CHECK-UP

January 2025
Client information
Reichmuth & Co Private Bankers

Turning points and investment opportunities 2025
Pages 4+5

Impressions from New York
Page 6

Questions for the New Year
Page 7

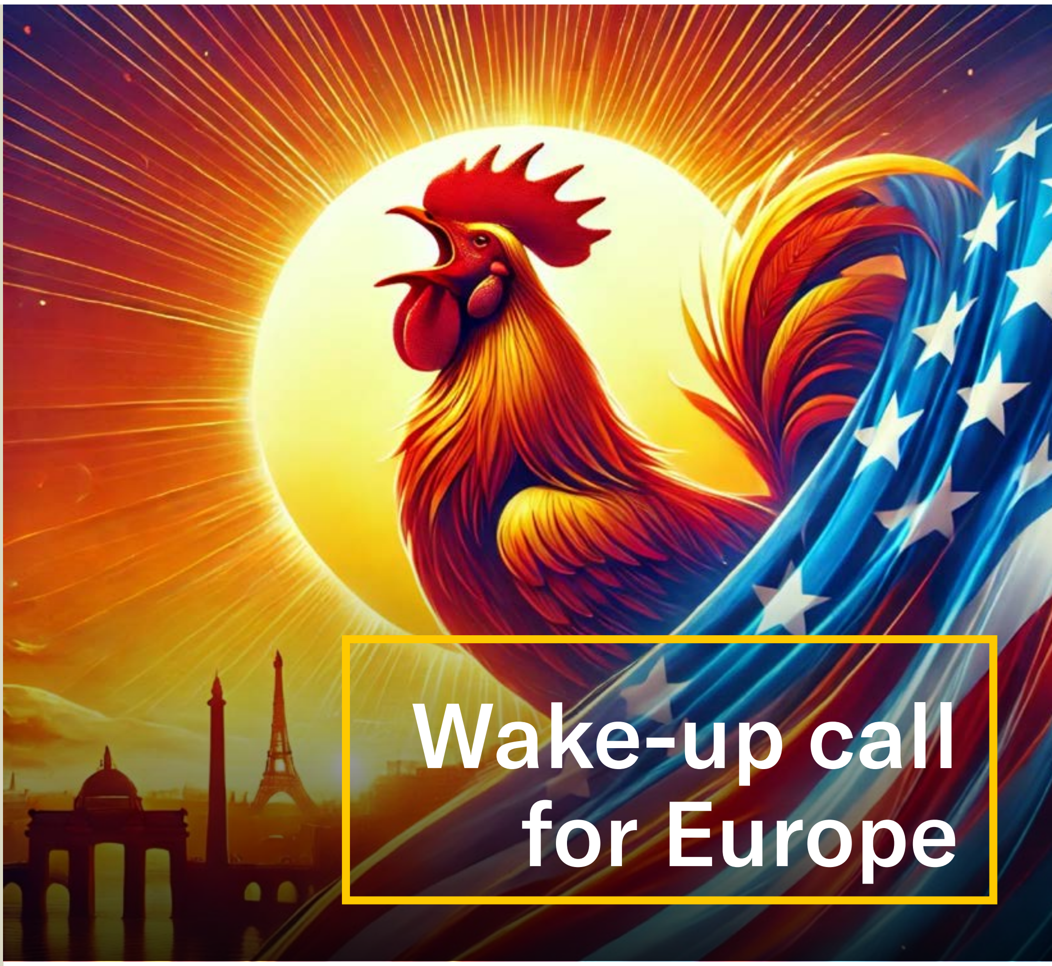
Editorial

2024 was a good year for investing, especially for those who hold real assets such as equities and gold and can now look back on a solid portfolio performance. However, it was also a year of major changes. Identifying the consequences of these changes for your investment policy is the focus of this «Check-Up».

Viewed from our long-term perspective, the current predominantly pessimistic sentiment also presents opportunities. There are a number of indicators that are worth analysing more closely in order to plan and implement appropriate strategic decisions.

The end of a year is always an ideal time to review your own financial planning. This is also particularly true when it comes to adapting to personal changes. As ever, we want to remind you of our commitment: We are here for you and look forward to meeting with you personally at your request. We wish you great success as you navigate through the challenges and opportunities that the new year holds.

Jürg Staub
General Partner



Wake-up call for Europe

The global economy and the world's financial markets are going through a phase of profound transformation, due, in large part, to the geopolitical developments of recent years. For far too long, politicians in Europe have ignored the urgency of addressing these changes. In 2024, however, the warning signs became impossible to overlook – and a more realistic view of the challenges seems to be gradually reinserting itself in Europe.

Europe: energy prices and regulation as obstacles
Gas has long been a key bridging technology along the path towards a more environmentally friendly energy supply. However, the Russia-Ukraine conflict and the associated loss of cheap gas supplies threw a spanner in the works of Europe's energy policy. Mario Draghi's hard-hitting report. In autumn, on Europe's competitiveness caused quite a stir. While his analysis is incisive and accurate, his proposed measures are controversial.

The victory of the Republicans under Donald Trump in the US elections also created additional pressure, as their pro-business programme, which is heavily focused on the US market, is exacerbating the challenges facing Europe. Excessive regulation and high energy prices are hampering economic momentum – a combination that is pushing Europe further and further behind.

Voters want change

It is hardly surprising, then, that the call for change in Europe is growing increasingly louder, as was vividly demonstrated in last year's elections. The message is clear: there is a pressing need for action. While pessimists forecast Europe's accelerated departure from the world stage, optimists are focusing on solutions – whether from governments or the voters themselves.

Economic expectations for the continent are currently low – most likely too low. Markets that are negatively valued can often recover and deliver long-term gains.

USA: momentum with pitfalls

The United States currently stands out as an economic powerhouse, offering almost ideal conditions for business owners. Lower taxes, less regulation and an open culture of innovation are driving growth. Nevertheless, these promising conditions also harbour risks for investors. The optimistic outlook has already been largely priced into the markets, with high valuations and limited potential for positive surprises dominating. In addition, inflation remains at a level that puts pressure on both, consumers and companies. The Federal Reserve could be forced to keep interest rates high for a longer period – a scenario that is unlikely to benefit the stock market.

Government debt and its consequences

Expansionary fiscal measures and rising government debt appear likely in both the USA and Europe, but this approach only works as long as investors do not lose confidence in the government. If confidence were to wane, leading to a reluctance to purchase long-term bonds, overall financial stability could be put in jeopardy. In such cases, central banks usually resort to interest rate cuts and bond purchases. Whether such a "Liz Truss moment" – named after the short-lived British prime minister who failed with an overly ambitious fiscal policy – will occur first in Europe or the USA remains unclear. In view of the political paralysis in Germany and France, the ECB is expected to react more quickly.

Weaker currencies – and their consequences

Interventions such as interest rate cuts and printing money often lead to a currency devaluation. This would mean a further loss of value for the euro, which would reduce prosperity in the long run. For the time being, however, a weaker currency could improve the competitiveness of the European economy. For the Swiss franc, this means that a further appreciation – equal at least to the inflation differential – can be expected in 2025. In a crisis scenario, we could even see a return of negative interest rates. The US dollar is slightly better positioned in the short term, but will be weakened over the long term by high national debt, budget deficits and the decoupling efforts of the BRICS countries. Nominal investments such as bonds should not be held in weak currencies. Equities, on the other hand, remain attractive as companies can generally adapt to changing conditions, which is one reason why equities are regarded as real assets.

Gold: a stabilising factor, but not a solution

Gold recorded a sharp price rise in 2024. However, despite its hedging function, it is not a stand-alone answer to ongoing uncertainties. Metal prices are often volatile and long-term increases in value are not guaranteed. Nonetheless, gold retains its role as a stabilising component in a well-diversified portfolio.

Adapting strategies to seize opportunities

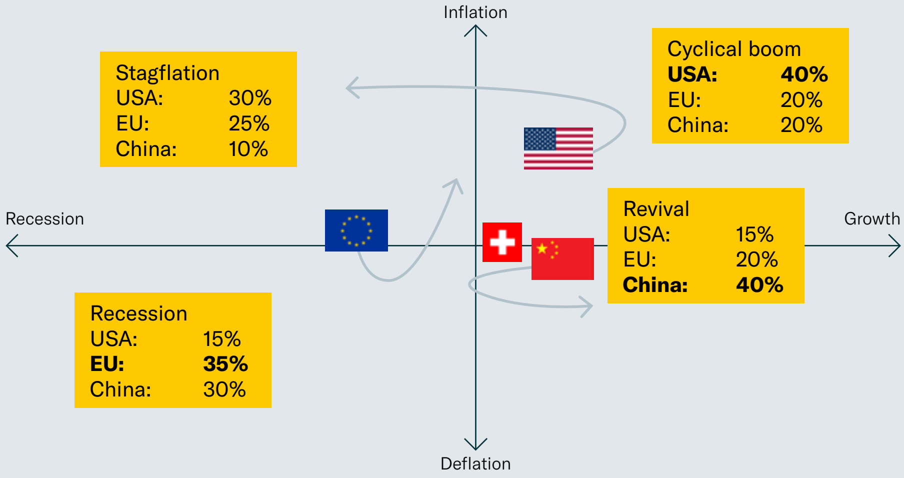
Keeping a cool head is essential in times of increasing economic and political uncertainty, and headlines should never dictate one's long-term investment strategy. Although the USA offers a dynamic environment, share prices there are already high. Europe appears to be undervalued, creating attractive opportunities.

A balanced investment strategy continues to be the key, with the focus remaining on equities, complemented by short-term bonds, precious metals and alternative investments – all tailored to individual preferences. Having a long-term outlook and ensuring diversification are crucial elements. It is worth taking a critical look at your own investment strategy and using this wake-up call to make necessary adjustments.

Christof Reichmuth
General Partner

Trump 2.0 sets the pace

Scenarios and investment consequences



Current assessment

- Significant **regional differences**
  - Protectionism and deregulation are strengthening the USA as a business location
  - Core Europe as well as China are facing enormous economic and political challenges
- Probability of a **"European restart"** is increasing amid the clash between major powers

Scenarios – estimated probability of occurrence over the next 12 months

Trump wants to score points in domestic policy and create new realities in foreign policy. China will have to decide how it should react to the trade war Trump has invoked, either by taking appropriate countermeasures or supporting domestic economic growth with an enormous fiscal stimulus package. For its part, Europe must first find a political consensus before overdue structural reforms can be undertaken with unified forces.
Over the medium term, we expect the following:

USA: Focus on domestic market

Trump's protectionism strengthens the domestic market for the time being, but his course of action is highly inflationary. There is even a risk of economic overheating, financed by substantial budget deficits. This would lead to the return of *bond vigilantes,* who, driven by renewed inflation concerns, would then sell US treasuries on a large scale, causing the long end of the yield curve to shoot up. This, in turn, would bring stagflationary tendencies.

Recommended action:
- US banks
- US-focused industrial stocks
- Alternative managers (L/S equity & credit)

EU: Essential structural reform

In the midst of economic misery, the likelihood of implementing collective debt responsibility increases, as does the likelihood of a more relaxed fiscal policy. The deep rifts between the different parties and countries in Europe are being overcome and the present, far-reaching reform programme is being initiated under the leadership of "core Europe". Although this new start is challenging, positive signs are emerging, supported by low initial expectations.

Recommended action:
- Readiness toward European mid-caps & basic chemicals
- Opportunities in the area of energy infrastructure

China: Deal or No Deal

China faces a particular challenge from Trump 2.0. Does Beijing enter into a trade deal with the new Trump administration, or do they flood the domestic market with a massive fiscal stimulus package? Drawing on extensive experience of the first Trump presidency, China is now better protected against hostile trade restrictions. Alternative sales channels are being developed more intensively. The creation of an alternative currency will undermine the reserve currency status of the US dollar.

Recommended action:
- China proxies such as Vietnam appear to be attractive
- Emerging market bonds
- Gold as alternative to USD

Cajetan Bilgischer und Silvan Betschart

Turning points

How do we prepare ourselves for possible market developments?

Momentum remains in favour of the US markets, but given the high market concentration and valuation expansion over the past two years, yield expectations have fallen. After two exceptionally strong years for investors, we expect overall positive markets in 2025, but with higher volatility and rotations on the financial markets. It is essential to be prepared for this in order to manage opportunities and risks in one's portfolio depending on developments.

Positive impetus for the US economy

The US economy continues to be relatively solid, while Europe and China lag behind their potential growth. The new US government is focusing on tax cuts, deregulation and lower energy prices, which, viewed in isolation, suggest new drivers for growth and rising profits. On the other hand, potential barriers to trade exist in the form of tariffs, which, depending on how they are structured, can cancel out the positive effects and affect Europe and emerging economies in particular. Overall, this indicates below-average global growth with many uncertainties.

Ten-year interest rates as a barometer of confidence

We consider the political programme of the newly elected US government to be inflationary. Long-term inflation expectations have remained well-anchored since the election of Donald Trump (currently expected to average 2.3% per year over the next ten years). Slightly higher inflation (up to 3%) is generally a favourable environment for corporate earnings. However, with the fiscal programmes announced by the new government, budget deficits are likely to remain high, and the US debt could rise further. In an inflationary environment, bond investors are likely to demand a higher interest rate, and 10-year rates expected to rise. With expected nominal growth in the USA of 5% (2.5% in real terms), a 10-year interest rate of up to 5% would be tolerable. But what if interest rates rise to over 5%? A large part of last year's price gains came from valuation expansion. The US equity market is currently trading at 23 times the expected earnings for 2025, which corresponds to an earnings yield of around 4%. Compared with 10-year interest rates, this is a low risk premium for US equities. If interest rates continue to move towards the 5% mark, this would be a sign for us to reduce our US equity weighting – at least temporarily. This would not be due to collapsing profits, but because of the increased risk of a valuation correction. Swiss equities in particular are likely to perform better in such a phase due to their defensive structure and low interest-rate sensitivity.

LOW RISK PREMIUMS FOR US EQUITIES

High degree of scepticism priced into equity markets outside the USA.

	USA	Switzerland	Germany	China	Japan
Current P/E ratio	**26**	**18**	**15**	**8**	**15**
Expected P/E ratio (2025)	23	16	13	8	14
Expected earnings growth	13%	13%	16%	8%	9%
Dividend yields (expected)	1.3%	3.4%	3.7%	3.9%	2.7%
10-year interest rates	4.2%	0.2%	2.9%	1.9%	1.0%
Equity risk premium*	**0.1%**	**6.1%**	**4.2%**	**10.6%**	**5.7%**

* Risk premium = earnings yield – 10-year interest rates
Source: Bloomberg, 09 December 2024

Relatively inexpensive dividend stocks in Europe are also likely to be under less pressure.

Market concentration at all-time highs

Another phenomenon of note is the high level of market concentration, particularly in the USA. The ten largest stocks currently account for over 30% of the US index. The market capitalisation of these 10 companies is around 11 times greater than the market capitalisation of all 40 DAX companies! History shows that these high market concentrations have hardly ever been sustainable over the long term. The ten largest companies in an index have also changed regularly over time. We therefore believe that an equally weighted stock selection is more promising for an equity portfolio than one based on a market capitalisation weighting.

Time to bet on cheaper markets?

Markets outside the USA are currently trading at a significant discount, particularly in core Europe. The valuation difference and low expectations may indeed be an appealing argument for contrarian investors with a long-term investment horizon, but negative momentum, economic weakness and ongoing geopolitical tensions continue to weigh against aggressive buying. However, a gradual build-up in these markets may make sense if there are growing signs that better conditions are being established. What could lead to a reassessment for gradually expanding in these markets?

- Clarity regarding tariffs: The fear of punitive tariffs looms large, above all in terms of how high they will be and how the affected countries will react. It is also possible that Trump will use these tariffs as leverage for negotiations, but without activating them or setting them significantly lower than expected. This would be a buying opportunity for equities in Europe and emerging markets.
- Ceasefire in the Ukraine-Russia conflict and further de-escalation in the Middle East: This would trigger a fall in energy prices and ease the situation for energy-intensive industries in Europe in particular.
- Structural reforms in Europe: The governments in core Europe are largely unable to function. The level of hardship in the economy is increasing, calling for rapid and drastic structural reforms. In the European heartland of Germany, new elections are approaching and will be an indicator of whether the country is prepared to utilise more fiscal policy leeway in order to improve competitiveness. The CHF would probably appreciate and make negative interest rates in Switzerland more likely, which would favour Swiss equities.
- China continues to grapple with the aftermath of the pandemic and its real-estate crisis. If there is a shift towards broad-based economic stimulus, this should boost the Asian stock market.

There are many variables and uncertainties, especially on the political front, which will require flexibility on the investment front in 2025. Overall, however, our investment strategy will remain equity-heavy in 2025, as we expect positive growth and inflationary trends. Nominal investments, particularly in weak currencies, should be avoided in particular. This is why, alongside gold, alternative investments continue to offer the best diversification, while holding some cash in domestic currency increases the flexibility to take advantage of new opportunities throughout 2025.

Patrick Erne
Head of Research

IN BRIEF

Investment opportunities for 2025

European industrial stocks
Valuations already reflect depressed expectations and sentiment is extremely low. This creates potential for positive surprises.

US equities equally weighted
Market concentration has reached extreme levels, with an equally weighted index likely to beat a strictly capitalisation-weighted index. Sectors with a tailwind such as banks and industries are under-represented in a capitalisation-weighted index.

Swiss dividend stocks
The probability of a return to negative interest rates in Switzerland has increased. For income-oriented CHF investors, hardly any alternatives to dividend stocks exist, and valuations are comparatively attractive.

Growing electricity demand
Demand for electricity will grow structurally over the next ten years with the boom in artificial intelligence solutions. This favours companies in the sectors of electricity generation, infrastructure and critical raw materials.

Liquid alternative investments
Higher volatility and differing sector trends present opportunities for active managers (see page 6).

Impressions from New York

Interview with Silvan Betschart and Patrick Erne

You were recently in the USA and visited around 30 active managers. What were your impressions?
Confidence is the dominating mood in the USA. In stark contrast to Europe and China, a spirit of optimism is palpable in the USA. The country has sufficient energy resources, is an exporter of food, has better demographics and peaceful neighbours. Donald Trump will focus primarily on bolstering the US economy with planned tax cuts, deregulation and trade tariffs to attract foreign direct investment.

What risks cause concern?
For most managers, the greatest risk is the overheating of the US economy – with the danger of a rise in long-term interest rates. Companies with weak balance sheets and excessive valuations should be avoided. In the short term, the environment will be shaped by the flow of money into the USA and passive instruments, with valuations and the quality of companies playing a secondary role. Good risk management is crucial in such market phases.

Where are there opportunities in equities?
The USA remains an investor-friendly country and equities are the preferred asset class, but market concentration is at historic highs and many managers are looking for opportunities beyond the index heavyweights. The financial industry is one of the winning sectors. Most sub-segments in this area would benefit from possible deregulation, especially US regional banks. The electricity sector offers new growth opportunities. With the boom in data centres, the demand and price for reliable electricity are rising sharply. This favours energy producers and energy infrastructure suppliers, displacing traditional favourites from the technology sector. However, the new administration is also creating opportunities when it comes to evaluating losers. Trump has announced cost-cutting measures as well. Companies that are heavily dependent on government contracts are now being scrutinised carefully. The proposed tariffs will also hit hard companies that primarily export to the USA and do not produce locally. We expect an attractive environment for flexible funds that are able to position themselves for declines in the share price of higher-risk companies.

Are there also opportunities in bonds?
There are still many companies that are struggling under the burden of rising interest rates and have to restructure their debt. Most of them are trying to avoid an expensive and lengthy bankruptcy process and proactively seeking solutions through early refinancing. This improves terms in favour of the borrowers (e.g. by offering collateral or higher yields), and as a result the new bonds trade at higher prices. With a careful selection, attractive opportunities in the range of >10% in USD exist here. On the other hand, credit spreads in the overall market, which is covered by index investors, are close to historic lows and indicate that investors are currently displaying a high appetite for risk. History shows that these risk premiums tend to normalise over time after periods of undershooting. Through the combination of selected credit positions and favourable hedging strategies, we expect active credit managers to deliver attractive returns next year, which should significantly outperform a traditional fixed-income portfolio.

How do you employ alternative strategies in your investment strategy?
Alternative investments play an important role in our asset allocation. Carefully selected equities form the core of our investment strategy, but come with significant volatility. The debt challenges in many Western countries suggest a financially repressive environment is likely in the medium term, with government bonds providing hardly any security and therefore offer little diversification in a portfolio. For absolute-return-oriented or clients who have a low tolerance for volatility, we recommend diversifying their portfolio with alternative investments instead. When selecting active managers, we prioritise specific skills that make it possible to generate attractive returns without having to bear the full brunt of market fluctuations. Depending on the strategy, positive returns can even be expected in a falling market.

Questions for the New Year

The turn of the year: a time for thoughtful decisions

As we near the end of 2024, it offers us a valuable opportunity to address topics that often get overlooked in the bustle of daily life. It is important to take a holistic approach. What needs to be considered in order to be well positioned in the long term?

Financial planning – what really matters?
Careful financial planning should be geared towards your stage of life:

- **Age 30–40:** Financial security for partners or family in the event of death or disability. An advance care directive and patient decree should be in place.
- **Age 40–50:** Wealth accumulation, combined with occupational pension provision and tax planning. Drafting of marriage and inheritance contracts.
- **Age 50–60:** Focus shifts to financial and pension planning. Tax optimisation becomes central, as do wills and the order of beneficiaries.
- **Age 60+:** Succession and estate planning become increasingly important and need to be reviewed regularly.

Forward-looking planning at every stage is the foundation for financial security.

A comprehensive overview: your basis for clear decisions
A comprehensive overview is much more than just a list of assets. It provides a strategic basis for coordinated decisions and enables the proactive management of your finances. Opportunities can be seized, and risks such as foreign currency exposure or cluster risks reduced – even in turbulent times.

Detailed cash flow planning helps to identify future liquidity requirements at an early stage and avoid financial shortfalls. This provides an overview for targeted investments, especially for life-changing events such as marriage, divorce, illness, retirement, etc. A comprehensive overview further allows tax and structural considerations to be reviewed and assessed each year.

Your benefits from these steps:

- Tax optimisation and improved asset structuring
- Clear understanding of risks and opportunities
- Up-to-date overview at all times – including digitally via our e-connect solution or the Reichmuth & Co app

Mortgage loans: get an independent second opinion
Have any mortgage instalments fallen due in the new year? Would it be better to extend or amortise them? Make the most of optimisation potential when renegotiating your loans. We elaborate for you a neutral tender process among banks, insurance companies and digital mortgage platforms, give you an independent recommendation tailored to your unique situation, and support you throughout the implementation process.

Estate planning: be digitally prepared as well
An advance care directive can be drawn up with minimal effort and regulates important issues in the event of incapacity, e.g. due to an accident or dementia. Taking control of your affairs does not end with death. Without proactive planning, the law determines the distribution of the estate, which often does not comply with the wishes of the deceased. We can assist you with estate planning and creating an overview of your digital assets and the online services you use. Create a list of your associated access credentials. We recommend protecting these credentials with two-factor authentication, allowing you to designate who can access your digital estate when the time comes.

For business owners: salary or dividends – which is the better option?
Minimising salary and maximising dividends may seem attractive at first glance, but in the long term this approach can prove counterproductive:

- an income that is too low can lead to complications with old-age and survivors' insurance (OASI).
- A high dividend component reduces opportunities for tax-privileged contributions to your pension fund.

The combination of a higher salary and pension fund contributions is usually the more beneficial approach – both for tax optimisation and for your social security coverage.

A personal conversation – the key to your solution
Despite technological advances, face-to-face communication remains the most important step. Contact us – we look forward to developing customised solutions for your individual situation.

Tobias Pfrunder
Partner

Reflections and outlook

Interview with Remy Reichmuth, General Partner

How will you remember 2024 from an investor's perspective?
The geopolitical tensions and widely differing dynamics of the major economic blocs were challenging. Whether one views the resulting election outcomes positively or not, they set the stage for what lies ahead. The markets proved surprisingly resilient despite the occasionally turbulent environment. From an investor's perspective, it was a satisfying year.

What stood out for you from an operational perspective?
This year's strategy review was particularly impactful. Every five years, we review and revise our strategic focus and set priorities for the next five years. In the last cycle, our focus on the three core areas – private banking, individualised pension solutions and infrastructure investments – has demonstrated its worth. We are committed to continuing on this path and have defined specific areas that we would like to continue focusing on or where we want to expand our offerings.

What does this mean concretely for your clients?
The great advantage we offer is our highly personalised approach and comprehensive advisory services. Very small businesses often struggle to fulfil regulatory requirements efficiently, while large banks have no choice but to implement them through standardised rigid processes that can often lack flexibility. This is where we can really stand out with our personalised and comprehensive advice. We implement our market view in a client-focused manner, optimise individualised pension solutions for tax purposes, assist with succession planning or loan tenders, and even engage in philanthropic activities via our Rütli umbrella foundation. Our goal remains unchanged: to become the most recommended Swiss private bank. We can only achieve this if we fulfil – or better yet, exceed – our clients' expectations.

Where do you see the greatest challenges?
Firstly, it is key that we maintain our strong focus and concentrate on just a few target markets, which in our case are Switzerland and Germany. Secondly, digitisation and AI in particular are changing our clients' expectations as well as internal working methods. Tools such as e-connect, which gives our clients secure access to their portfolio at all times, are crucial elements. We have been using AI-supported analyses in the investment space for some time. We also use AI to increase efficiency and quality assurance, e.g. for corporate actions or payment processing, where AI tools analyse orders for recurring patterns to detect potential discrepancies, further reducing operational risks.

What do you expect for 2025?
Geopolitical uncertainties and the high levels of national debt in many countries mean that overall conditions remain challenging. Technological advances will continue to play an important role, presenting opportunities on multiple fronts. This gives me confidence, and I am optimistic that the markets can continue their robust development. I also strongly believe that in an increasingly digital world, personal interaction remains crucial in order to develop individualised solutions. As a result, I am looking forward to the coming year with great anticipation.

"The great advantage we offer is our highly personalised approach and comprehensive advisory services."

What would you like to say to your clients as we head into the new year?
Above all, I would like to thank you for the trust you have once again placed in us this past year. For 2025, I wish you health, well-being and the strength to seize the opportunities of the new year. We look forward to supporting you with a holistic and proactive approach.