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Broadening Leadership in a Supportive Rate Environment

KEY TAKEAWAYS

- We maintain a clear pro-equity stance as moderating inflation and gradually easier monetary policy remain the dominant drivers of returns, while geopolitical noise is increasingly absorbed by markets.
- Leadership is broadening beyond US mega-cap technology toward cyclicals, industrials, materials, Europe and emerging markets, supporting more diversified portfolios.
- Income can be rebuilt through a barbell of short-dated high-yield and high-quality investment-grade bonds, complemented by EM hard-currency corporates and liquid alternatives.
- Currency diversification away from an exclusively USD exposure – including European and selected Asian currencies – together with gold and real assets, improves resilience.
- Structural themes such as AI infrastructure, cybersecurity, electrification, healthcare innovation and selective emerging markets remain the most attractive sources of long-term compounding.

MARKET REVIEW

Markets began the year with a constructive and increasingly broad tone. While US equities delivered only modest gains, international markets were notably stronger, with Europe, Japan and emerging markets clearly outperforming and **leadership shifting away from the narrow mega-cap segment** that dominated last year. Cyclicals, materials, industrials and defense-related exposures stood out, reflecting the ongoing themes of reindustrialization, fiscal support and energy and security spending. The path through the month was not linear: an early rally was followed by a temporary mid-month setback on renewed tariff and policy headlines, before

sentiment recovered into month-end as moderating inflation and stable rate expectations reasserted themselves. Overall, price action suggests that markets are increasingly driven by improving fundamentals and rotation rather than by geopolitical noise.

MACRO OUTLOOK

In our view, the real drivers of this cycle remain **inflation and interest rates**. Political events, trade disputes and tariffs matter mainly insofar as they influence these variables. Tariffs can temporarily unsettle confidence and create volatility, but their lasting impact is transmitted through prices and growth. Recent data across both the US and Europe point to a **gradual easing of inflation pressures, while labour markets are cooling without collapsing**. This combination allows central banks to remain flexible and keeps the direction of travel for policy biased toward accommodation rather than renewed restriction. Markets appear comfortable with this backdrop, as lower and more stable rates support both valuations and household affordability. The **recent change in Federal Reserve leadership** reinforces this perception. The new chair is widely viewed as pragmatic and attentive to financial conditions, favoring a balanced approach that prioritizes stability and **avoids unnecessary tightening**. This aligns with the broader political objective of supporting housing and consumption ahead of the electoral cycle. As a result, while policy rhetoric may occasionally sound hawkish, the effective stance remains supportive. In such an environment, sharp and persistent increases in rates appear unlikely, reducing the probability of a hard landing. Short-term volatility should therefore be seen more as noise than as the start of a sustained downturn.

That said, we remain realistic about the path ahead. Tariff announcements, geopolitical maneuvers and episodic policy interventions will likely continue to generate swings in sentiment. Markets may periodically overreact to headlines around trade or security, particularly where supply chains and strategic resources are concerned. However, **as long as inflation remains contained and liquidity is not withdrawn aggressively, these shocks tend to be temporary**. Closer to year-end, if positioning becomes stretched and valuations more demanding, a more assertive stance may be warranted. For now, the macro foundation remains constructive and argues against de-risking too early.

PORTFOLIO POSITIONING

From an asset allocation perspective, we therefore maintain an **overweight in equities and alternatives** while keeping traditional fixed income selective. Earnings growth is broadening beyond a handful of leaders, liquidity conditions are improving at the margin and corporate balance sheets remain generally healthy. Institutional positioning is not euphoric and share buybacks continue to provide a steady technical tailwind. Together, these factors create a supportive backdrop for risk assets and suggest that staying invested remains the more attractive strategy.

EQUITIES & THEMES

Within equities, the most important development is the **broadening of leadership**. After several years in which performance was heavily concentrated in US technology and communication services, returns are now spreading across sectors and regions. Industrials, materials, energy and defense-related companies are benefiting from infrastructure investment, supply-chain reshoring and increased security spending. Europe stands out as it moves into a delayed earnings recovery supported by fiscal initiatives and attractive starting valuations. Switzerland continues to offer high-quality, defensive franchises with strong cash flows and pricing power, helping to stabilize portfolios during periods of volatility. Healthcare remains a core allocation, combining innovation with relatively low economic sensitivity.

Emerging markets also warrant renewed attention. A less dominant US dollar, improving domestic demand in Asia and more supportive local policies create a favorable environment. Exposure to these regions provides both growth potential and natural currency diversification. We prefer diversified approaches complemented by selective country stories. China shows early signs of stabilization after a prolonged adjustment and could enter a more durable uptrend if policy support persists. India and parts of Southeast Asia benefit from demographics, manufacturing relocation and strong capital expenditure cycles. Japan has matured into a strategic allocation as governance reforms and shareholder returns continue to improve.

Thematic exposures remain central to long-term compounding. Artificial intelligence and cloud infrastructure are evolving from momentum trades into fundamental earnings drivers across multiple industries. Cybersecurity, automation and digitalization benefit from persistent corporate investment. Clean energy, electrification and grid modernization are supported by both policy and necessity. In parallel, strategic competition over critical inputs highlights the importance of commodities and **rare earth metals**, which are increasingly essential for defense, energy transition and technology supply chains. Select exposure to these areas can enhance diversification while capturing structural demand.

FIXED INCOME & ALTERNATIVES

In fixed income, traditional government bonds continue to offer limited return potential relative to risk. Lower yields reduce carry and make duration less attractive as a source of performance. Instead, we prefer a more targeted income approach. A barbell strategy combining short-dated high-yield corporate bonds with slightly longer-duration, high-quality investment-grade bonds provides attractive carry while containing volatility. Emerging market hard-currency corporate bonds add diversification and historically exhibit resilient credit profiles. This combination allows portfolios to generate reliable income without taking excessive interest-rate risk.

Alternatives play an increasingly important role. Market-neutral and absolute-return strategies offer equity-like returns with lower correlation and smoother paths, effectively replacing part of the traditional bond allocation. These strategies help stabilize portfolios during rotations and periods of uncertainty. Gold remains a strategic holding, not only as an inflation hedge but also as a currency diversifier and a buffer against geopolitical fragmentation. Energy and selected real assets further strengthen resilience in a world where supply security is becoming as important as efficiency.

CURRENCIES & OUTLOOK

Currency diversification is also becoming more relevant. With the US dollar no longer enjoying the same structural tailwinds as in the previous decade, relying solely on USD exposure is less compelling. European currencies, together with traditional safe havens and selected Asian currencies, offer stability and help smooth portfolio volatility. Holding assets denominated in these regions, alongside gold, reduces dependence on any single monetary regime and improves overall balance.

In conclusion, the current environment remains more supportive than headlines suggest. Inflation is easing, policy is gradually turning more accommodative and earnings growth is broadening across regions and sectors. Markets continue to absorb geopolitical risks with relative ease, focusing instead on fundamentals. Against this backdrop, diversified equity exposure, selective income strategies and real-asset hedges offer the most attractive combination of growth and resilience. While volatility will remain part of the journey, the balance of risks still argues for maintaining a constructive, pro-equity stance as we progress through the year.

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