellor, the German government announced plans to stimulate economic growth through infrastructure investment and deregulation. These initiatives were announced at an opportune moment, as Eurozone inflation declined to 2% in Q2 2025, prompting the European Central Bank to cut its key policy rates twice, bringing the benchmark interest rate down to 2%.

Toward the end of the quarter, geopolitical tensions in the Middle East briefly dominated market sentiment, following an Israeli strike on Iran and subsequent U.S. airstrikes targeting Iranian nuclear facilities. As a result, oil prices spiked significantly before the situation quickly de-escalated. With tensions easing, investor attention has been refocused on July 9, as a key date that may provide greater clarity on the future direction of U.S. trade policy.

Figure 1: Stock Indices in Local Currency in the second Quarter




Source: LSEG Workspace as of 01.07.2025

### Key Takeaways

- Despite heightened market volatility, our mandates delivered a solid performance and generated attractive returns in the first half of 2025
- The announced and subsequently suspended tariffs by President Trump triggered sharp losses followed by an equally swift rebound within just a few trading days
- Following the «Liberation Day», the U.S. dollar experienced a sustained depreciation against both the euro and the Swiss franc
- Fixed income instruments in Europe and Switzerland benefited from the interest rate cuts implemented during the second quarter of 2025
- Gold appreciated significantly, posting double-digit gains by quarter-end, as a result of ongoing economic and geopolitical uncertainty.
- Bank von Roll was named Switzerland's best private bank by the prestigious financial magazine «*BILANZ*»

## Monetary Policy

The U.S. Federal Reserve left its interest rate unchanged throughout the second quarter. The labor market in the United States continued to exhibit resilience, although a moderation in job creation has begun to emerge. At the same time, inflation declined over the course of the quarter, driven by both a deceleration in economic activity and a sustained decline in oil prices. Nevertheless, the Federal Open Market Committee (FOMC) does not yet consider the conditions appropriate for a rate cut and has held the federal funds rate steady within the range of 4.25 to 4.50 percent. The Fed also remains committed to quantitative tightening through the ongoing reduction of its balance sheet by selling government securities. This monetary policy stance is consistent with the Federal Reserve's upward revision of its inflation forecast for the current year, prompted by newly implemented U.S. tariffs and a depreciating U.S. dollar, which are expected to exert upward pressure on prices over the medium term.

Chairman Jerome Powell and the Federal Reserve were also subject to heightened attention from financial markets after President Trump criticized the central bank's policy stance as overly passive. The president's direct comments regarding Powell's leadership fueled investor concerns regarding the independence of the central bank. Speculation initiated by the White House about a possible leadership change at the Fed initially unsettled markets and triggered temporary selling pressure in U.S. Treasuries during the spring months. However, sentiment stabilized by the end of June. A potential change in leadership is no longer primarily viewed as a risk to central bank independence but rather as a catalyst for a more expansionary monetary policy and potentially faster rate cuts.

In Europe, inflation continued to decline throughout the second quarter, reaching levels of 1.9 percent in May and 2.0 percent in June. This disinflationary trend was evident across most major Eurozone economies, with the exception of Germany, which recorded an inflation rate slightly above the 2 percent threshold in May. The easing in inflation was supported by the appreciation of the euro, lower oil prices amid global economic concerns, and an increase in competitively priced Asian exports that were redirected from the United States to Europe due to ongoing trade barriers. These factors created additional monetary policy flexibility for the European Central Bank. In response, the ECB reduced the deposit facility rate in two steps during the second quarter to 2 percent and no longer considers its monetary policy stance to be restrictive. ECB President Christine Lagarde signaled that the rate-cutting cycle may be nearing its end, although she also highlighted rising downside risks to the economic outlook due to U.S. tariff measures. Should the macroeconomic environment deteriorate further or inflation fail to stay below the 2 percent target, the ECB is prepared to intervene with additional measures.

In Switzerland, a combination of the strong Swiss franc and low energy prices following the «Liberation Day» policy initiative pushed domestic inflation into slightly negative territory. This was especially reflected in import prices, which declined by 2.4 percent in May, primarily due to the appreciation of the currency. However, questions remain regarding the sustainability of this disinflationary trend, given the inherent volatility of energy markets and the potential limits to further currency appreciation. Nonetheless, in light of overall negative inflation, the Swiss National Bank proceeded with a further rate cut, lowering its policy rate to zero percent, bringing the rate closer to negative territory.

## Market Data

| Equity Markets Perf. | 2025* |
|---|---|
| SPI | 7.12% |
| DAX | 18.91% |
| Euro Stoxx 50 | 10.61% |
| S&P 500 | 6.09% |
| Nasdaq Composite | 4.62% |

| Yield to Maturity of Government Bonds | in % |
|---|---|
| 10Y Swiss Federal Bond | 0.40% |
| 10Y German Federal Bond | 2.62% |
| 10Y US Treasury | 4.25% |

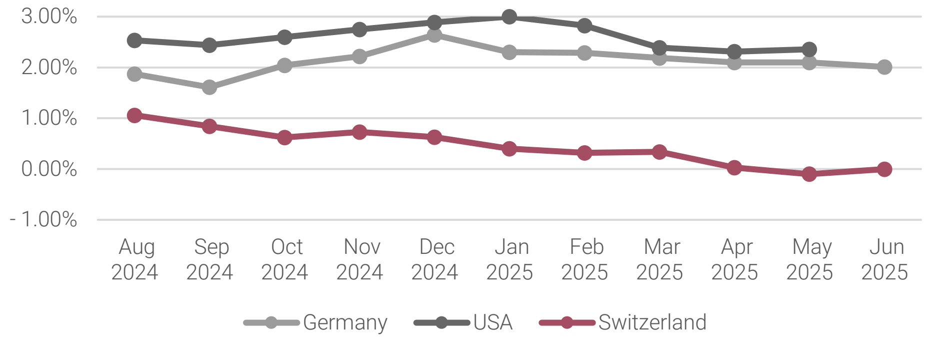
| Gold (oz.) Perf. | 2025* |
|---|---|
| in CHF | 11.35% |
| in EUR | 11.93% |
| in USD | 27.32% |

| Commodities Perf. | 2025* |
|---|---|
| Oil Brent | -0.32% |

* Performance in local currency, as of 01.07.2025

Source: LSEG Workspace

Figure 2: Inflation Rates Over Time (Annualized Rates)




Source: LSEG Workspace as of 01.07.2025

## Financial and Capital Markets

Elevated political risk under the current U.S. administration manifested prominently in fixed income markets. U.S. Treasuries, in particular, came into sharp focus, as they are traditionally viewed as a safe-haven backed by the full faith of the U.S. government. However, investor confidence began to show early signs of erosion amid the political rhetoric surrounding the «Liberation Day». Normally, during periods of heightened equity market volatility, investors shift capital into U.S. government bonds, resulting in declining yields on 10-year Treasuries. This time, however, the secondary market experienced elevated selling pressure, and demand in primary auctions fell short of expectations. As a result, yields rose significantly, increasing the U.S. government's cost of borrowing.

This deterioration in market confidence likely played a key role in the U.S. administration's subsequent decision to partially reverse its tariff plans. Despite the market's temporary stabilization, the episode prompted many institutional investors to reassess their U.S. dollar exposure, particularly in the form of Treasuries. As one of the top foreign holders of U.S. sovereign debt, China has also progressively reduced its exposure to Treasuries over the past few years. Investor sentiment was further weighed down by President Trump's introduction of the "Big Beautiful Bill," a policy initiative expected to expand the structural deficit, as well as by Moody's downgrade of the U.S. sovereign credit rating. These developments have undermined confidence in the fiscal integrity of the United States and led a growing number of market participants to reduce their exposure to U.S. sovereign debt.

While these signals are notable, they are not (yet) cause for alarm. The United States retains the fiscal capacity to service its debt, underpinned by its sovereign taxing power over the world's wealthiest population and most valuable corporations. Additionally, the US economy benefits from leading technology companies, world-renowned universities, favorable demographic trends, and a wealth of natural resources. Historically, both the Debt-to-GDP ratio and interest burden as a percentage of federal revenues have been higher, particularly in the 1990s, than they are today. Relative to major European economies, current U.S. Debt-to-GDP ratios also remain broadly comparable.

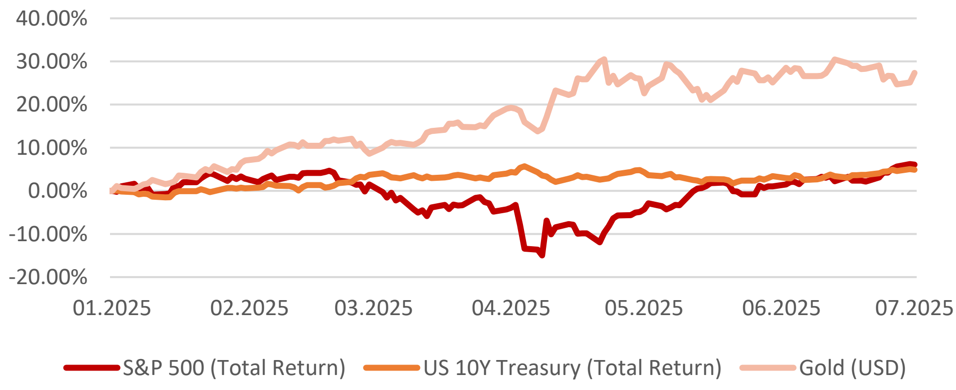
Despite the prevailing uncertainty surrounding tariffs and interest rates, many companies reported solid to exceptional quarterly earnings. However, in numerous cases, forecasts were revised downward or withdrawn entirely. FedEx exemplified this dynamic: While the company delivered strong results, it significantly lowered its outlook due to weakening cross-border activity. Markets reacted especially positively to SAP's earnings report, with the stock rising over 10% intraday. Microsoft also impressed, reporting a 19% increase in currency-adjusted earnings, driven by surging demand for cloud services, particularly in artificial intelligence applications. In contrast, automakers such as General Motors and Ford began to feel the financial impact of U.S. trade policy. Both companies projected additional costs in the billions. Defense contractors, including Rheinmetall, emerged as notable beneficiaries during the second quarter, as heightened geopolitical tensions fueled increased investor interest in the sector.

### Asset Allocation

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

- In the second quarter of 2025, we further trimmed our liquidity holdings and reallocated capital into fixed income instruments. Nevertheless, we continue to maintain an overweight position in cash to preserve strategic flexibility
- Falling interest rates during Q2 2025 enabled bonds to generate capital gains over the period
- In addition to emerging markets, U.S. equity indices also rebounded sharply. However, due to the correction in the U.S. dollar, much of these gains were eroded for foreign investors, prompting us to maintain a deliberately low exposure to U.S. assets
- Given the persistently high level of uncertainty, we continue to maintain an overweight position in gold

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




Quelle: LSEG Workspace as of 01.07.2024

## Current Asset Allocation

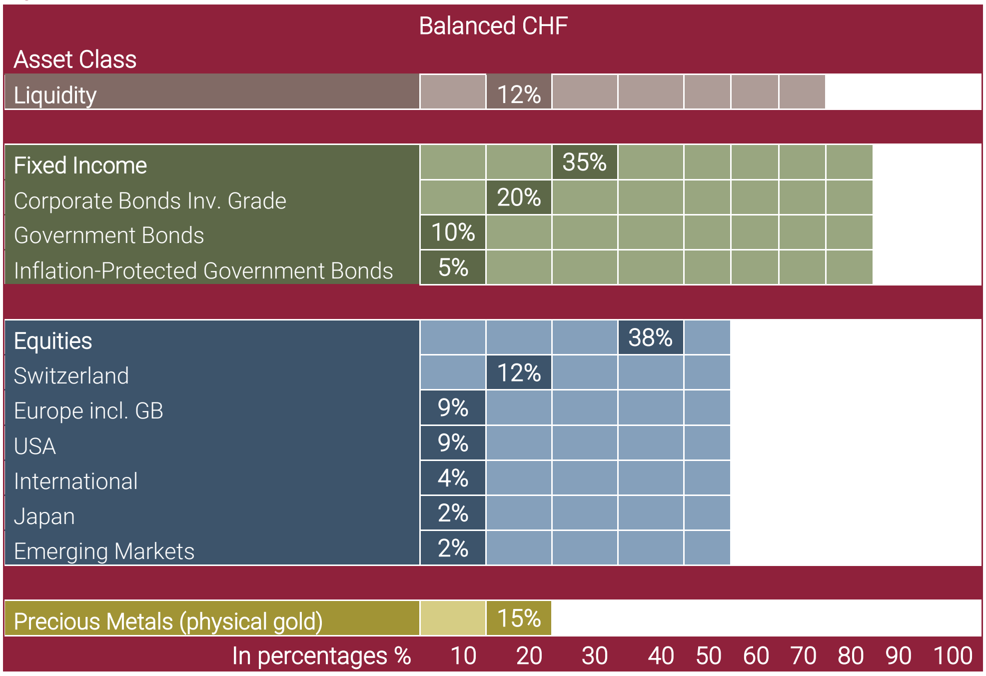
Our strategic core positions once again proved to be key performance drivers in the second quarter. The pronounced focus on gold helped portfolios preserve, and in some cases even enhance returns during volatile market phases. Geopolitical tensions in the Middle East and fiscal uncertainty in the U.S. had only limited impact on our discretionary portfolios, largely due to our substantial allocation to gold. In parallel, clients benefited from our consistent underweight in U.S. equities and U.S. dollar relative to peers. The weakness of the USD, reflected in a depreciation of approximately 12% against the Swiss franc and the euro during the first half of the year, contributed significantly to the relative outperformance of our portfolios versus the peer group. While the strong equity rally in the U.S. toward the latter part of the quarter slightly narrowed this performance gap, continued USD weakness largely offset this effect. Our selected equity holdings within regionally and sectorally diversified portfolios also delivered solid results. Notably, we maintain exposure to two high-quality technology names, SAP and Microsoft, both of which reported strong quarterly figures. In addition, our targeted exposure to emerging markets proved to further enhance returns.

In terms of liquidity management, we made further progress. For example, within our CHF asset management mandates, we reallocated a portion of excess cash into two Swiss fixed income funds with a high corporate bond allocation. This allowed us to optimize the expected yield while purposefully reducing liquidity. Adjustments were also made within our USD asset management mandates, including the addition of a new corporate bond to replace a maturing PepsiCo issue. The decision in favor of the new issuer was based on its solid capital structure and a compelling long-term outlook, which was reaffirmed by the most recent quarterly results.

Reflecting on a successful first half of the year, we take pride in the solid performance we have achieved on behalf of our clients. We are particularly pleased to have been recognized by the prestigious financial magazine «BILANZ», which awarded the title Best Private Bank and Overall Top Performer to our bank out of approximately 100 evaluated national and international institutions as part of its «mystery shopping» assessment. This award reflects our consistent commitment to quality and professional excellence, and serves as motivation to continue upholding these high standards for our clients going forward.

Looking ahead to the second half of the year, U.S. trade policy under President Trump is likely to draw attention with the expiration of the current tariff moratorium on July 9. Against the backdrop of an increasingly complex geopolitical and macroeconomic landscape, we believe our mandates are robustly positioned and prepared to navigate a potentially volatile second half of the year.

Figure 4: Asset Allocation as of 30 Jun 2025

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### Disclaimer



*This report was created on the 2th of June 2025.*