MARCH 2025: ISSUE #1

BCGE

THE ECONOMIC BRIEF

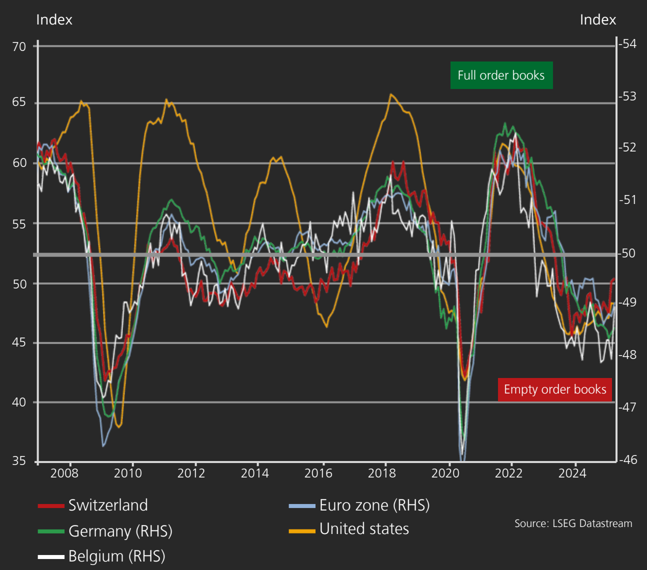
THE OPPORTUNITY FOR CHANGE

The economic and monetary environment

Trump 2.0 – Unpredictability and volatility

In January, all eyes were on American excellence, its technological advantages, its business environment and the mega-investment programme known as Stargate. In February however, unpredictable developments led to a noticeable decline in enthusiasm. In the business world, this is reflected in the increasingly gloomy mood among exporters in almost all regions. The reason for this is the expected tariffs on goods from countries with which the US has a trade deficit, including China, Canada, Mexico, Europe and Switzerland. Against this backdrop, the debate about the rise of the US and the decline of Europe continues. It can't be denied that the ECB's rate cuts in January and the Fed's lack of rate cuts support this simplified view. However, given the concentration in the technology sector due to US-driven artificial intelligence, economic diversification (particularly in the form of services, which are experiencing a real boom in global trade) should not be forgotten. Europe can certainly score points here thanks to the new Competitiveness Compass announced by Brussels, the Omnibus package to reduce bureaucracy and the massive investment package announced by the future German Chancellor.

Business sentiment in the services sector



- Is America really on the rise and Europe in decline? The trend is reversing
- The risk of the dollar and its effects
- The Swiss stock market takes the lead

2.8%

The growth of US wealth (GDP) in 2024

Scenario monitoring

Growth and inflation under pressure

2024 proved to be a year of turnaround for both growth and inflation. Though their respective increases were moderate, they did not result in the slump that was the subject of heated debate in 2022. The year 2025 may well turn out to be a year of opportunities, whether generated by the new Trump administration or by the political crises in Europe's two heavyweights, Germany and France. While the current environment is not exactly euphoric, it does create the conditions for moderate growth and inflation (though surprises and disappointments, i.e. volatility, cannot be ruled out). To cope with the political imponderables, we need to keep a close eye on warning signs, which could come in the form of a series of external and domestic price indicators, the dollar included. The dollar appreciated by almost 7% last year without reversing course, and because world trade is mainly denominated in this currency, its effect may be felt in the second half of the year or even at the start of 2026. This warning does not call growth into question, but it does alter polarisation in favour of the US boom. It is weighing on the emerging recovery and that of Swiss multinationals, whose business depends little on the domestic market.

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Evolution of interest rates

Anchoring inflation expectations

After a final quarter of 2024 which proved rather uneven across bond markets, January and February showed no trend, except in Switzerland, where all federal government yields corrected some of the excessive declines seen in November and December. This follows the realisation of central banks that they must remain cautious in easing their rate-cutting policies amid a backdrop of domestic inflation that is sticky on the downside. Inflation is still above 3% in the United States and Germany, above 2.5% in Europe, and at 0.6% in Switzerland despite the 1.7% increase of Swiss services prices. Given this context, the ECB cut its key interests by 25 basis points in January while the Fed chose to keep the status quo. On the other hand, there has been no pressure on risky bond assets, which continue to benefit from a buoyant economic environment and limited default risk. While inflation remains an issue of concern, central banks need to identify the political warning signs. Carry remains the best source of bond income.

Foreign exchange market

All eyes on the dollar

The US dollar is sensitive to decisions taken by the White House. Threats of tariffs against the United States' main economic partners fuelled fears of a global trade war and led to a strengthening of the dollar. The situation has moderated somewhat since then. However, the situation isn't over yet as China has decided to go for the opposite strategy, i.e. retaliatory tariffs. This unpredictability is putting pressure on the currencies of the United States' main trading partners and encouraging increased volatility on the foreign exchange market. Despite the fluctuations, the US dollar has still benefited from being the world's reserve currency and has maintained its strength over the period under review. The Swiss National Bank continues to monitor the foreign exchange market and will not hesitate to intervene to weaken the Swiss franc if necessary – though In our view, the SNB has not been very active over the past four months. As for the euro, we expect the EUR/CHF to remain in a range of 0.92 to 0.95 in the short term.

	GDP		INFLATION		KEY INTEREST RATE		EXCHANGE RATES		
	Current	2025	Current	2025	Current	2025	Current	2025	
CH	0.8	1.9	0.3	0.9	0.5	0.5	0.91	0.91	USD/CHF
EU	0.9	1.8	2.5	2.2	2.65	2.0	0.94	0.96	EUR/CHF
US	2.3	1.9	3.0	2.9	4.5	4.0	1.03	1.06	EUR/USD

Stock market

The Swiss stock market's resilience

Ahead of Europe and the United States, Swiss equities regained momentum at the start of the year, posting gains of over 10%. After a lacklustre year in 2024 for the Swiss market, company values are finally recovering from excellent fundamentals, with some companies continuing to accelerate in the second half of 2024. Although visibility is low, this strong momentum should continue into 2025. Order books are improving and are at levels that support this optimism even if a few factors call for caution, notably weaker-than-expected growth in semiconductors. The compression of valuation multiples at the end of 2024 (P/E -8% to 16.2x for large caps and -3% to 19.7x for small and mid caps) offers a reserve of value, supporting the market for 2025.

EQUITY MARKETS	Current	2025
SMI	11,601	12,400
STOXX 600	508	520
S&P 500	5,882	6,200

COMMODITIES	actuel	2025
GOLD	2,851	2,850
CRUDE OIL USD/BARREL	74	85

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