



STRATEGY UPDATE • JUNE 2025

Strategic Calm in a Noisy Market

KEY TAKEAWAYS

- May was a strong month for diversified portfolios, with broad-based gains led by European and Emerging Markets equities, gold, and the defence sector.
- Conflicting macro signals – rising yields, falling oil, a weaker dollar, and strong real estate – highlight growing uncertainty driven by political factors.
- European equities continue to offer attractive tactical opportunities, but we remain anchored to U.S. markets for structural exposure.
- U.S. data continues to support a soft-landing scenario, with slowing inflation and resilient consumption trends.
- In a complex environment, we emphasize quality, global diversification, and ‘store-of-value’ assets, including Swiss equities and gold.

MARKET REVIEW

May was another constructive month for multi-asset portfolios, with broad-based gains across equities and alternatives, led by strong contributions from European and Emerging Markets exposures as well as from the defense and gold allocations. U.S. equities held steady, and fixed income remained resilient despite ongoing macro noise. The final days of the month were marked by a return of political uncertainty and conflicting economic signals, which translated into mild profit-taking. Nonetheless, the tone across markets remains cautiously constructive, underpinned by a combination of resilient consumption, falling inflation, and improving liquidity conditions.

European and Asian equities have outperformed in 2025



Yet **markets are far from easy to read**. To borrow a recent commentary: stocks are rising as if trade tensions have eased, while gold climbs as if escalation is inevitable. U.S. yields point to expansion, but oil prices suggest contraction. The U.S. Dollar Index weakens like inflation is dead, but real estate and gold behave as if inflation is coming back. Sharp divergences in signals always demand a cautious approach. The wisest course is often a steady one – resisting the temptation to chase headlines or over-rotate portfolios.

REGIONS & POLICY

One clear theme emerging from this noisy landscape is the **divergence between U.S. and European equities**. While the U.S. still offers long-term structural leadership – anchored by deep capital markets and superior innovation – European equities have recently gained the upper hand. This reflects attractive relative valuations, ongoing economic normalization, and a resurgence in capital investment tied to reindustrialization and defense. From a tactical standpoint, we maintain a tilt toward European equities, acknowledging that such relative trends can persist even in the face of noisy macro data. However, we do not view this as a secular shift. The U.S. remains the structural core of global equity exposure.

Another complicating layer for investors is the **rise in politically driven market behavior**. With elections in the U.S., growing protectionist rhetoric, and policy increasingly prioritizing national interests and geopolitical maneuvering, markets may continue to react to unpredictable signals. While these distortions can create volatility, they also underscore the importance of owning high-quality, globally diversified assets with inherent resilience. Our emphasis on sectors such as defense, infrastructure, and shareholder-friendly equities is a direct response to this reality.

MACRO OUTLOOK

U.S. economic data remains solid, though momentum is moderating. Q1 Real GDP saw an upward revision to -0.2%, primarily driven by a surge in imports – likely from businesses front-loading orders ahead of anticipated tariffs – and reduced government spending. Concurrently, April's Core PCE fell to 2.5% year-on-year – its lowest level in three years. This combination of **steady growth and easing inflation supports the case for a soft landing** and keeps hopes of a rate cut alive later this year, though the Fed remains cautious. In Europe, growth remains patchy, but pockets of resilience – especially in manufacturing and exports – suggest the region can maintain modest momentum. Emerging markets are benefiting from a more benign global liquidity backdrop, and Chinese activity data, while still uneven, has stabilized somewhat. Consumer strength, particularly in the U.S., remains a key support. Despite concerns over student loans, housing affordability, and fiscal sustainability, spending has proven resilient, underpinned by high cash holdings and a tight labor market.

Personal consumption expenditures price index

— All items — Excluding food and energy



PORTFOLIO POSITIONING

Equities continue to perform well, and we maintain a constructive stance. Recent gains have been helped by the strong contribution from European and Emerging Market allocations as well as our recent increase in the defense sector, which continues to benefit from structural tailwinds. While U.S. equities remain a strategic core, we see tactical value in Europe and EM for the months ahead. At the same time, AI-linked equities remain crowded, and while still relevant, we see better risk-reward in broader quality cyclicals, industrials, and select consumer names with global exposure. We also note the renewed strength of Swiss equities, which benefit from their ‘store-of-value’ characteristics, including shareholder protection and a solid currency. Swiss assets should not be overlooked, particularly by international investors seeking diversification from dollar-linked volatility.

In fixed income, we maintain a stable core allocation to high-quality USD investment grade bonds, which continue to deliver reliable income. However, given heightened political noise and signs of a weakening dollar, we are gradually adjusting. In this context, sovereign debt remains a lingering concern, particularly in the U.S., where substantial refinancing needs over the next 12 months could introduce further volatility and place upward pressure on yields.

In alternatives, we maintain exposure to long/short strategies – particularly U.S.-focused ones with a flexible net exposure – and are considering incremental adjustments to gold and real assets allocations. Amid growing concerns about creeping financial repression, the investment landscape is being reshaped by a gradual migration of capital from public to private sector balance sheets – a shift that appears increasingly structural. Recent proposals such as those outlined by Stephen Miran – suggesting measures like capping interest costs on public debt through regulatory pressure on banks and institutional investors – highlight a policy mindset that could favor subdued yields and greater state influence over capital flows. These ideas, even if not implemented directly, underscore the political appetite for financial engineering aimed at managing sovereign debt burdens. Against this backdrop, **store-of-value assets take on renewed importance** – not only for their inflation-hedging or diversification benefits, but also as a response to broader regime risks, including capital controls, selective taxation, or interference in traditional market pricing mechanisms.

OUTLOOK

Our base case remains cautiously optimistic. Barring an exogenous shock, the U.S. economy looks likely to extend its expansion, albeit at a slower pace. A rate cut later this year is plausible, but not guaranteed, and will depend on further cooling in inflation data. Meanwhile, Europe and EM offer a useful diversification tool, while gold and selective bond strategies continue to provide ballast.

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