

Compass

3rd Quarter 2025

Quality and stability will prevail

The anatomy of growth

Four models in the stress test

Between strategy and headlines

Quality and stability will prevail

In a world marked by geopolitical tensions and technological disruption, the focus is shifting from pure economic growth to the structure and resilience of growth. In this context, the composition of an economy becomes a key factor. The four GDP components consumption, investment, government spending, and net exports can vary significantly from one country to another. Accordingly, the economic models of the United States, Switzerland, the EU, and China each face different opportunities and challenges.

The United States remains in a leading position with a consumption-driven model, supported by solid employment and high levels of investment in key sectors. Switzerland stands out for its stability: low inflation, specialised exports, and fiscal discipline. Europe is investing heavily in its green transition and defence, but continues to struggle with structural inefficiencies, geopolitical upheavals, and a high fiscal burden. China, whose growth has long been driven almost exclusively by investment and exports, now faces the difficult task of sustainably strengthening domestic consumption.

While the most resilient forms of economic strength prevail over the long term, markets are often influenced in the short term by narratives, headlines, and political events.

Allocation: Gold and Swiss real estate provide stability

The following still applies: uncertainty is toxic for financial markets and the economy. Trump's second term is characterised by deliberate destabilisation on both economic and geopolitical fronts. In an environment of low visibility, driven by headline-induced volatility, CEOs are reluctant to invest, and consumers are beginning to build up savings. While hard economic data remain solid for now, softer, survey-based indicators point to rising recession risks. Corporate earnings have so far been resilient, but forecasts are becoming increasingly cautious.

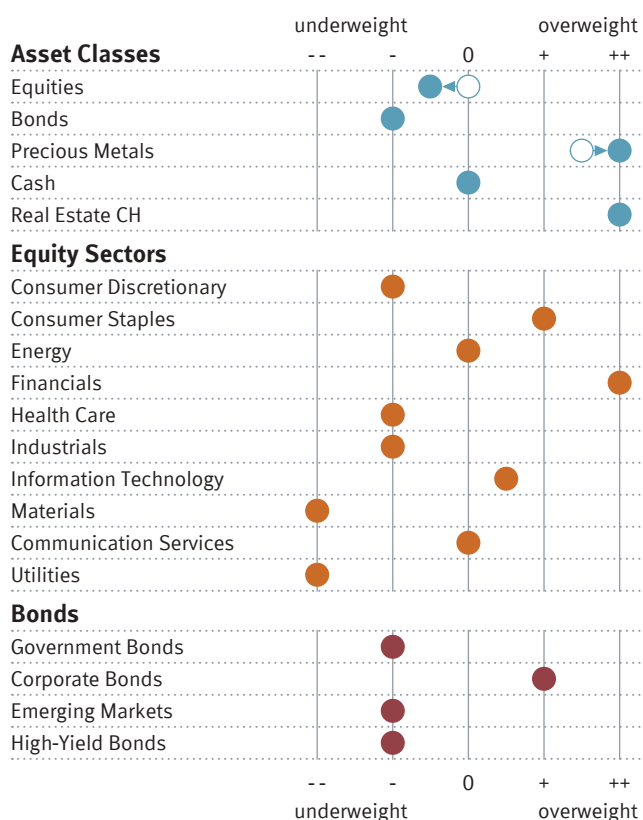
In the short term, the imposed tariffs are pushing up US inflation, while an economic slowdown and falling rental prices are likely to have a dampening effect in the medium term. The US Federal Reserve is taking a wait-and-see approach, making monetary policy decisions dependent on

greater economic clarity. Nevertheless, markets continue to price in two to three interest rate cuts in the US. In the euro-zone, two rate cuts are expected this year, and one to two in Switzerland.

Against the backdrop of heightened uncertainty, we maintain a defensive positioning: alongside a defensive sector allocation, we recommend a slight underweight in equities and place even greater emphasis on gold as a stabilising asset. We also continue to favour Swiss real estate. In contrast, we remain underweight in bonds. Especially amid the tension between short-term market movements and long-term structural analysis, quality and stability are key factors for success.

Asset allocation recommendation

as of July 1st, 2025 for investors with CHF as their reference currency

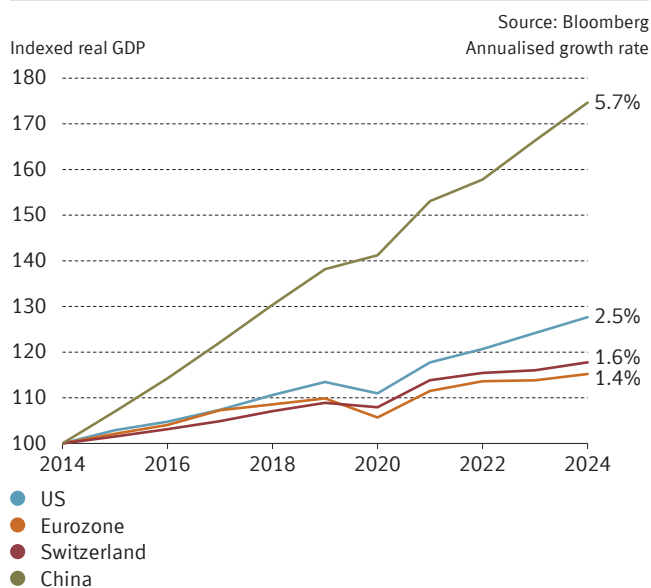


The anatomy of growth – Why not all GDPs are the same

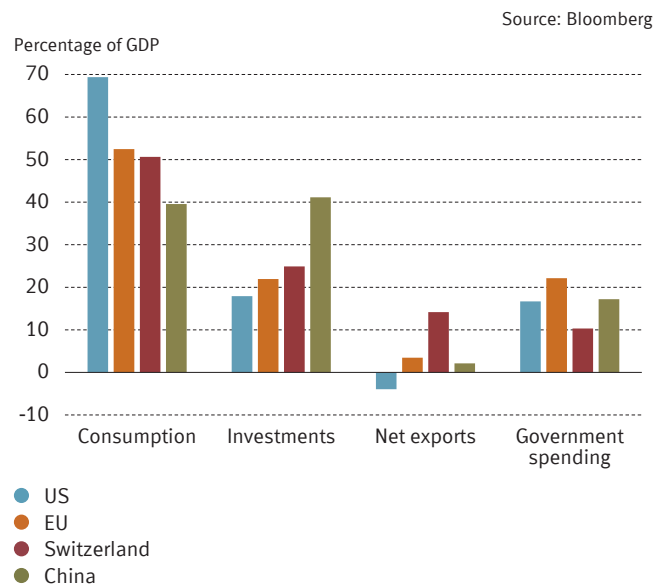
Gross domestic product (GDP) is the benchmark for measuring economic performance, yet it often reveals less about the future than one might assume. It is not just the rate of growth that matters, but rather its composition and structural sustainability. A country growing at five percent fuelled by debt and real estate bubbles may be worse off in the long run than one growing at two percent, built on stable consumption, productive investment and sustainable exports. In a world of rising geopolitical tensions, fiscal constraints and technological shifts, the quality of growth becomes the decisive factor.

GDP consists of four key components: consumption, investment, government spending and net exports. These four pillars vary in their vulnerability to crises and are shaped by political intervention, global economic conditions and technological developments. To understand why the United States remains economically dominant, why Switzerland maintains stability despite its small size, why China is under pressure and why the outlook for the EU remains uncertain, one must begin here, with the structure of growth.

Comparing GDP growth



The four components of GDP



The past few years have triggered a profound transformation. Priorities are shifting around the world: national security, resilience and technological sovereignty are gaining importance over efficiency, openness and global division of labour. As a result, the role of the four GDP components is also changing. Consumption is becoming more political, investment more strategic, government spending more expansive and exports more volatile.

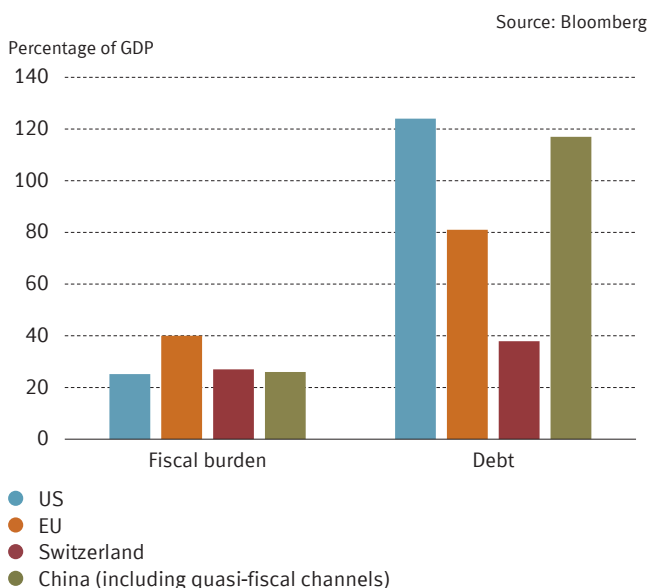
This shift is affecting the various economic models in different ways. The US continues to rely on a consumption-driven domestic economy marked by strong innovation and high investment appetite. Switzerland stands out for its balance: stable demand, specialised exports, a strong industrial base, and a disciplined national budget. The European Union is burdened by structural legacies but shows ambition in its green transition and defence efforts. China faces a challenging restructuring: moving away from an export- and investment-driven model towards stronger domestic consumption. Yet this transition has proven difficult to implement.

In the second part of this analysis, we compare the four regions across the individual GDP components to assess which combination promises the strongest long-term economic position. The next phase of global growth will not be a race for volume, but for structural resilience and strategic direction.

Four models in the stress test

A look at the four components of GDP — consumption, investment, government spending and net exports — reveals just how differently the economic foundations of the major economies are structured. Today's economic strength is owed less to sheer size than to the composition of growth.

Fiscal burden and debt



The US maintains the most dynamic economic model. Domestic consumption is supported by solid employment, positive net immigration and strong wealth effects. Despite a low savings rate, high consumer willingness to spend ensures stable demand. Even more important, however, are investments, particularly in digitalisation, artificial intelligence, defence, and reshoring. Additional government spending is likely to remain limited in the medium term due to high debt levels, but this plays a subordinate role since momentum in international comparison comes primarily from the private sector. Persistent trade deficits are structural but have little impact on overall growth potential.

Switzerland presents a different profile. It is less focused on rapid growth but offers greater balance. Consumption benefits from low inflation and stable employment. Investment is concentrated in future-oriented sectors such as biotechnology, medical technology and precision engineering. Government spending remains moderate, allowing for fiscal flexibility — a clear advantage in times of crisis. On the export side, Switzerland stands out due to its high level of specialisation and lower price sensitivity compared with other economic regions. This is a distinct strength in a protectionist global environment.

Europe finds itself caught between ambition and limitation. The EU is pursuing an investment strategy focused on green transformation, digitalisation and defence. However, consumption and productivity are weighed down by demographic trends, inefficiencies and a high fiscal burden, including taxes and social security contributions. Many member states have limited scope for additional government spending due to high levels of debt and persistent budget deficits. Exports are also facing increasing pressure from geopolitical tensions and trade barriers. While Europe is investing, it is not consuming enough and remains politically fragmented.

In China, the national accounts are partly distorted. The government relies heavily on state-owned enterprises, whose spending is recorded under „investment“ rather than „government spending“. As a result, the role of the state in the economy appears smaller than it truly is. For decades, growth was driven by investment and exports. Efforts to strengthen domestic consumption in a lasting way have largely failed. Too often, the government had to rely on state-directed investment and credit expansion to stimulate the economy. This has led to industrial overcapacity and a speculative bubble in the real estate sector. The reorganisation of the economy towards more domestic consumption is proving difficult. The high savings rate is a consequence of a weak social safety net, the one-child policy, cultural norms, and uncertain labour markets. The challenge is compounded by the fact that a significant share of household savings is tied up in a weakening real estate market. Investment activity is declining, particularly in the construction sector. Fiscal stimulus measures are likely, but they risk deepening existing imbalances. Exports are suffering from geopolitical tensions and the ongoing reorganisation of global supply chains.

The bottom line is that the US and Switzerland draw on strong or well-balanced sources of growth. Europe is struggling with structural constraints, while China faces a challenging economic transformation.

In the long term, quality beats quantity

The coming years will not be a race for the highest GDP growth, but for the most sustainable form of economic strength. We see an advantage for the US and Switzerland, while the EU and China face greater challenges. These structural differences shape the long-term outlook. In the short term, however, capital markets are driven by other forces, and these are often less rational.

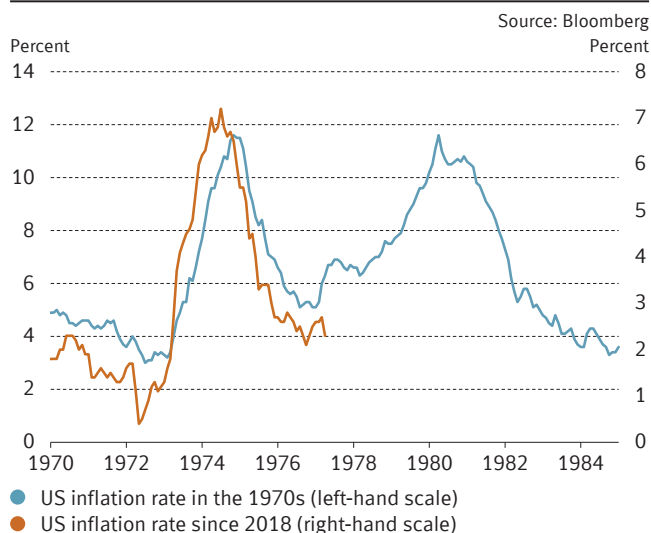
Between strategy and headlines – What really drives the markets today

Long-term economic strength is built on the structure of growth. However, investors know that short-term market movements are often driven less by fundamentals and more by sentiment, headlines or political events.

Capital markets are operating in an environment of limited visibility. Political developments are becoming increasingly erratic — from geopolitical tensions and election outcomes to tariff shocks. The result is a nervous and difficult-to-predict market environment. While economic data may still appear solid in retrospect, leading indicators point to a weakening outlook. Many companies remain resilient, but headwinds are intensifying.

This is particularly noticeable in the US. Tariff measures are driving up prices in the short term without addressing underlying structural issues such as the trade deficit. However, a second wave of inflation like that seen in the 1970s is unlikely. The actual impact of tariffs and a weaker dollar on inflation is expected to remain limited. Goods account for only 19 percent of the US Consumer Price Index and 23 percent of the core index, and tariffs are applied to wholesale prices rather than directly to retail prices. The largest component of the index is services, especially housing costs in the form of rents and owners' equivalent rents. These still show an elevated year-on-year inflation rate of nearly 4 percent, as they respond only with a considerable delay to developments in the real estate market. Since house prices have been cooling since mid-last year — a trend that has intensified under the Trump administration — a noticeable easing of inflationary pressure in this component is expected in the medium term. In addition, weaker cyclical demand for labour is likely to dampen wage growth and reduce price pressure across other service components. The US Federal Reserve is now under pressure from markets to deliver two to three rate cuts

A second wave of inflation is not expected



Composition of the Consumer Price Index (CPI)

	Weight	YoY Change (%)
CPI	100	2.30
Food	13	2.76
Energy	7	-3.74
CPI Core	80	2.80
Core Goods	19	0.13
Core Services	61	3.59
Super Core Services	25	3.02
Shelter	36	3.99

by the end of the year. The European Central Bank and the Swiss National Bank may also lower their policy rates again, with the latter potentially returning to negative territory.

Investors thus find themselves navigating a field of tension. On the one hand, many companies continue to deliver respectable earnings growth. On the other hand, risks are rising — from geopolitical conflicts and political uncertainty in the United States to structural challenges in China. The current consensus expects earnings growth of around seven percent, a forecast that appears increasingly ambitious and carries a growing risk of disappointment.

Our conclusion

Equity markets in the US appear complacent, while those in Europe and China seem overly optimistic. We therefore maintain a cautious tactical stance with a slight underweight in equities and a focus on defensive sectors. From a valuation perspective, investment grade corporate bonds offer limited appeal. By contrast, gold and the Swiss real estate market continue to stand out as stable sources of return, particularly in an environment where short- and long-term outlooks often diverge. Despite ongoing uncertainty, there is no way around US and Swiss equities in the long run.

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Editorial deadline: June 5th, 2025

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