WEEKLY ANALYSIS

M. Alain Freymond — Associé & CIO

INTERNATIONAL EQUITY MARKETS

The United States looks ever more fragile under Trump's policies. Economic slowdown and rising inflation likely. High uncertainty and low visibility induced by current chaos not conducive to long-term investment in Switzerland.

Key points

- Macroeconomic risks and uncertainties return
- The US market levitates dangerously
- UK stocks are risky again
- The Nikkei rebound is now likely to run out of steam
- Chinese equities offer unique diversification opportunities
- Emerging markets' outperformance may last
- Underweighting the USA remains a defensive tactical allocation
- A wasted quarter for Swiss stocks due to the strong franc
- US tariffs remain a risk factor

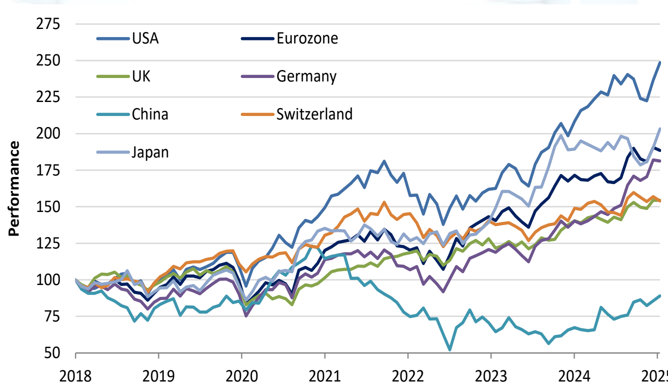
Macroeconomic risks and uncertainties return

Between extreme concerns about a blockade of the Strait of Hormuz following the bombing of Iran's nuclear sites in June and Trump's announcement of a ceasefire between Iran and Israel, followed by renewed tensions with Russia in the Ukraine conflict, the assessment of geopolitical risks and their possible implications for crude oil prices and global growth has been particularly hazardous. And yet, thanks to the 90-day truce, equity markets have recovered to pre-shock levels following the announcement of extreme tariffs on April 2, and do not seem to be worried about the absence of negotiated agreements at the end of this deadline. Trump's further postponement to August 1 is likely to be the last before perhaps far more punitive tariffs kick in, clearly threatening investors' current peace of mind. If the fear of missing a stock market rally followed a phase of panic in April, complacency now seems to have returned to the markets. Nothing has really changed on the tariff front, and the month of June passed in relative indifference, despite some less than encouraging economic news from the USA. Most statistics, in our view, pointed instead to a decline in economic activity, industrial production, retail sales and consumer spending, while employment figures finally softened and uncertainties increased in the real estate sector. The Federal Reserve remains determined to maintain the status quo in the face of the risks of rising inflation, and continues to pursue its restrictive policy. Only the PMI indices seem to be pointing towards an improvement in the situation, although this does not support the dollar. Against this backdrop, geopolitical risks are adding considerable uncertainty to forecasts, but the fundamentals seem to us to be pointing once again towards a phase of risk for equity markets that investors have yet to perceive. Once again, we recommend caution, and suggest some welcome profit-taking at the end of Q2.

The US market levitates dangerously

The US equity market has underperformed other regional markets since the start of the year, under the influence of rising uncertainty and the potentially major risks posed by the new President's economic policies. After an uncertain first quarter, April 2 triggered a few days of panic, justified by the scale of the risks posed to the US economy and listed companies by an explosion in tariffs.

Long-term equity markets (base 100)

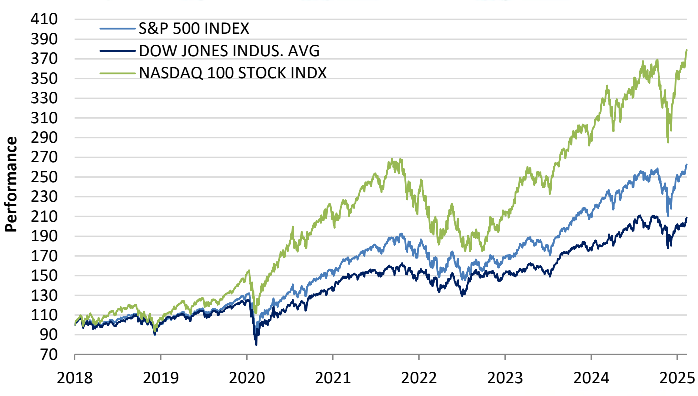


Sources: Bloomberg, BBGI Group SA

The risks of stagflation soared at the same time as US Treasury CDS doubled, reflecting investors' concern and loss of confidence in the government's ability to repay its debt. The announcement of a 90-day postponement was enough to erase all these risks and allow stock market indices to rebound massively and extremely rapidly. Private investors, probably more than institutional investors, still wanted to believe in the party and pushed listed stocks to new heights. However, the risks are ever more present and their potential effects ever greater. From now on, we can truly speak of complacency and fragility in the US markets in the face of the eventual emergence of one or other of the known risks since Trump came to power. In our view, current levels no longer take these risks into consideration, even though they are bound to materialize over the coming months. An economic slowdown and a rise in inflation will soon trigger a new phase of decline. European stocks had significantly outperformed US indices at the start of the year, ending the first quarter with a small but appreciable rise of +7.2%.

The shock of the announcement of prohibitive tariffs on April 2 had not spared European equities, which plunged -13%, but the 90-day postponement of their implementation led to a massive +18% rebound, returning equity indices to their March levels. European stock markets were once again benefiting from renewed investor confidence in the face of the glaring uncertainty caused by Trump's policies in the United States. Investors feel reassured by much more reasonable valuations in Europe, while the worsening US economic outlook gives cause for concern. Falling inflation seems more structural, allowing a flexible monetary policy to be maintained. Earnings growth for 2026 (10.5x) is probably underestimated in this context, while the valuation of 14.3x (PE) is well below that of the S&P500 (20.8x) or the Nasdaq (26.2x). It also still looks attractive compared to Japanese (19.2x) and Swiss (16x) equities, and is barely more expensive than Chinese stocks (12.3x). Our expectations that the SX5E would rise towards 5,500 have materialized, but doubts seem to be returning to these levels, suggesting a possible new phase of weakness over the summer. We recommend reducing risk in European stocks at these levels.

US equity markets (base 100)



Sources: Bloomberg, BBGI Group SA

UK stocks are risky again

The FTSE 100 index has returned to its highest level of the year after losing and regaining almost 15% in the space of a few weeks. Despite a high dividend yield (3.5%) and a comparatively attractive PE (13.4x 2026), UK equities do not seem to us to enjoy sufficient appeal to merit higher interest. The UK market lacks a catalyst in the current environment, and fails to attract the attention of international investors who have more attractive opportunities in more dynamic and promising sectors. We still suggest avoiding the UK market, which represents no more than 2% of international market capitalization, and whose metrics are no longer as attractive, particularly by European standards. We suggest reducing exposure at current levels.

The Nikkei rebound is now likely to run out of steam

Since our cautious recommendation on Japanese equities in February, our target of 34,000 points on the Nikkei had been reached in April, prompting a new, more positive change of stance. Today, the rebound in Japanese stocks has brought the index back to its 200-day average of 38,000 points. In our view, the Japanese economic climate is not particularly conducive to corporate profit growth, especially for exporters, who will suffer from Trump's policies and uncertainties surrounding international trade, as well as from the yen's ongoing appreciation. The Nikkei is likely to navigate a volatile environment marked by ongoing uncertainty. A continuation of the current trend remains likely, although the prospects for growth are limited and now insufficient to justify significant exposure to this market.

Chinese equities offer unique diversification opportunities

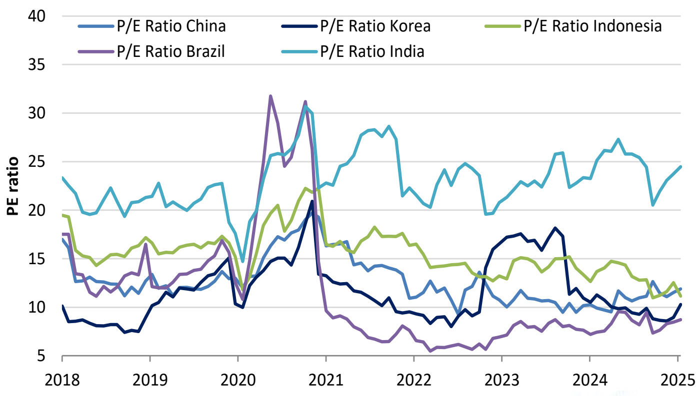
The resilience of the Chinese economy should come as no surprise, given the relatively low weight of Chinese exports to the USA. The industrial and manufacturing sectors are holding up well, despite an acknowledged weakness in domestic consumption, clearly suggesting that the Chinese economy is still able to keep its industry going and export to countries other than the USA.

Chinese equities A and B (base 100)

Sources: Bloomberg, BBGI Group SA

Every day, Chinese technology seems to be performing better and better, able to rival that of industrialized countries on many levels. On the stock market front, measures taken by the Chinese authorities may stimulate consumption and domestic demand. These include lower benchmark interest rates, a reduction in banks' reserve requirements, measures to support and ease financing conditions and access to real estate, and other measures designed to revitalize domestic growth. The Hang Seng index is trading at just 11x earnings, compared with a similar multiple for the CSI300 (14x). China's leading stocks stand to benefit from improved visibility and renewed interest from Western investors, who in our view have very little exposure to the world's 2nd-largest economy.

Emerging markets PE



Sources: Bloomberg, BBGI Group SA

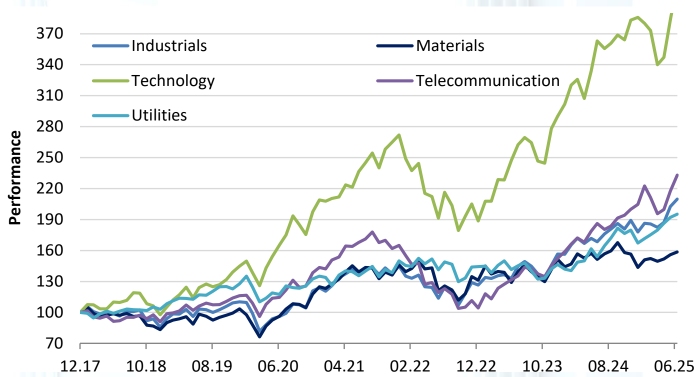
Emerging markets' outperformance may last

Several quarters ago, we made the case for emerging markets to finally outperform developed markets, particularly in view of China's underperformance. Since then, however, emerging markets (+4.5%) have once again come out on top, significantly outperforming the global index in Q1 (-1.79%) and then in Q2 with an excellent performance of +12.17%, again slightly higher. Since the start of the year, the +15.52% rise has far outstripped that of the MSCI World index (+9.47%), held back by the underperformance of the United States (+6.2%). The prospects for the Chinese market seem to us to be underestimated, and the other main emerging countries could benefit from the dollar's fall and a dependence on the US economy that is finally reasonable and often centred on commodity exports. An overweighting of emerging markets still seems appropriate to us in the present context.

Underweighting the USA remains a defensive tactical allocation

At the start of the 2nd half of the year, the investment climate is still particularly affected by Trump's policies in the United States and by the potentially major impacts of new tariffs, the outcome of which remains highly uncertain. Uncertainty and concern dominate more than ever as we approach the 2nd deadline of August 1, and this does not augur well for the coming months. Six months ago, against a backdrop of economic and political uncertainty, we recommended a temporary reduction in tactical equity allocations. In particular, we recommended considering an increased allocation to emerging markets, especially China and India. Today, the United States seems even more weakened by Trump's policies, and we still believe that broader diversification would be beneficial in terms of risk management. We suggest a tactical allocation below the US weighting in the MSCI world index (75%), as well as a more defensive sector allocation. The optimism that has driven up the S&P500 and Nasdaq indexes over the past 90 days in the hope of an agreement on tariffs could well be called into question in the next few days, when the US President's second postponement of the introduction of the first deadline pushes back to August 1 the application of rates that are likely to be much higher than the level systematically applied since April 2. Now known as punitive tariffs, these could well reverse the trend if no agreement is reached, and apply up to 25% to 30% for major US economic partners including Europe and Japan, for example. This risk is increasingly taking shape, and could well cause a reversal of the “risk-on” mode that has accompanied a +40% rise in growth stocks during this period. While doubts may still persist for the time being about the real implications of tariffs on consumer behavior, higher rates would re-launch a risk-off phase damaging to over-confident equity markets in our view.
The VIX index, meanwhile, has returned to its recent low (17), suggesting investor complacency in a highly uncertain environment. The S&P Growth index exceeded its February high by +4% and is up +9% year-to-date. The SPX's substance stocks have only rebounded by +20% and are barely up +4% YTD. Less volatile than growth stocks, they were less penalized during the decline of US stocks (March-April). In the current context, we believe that a positioning in favor of this more defensive market segment is a more optimal strategy to take into account the growing risks of equity market consolidation. The stocks that were the most sought-after during the risk-on phase now seem riskier to us, and we suggest rebalancing towards more defensive sectors such as healthcare or consumer staples. This sector was very much neglected in 2025 and is still showing a negative YTD performance (-1.5%). The sector's earnings growth (+11%) in 2026 is similar to that of the SPX (+13%), while its PE valuation of 15x is significantly lower than that of the SPX (20x) or the SGX (25x). A rebalancing in favor of substance and healthcare stocks seems to us appropriate given the current risks.

Sector performance MSCI World (base 100)



Sources: Bloomberg, BBGI Group SA

A wasted quarter for Swiss stocks due to the strong franc

Swiss equities ended the 1st quarter with a satisfactory gain of +8.58%, despite a decline from the highs reached during the period. The second quarter proved less gratifying, marked by a -1.58% decline in the SPI and -5.3% in the SMI. The +10.3% rise in the Swiss franc undoubtedly played a major role in this, reducing profits earned in dollars and estimated in Swiss francs. In the medium term, the franc's rise also reduces the competitiveness of Swiss exporting companies, creating a less favorable context for Swiss stock market indices. Against this backdrop, it comes as no surprise to learn that the Swiss stock market was the only stock market in the industrialized world to record a negative quarterly performance, while the MSCI World index was up +11.47% in dollar terms, and European equities were also up +3.16% in euro terms.

US tariffs remain a risk factor

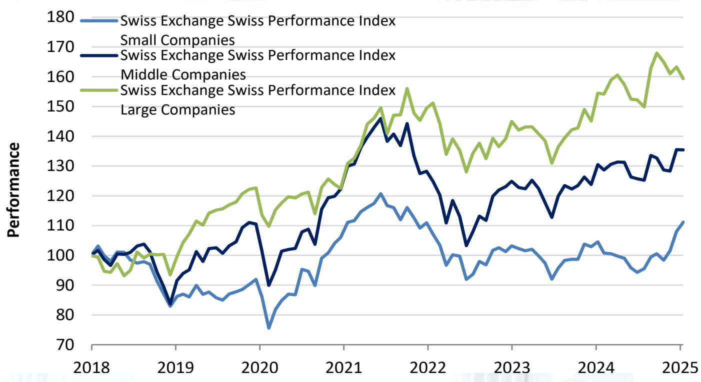
The Swiss authorities quickly accepted the idea of negotiating with the US authorities, ruling out any retaliatory measures, but to date nothing has filtered through, and despite the Federal Council's preference for a negotiated solution and a few statements suggesting that an agreement was close, the first deadline of July 8 has passed without a tangible result. Although it seems that Trump has not yet sent a letter indicating his decision concerning Switzerland, uncertainty persists and weighs on the Swiss export economy and the prospects of SMEs in particular. With the next deadline approaching on August 1, negotiators have little time left before a final decision is made. We believe that the Trump administration will leave no room for manoeuvre after August 1, and will then apply whatever tariff it decides. It is by no means out of the question that, if the tariffs for the EU are finally imposed at 25% or 30%, for example, Switzerland will also be considered in the same way and taxed at the same rate. It should be remembered that Swiss exports contracted by -5.3% in Q2, without any obvious direct link to this issue.

The high level of uncertainty and low visibility induced by the current chaos is not conducive to long-term investment. Monetary policy is likely to remain increasingly accommodative over the coming months, with a growing likelihood that the SNB will cut its key rates once again and return to negative rates as early as September. The increasing geopolitical risks in the Middle East, in particular, do not seem likely to disrupt the macroeconomic forecasts affecting Swiss stocks, unless the Strait of Hormuz is blocked, which remains the lowest-probability extreme risk, particularly since the truce that was reached quickly after the US strikes on Iran in June. In our view, the main risk remains that linked to Trump's tariff policy and its possible consequences for global economic dynamics. With the end of the 90-day truce, which was supposed to enable negotiations on tariffs, having come to nothing, the risk of disappointment increases with the return of uncertainty between now and August 1, the new deadline for reaching an agreement.

On the risk front, the strength of the Swiss franc continues to be a concern, with Swiss companies unfortunately benefiting from its safe-haven status in an international environment that has been severely disrupted by the effects of Trump's chaotic and disruptive policies. While the 1st quarter had raised hopes of a positive exchange rate impact for listed companies, thanks to a slight decline in the franc of -2.5%, the 2nd quarter, marked by a +10.3% rise in the franc against the dollar, radically altered expectations. The profits of Swiss companies will in some cases suffer greatly from this appreciation, in some cases drastically reducing margins and profits expressed in francs. Without a rapid rebound in the dollar, this factor will continue to penalize the outlook for Swiss stocks.

Against this highly uncertain political and economic backdrop, we believe there is once again a high risk of equity markets entering a new phase of consolidation. We suggest profit-taking, and once again favor a degree of caution and a temporarily reduced exposure to Swiss equities.

Performance of Swiss equities



Sources: Bloomberg, BBGI Group SA

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BBGI Group
Place de Longemalle 1
1204 Geneva
Switzerland
T: +41225959611
reception@bbgi.ch
www.bbgi.ch