CHECK-UP

May 2025
Client information
Reichmuth & Co Private Bankers

Correction
or bear market?
Pages 4 + 5

US dollar at
a turning point
Page 6

Capital outflows
of pension funds
Page 7

Editorial

“Never catch a falling knife” – a well-worn saying, but one that rings especially true in times like these.

The careless amateurism that plunged the financial markets into chaos is truly astonishing. In moments like these, our integrated approach to asset management truly comes into its own. The best way to navigate complex financial markets is through a personalised, comprehensive view of assets and a close, authentic relationship with clients.

A critical outlook – balanced by confidence and composure – remains, as ever, the key to successfully managing the months ahead and making the most of the opportunities that emerge.

We prioritise lasting value, tailored strategies, and resilience – not knee-jerk reactions to frenzied corrections.

Let’s stay alert. Let’s stay confident.



Remy Reichmuth
General Partner



1989 in reverse

The world is at a historic inflection point – echoing 1989, but with the roles reversed. Then, walls fell and the USA emerged as the unrivalled global superpower. Today, the trend is moving in the opposite direction: New barriers are forming – between countries, political parties and economic blocs. A shifting geopolitical tectonic landscape is taking shape, with profound consequences for the economy and capital markets.

USA: From pillar of stability to source of uncertainty

Once seen as a dependable force for stability and innovation, the United States is increasingly perceived as a source of global unpredictability. Under the banner of “Make America Great Again” (MAGA), the new US administration is pushing to reshore industrial production – through frantic activism, erratic punitive tariff announcements and geopolitical manoeuvring. Just 100 days into President Trump’s term, the early optimism among investors and the business community had

already begun to fade. The once-powerful allure of the US economy as a magnet for investors has weakened – uncertainty over the future of MAGA policies looms too large. For now, the idea of American exceptionalism seems to have lost its shine.

US dollar and bonds: confidence is dwindling

Our main concern isn't with the US economy or US stock market. There are still outstanding companies, especially in the technology and energy sectors. However, US equities are currently trading at high valuations, reducing their overall appeal. More pressing, though, are our concerns about the US dollar and US Treasuries. Their performance is directly influenced by political decisions. While Russia distanced itself more than a decade ago and China has stopped expanding its holdings, European countries are now also starting to question the security of their US dollar reserves. Especially after Stephen Miran's appointment as economic advisor, proposals like devaluing the US dollar or forcibly converting short-term Treasury bills into 100-year bonds are now being discussed. A fee on US dollar reserves held by central banks is also being considered. Intervening so deeply in the financial system could trigger unpredictable consequences.

Perilous fight to preserve power

Overall, the US government is trying to slow – or even reverse – its decline as a global power. This approach carries significant risks. In the medium term, continued uncertainty is likely to weigh on US financial markets. As more countries – not just those in the BRICS bloc – shift away from US Treasury bonds and the dollar is intentionally weakened, capital is expected to flow out of the United States. For European investors, only US corporate shares remain investable; however, we advise caution until the current overvaluation is corrected.

Europe – the late dawn

The Russian invasion in 2022, European elections in 2024 and re-election of Trump have jolted Europe out of its complacent slumber of prosperity. The terse dismissal of Ukrainian President Selenskyj at the White House made one thing clear to Europe: the era of protection by "big brother" is over, presenting a significant challenge to Europe. Security is the core responsibility of the state. Since the fall of the Berlin Wall in 1989, the focus has shifted from military to social security – the latter now dominates public spending. Can social spending be cut in favour of defence? In a democracy, that's hard to push through.

New momentum through new debt

It's therefore no surprise that Germany's future Chancellor, Friedrich Merz, seized the moment and pushed through a constitutional amendment – together with the outgoing parliament – to take on new debt for defence and infrastructure. After 15 years of political lethargy, both areas are in a dire state. This move will bring Germany's debt levels closer to the European average, which is likely to weaken its excellent credit rating and lower resistance to joint euro debt in the future. In the short term, this may have positive effects: the fiscal stimulus is expected to boost growth and attract investors. However, over the medium to long term, this approach may put pressure on the euro.

Strategic shift – Europe ahead of the USA

The fallout from the "Trump-era" tariff chaos has created significant uncertainty. The days of "business as usual" are over. This new situation calls for a reassessment of the personal investment strategy. Given the unpredictability of US policies and the anticipated fiscal stimulus in Europe, the European market currently looks more appealing than its US counterpart. US government bonds now carry greater risk compared with European sovereigns – though, in truth, we think neither option is particularly attractive at the moment. What stands out as more promising is a well-diversified position aligned with the European fiscal stimulus, along with investments in companies that offer strong dividends within domestic markets. After the recent stock market correction, valuations for these companies have become attractive once again. Moreover, these companies are either focused on domestic markets or operate globally, making them less susceptible to trade conflicts.

Gold remains a solid anchor – even amid uncertainty

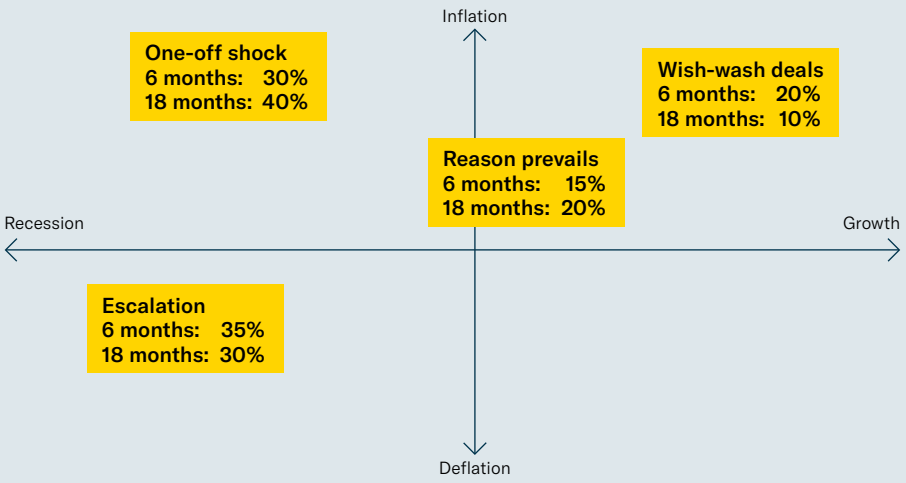
The recent surge in gold prices has been striking. One potential concern is that the current US President controls a substantial portion of the country's gold reserves, and it's entirely unclear how he intends to manage it. Nonetheless, gold remains a vital component of our diversified portfolio. We are therefore maintaining our positions in gold.



Christof Reichmuth
General Partner

Recalibration of trade flows

Scenarios and investment consequences



Scenarios – estimated probability of occurrence over time

Current assessment

- Trump's policies continue to fuel **high levels of uncertainty.**
- The escalating trade dispute heaps **significant pressure on global financial markets.**
- Central banks find themselves caught in a dilemma – torn between the need **to combat inflation** and the responsibility to **support the economy.**

Much like in the traditional Swiss game of Hornussen – where a plastic puck is whacked as far as possible – Trump swung the tariff hammer at the start of April. Dozens of countries were hit with punitive tariffs. Like the players in the game, the trading partners affected are now scrambling to catch the ball with their paddles before it hits the ground – either by stepping in with concessions to the USA or trying to deflect the impact through rapid countermeasures. We believe that not all of the countries involved will be equally adept at navigating the high-stakes negotiations with the USA to dismantle the newly imposed trade barriers.

Base scenario – one-off shock

China plays a strong hand in its negotiations with the USA, catapulting the trade war to a new level. The resulting price shock from tariffs ripples across the globe, though nominal growth remains in positive territory. The US economy manages to lean on its comparative advantages to avoid slipping into a deep recession. However, it becomes caught in a stagflationary trap – characterised by sluggish credit growth. The American labour market weakens, consumer confidence fades and household savings rapidly dwindle. Central bankers, meanwhile, step into a crisis management role, balancing the competing demands of curbing inflation and supporting growth. Their primary focus has shifted away from the stock market toward stabilising the credit market.

Best investment ideas:

- Defensive orientation, Diversification
- Focus on quality, dividend stocks
- Gold
- Avoid USD

Alternative scenario – wish-wash deals

Following the initial shock of "Liberation Day", cooler heads begin to prevail. This paves the way for a series of "wish-wash deals" – agreements that largely benefit the US economy while allowing its international trade partners to save face at home. Expectations of a stronger US economy attract renewed investment into the country, casting Trump's protectionist stance in a favourable light domestically. At the same time, tax cuts and deregulation help calm the waves. Meanwhile, Europe begins to take advantage of newly available fiscal flexibility to support a broad-based recovery. China, for its part, increasingly shifts its focus toward boosting domestic demand and that of ASEAN countries to offset the collapse in exports-driven growth.

Best investment ideas:

- Commodities
- Cyclical stocks
- Attractive Emerging Markets
- Avoid bonds

Cajetan Bilgischer and Silvan Betschart

Correction or bear market?

Opportunities and risks in equity allocation

An international trade war is far from an ideal starting point for the global economy. Signs of an economic slowdown are becoming more apparent, and most stock markets are either already in bear market territory or hovering on the edge. Despite falling share prices, we believe the primary risk lies in the still highly valued US stock markets. By contrast, we see selective buying opportunities in European and Swiss equities. Valuation risks in these markets are more moderate, fiscal support is ramping up and the uncertainty surrounding tariffs is likely to peak in the coming weeks and months.

Factors for markets to bottom out

	Switzerland	Europe	USA	Asia
Attractive valuation (risk premium)	✓	✓	✗	✓
Positioning (e.g. weighting in international portfolios)	–	✓	✗	✓
Monetary and fiscal policy support	✓	✓	✗	–
Improved leading indicators	–	–	✗	✗

Assessment as of 15 April 2025

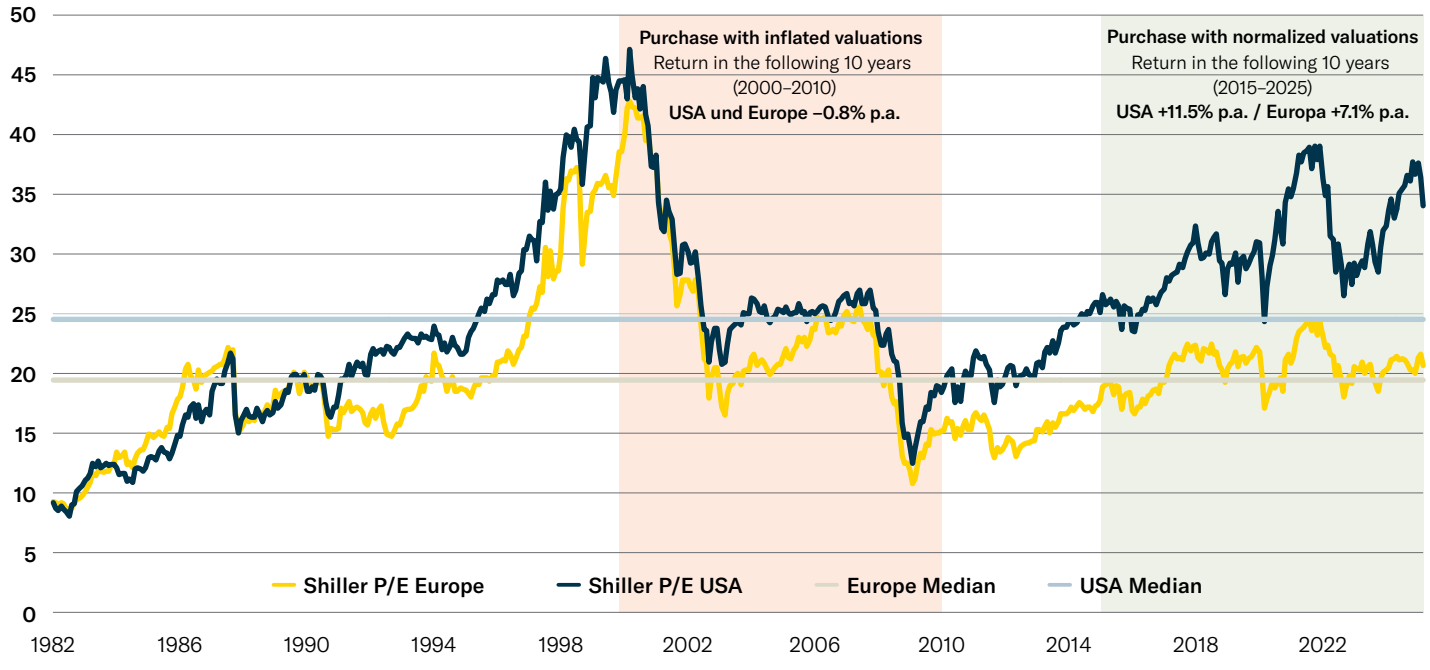
Tariffs with shock potential

A bear market is defined as a drop of more than 20% in equity prices. These downturns can generally be attributed to one of three causes: 1. Structural imbalances (e.g. financial bubbles or excessive leverage), 2. Cyclical slowdowns (e.g. falling earnings during economic cooling) or 3. One-off shocks that trigger uncertainty without necessarily leading to a recession (e.g. wars or pandemics). From our perspective, "Liberation Day" in the USA – marked by sweeping tariff announcements – qualifies as a shock-induced trigger for a bear market (3). However, if trade restrictions persist over an extended period, the likelihood increases that the current downturn could develop into a cyclical bear market (2).

Length of bear markets

Historically, bear markets triggered by cyclical downturns or sudden shocks have led to average price declines of around 30%. In contrast, structural bear markets tend to be more severe, with losses of up to 60%. What primarily distinguishes these types is their length: shock-induced bear markets typically last only a few months, cyclical bear markets can persist for up to two years, while structural bear markets often drag on for three to four years. Recovery times also vary significantly. In shock-driven corrections, markets usually recover within 12 months. For cyclical bear markets, the recovery period can extend to four years, while structural downturns

Profit lies in the purchase – high valuations reduce future potential returns



Source: Bloomberg

may take as long as nine years to fully recoup losses. The speed of recovery in the current correction will depend largely on whether a global recession can be avoided. In our base case, we do not expect a recession and anticipate a relatively swift rebound over the next 1–2 years, supported by strong fiscal stimulus across all regions.

Are we already at attractive purchase levels?
Despite recent stock market declines, valuations in the USA remain elevated. Over the past decade, substantial capital from international investors has poured into US equities – reflected in both their high 65% weighting in global equity indices but also in longer-term indicators such as the Shiller price/earnings (P/E) ratio. The latter relates current market prices to inflation-adjusted corporate earnings over the past 10 years. On this basis, US equities are still trading well above their long-term average – surpassed only during the tech bubble of the early 2000s. Historically, the higher the Shiller P/E, the lower the expected returns over the next decade (see chart). In contrast, valuations in Europe and Switzerland are far more moderate, with Shiller P/E ratios hovering around their long-term averages. For long-term investors, this makes European and Swiss equities more attractive from a valuation risk perspective.

What drives a recovery?
Attractive valuations alone are not enough to trigger a sustained market recovery. Other key factors include investor positioning, fiscal and monetary policy support and improvements in leading economic indicators (e.g. Purchasing Manager Indices (PMI)). The overall picture can shift quickly – for example, if the US Federal Reserve changes course and slashes interest rates, if major currency movements occur, or if the US administration pivots toward more consensual policies, including tax cuts and deregulation. Conditions have increasingly favoured regions outside the United States (see chart on page 4).

In light of declining confidence in the USD and limited alternatives, gold continues to be a popular alternative currency. Depending on risk appetite, holding a portion of assets in cash or short-term bonds remains prudent in order to seize opportunities during future price falls while retaining the ability to take action. Specialised active investment strategies (hedge funds or insurance-linked securities) can also play a role in diversifying portfolios or targeting specific opportunities, depending on the overall asset mix. We would be happy to advise you on crafting a personalised investment strategy.



Patrick Erne
Head of Research

Which stocks to own in the current phase?

As long as uncertainty prevails, the following stock market segments offer attractive characteristics

Defensive dividend stocks
Stocks with a stable, often **defensive business model that offer attractive dividend yields** and **reasonable valuations**. A strong **domestic market focus, which** largely shields companies from tariffs and significant currency fluctuations.
- Little impact from the recent correction
- Attractive dividend yields, in some cases exceeding current interest rates – especially in Switzerland and Europe.

Quality/growth stocks
High-quality globally positioned growth stocks (**blue chips**). Partially affected by tariffs, but due to a strong market position, higher prices can be pushed through over time. We focus on companies with **impeccable balance sheets**.
- Attractive companies for long-term oriented investors. Above-average growth coupled with some pricing power.
- Regional valuation differences. Selectively seizing opportunities.

Cyclicals that have underperformed
For bold contrarian investors, some **cyclical stocks** with partly **high exposure to tariffs** or **highly sensitive to economic cycles**. **Attractively priced**, but highly dependent on future negotiations and the state of the economy. Examples include European banks, mid-caps, commodity producers and select emerging market stocks.
- Valuations are pricing in many negatives, some high dividends and free cash flows
- Significant rebound potential if tariffs are rolled back and growth risks weaken

US dollar at a turning point

For CHF investors, the focus is on the home currency

"A strong dollar is in the interest of the United States." With this statement in 1995, US Treasury Secretary Robert Rubin – under President Clinton – set a clear economic policy direction. Since then, a strong dollar has become a cornerstone of US strategic policy. However, this long-standing dogma appears to be shifting. The US is now signalling a preference for a weaker dollar to boost its competitiveness – an inflection point with significant implications for Swiss franc-based investors.

Decline in value with consequences

Since the 2008 financial crisis, the USD has appreciated considerably against the currencies of its major trading partners, and the US equity market has strongly outperformed global peers. But today, based on purchasing power parity metrics, the US dollar is overvalued. With rising concerns over erratic trade policy and a departure from the strong-dollar policy stance, confidence in the currency is now ebbing away. Meanwhile, large-scale fiscal programmes in countries like Germany and possibly China are increasing the attractiveness of their respective currencies.

Weaker dollar shifts market dynamics

A declining US dollar sets off significant capital flows. Investors tend to shift toward stronger currencies in search of better returns. We saw this dynamic play out between 2002 and 2008, when a strengthening euro coincided with European equities outperforming their US counterparts. Emerging markets also benefit in such environments – both through capital inflows and lower financing costs. A weaker dollar also typically leads to rising commodity prices (including gold) as these assets are priced in USD.

What does this mean for our investment strategy?

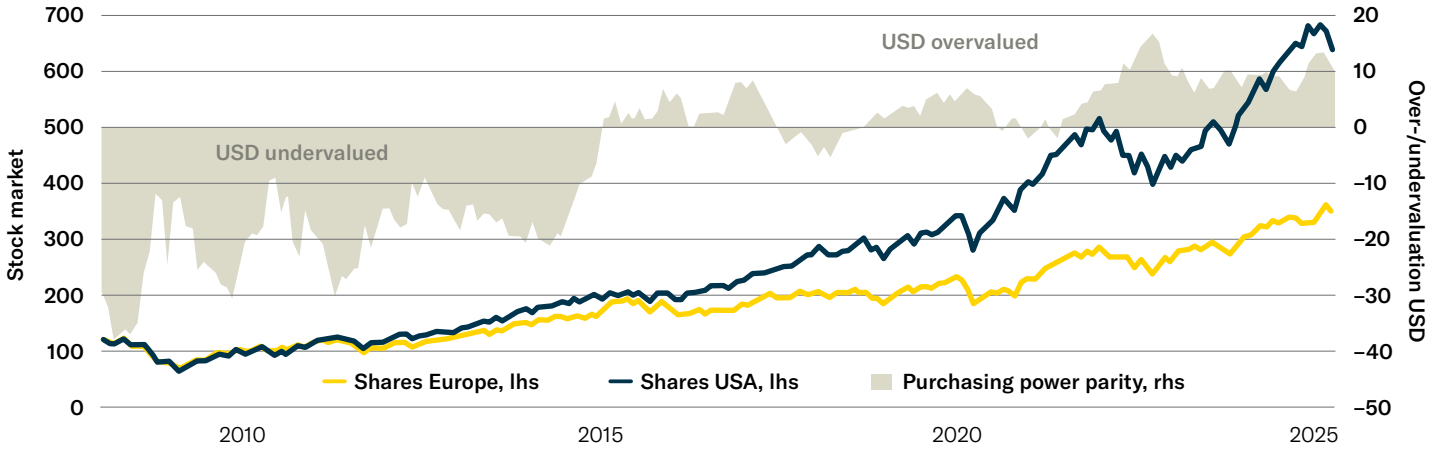
For investors with the Swiss Franc as their reference currency, the CHF should continue to play a dominant role in the currency allocation. The same principle applies for EUR-based investors. In the area of nominal fixed-income investments, USD-denominated bonds should be avoided. After accounting for the high cost of hedging, they offer no yield advantage over high-quality Swiss franc bonds. While US equities remain attractive due to the global leadership of many American companies, European and emerging market equities are increasingly appealing and should be weighted higher than in the global market indices. Capital outflows from the USA are likely to support the price of gold. Despite recent gains, we continue to see further medium-term upside potential for the precious metal.

Key considerations going forward

US politics remain a major source of uncertainty: what holds true today may quickly become outdated tomorrow. The US dollar's trajectory will largely depend on how the US economy performs relative to other major regions. Europe will gain momentum from reform initiatives and a de-escalation of the war in Ukraine. In China, the government is clearly implementing economic stimulus measures, with more expected to follow. Meanwhile, US Treasury Secretary John Connally's quip in 1971 –"The dollar is our currency, but it's your problem" – is steadily losing its relevance.



Dr. Matthias Ramser
Chief Investment Officer



Source: Macrobond, Bloomberg (as of: 09.04.2025)

Capital outflows of pension funds

Increased tax burden on lump-sum withdrawals from pension plans

This comes amid a broader discussion in recent weeks around measures to ease federal budget pressures – including the proposal to increase the taxation of lump-sum payments from occupational pension schemes at federal level. Under the proposal, lump-sum withdrawals would be taxed at a progressive rate, rather than the current one-fifth of the regular tax rate.

The plan is currently in the consultation phase in parliament, to be followed by a parliamentary debate. If approved, it would likely be subject to a referendum, with a final decision not expected before 2027 or 2028. Cantonal and municipal tax treatment remains unchanged – with some cantons even considering further tax cuts.

Tax rate on lump-sum payments at federal level

Amount in CHF	TODAY	Proposal NEW
500,000	2.3%	3.52%
1,000,000	2.3%	4.26%
2,000,000	2.3%	5.88%
5,000,000	2.3%	6.85%

Source: Swiss Federal Department of Finance FDFEntry into force still open, 1 January 2027 is the earliest possible date

Do I need to take action now?

Not before autumn 2026. As soon as the decision is known, it will be important to evaluate whether it makes sense to make pension withdrawals before the change takes effect. If you withdraw money from your pension in a panic, you will find it very hard to put capital back in without incurring tax disadvantages.

Should I continue contributing to my pension fund?

Absolutely. Occupational pension schemes remain the most tax-efficient way to build long-term wealth. Contributions cannot be made retroactively. In addition, no taxes are payable on the assets or on income from interest and dividends in occupational pension plans. These advantages remain compelling, even if tax practices were to change across all cantons in Switzerland.

Added value is here to stay

Example: A person with taxable income of CHF 250,000 makes a buy-in contribution to the pension fund, reducing their taxable income and savings on federal, cantonal, and municipal taxes.

A withdrawal of CHF 2 million in pension assets and taxation (separately from other income) at the new, progressive tax rate.

The person is married and non-denominational.

Canton (main town)	Contributions and reduction of taxable income	Taxation on withdrawal (new federal rate)	Difference or added value
Zurich	39.1%	16.3%	**22.8%**
Lucerne (from 2028)	31.9%	9.2%	**22.7%**
St. Gallen	35.9%	10.7%	**25.1%**
Zug	25.1%	10.1%	**15.0%**

Source: Cantonal tax calculator

Summary

A forward-looking pension plan is and will remain very important. It is crucial to plan tax-optimised asset accumulation and retirement withdrawals correctly and in good time. Selecting the right pension solution and pension structure is key.

Four key takeaways

- At present, there is no need to rush into any decisions or make withdrawals from your pension fund.
- Buying into the pension fund remains a highly attractive and worthwhile strategy.
- Early retirement planning is very important and should be carefully tailored to your personal situation – something we recommend reviewing together as soon as possible.
- Selecting the right pension solution not only enhances investment flexibility but also makes it easier to plan and manage retirement benefits through staggered withdrawals.

Take this moment as an opportunity to review your personal situation and explore the options that best align with your goals. Feel free to contact us for a personal chat if you would like any further information.



Marco Danelli
Partner

Responsibility cannot be delegated


Interview with Sandro Kutschera, Partner

Sandro Kutschera, the environment is currently turbulent. How are your clients responding?
In uncertain times, qualities like reliability, proximity and a deep understanding of each client's broader financial context become even more important. Clients who have a clear long-term strategy and stick to it are less likely to be unsettled by market volatility. In this, having a stable partner is essential. At Reichmuth & Co, our ownership structure and focused, conservative business model allow us to fully dedicate ourselves to the well-being of our clients – and mean we do not have to concern ourselves with internal problems.

Reichmuth & Co is an owner-managed family company run by general partners with unlimited liability. What does that mean in practice?
It means we take real responsibility – personally and for the long term. We are accountable not just to our clients, but also to our company and ultimately to ourselves. This structure is exceptional in the banking world and compels us to act with true care and entrepreneurial foresight. Responsibility is not something we can delegate or deflect. And our clients notice the difference.

What role does customer orientation play at Reichmuth & Co?
Customer focus is the foundation of everything we do. While many institutions claim to be client-oriented, at Reichmuth & Co, it's truly a lived reality. In my entire career, I've rarely experienced such consistent dedication to client needs. We don't see ourselves merely as service providers – we see ourselves as long-term partners. Our goal is not to offer standardised solutions, but to develop tailored strategies that take into account both the financial and personal circumstances of each client. We don't think in terms of individual products – we think in terms of context, always with an integrated perspective.

What exactly does "integrated thinking" mean?
To us, it means thinking holistically. We look at the full picture. Entrepreneurial, family and personal matters are never isolated – they are closely connected, whether we're talking about investments, real estate, pensions, taxes or estate planning. Our clients can talk to us about anything, because we always keep an eye on how each decision connects with the bigger picture. We identify with our clients' goals as if they were our own.

What sets client relationships at Reichmuth & Co apart?
It comes down to responsibility, values and a clear focus on the future. We take our time. There are no call centres, no queues and no automated client segmentation. And our clients quickly notice the difference: they're not just a number to us. They appreciate the personal closeness, the quick response times and the continuity in their relationship with us. We're by our clients' side over the long term – not just for isolated projects.

What would you say to someone considering opening a business relationship with Reichmuth & Co for the first time?
Come visit us! You'll feel the difference right away. And if you're comparing, take a closer look at other owner-managed or family-run firms. They often identify more closely with their clients – and that's certainly true for us as well. Our advisors aren't driven by sales targets. Their focus is entirely on the individual needs and long-term objectives of each client. We take the time to listen carefully and gain a deep, holistic understanding of their situation – and that is something our clients feel.

UNI LECTURE

State debt – What we can learn from history

with **Prof. Dr Albrecht Ritschl**, London School of Economics & **Prof. Dr Tobias Straumann**, University of Zurich

Reichmuth & Co Lecture No. 26
Wednesday, 21 May 2025,
6:15 pm–7:45 pm
at the University of Lucerne

Further details and registration at:

This document is for information and marketing purposes and is therefore deemed to constitute advertising pursuant to Art. 68 FinSA and Art. 95 FinSO.