Perspectives
Economics

SwissLife
Asset Managers

June 2025

Key takeaways

US: the debt situation is becoming exacerbated as tariff revenues are not offsetting the planned tax cuts

Eurozone: advance exports to the US are supporting growth, but are likely to tail off soon

China: the 90-day tariff pause brings export relief, but no guarantee for smooth negotiations

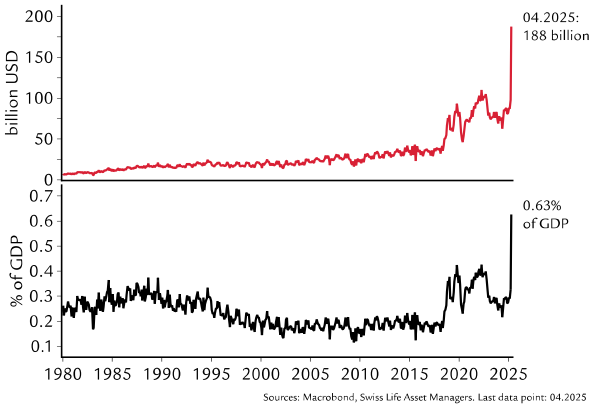
Comparison of forecasts

	2025 GDP growth		2026 GDP growth		2025 inflation		2026 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	1.5% ↑	1.2% ↓	1.5% ↑	1.5% ↓	3.2% ↓	3.1% ↓	3.5% ↓	2.8% ↑
Eurozone	0.9% ↑	0.9%	1.1%	1.1% ↓	2.1% ↑	2.0% ↓	1.9%	1.8% ↓
Germany	0.2%	0.0% ↓	1.2%	1.2% ↓	2.1%	2.1% ↓	2.0%	2.0% ↓
France	0.7% ↑	0.6%	1.2%	0.9% ↓	1.1%	1.2% ↓	1.6%	1.6%
Italy	0.5% ↑	0.5%	0.6% ↓	0.7% ↓	1.7%	1.8% ↓	1.8%	1.7%
Spain	2.2% ↑	2.4% ↓	1.7%	1.8% ↓	2.3%	2.4% ↓	1.7%	1.9% ↓
UK	1.1% ↑	0.8% ↑	1.2%	1.0% ↓	3.1% ↑	3.0% ↓	2.2% ↑	2.3% ↓
Switzerland	1.1% ↑	1.0% ↓	1.8% ↓	1.4% ↓	0.1% ↓	0.3% ↓	0.5%	0.6% ↓
Japan	1.0% ↓	0.8% ↓	0.6% ↑	0.6% ↓	3.1% ↑	2.8% ↓	1.8% ↑	1.6% ↓
China	4.5% ↑	4.3% ↓	3.9% ↑	4.0% ↓	0.3%	0.3% ↓	1.3%	0.9% ↓

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 12 May 2025

Chart of the month

US federal government receipts: customs duties (annualised)



An important objective of US tariffs is to generate government revenues. In April 2025, tariff revenues reached 0.6% of GDP on a projected annual basis, and according to the Yale Budget Lab, they could reach 0.9% of GDP under the current tariff regime. That is respectable, but it will not solve the US debt problem. Tariffs are seen as problematic taxes in economics as they (1) promote inefficient economic structures and (2) lead to substitution effects, eroding the tax base for tariffs. They are also regressive, placing a disproportionate burden on low-income households, which is likely to reduce the overall growth potential in the US.

USA
Focus on fiscal policy

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 1.5%	2025: 1.2%
2026: 1.5%	2026: 1.5%

US companies are keeping a cool head despite the flood of announcements from the White House. Daily data on container shipping between China and the US show no breakdown in trade relations, not even during the heated period in April, when 145% tariffs on Chinese goods were in place. Purchasing Managers' Indices remain solid, and initial jobless claims do not yet indicate a cooling of the labour market. We think that "Liberation Day" (2 April) marked the climax of the trade war and that the US economy will slow significantly in the second half of the year, but will avoid outright recession due to intact corporate animal spirits. The focus is now increasingly on fiscal policy. While the House of Representative's current draft budget includes spending cuts, the extension and broader application of the tax cuts from Trump's first term would keep the deficit at around 7% of GDP, according to calculations by the independent institute CRFB. As tariff revenues of just under 1% of GDP will be collected (not part of the budget, see chart of the month), overall fiscal policy is likely to even be a drag on economic growth, especially in 2025. The Senate's verdict on the Budget Act was still pending at the time of writing.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 3.2%	2025: 3.1%
2026: 3.5%	2026: 2.8%

The surprisingly fast and widespread withdrawal of "reciprocal" tariffs on Chinese imports is resulting in a lower US inflation forecast than in the previous month. Inflation data for April still showed no significant impact from tariffs, but this is set to change in the coming months. However, the inflation-dampening effect of tariffs (via lower consumer demand) on services was noticeable in April, which supports our assumption that the tariff-related surge in inflation is likely to be temporary.

Eurozone
Export-driven growth

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 0.9%	2025: 0.9%
2026: 1.1%	2026: 1.1%

European gross domestic product grew more strongly than expected in the first quarter of 2025. Part of this 0.3% quarter-on-quarter (QoQ) growth was driven by Ireland's volatile economic output (3.2% QoQ). Amongst the four largest eurozone countries, Spain continued to grow the fastest (0.6% QoQ), followed by Germany (0.4% QoQ), Italy (0.3% QoQ) and France (0.1% QoQ). The better-than-expected figures are partly due to the front-loading of exports to the US in order to pre-empt potential tariff increases. Eurozone exports to the US grew by a record 27% in the first quarter. A significant part of the increase is attributable to Ireland, as many US companies, particularly from the pharmaceutical sector, are based there. Irish goods exports to the US grew by 144% in the first quarter. This also explains the very strong quarterly growth in Ireland's GDP. Export figures were much weaker in those countries that are less exposed to the US, especially France and Spain. Despite the economic strength of the eurozone in the first quarter, we expect a slowdown over the course of the year as the pendulum is likely to shift in the opposite direction following the front-loading of exports. However, support comes from monetary and fiscal policy as well as the still solid labour market.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 2.1%	2025: 2.0%
2026: 1.9%	2026: 1.8%

Inflation stagnated in April at 2.2%, while core inflation rose slightly to 2.7%. The increase was stronger than expected and driven by higher service prices. This could be due to the late Easter date at the end of April this year. In Germany, prices for package holidays rose sharply. For the rest of the year, however, we expect inflationary pressure to continue to fall.

Germany
Slight confidence despite risks

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 0.2%	2025: 0.0%
2026: 1.2%	2026: 1.2%

The German economy surprised with a quarter-on-quarter growth of 0.4% in the first three months of the year. Part of this increase is attributable to advance exports to the US. Similar front-running effects are likely to have an impact in the second quarter but will be partially offset in the second half of the year. At the same time, both private consumption and business investment picked up slightly, suggesting an incipient stabilisation of the economy. However, the ongoing uncertainty related to US trade policy remains high and is likely to continue to weigh on investment activity and the export sector. However, the ifo surveys show an overall positive development so far. While the business climate remains noticeably more subdued, both the current business situation and business expectations have shown small but continuous improvements since the beginning of the year in the retail, manufacturing and construction sectors. The services sector remained in positive territory but has recently shown initial signs of slowing due to weak domestic and foreign demand. Overall, the available data point to a moderate recovery over the rest of the year.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 2.1%	2025: 2.1%
2026: 2.0%	2026: 2.0%

The latest data confirm the downward trend of inflation. We expect the rise in core inflation in April to be temporary and largely due to seasonal effects. This does not really change the medium and long-term prospects. Falling global demand, declining energy prices and the stronger euro are still easing import prices and reducing cost pressure on companies and households. US tariff policy is also having a disinflationary effect, as it dampens demand for European exports.

France
Construction industry revival

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 0.7%	2025: 0.6%
2026: 1.2%	2026: 0.9%

In France, too, economic data are currently showing increased volatility. Of particular note is the decline in consumer sentiment in May, which we attribute to economic policy uncertainty. Despite the gloomy sentiment, we still expect domestic demand to pick up over the coming quarters. Real wages are currently rising by more than one percent. Opportunity costs of consumption will continue to fall due to further interest rate cuts by the ECB in the coming months. Both should boost household demand. More generally, the easing of monetary policy is now reaching the real economy: adjusted for seasonal factors, the number of building permits for residential properties rose in April to its highest level since August 2022. The performance of the construction industry will thus support growth in the coming quarters. The presidential election in 2027 is gradually drawing closer. Whether the government will have sufficient room for manoeuvre in the meantime to tackle fiscal consolidation and implement the pension reform remains unclear. After all, the risk premium on French government bonds has fallen somewhat versus German government bonds.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 1.1%	2025: 1.2%
2026: 1.6%	2026: 1.6%

At 0.7% as of May, the inflation rate in France is at its lowest level in over four years. The accelerated easing of inflationary pressure is due to the appreciation of the euro. Consumer and investor inflation expectations also remain well anchored: consumers expect an average inflation rate of 2% over three years, according to an ECB survey. The implicitly priced inflation rate on inflation-protected 10-year bonds issued by the French government is currently 1.9%.

Italy
Back to a primary surplus

Sentiment amongst Italian companies was mixed in April given trade uncertainty. While purchasing managers' indices hinted at solid economic activity, surveys conducted by the Istat statistical institute showed a broad deterioration in sentiment. The decline was particularly pronounced amongst service providers, with the construction sector as well as the wholesale and retail trade remaining buoyant. In the industrial sector, front-loaded exports due to tariff threats are an issue; in April, exports to the US grew by 41% year-on-year. However, the forward-looking components in Istat's industrial survey remained gloomy. Good news arrived in April regarding the debt situation. In its notification to the European Commission, Istat reported a return of government finances to a primary surplus for 2024 (budget surplus before interest payments) for the first time since the pandemic. The interest rate differential between Italian and German government bonds narrowed further and stood at just one percentage point (10-year maturity) at the time of writing.

Spain
Weaker, but not weak

Economic growth in Spain slowed slightly in the first quarter of 2025 but remains strong in a European comparison at 0.6% compared to the previous quarter. Household consumption is mainly responsible for the slowdown, as its growth has almost halved compared to the previous quarter. On the other hand, export growth has accelerated. Unlike other European countries, however, this is not due to an advance in exports to the US, as Spain's share of exports to the US is small. Export data even show a slight decline in exports to the US for the first quarter of 2025. The second quarter got off to a mixed start. Sentiment amongst Spanish industrial companies weakened further in April, while the Purchasing Managers' Index (PMI) for the eurozone as a whole recovered slightly. The PMI for the services sector remains robust, which should remain an important pillar of growth for the Spanish economy.

Switzerland
Traces of deflation

GDP growth

Swiss Life Asset Managers	Consensus
2025: 1.1%	2025: 1.0%
2026: 1.8%	2026: 1.4%

The economic data received need to be carefully examined. Gross domestic product growth in the first quarter of 2025 was inflated by front-loading effects in anticipation of import tariffs on shipments of goods to the US. The production and export figures of the pharmaceutical industry speak volumes here. In March alone, production in this sector increased by 60% compared to the previous month. Foreign trade figures for April are already showing a significant drop in exports to the US again. The extent to which this important export sector will be affected by the US government's trade policy remains unclear. This makes any impetus having a positive impact on the domestic economy all the more important. The expansive monetary policy of the Swiss National Bank (SNB) has now led to a sharp increase in building permits. The construction volume in residential construction approved for implementation is more than a third higher in nominal terms than in 2023. As in 2015, the rise in the Swiss franc's external value is strengthening households' purchasing power. The SECO consumer confidence survey suggests that while consumers are concerned about the state of the global economy, they continue to view their own financial situation as favourable.

Inflation

Swiss Life Asset Managers	Consensus
2025: 0.1%	2025: 0.3%
2026: 0.5%	2026: 0.6%

Given the annual rate of change of the Swiss consumer price index, we are facing a short period of mild deflation. The main reason is the combination of falling import prices due to the appreciation of the Swiss franc and declining fossil fuel prices. In the decade prior to the pandemic, Switzerland experienced four periods of deflation. The SNB's key interest rate is also likely to return to negative territory this year, as an echo of what was thought to be a past era.

UK
Excessive momentum

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 1.1%	2025: 0.8%
2026: 1.2%	2026: 1.0%

The UK economy grew faster than expected in the first quarter. The strong growth of 0.7% compared to the previous quarter was driven in particular by strong business investments, but foreign trade also made a positive contribution. This could point to some front-loading of exports to the US before trade tariffs took effect at the beginning of April. However, the decline in government consumption is more surprising, as the autumn budget provided for front-loaded government spending, which should take effect in the first half of 2025. It could be that due to the financial market turbulence and the ensuing spring declaration by the Chancellor of the Exchequer, some government spending was withheld and may only be used later in the year. Private consumption was also weaker than expected, although the contribution remained positive. All in all, first-quarter GDP growth is likely to overestimate the current strength of the UK economy as various one-off effects distort the picture. Some of the growth drivers, especially foreign trade, are likely to reverse in the second quarter, which could lead to a somewhat weaker growth picture for the second quarter than previously expected. However, we expect government spending to contribute positively to economic activity for the rest of the year. The UK labour market also remains robust.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 3.1%	2025: 3.0%
2026: 2.2%	2026: 2.3%

Inflation rose significantly in April. However, the situation is less dramatic than it seems. In particular, the sharp increase in vehicle excise duty and volatile package tours distorted the overall picture. What remains striking is that core inflation in the UK is significantly higher than in the rest of Europe. This is also due to more stubborn services prices, while core goods inflation is lower than in continental Europe.

China
De-escalation, but for how long?

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 4.5%	2025: 4.3%
2026: 3.9%	2026: 4.0%

Following the escalation of the US-China tariff dispute, in which US tariffs on Chinese goods rose to 145% and effectively amounted to an embargo, a phase of de-escalation has now begun. Despite this easing, the average US tariff on Chinese products remains at around 41%, composed of a pre-existing tariff, a 20% tariff related to the fentanyl issue, and a 10% base tariff. The current tariff pause is initially limited to 90 days and is to be used for new negotiations building on the Phase One trade agreement of January 2020. The focus will again be on issues such as increasing US exports to China and creating fairer competitive conditions for American companies. If these are the only points on the agenda, China is likely to be willing to make some promises – which would allow the US government to achieve a political success and leave the issue alone for the time being. However, there is a chance that much more complex issues will be taken up – such as China's abandonment of its economic model that is shaped by industrial policy or an appreciation of the Chinese currency. In this case, the hurdles to a comprehensive agreement would be significantly higher, which could make the negotiations considerably more difficult.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 0.3%	2025: 0.3%
2026: 1.3%	2026: 0.9%

Despite the Chinese government's increased efforts to boost private consumption, deflationary trends have not abated so far. Headline inflation in April was slightly negative year-on-year. The ongoing trade conflict is also weighing on foreign demand and is likely to further restrict companies' room for manoeuvre in setting prices.

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Perspectives
Financial Markets

SwissLife Asset Managers

June 2025

Interest rates & bonds
Tariff headlines and fiscal deficit concerns

Overview of bond yields and investment-grade credit spreads

	10-year government bond yield			Investment-grade credit spread		
	Current	May 2025*	Year-to-date*	Current	May 2025*	Year-to-date*
US	4.5%	32 bps	-9 bps	88 bps	-18 bps	8 bps
Eurozone	2.6%	11 bps	19 bps	101 bps	-11 bps	-1 bps
UK	4.7%	29 bps	16 bps	111 bps	-11 bps	15 bps
CH	0.3%	-1 bps	-1 bps	77 bps	-4 bps	8 bps

10-year government bond yield eurozone = DE, bps = basis points.
* Change as at 28 May. Source: Bloomberg

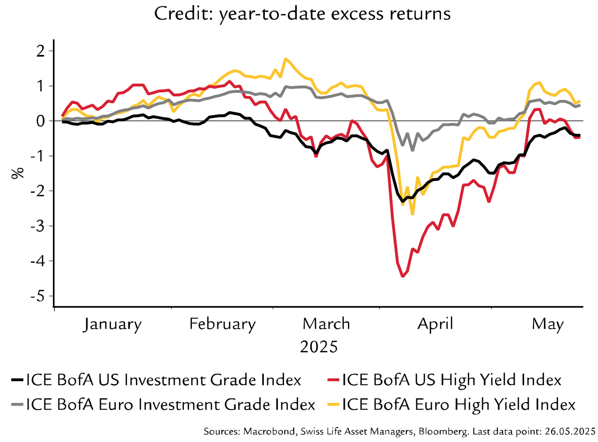
USA
- In May, US credit spreads and government bond yields were volatile due to tariff headlines and concerns over the US fiscal deficit. As a result, both 2-year and 10-year yields rose over the month.
- As expected, the US Federal Reserve kept its policy rate unchanged in May. We still expect four policy rate cuts in 2025 starting from July as high tariffs start to slow the economy in H2 2025.

Eurozone
- Credit spreads in both EUR high yield (HY) and EUR investment grade (IG) tightened, with government bond yields rising to a lesser extent than in the US.
- As disinflation continues, we expect the ECB to cut rates another three times this year, starting in June.

UK
- IG credit spreads tightened from the wider levels in April and bond yields increased across the curve.
- The Bank of England cut its policy rate to 4.25% on 8 May, and we still expect another three rate cuts this year, the next one being delivered in August.

Switzerland
- In line with other developed credit markets, IG spreads tightened. The government bond yield curve steepened due to a larger decline at the short end of the curve.
- To weaken the CHF and slow disinflation, we expect the SNB to cut its rate by 50 bps in June and by 25 bps in September to bring the policy rate to –0.5%.

Credit excess return recovery continued in May



Excess return is the return of credit above government bonds. Year-to-date (YTD) excess return for investment grade (IG) and high yield (HY) credit relative to government bonds continued to recover in May. This was driven by a significant credit spread tightening across all credit asset classes in May, which outweighed the increase in government bond yields. Due to the greater spread sensitivity of HY compared to IG, excess returns in May were stronger in HY compared to IG. The highest increase in excess return in May was seen in USD HY, supported by strong spread tightening on the back of the rollback of US-China tariffs. Notably, YTD excess returns are positive in EUR credit but negative in USD credit. After spreads tightened in May, the risk for wider spreads because of US tariffs and the resulting negative economic impact has again increased. Therefore, we expect wider spreads in HY given its higher spread sensitivity, and we are neutral for credit spreads in IG in both EUR and in USD for June. Regarding duration, we expect lower 2-year and 10-year government bond yields in June in the US and the eurozone.

Equities

Sell in May and go away?

Overview of equity market performance

	May 2025*	Year-to-date*
USA	6.0%	0.6%
Eurozone	5.7%	13.8%
UK	2.7%	8.5%
Switzerland	1.4%	7.2%
Emerging markets	4.8%	9.3%

MSCI net total return indices in local currency.
* Performance as at 28 May. Source: Bloomberg

US

– May was a very positive month for US equities. The key drivers were tariff rollbacks for Chinese imports and the delay of higher tariffs against the EU.
– From its lows in April, the market has now recovered almost 20% – one of the fastest and strongest recoveries in history.
– With the sharp recovery, the US market has become very expensive once again. Only small caps are trading in the normal valuation range.

Eurozone

– Eurozone equities performed similarly to US equities in May. It is the only major market that is up more than 10% year-to-date.
– Fears about increasing tariffs led to a very short-lived correction. After the US President announced a delay from June to July, the market recovered and outperformed the US once more.
– The valuation of the European market has increased and is now above historical averages. The valuation discount to the US is, however, still significant.

UK

– The UK market underperformed other markets in May due to its very defensive character.
– The UK market still benefits from a low valuation.

Switzerland

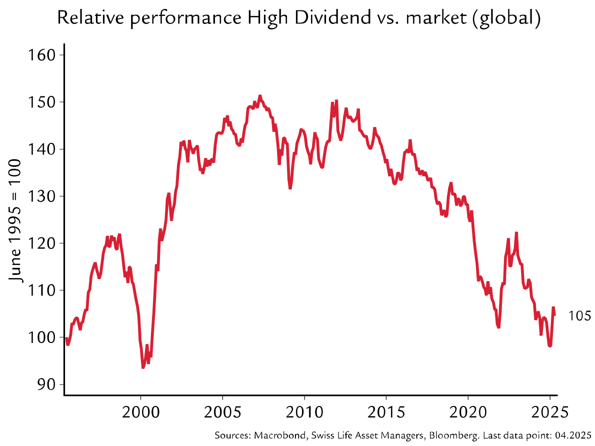
– May was another month of underperformance for the Swiss equity market. Small caps outperformed large caps again in May and are now slightly ahead since the start of the year
– The Swiss equity market valuation is now also above the neutral range.

Emerging markets

– In May, Emerging Markets had a positive performance.
– Valuations in Emerging Markets remain fair and are significantly lower than those in developed markets.

High-dividend investing

Investing in high-dividend stocks has been popular for approximately 30 years. Over the long-term, high-dividend stocks have similar returns to the broad market. However, for about 15 years and in particular in the past two years, there has been a significant underperformance of the global high-dividend universe due to significantly lower exposure to IT stocks and the Magnificent 7. Historically, dividends have played a crucial role in equity returns – in the US, nearly 50% of total returns since 1871 have come from dividends. In recent years the share has been lower, as companies have engaged in buybacks.



The high-dividend investment style has five main properties: 1. Over the long-term, the performance is similar to the broad market indices. 2. Dividends are significantly higher (MSCI high dividend indices have a 50% higher dividend yield than the broad market indices) and this higher dividend yield serves as a risk buffer. 3. It is less risky in dimensions such as volatility, share of cyclical sectors and concentration. 4. Their valuation is lower; companies have less debt but similar profitability. 5. Earnings growth is less than for the broad market. Essentially, the high-dividend style delivers market-like performance with several additional attractive features. The price for these attractive features is that in strong bull markets, the performance is weaker. For successful high-dividend investing, it is very important to use quality indicators in order to assess the sustainability of the high-dividend yield. We think that high-dividend investing is currently very attractive: relative valuation is low, the 15-year period of underperformance appears to have ended, and the global low-interest-rate environment that supported the previous bull market is no longer in place.

Currencies

USD, victim of a confidence crisis

Overview of major currencies

	May 2025*	Year-to-date*	1-month view
EUR/USD	-0.3%	9.1%	↗
EUR/CHF	-0.2%	-0.6%	→
GBP/USD	1.1%	7.6%	↗
USD/JPY	1.2%	-7.9%	↘

* Performance as at 28 May. Source: Bloomberg

USA

– After the selloff in April, the USD gained some ground in the first half of May before weakening again. On a trade-weighted basis, the USD performance was close to zero in May.
– The sentiment towards the USD remains weak and positioning in both USD shorts and EUR longs is elevated. We expect the confidence crisis to continue and to lead to a weaker USD in June.

Eurozone

– Even though the interest rate differentials between the eurozone and the US widened to the disadvantage of the EUR, EUR/USD finished the month of May at 1.13, roughly the level it started off the month.
– We think that the Fed will deliver two more cuts and the ECB only one more cut than markets currently expect until the end of 2025. This is an additional reason why we expect EUR/USD to strengthen.

UK

– In May, GBP appreciated against USD and EUR. Stronger-than-expected inflation numbers and a reduction in rate cut expectations might have contributed to the result.
– We maintain a neutral view on EUR/GBP but expect the GBP to appreciate against USD in June.

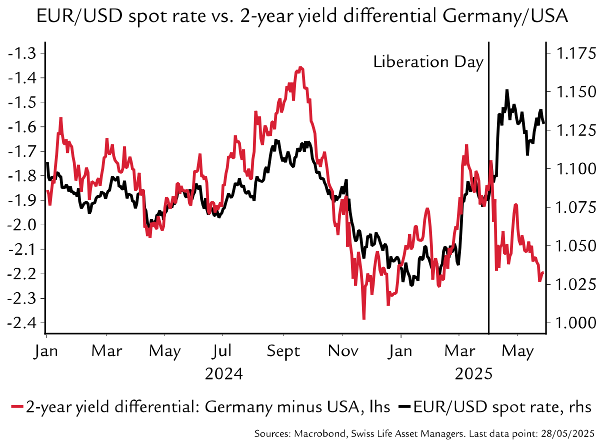
Switzerland

– CHF was almost unchanged against EUR and USD in May.
– We are neutral on EUR/CHF despite the expected move to negative interest rates by the SNB in June.

Japan

– The JPY had a rather weak performance in May, losing more than 1% on a trade-weighted basis.
– In line with our view of a weaker USD, we are negative on USD/JPY for June.

EUR/USD: the confidence crisis outweighs carry



The USD remains under pressure. Even though the US President's reciprocal tariffs were swiftly put on hold for 90 days, the 2 April "Liberation Day" marked the point when the correlation between USD performance and carry broke down. For the most heavily traded currency pair EUR/USD, the interest rate differential ("carry") had been by far the most important performance driver (see chart). Not anymore. Among the financial market instruments, the USD is the most important victim of the confidence crisis that the US administration unleashed with its erratic economic policies, attacks on institutions and subtle threats against foreign investors, notably in US Treasuries. While we think that "Liberation Day" might have marked the peak of the trade war, it is unlikely that the confidence crisis will be solved anytime soon. With the focus now shifting to US fiscal policy and the proposed "big beautiful bill", another potential source of worry has been sparked among foreign investors. The current proposal of the House of Representatives implies a virtually unchanged budget deficit in the order of 7% of GDP for the next years, which is reduced to 6% if tariff revenues are taken into account (see our *Perspectives Economics* for more details). The US debt trajectory therefore remains unsustainable, notably if the economic policy uncertainty, lower immigration and the economically inefficient tariffs start to weigh on the country's growth potential. The confidence crisis and the fiscal concerns imply that we expect the USD to weaken further despite its carry advantage.

Asset allocation

Back to square one

Review

- In May, equity markets recovered further from the correction that was triggered by the 2 April "Liberation Day" tariff announcements. The recovery was supported by various adjustments and postponements of tariffs as well as ongoing trade negotiations.
- The positive sentiment in equities also benefited credit markets: credit spreads tightened, though higher government bond yields, particularly in the US, have detracted from returns.
- Government bonds generally posted negative returns in May, with Swiss bonds once again standing out as a positive exception.

Current asset allocation views

Asset class	Active weight
Global government bonds	overweight
Global investment-grade credit	underweight
Emerging market bonds	underweight
Global equities	neutral

Source: Swiss Life Asset Managers

- We leave our asset allocation unchanged. Now that the losses triggered by the 2 April announcement have been recovered, attention is turning back to economic fundamentals. However, we should remain mindful of potential volatility flare-ups as the July tariff negotiation deadline approaches.
- Improved market sentiment supports our neutral equity allocation, even though the underlying fundamentals are relatively weak. We still see room for some markets to catch up, but risks are clearly rising.
- The recent increase in US government bond yields, though understandable, appears difficult to reconcile with our base case of slowing growth and only temporarily higher inflation as a result of tariffs. Therefore, we continue to overweight government bonds and underweight credit. Credit spreads remain very tight and do not adequately reflect current risks.

Go back to start!

In Monopoly, the board game, drawing a "go back to start" card sends you back to the beginning, skipping the "salary" you would normally collect. A similar pattern has played out in financial markets. Following Donald Trump's 2 April "reciprocal" tariff announcements, global equity and credit markets corrected sharply, then rebounded to levels seen at the start of the year. So, what's next? Let's lay the cards on the table.

Our base case scenario anticipates an economic slowdown in the second half of 2025, but no outright global recession. Inflation should continue to ease in Europe, whereas it will temporarily rise in the US as a result of tariffs. Equity fundamentals have changed little since January. Analysts now forecast 7% to 11% annual earnings growth for large developed-market companies over the next two years – a historically strong pace. These optimistic projections may be tested, especially as US equity market valuations are still elevated and Europe's equity market valuations are now within a neutral range. Earnings disappointments could trigger a correction. However, if trade negotiations progress, equity markets could catch up in the coming weeks. Overall, we maintain a neutral stance on equities.

Interest rates remain high in the US and, to a lesser extent, in Europe. Switzerland, still seen as a safe haven, continues to offer very low rates. While concerns about US debt sustainability and declining confidence in US Treasuries and the USD may justify higher government bond yields, current levels seem inconsistent with a slowing economy and are likely to fall.

Credit spreads, historically low at the end of last year, have returned to similar levels again in May after a modest widening in April. Some analysts argue that this is justified as government bonds are increasingly seen as risky. Still, the actual risk of a US Treasury default remains very low. And as seen after 2 April, market turbulence still tends to widen credit spreads and lead to lower yields – though less dramatically than in previous episodes of turbulence. We therefore view credit as expensive and thus underweight the asset class, while we maintain an overweight in government bonds.

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