Compass

2nd Quarter 2025

US growth defies uncertainties

Bessenomics: the key to success?

Productivity is almost everything

Your wealth, our responsibility.

US competitiveness remains strong

President Trump's unpredictable policy stance, together with rising geopolitical tensions, is adding to global uncertainty. At the same time, elevated interest rates and stretched equity valuations are increasing market vulnerability, while gold continues to demonstrate its role as a reliable safe haven. Despite various uncertainties, the US economy remains on a growth trajectory, supported by a cooling but still solid labour market that underpins domestic demand. US competitiveness also remains unshaken — the country continues to benefit from strong innovation, a flexible labour market, and a large capital pool. The Bessenomics strategy of the new US Treasury Secretary focuses on growth through tax cuts, deregulation, and increased energy supply. While this approach involves risks, stable inflation expectations and a robust macroeconomic environment should continue to support economic growth. Moreover, the US remains the most productive economy in the world. A large domestic market, business-friendly structures, and a strong capital base continue to draw investor interest to the US. While Europe and China are struggling with structural challenges, the US offers comparatively better conditions for economic growth. The notion that the US has peaked is shortsighted — its economic resilience and innovative strength clearly speak in its favour. Therefore, there is no way around the US market for investors.

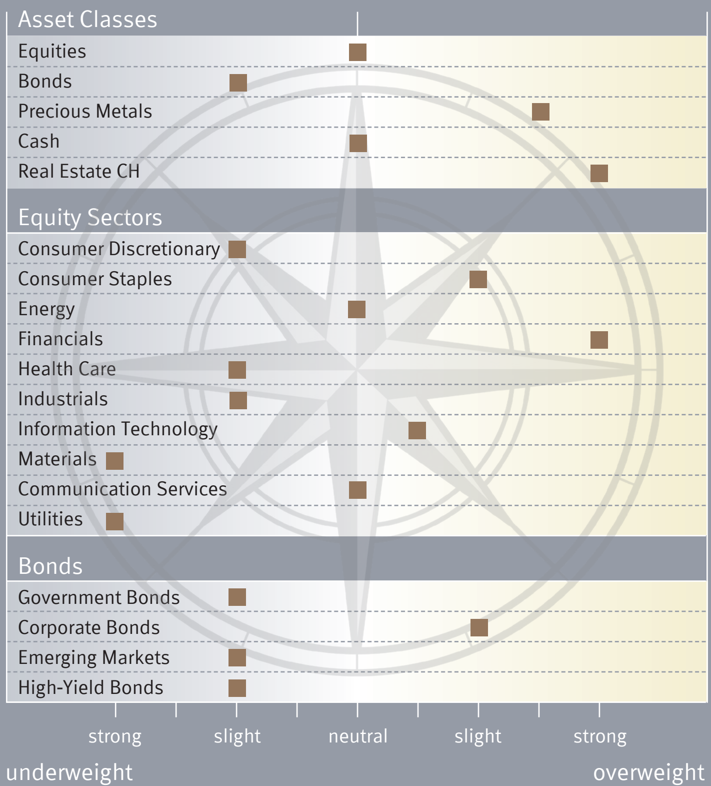
Quality stocks and gold remain attractive

Uncertainty is poison for financial markets — and under Trump 2.0 it appears to be intentional. Since the start of his term, investors have revised their inflation expectations upward and are anticipating a slowdown in growth; fears of stagflation are circulating. While these concerns are not yet supported by fundamental data, uncertainty is likely to persist until clarity on trade policy emerges. A detailed plan for reciprocal tariffs — potentially factoring in the VAT regimes of trading partners — is expected from Commerce Secretary Lutnick in April.

The positive aspects of "America First," such as tax cuts and deregulation, are currently not the focus for investors, as implementation is not expected before the second half of the year. In anticipation of continued uncertainty, we strengthened our already defensive allocation in January by shifting exposure from cyclical sectors to communication services. We are maintaining our international orientation, with a strong emphasis on high-quality US equities.

In our view, the investor shift from US to European equities and the euphoria surrounding Germany's fiscal "bazooka" are exaggerated. Gold continues to support our defensive positioning. Following last year's record rally, the precious metal has received new tailwinds from rising uncertainty.

Asset allocation recommendation as of April 1st, 2025 for investors with CHF as their reference currency.

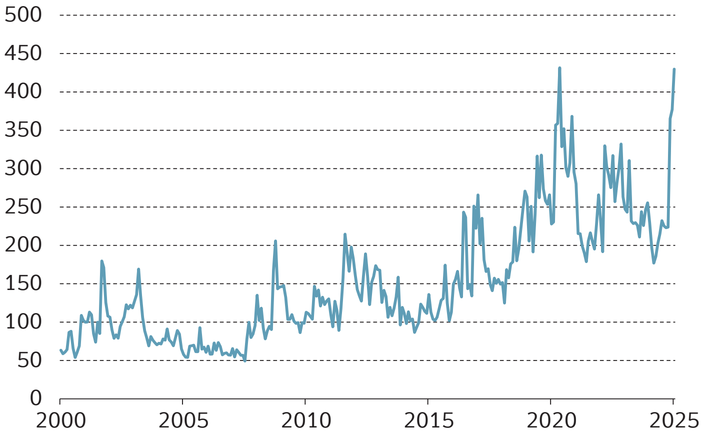


Current Topic:
US growth defies uncertainties

Current Topic 1:

Source: Baker, Bloom & Davis

Global Economic Policy Uncertainty Index

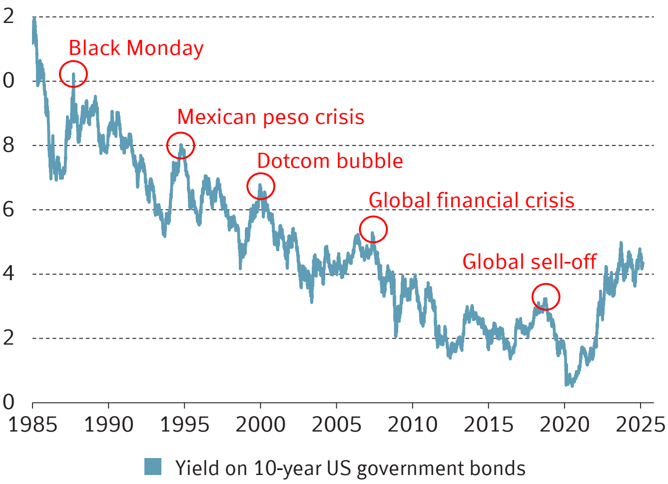


Uncertainties lead to increased market volatility

The inauguration of Donald Trump marked the beginning of a period of heightened uncertainty, largely driven by the unpredictable nature of US government policy. Although parts of Trump's agenda were already priced in after his election victory, his announcements triggered increased uncertainty and nervousness in financial markets. However, investors are gradually learning to cope with this uncertainty and no longer take every statement from the president at face value. At the same time, multiple geopolitical flashpoints continue to simmer — such as the war in Ukraine and conflicts in the Middle East. In addition, the market is highly concentrated in terms of regions, sectors, and individual companies, which can lead to sharp market movements.

Current Topic 2:

Percent

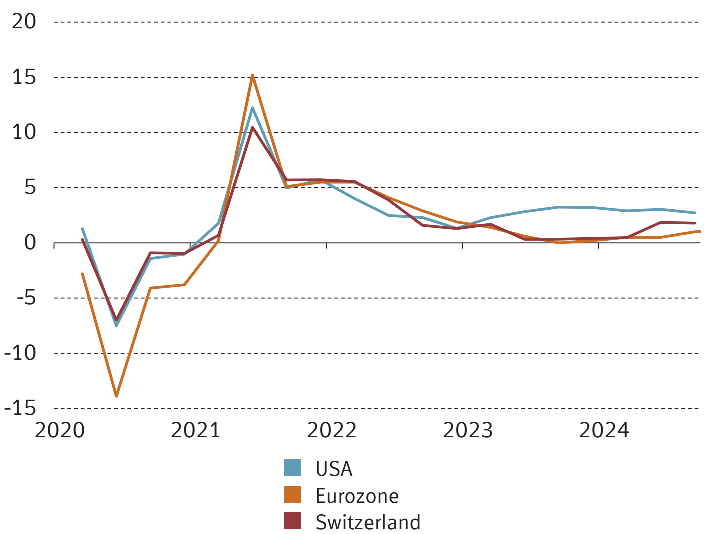


Vulnerable markets

At the beginning of Trump's second term, markets appeared vulnerable. On one hand, persistently high interest rates are weighing on both businesses and consumers. Historically, sharp rate hikes — like those seen in recent years — have repeatedly led to unexpected market disruptions. On the other hand, equity markets remain historically expensive, despite robust earnings growth. While the recent correction has somewhat eased the situation, valuations in certain sectors remain elevated. Gold, the classic safe-haven asset, has also seen a significant price rally, raising the possibility of a short-term pullback. Nevertheless, the precious metal continues to offer compelling qualities as an inflation hedge and a source of portfolio stability.

Current Topic 3:

Real GDP growth in percent



US economic growth remains intact

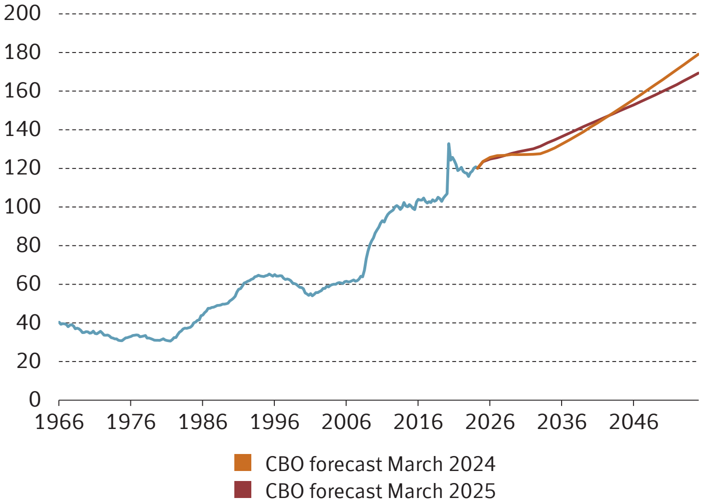
Even the US economy is not immune to uncertainty. However, unlike Switzerland or the eurozone, the United States continues to grow at a strong — albeit slower — pace. This growth is supported by a labour market that, while cooling, remains robust and continues to fuel domestic consumption. As a result, domestic demand in the world's largest internal market remains in better shape than in other regions. In particular, the services and technology sectors continue to play a key role as central drivers of growth. Once again, the US economy is demonstrating its ability to adapt, its capacity to innovate and its resilience. Compared to Europe and China, both of which face more profound structural challenges, the US is currently in a stronger position.

Basic Trend:
Bessenomics: the key to success?

Basic Trend 1:

Source: Congressional Budget Office

US government debt as a percentage of GDP



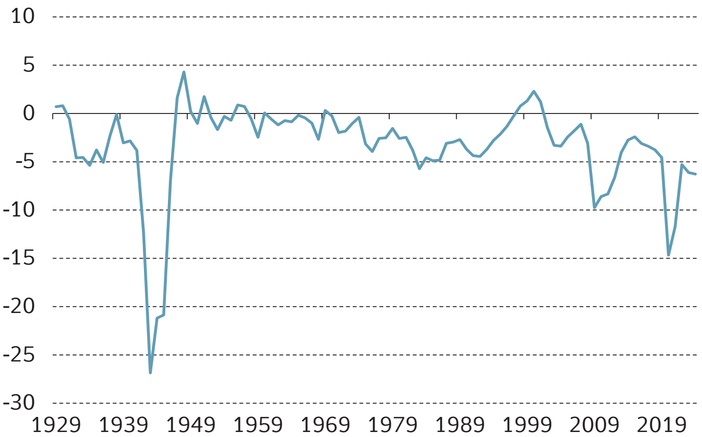
A Renaissance of Reaganomics?

US government debt currently stands at 36 trillion dollars. To ensure debt sustainability, economic policy measures are essential. In addition to addressing the deficit, the new US Treasury Secretary, Scott Bessent, is also focused on stimulating growth. His economic agenda — dubbed Bessenomics — is inspired by Ronald Reagan's Reaganomics. Both approaches view strong economic growth as the most effective way to combat excessive debt and inflation. Much like Reagan, Bessent relies on three central pillars: tax cuts, spending reductions, and deregulation. However, unlike the early 1980s, today's inflation is comparatively moderate — back then, the Federal Reserve had to adopt an unusually restrictive monetary policy in response.

Basic Trend 2:

Source: Congressional Budget Office

Annual US budget deficit as a percentage of GDP



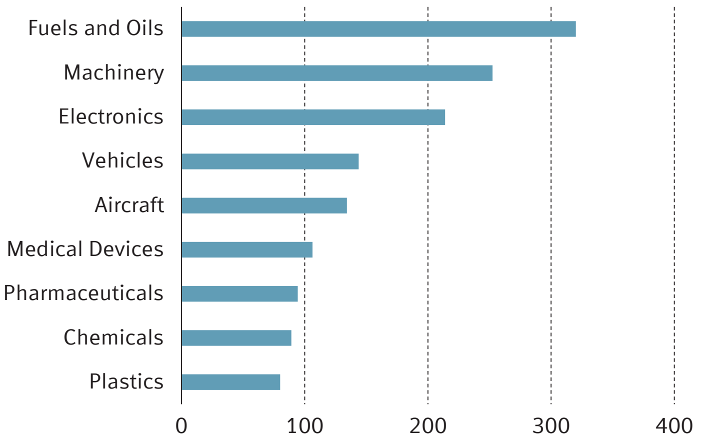
Bessenomics: Is 3-3-3 the formula for success?

The core objectives of Bessenomics through 2028 can be summed up by the concise 3-3-3 formula: 3% annual GDP growth, a budget deficit limited to 3% of GDP, and an increase in daily oil production by 3 million barrels. The aim of boosting oil supply is to lower energy costs, thereby easing the financial burden on businesses and consumers — ultimately stimulating domestic consumption. Bessent has pledged stable economic policy conditions, which are intended to anchor inflation expectations. If successful, this could allow the Federal Reserve to keep interest rates low. Lower long-term rates would ease the servicing of government debt and encourage investment, while a weaker dollar would improve the competitiveness of US exports.

Basic Trend 3:

Source: Trading Economics

US exports by product category in USD billions



A delicate balancing act

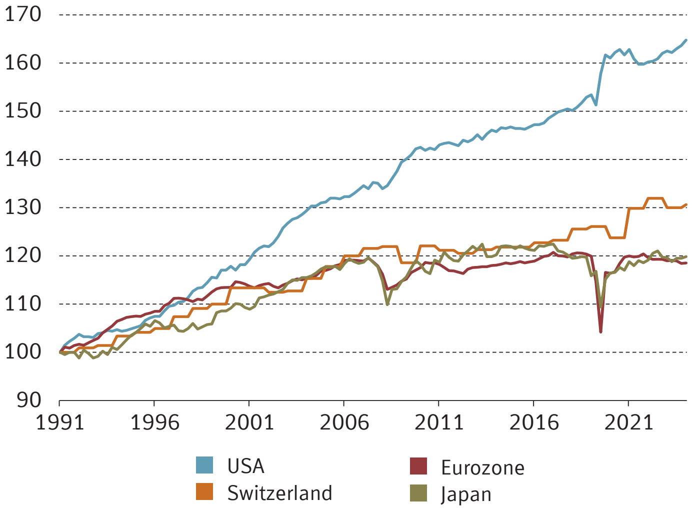
At first glance, Bessenomics promises a stimulative effect on financial markets: low interest rates support equity prices, particularly in export-oriented sectors. However, there is some uncertainty associated with this approach. Should inflation accelerate unexpectedly, yields on long-term bonds could rise, driving up refinancing costs for the US government. This, in turn, would limit the Federal Reserve's monetary policy flexibility and weigh on overall market sentiment. On a global level, increased US exports combined with protectionist tendencies could lead to trade tensions with Europe and China. Whether Bessenomics delivers sustainable growth or new imbalances will ultimately depend on the administration's ability to strike a delicate balance between spending cuts, low interest rates, and political support.

Knowledge & Experience: Productivity is almost everything

Knowledge & Experience 1:

Source: OECD

Indexed labour productivity (measured as GDP per hour worked)

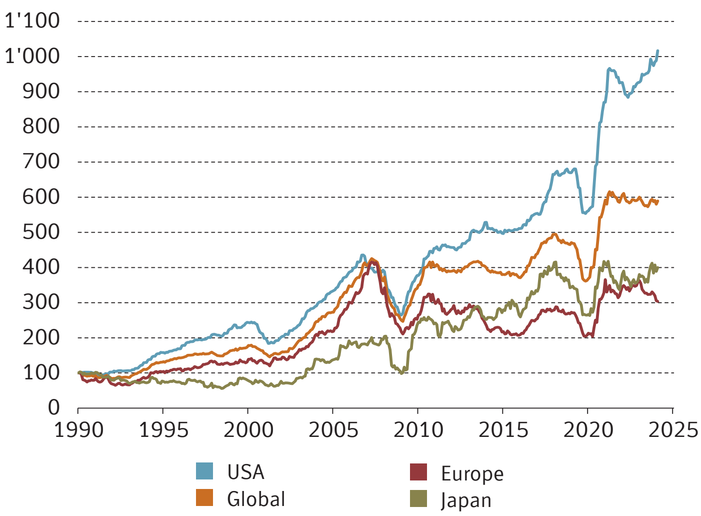


Productivity: The US remains in the lead

"Productivity isn't everything, but in the long run, it's almost everything." This insight was expressed by Nobel Prize-winning economist Paul Krugman back in 1994. The most comprehensive measure of productivity is total factor productivity (TFP), which captures the efficiency of an economy's output by accounting for inputs such as labour, capital, and technological progress. It reflects the share of growth that stems not from additional input, but from using existing resources more effectively. Since TFP can only be estimated as a residual and is therefore somewhat imprecise, labour productivity — most commonly measured as GDP per hour worked — is often used instead. Since Krugman's statement, labour productivity in the United States has increased much faster than in other advanced economies — a trend that has accelerated further since the pandemic.

Knowledge & Experience 2:

Indexed earnings per share in USD

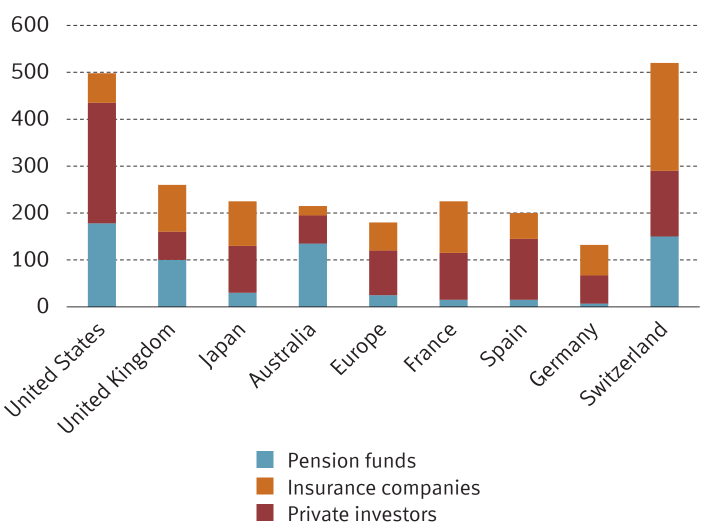


Adaptability of the US economy

Current comparisons often overlook the fact that Americans work more hours — and when measured by GDP per worker, the differences are even more pronounced. The US benefits from significant efficiency advantages rooted in a strong entrepreneurial culture, supported by a relatively low government share in the economy (38% in the US vs. 52% in the EU), limited bureaucracy, and a flexible labour market bolstered by immigration. US productivity also tends to be countercyclical: during recessions, workers can be laid off quickly, and unprofitable business units easily closed. Conversely, the US leads in new business formation. A dynamic labour market and strong business activity ensure that resources are quickly reallocated to profitable market segments, which is reflected in strong earnings growth.

Knowledge & Experience 3:

Long-term capital pools in percent of GDP



A large capital pool strengthens the US economy

US companies benefit from the world's largest capital market, fuelled by foreign investment and a substantial domestic capital base. Pension funds play a key role in providing venture capital and private equity. Europe lacks this advantage, as pension systems are predominantly pay-as-you-go rather than capital-funded. As a result, the US invests significantly more in research and development — around 3.5% of GDP annually — compared to just 2.2% in Europe. Small and medium-sized enterprises, the backbone of the European economy, face greater challenges. When they invest, for example in digitalisation, they tend to achieve lower economies of scale compared to their US counterparts. Consequently, the US has also taken the lead in artificial intelligence — an advantage that is likely to widen its productivity lead.

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