ARVEST

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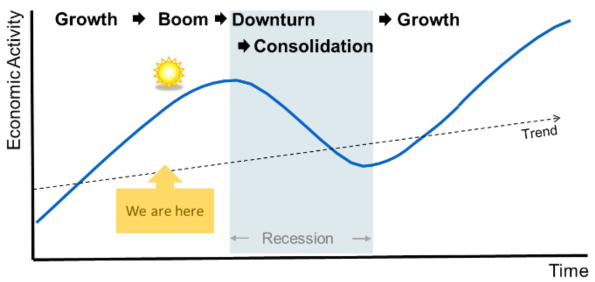
Investor Info

Investment Commentary

Briefing from the ARVEST Investment Committee

In recent decades, the USA has largely shaped the global economic and stock market cycles. Accordingly, analyses of the financial industry, including those of the ARVEST Investment Committee, have focused on developments in the US economy.

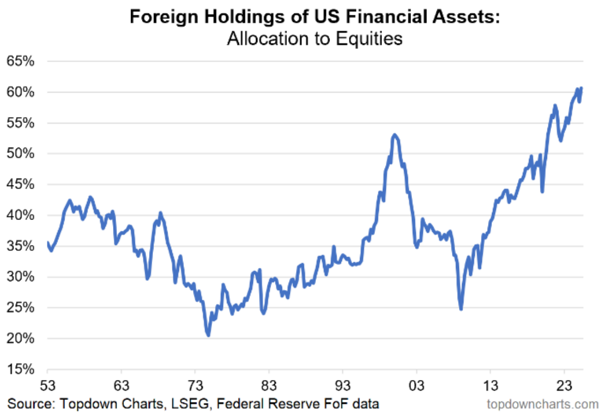


The USA is currently in a boom phase, the peak of which has not been reached yet. Typically, during such a period, markets tend to overstate positive developments until corporate investment becomes excessive. However, this time the cycle is atypical: from our perspective, the real US economy is showing only moderate dynamism. Since the soft landing at the end of 2023, it has not been able to stand on its own two feet. The leading economic indicators, which have reliably warned us of a recession in the past, have not returned to normal yet. Inflation remains above the long-term target, and the US economy is being stabilised primarily by the high twin deficit — rising government spending and a persistent trade deficit.

In September, the US Federal Reserve Committee began cutting interest rates. The markets are interpreting this as the beginning of a new cycle of monetary easing. This will inject additional liquidity into the economy and the financial markets. However, the underlying inflationary impact of US fiscal and monetary policy is likely to further weaken the US dollar, which was already under pressure in the first half of the year.

While many traditional industrial and consumer sectors are holding back on investment due to geopolitical uncertainty, investments in the technology sector, particularly in artificial intelligence (AI), is booming. In this context, hundreds of billions of dollars' worth of investments are circulating in a loop between chip manufacturers, data centres, AI developers and social media corporations. This situation is reminiscent of the New Economy of the late 1990s, and there are signs that a bubble is forming. High expectations presuppose extreme growth in a short period of time without any interruptions to the value chain, whether due to consumer weakness, energy shortages, production delays or regulatory hurdles.

Confidence is therefore prevailing in the markets. Interest rate cuts and a weaker dollar are fuelling the momentum. According to the Fed, US households held shares worth around USD 61 trillion at the end of June 2025. At 48.9% of their total financial assets, the equity share is more than double that seen after the 2009 financial crisis, and well above the level reached during the dot-com boom in 2000. International investors have also increased their equity share in US assets to a new record high. Such concentrations have previously been a warning signal of overheating.



Future Prospects

However, as long as the market continues to anticipate falling interest rates and a soft landing, sentiment will remain positive and the trend favourable for stocks. The ARVEST Investment Committee assesses the risk of an immediate recession in the US as moderate, but notes that classic leading indicators are increasingly losing their significance due to expansive fiscal policy. While subsidies and liquidity are supporting the economy, they are not initiating a sustainable economic upswing.

The Investment Committee generally maintains an equity allocation that is appropriate for each client's individual risk profile and preferences. However, we also focus on defensive sectors such as healthcare and consumer staples. Equities are already trading in an early boom phase. However, there are still many attractively valued stocks outside the US. Regional diversification therefore remains crucial, particularly given the high valuations and currency risks in the USA.

In an environment of a weaker US currency and low or falling interest rates, the investor's reference currency influences the asset allocation more than usual. For private investors who calculate in Swiss francs, bonds are currently unattractive as yields are low and transaction costs eat into minimal returns. Conversely, Western public debt policy favours investments in gold, even though market commentators write that central banks already own more gold than US government bonds following the recent market value increases.

Despite the advanced phase of the global investment cycle, we continue to identify opportunities, particularly where valuations are reasonable, debt levels are sustainable and business models are not overly speculative.

7 October 2025
On behalf of the Investment Committee
Stefan Kimmel
Chief Investment Officer ARVEST Funds AG