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Investor Info
Investment Commentary

Briefing from the ARVEST Investment Committee

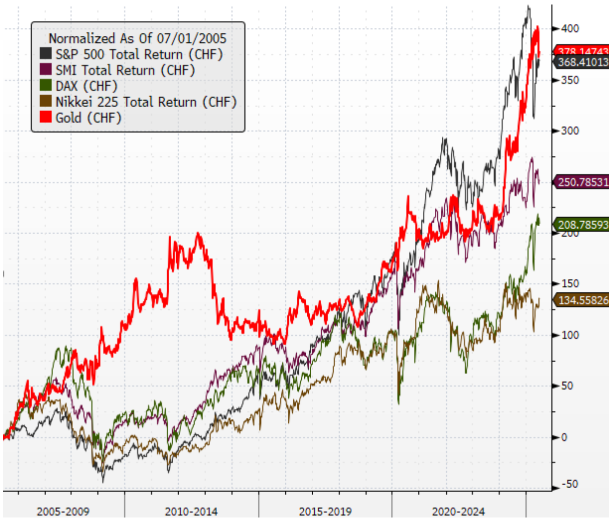
The equity and bond markets steadied in the second quarter. This is partly due to the fact that the hard, actual data for the US economy has remained stable, even though the soft survey data has weakened considerably. Nevertheless, uncertainty surrounding economic policy remains high. Our last quarterly report was published the day before President Trump granted the USA's trading partners a three-month suspension of most tariffs above a base tariff of 10%. In the coming days, after this period has expired, it will become clearer how the trade conflict will continue. The key question is whether the President will take into account the stability of the financial markets and the legitimate interests of US trading partners, or whether he will pursue his political agenda following his successes in Iran, in his feud with Elon Musk and, above all, in Congress.

Future Prospects

Massive borrowing is currently very popular among politicians of all colours. A key measure in the US is the 'Big Beautiful Bill' (BBB), a substantial reform package that was recently passed by Congress and signed by President Trump on Independence Day. According to estimates by the Congressional Budget Office, the BBB could result in an additional USD 3.3 trillion of new debt over the next ten years. Meanwhile, China's direct government debt is expected to exceed 100% of GDP for the first time in 2026. In fact, the IMF predicts that China's broader public debt could rise to over 140% of GDP by the end of 2027. In Europe, ambitions are similarly high. Germany, for example, plans to invest up to €500 billion in infrastructure in the coming years. NATO countries also intend to increase their defence spending significantly and reach a new target of 5% of GDP by 2035.

The economic success of these initiatives hinges on whether they will boost productivity. Supply-side structural reforms are deemed urgently needed in all major economic areas: in Europe, these are considered necessary to reduce bureaucracy and to diversify and secure the energy supply, in China to reduce sectoral overcapacities, and in the USA to strengthen local production and thus reduce dependence on the wealth effect of the stock market. However, current policy only appears to be partially aligned with these objectives.

The financial markets have responded to this with a depreciation of the US dollar and a precipitous rise in the price of gold. The devaluation of the US dollar poses a particular challenge for almost all investment strategies. After all, it is difficult to escape the influence of a reserve currency that has shaped all corners of the economy for the past hundred years. For instance, it is estimated that the 20 companies in the Swiss SMI equity index generate more than half of their turnover in US dollars or currencies closely aligned to the US dollar in terms of monetary policy, such as the Hong Kong dollar or the Chinese renminbi. The gold price boom is also indirectly linked to this. John Pierpont Morgan (1837–1913) is said to have once remarked, ‘Gold is money; everything else is credit.’ Given the global expansion of credit, it seems that investors are remembering this today, as all fiat currencies are depreciating against gold. In currency-adjusted terms, gold has even outperformed the leading stock market indices in the USA, Switzerland, Germany and Japan over the last 20 years, fully reinvesting all dividends.



In the first half of 2025, the US dollar fell by around 12.6 per cent against the Swiss franc, and by 10.8 per cent on a trade-weighted basis. Nevertheless, international investors have not yet sold US investments on a large scale. Instead, the US dollar has been sold forward as a hedging strategy. This was the main cause of the recent dollar weakness. Therefore, it is not yet a structural problem for the reserve currency, especially since there is no real alternative for institutional investors. However, the depreciation of the US dollar is currently strengthening the competitiveness of US exporters, effectively doubling the base tariff rate of 10%. The US government is presumably recording this as a political success.

Thanks to our underweight exposure to dollar investments and US growth stocks, our focus on Switzerland and Europe, and our positive stance on gold, we were largely able to offset the US dollar's foreign exchange losses in the first half of the year. Even though the dollar's weakness is currently rather cyclical, we are sticking to our investment strategy. This strategy does not diversify investments according to global market-weighted indices, as these give the USA a greater weighting than is justified by economic or demographic criteria. Instead, we maximise diversification in investment cases for individual securities and include real assets such as precious metals, commodities and property wherever possible.

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On behalf of the Investment Committee
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