Vontobel

Investors' Outlook

Revving up

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Editors
Corinne Gretler,
Senior Investment Writer,
Vontobel
Investment Content Team,
Vontobel

Authors
Stefan Eppenberger,
Chief Investment Strategist,
Multi Asset Boutique, Vontobel
Michaela Huber,
Senior Cross-Asset Strategist,
Multi Asset Boutique, Vontobel
Christopher Koslowski,
Senior Fixed Income & FX Strategist,
Multi Asset Boutique, Vontobel
Mario Montagnani,
Senior Investment Strategist,
Multi Asset Boutique, Vontobel
Dan Scott,
Head Multi Asset,
Chief Investment Officer,
Multi Asset Boutique, Vontobel

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Revving up

—
Dan Scott
Head Multi Asset,
Chief Investment Officer,
Vontobel

Dear readers,

Investors have been running on optimism since the summer, but the US Federal Reserve's (Fed) first interest-rate cut of the year has given markets the extra horsepower to shift up a gear.

The Fed opted for a reduction of a quarter percentage point, weighing the trade-off between stubborn inflation, which has risen recently, and signs of a weaker-than-expected labor market after some large downward revisions of payroll data.

Since Liberation Day, inflation and job growth have moved in different directions, which presented a dilemma for the Fed. In the end, it was the latter that swayed policymakers. Chair Jerome Powell acknowledged the downside risks and said he could no longer describe the labor market as "very solid"[1]. Investors had already priced in the likelihood of more easing ahead of the decision, which the Fed confirmed in its dot plot[2], projecting another half-point of cuts by year-end and a quarter-point more in 2026.

Other drivers are also in place. Database software giant Oracle reported a massive jump in cloud infrastructure revenue and in its backlog of contracts and announced USD 35 billion in capital expenditure plans for its current fiscal year for data centers and infrastructure. High-profile partnerships in artificial intelligence (AI), like with ChatGPT operator OpenAI, also added tailwind. This shows how Big Tech's massive spending spree is feeding into the broader economy.

Markets face what we consider a pretty compelling setup. Beyond the technology sector, which has helped push US equities to record highs recently, broader corporate and consumer spending is continuing. Various stimulus measures are also in play, like in Europe, or expected, especially in China, where policymakers may be eyeing ways to support the weakening economy. And even if global economic growth is below its long-term trend, it's been recovering and moving away from a recession. Coupled with major central banks in developed markets leaning toward easing, we believe these are positive signals for the global macroeconomic picture—and hence, that markets are likely set for a risk-on stance.

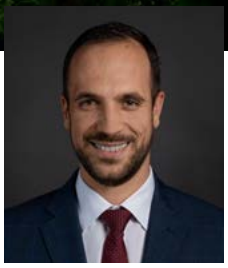
Even against this backdrop, lingering concerns about debt sustainability, fiscal deficits, and the ongoing loss of confidence in fiat currencies[3] mean that portfolio stabilizers like gold continue to do well. We believe it's important to be selective and active in terms of equity exposure.

In this Investors' Outlook, we take a look at the imbalances that are prevalent in the global economy, such as in trade, consumption, and manufacturing. You'll also be able to read up on precious metals and our take on the stock market.

We aim to help our clients press the accelerator with insight and perspective on what may lie ahead.

→ Webcast
To view our webcast on recent market developments, click **here.**

[1] See "Glossary and sources" on p. 19.



—
Stefan Eppenberger
Chief Investment Strategist,
Multi Asset Boutique, Vontobel

Steering through weaker data

In September, weaker-than-expected US labor market data collided with firmer inflation. Fixated on jobs, markets priced in a recalibration of US monetary policy.

The month tends to carry the weight of the "September Effect," a historical tendency for equities to underperform, possibly as investors rebalance after the summer lull. This time, the engine ran smoother: Equities rallied, led by the US and emerging markets. Fixed income also gained as US Treasury yields fell and credit spreads narrowed modestly. Commodities joined in, with gold pushing past USD 3,800 per ounce.

Ironically, it was weak data that fueled the rally. July's disappointing US jobs report was followed by an even weaker August, with payrolls up just 22,000 versus 75,000 expected and downward revisions revealing 911,000 fewer jobs created in the 12 months through March than first estimated, while the unemployment rate edged up to 4.3 percent. In response, the Fed cut rates by 25 basis points (bps). Fed Governor Stephen Miran, appointed by US President Donald Trump and sworn in just a day before the rate decision, was the lone dissenter[4]. He favored a larger 50bps cut.

Looking ahead, we believe global growth is poised to improve as monetary policy becomes more supportive and the impact of past rate cuts is still trickling through to the real economy. In the US, in particular, additional cuts are priced in for the foreseeable future. Fiscal stimulus also appears to be on the horizon. Alongside the "Big, Beautiful Bill"[5] in the US, we see the potential for further stimulus measures in Europe and China. And as midterm elections approach in November 2026, we believe the Trump administration will adopt a more "pro-growth" stance.

The Multi Asset Boutique's Investment Committee left its asset allocation unchanged. Details on page 5.

	UNDERWEIGHT[6] significantly	UNDERWEIGHT[6] slightly	NEUTRAL[7]	OVERWEIGHT[8] slightly	OVERWEIGHT[8] significantly	
1 Liquidity			→			We hold a neutral position on cash, with the flexibility to deploy it as opportunities arise.
2 Bonds		→				Our preference remains tilted toward equities over bonds, leading us to maintain an underweight allocation to fixed income. We favor emerging-market (EM) hard-currency bonds (neutral) relative to corporate investment-grade and high-yield segments (underweight), given our view that EM assets stand to benefit from lower US interest rates and a weaker US dollar.
3 Equities				→		We reiterate our overweight in equities, with a preference for EM and Eurozone markets. We see both regions as well positioned to benefit from a weaker US dollar and to receive domestic stimulus packages. We also find they offer interesting relative valuations. The upbeat sentiment in the equities space is being driven by several factors, including strong company earnings alongside upbeat forward guidance, easing tariff concerns, and the view that their overall impact is likely to be limited, short-lived, and manageable.
4 Gold			→			Gold climbed past USD 3,800 per ounce in September. This was primarily driven by rising expectations of interest-rate cuts by the Fed, which typically increases demand for non-yielding assets like gold. Additionally, the weaker US dollar and ongoing discussions about central bank independence have further increased gold's appeal. While the structural outlook for gold remains positive—supported by factors such as high levels of debt and declining trust in fiat currencies—we currently favor a neutral allocation. Temporary pullbacks are possible, as is the likelihood that central banks may pause their gold purchases.
5 Commodities			→			Commodities have performed well both year-to-date and in September. However, much of this strength has been fueled by the precious metals sector, with gold and silver posting substantial rallies. Copper prices rose despite subdued global manufacturing activity and weak economic data emerging from China, a key consumer of metals. From a fundamental perspective, we find it difficult to adopt an overly optimistic stance on commodities overall given the current state of the global economy, ongoing trade uncertainties, and ample supply in many areas of the commodity market. That said, several of our base-case convictions (higher growth, a weaker US dollar, potential for more Chinese stimulus) prevent us from taking an overly negative view of the segment. As a result, we maintain a neutral stance on commodities.
6 Alternative strategies			→			We reiterate our neutral stance on alternative funds and real estate.

Note: Views are as of September 2025. Subject to change without further notice.

Changes month-on-month: same → higher ↗ lower ↘

Off balance

We believe one of the dominant themes in today's global economy is imbalance, be it in trade, consumption, fiscal policy, investment, or currencies. These distortions can undermine stability at the national level and ripple across borders, which can strain the health of the global economy.

—
Michaela Huber
Senior Cross-Asset Strategist,
Multi Asset Boutique, Vontobel

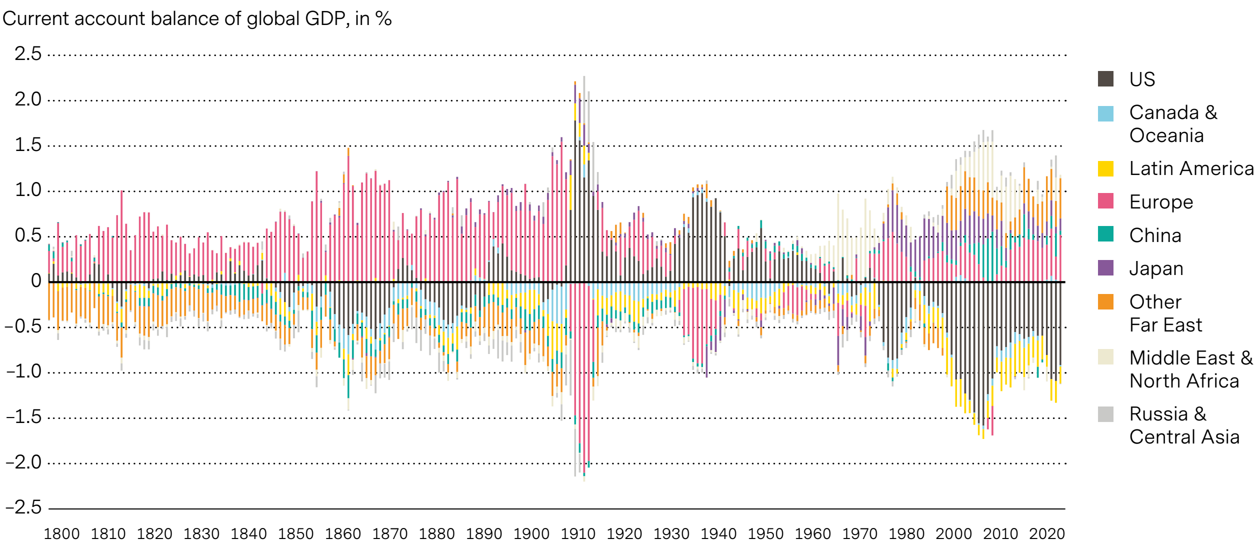
—
Stefan Eppenberger
Chief Investment Strategist,
Multi Asset Boutique, Vontobel

At an Institute of International Finance event earlier this year, attended by finance ministers and central bankers from around the world, US Secretary of the Treasury Scott Bessent warned that the Bretton Woods institutions[9]—the International Monetary Fund and the World Bank—had strayed from their original mission. "Their purpose was to restore and preserve balance. This remains the purpose of the Bretton Woods institutions. Yet everywhere we look across the international economic system today, we see imbalance.[10]"

We believe he makes a valid point. Today's economic environment is influenced by a range of global imbalances, one of the most important ones being embedded in the "net exports" component of the gross domestic product (GDP) formula: GDP = consumer spending + government spending + net exports + total investment. Net exports represent the difference between the total value of goods and services a country exports and the total value it imports. A positive net export figure, known as a trade surplus, indicates that a country sells more abroad than it buys, resulting in more money flowing into the economy. A negative figure, referred to as a trade deficit, means the opposite: the country purchases more from abroad than it sells, causing more money to flow out of the economy. Net exports are a key indicator of a nation's trade balance and financial health, playing a significant role in shaping aggregate demand and overall economic stability.

Excluding World War I, global trade has never been as unbalanced as it is in the 21st century (see chart 1). Countries like Germany, Japan, and China run substantial trade surpluses, relying heavily on foreign demand to fuel their domestic growth. By contrast, economies such as the US, India, and the UK maintain chronic trade deficits, effectively serving as "consumers of last resort[11]" for global goods. These trade imbalances perpetuate vulnerabilities.

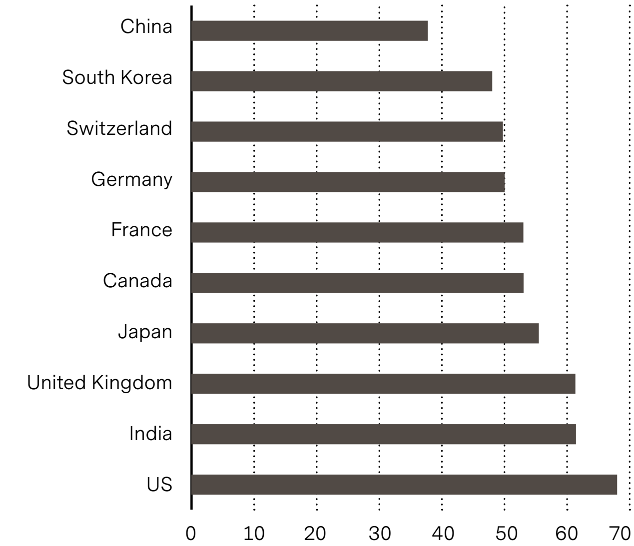
Chart 1: Global trade imbalances—the elephant in the room



Source: G. Nievas, T. Piketty: Unequal exchange & north-south relations: Evidence from global trade and the world balance of payments, 1800 – 2025, WIL WP (2025), Vontobel.

Chart 2: Global imbalances deepen as US consumers outspend all others …

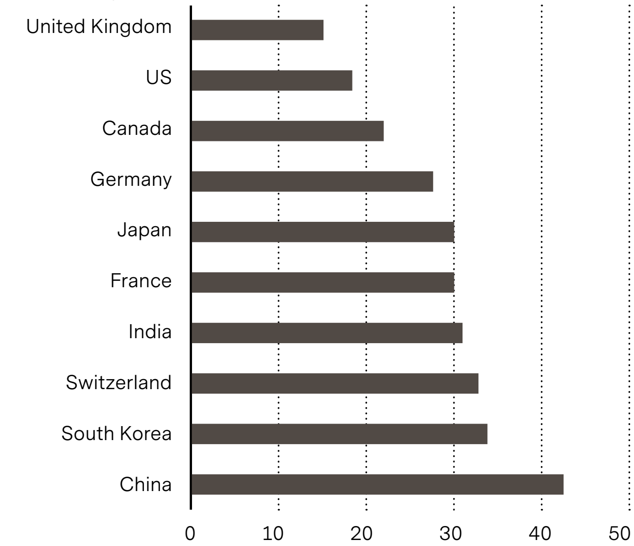
Final household consumption, in % of GDP



Source: LSEG, Vontobel; as of 2022.

Chart 3: … While Chinese consumers are the biggest savers

Gross savings, in % of GDP



Source: LSEG, Vontobel; as of 2023.

For surplus countries, overreliance on exports can leave them exposed to demand shocks abroad. For deficit countries, prolonged dependence on imported goods erodes domestic industrial bases and widens income inequality through offshoring of jobs. Beyond economics, reliance on imported critical minerals, such as those used in semiconductor production, has also raised national security concerns.

When discussing the erosion of domestic industrial bases, significant imbalances in the global manufacturing industry also become evident. Since joining the World Trade Organization in 2001, China has solidified its dominance in the manufacturing value chain, accounting for nearly 30 percent of the world's manufacturing output in 2023. That compares to the US, whose share has declined to roughly 17 percent, down from over 25 percent in the early 2000s. It is therefore not surprising that President Trump has voiced frustration over the country's de-industrialization and has shown a strong interest in reshoring manufacturing jobs back to the US.

Private consumption represents another imbalance. The US consumer, for instance, spends heavily, evident not only in the domestic economy, where household expenditures account for about two-thirds of US GDP, but also in comparison to other countries (see chart 2). This high level of spending is accompanied by a relatively low savings rate. The situation in China presents the opposite picture. Chinese households save at high levels, with the national savings rate exceeding 40 percent of GDP in 2023 (see chart 3), far above the global average.

The US consumer isn't the only one with an appetite for spending. The US government also continues to spend well beyond its revenues, pushing national debt levels to unprecedented highs. This is where fiscal imbalances, namely fiscal deficits, come into play. In January, the Congressional Budget Office projected that the federal budget deficit will reach USD 1.9 trillion this year, with federal debt rising to 118 percent of GDP by 2035. Such imbalances also create vulnerabilities. High levels of public debt can crowd out private investment and increase borrowing costs. Today, interest payments on US debt already rank among the largest items in the federal budget. They can also have global spillover effects, influencing interest rates and investor confidence worldwide. That said, fiscal imbalances are also found elsewhere; many European Union member states face similar challenges.

Next come investment imbalances. Here, "investment" doesn't necessarily refer to what individual consumers

put into financial markets, but rather what the overall economy invests in productive capacity. A common measure is gross capital formation, expressed as a percentage of GDP. According to World Bank data (2023), China's gross capital formation exceeds 41 percent of GDP, significantly outpacing both fellow emerging economies (India: 33 percent) and advanced economies (Switzerland: 26 percent, US and Germany: 22 percent, UK: 17 percent)[12].

Currency misalignments and foreign-exchange (FX) imbalances are another source of concern. When a country's currency is overvalued or undervalued relative to others, it can distort trade flows and investment patterns. An undervalued currency, for example, can make exports cheaper and imports more expensive, giving the country an unfair competitive advantage. FX imbalances also complicate monetary policy, as central banks must balance the trade-offs between stabilizing exchange rates and pursuing domestic economic objectives. Asian economies have frequently been accused of keeping their currencies artificially weak. The US Treasury officially labeled China a currency manipulator in 2019 and Vietnam in 2020. While Japan has not carried this label in recent years, its monetary policies, such as the Bank of Japan's quantitative easing, have occasionally drawn criticism for indirectly weakening the yen. Such accusations are not limited to Asia. Switzerland, long on the Treasury's watchlist (since 2016), was formally designated a manipulator in 2020. At the other end of the spectrum lies the US, where the overvaluation of the US dollar remains near levels last seen after the Plaza Accord in the 1980s.

Lastly, the resurgence of protectionist policies in recent years has further complicated the global economic landscape. Protectionism can take many forms: China's subsidies and technology-transfer requirements, the European Union's anti-dumping measures and stringent regulatory standards, or Switzerland's high agricultural import tariffs, to name a few.

So, how might balance be restored (at least in theory)?
When an economy consumes more than it invests, it must rely on imports to fill the gap. Conversely, when it consumes less than it invests, it exports the surplus. In essence, once consumption and investments (including manufacturing) return to normal levels, the trade balance will also normalize or rebalance. For the consumption-driven US economy, this would require a recalibration to reduce excess domestic demand. At the same time, stronger global demand would need to be stimulated, particularly in Europe, China, and Japan.

Achieving this is easier said than done. A combination of global and country-specific challenges complicates the process. When it comes to global challenges, there is a very fine line to walk between restoring balance and tipping the economy into a chaotic state of protectionism and de-globalization.

When it comes to country-specific challenges, the US faces three key ones: 1) Incentivizing domestic investments, 2) reducing its fiscal deficit, and 3) taming excess consumption. Encouraging domestic investments will require more than pressuring trading partners to "build in America", in our opinion. We believe the US would also need to commit to modernizing and expanding its own infrastructure. When it comes to reducing the budget deficit, the trade war does provide some help, at least to a certain extent. According to the Treasury Department, the US budget deficit narrowed by USD 35 billion in August (a 9 percent year-on-year decrease), as tariffs imposed under Trump boosted net customs receipts by some USD 22.5 billion. That said, higher tariffs alone are unlikely to be enough to solve the US budget woes. How the US plans to tame its excess consumption remains an open question (higher tariffs might help a little bit, as they act like a tax on the consumer).

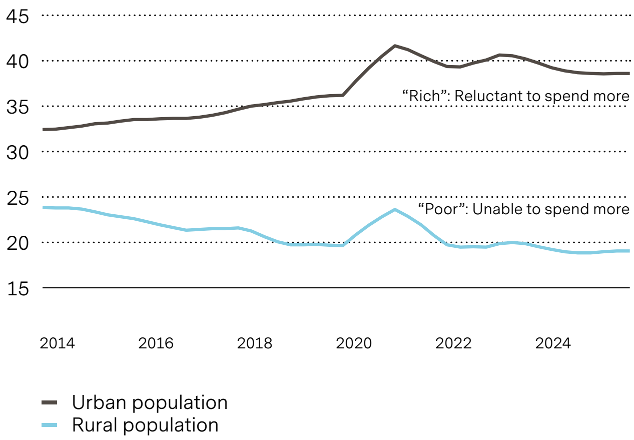
Meanwhile, China faces the daunting challenge of curbing overinvestment and overcapacity without pushing its economy over the edge, particularly in the housing sector. Once dubbed "the world's largest asset class," China's property market has been in a downward spiral for five years, with no real turnaround in sight. Chinese policymakers are reluctant to incentivize moral hazard (i.e., encouraging indebted property developers to take on even more risk by relying on government bailouts), though they still repeatedly intervene to prop up the sector, unwilling to risk an uncontrolled property market collapse.

Beyond housing, China's car industry is also grappling with overinvestment challenges. According to a Bloomberg report, more than half of the country's production capacity sat idle in 2025[13]. Similar issues plague the solar industry, where firms shed nearly one-third of their workforce last year as losses across the manufacturing value chain reached USD 40 billion[14]. China has recently taken first steps to address these issues. As part of an "anti-involution" campaign, Chinese policymakers have pledged to curb aggressive overcapacity and the ensuing price wars among manufacturers.

Convincing Chinese households to save less and spend more presents another major hurdle. This challenge stems not only from the state of the housing market, where relatively affluent Chinese have invested heavily in real estate to build wealth, but also from the labor market. Youth unemployment reached 17.8 percent in July, exacerbating income insecurity and fueling concerns about the adequacy of China's social safety net. To boost domestic consumption, China may need to implement a recurring income transfer system from higher- to lower-income brackets (see chart 4).

Chart 4: One Chinese challenge is to encourage domestic consumption

Chinese savings rate, in %



Source: LSEG, Vontobel; as of October 1, 2025.

China's "last remaining challenge" is to relinquish its tight grip on its currency. Despite years of pledges to allow greater market influence over the yuan, the People's Bank of China continues to intervene in the FX market. Although the yuan's exchange rate has become somewhat more volatile as China has slightly loosened its grip, the underlying regime remains tightly controlled[15].

Meanwhile, the Eurozone's greatest challenge lies in overcoming its persistent reluctance to invest. In practical terms, this can be measured by net fixed capital formation as a percentage of GDP. Before the global financial crisis (GFC), the Eurozone's investment share broadly mirrored that of the US, ranging between 6 and 8 percent of GDP. However, the GFC dampened European companies' willingness to invest. By 2024, the Eurozone's share had fallen to around 3 percent, while the US had rebounded to nearly 6 percent—still below pre-GFC levels, but almost double Europe's[16].

Chart 5: The global rebalancing checklist

	WHAT IS NEEDED?	OUR VIEW OF THE LIKELIHOOD
GLOBAL	A free trade environment	◑
US	Incentivize domestic investments	◕
	Reduce fiscal deficit	◑
	Tame excess consumption	◔
CHINA	Reduce overinvestment	◕
	Curb manufacturing support	◔
	Stop managing its currency	○
	Encourage domestic consumption	◑
EUROPE	Increase domestic investments	◑
	Improve competitiveness	◔

Note: For illustrative purposes only. Time horizon for scenarios over next seven years.

Source: Vontobel; as of October 1, 2025.

A rebalancing is likely, but its scale and timing are uncertain

The bottom line? Today's international economic system is defined by significant imbalances (see chart 5). When these imbalances become too pronounced, they can undermine the health of the economy (e.g., the US over-consumes, China over-subsidizes, and Europe under-invests). Over time, these imbalances will inevitably narrow, in part by necessity. The US, for instance, has limited fiscal capacity to stimulate its economy compared to other regions. While the current US administration is attempting to address these imbalances, we believe it must tread carefully, as overly aggressive trade barriers risk undermining economic growth not only at home but across the global economy. Elsewhere, governments are introducing domestic policy measures to support rebalancing, though this adjustment process will likely be gradual. Restoring equilibrium in the world economy is possible, but it can't happen overnight.

Off the brakes

—
Christopher Koslowski
Senior Fixed Income &
FX Strategist,
Multi Asset Boutique, Vontobel

The Fed cut rates for the first time since 2024 and signaled two more cuts this year, while markets expect even deeper easing through 2026.

In September, the Fed lowered its benchmark rate by 25bps to 4.00 – 4.25 percent, its first cut since December 2024, citing a weakening labor market as job gains have slowed, unemployment has edged up, and forward-looking indicators point to softer demand for workers. Inflation is still above the 2 percent target, but the Fed acknowledged that employment risks have grown. Projections now indicate two more cuts this year, which would bring the fed funds rate to around 3.50 – 3.75 percent.

Going forward, monetary policy is expected to remain data-dependent, with future adjustments tied to inflation and labor market conditions. Markets, however, are pricing in an additional 50bps of easing through 2026, beyond the Fed's own projections. The market-implied Fed floor (see chart 1), defined as the lowest expected policy rate over the next three years, has also moved lower.

Credit markets are priced for near "perfection[17]" in an imperfect world. Spreads in both investment grade and high yield sit at or near multi-decade lows, leaving little cushion if fundamentals deteriorate, in our view. The market seems oddly comfortable, offering minimal risk premium even as cracks in the labor market become harder to ignore. This disconnect raises questions about the sustainability of valuations. Investors recognize the softening macro backdrop, yet spreads keep grinding tighter on strong technical demand, resilient flows, and still-solid fundamentals.

Chart 2 shows the relationship between starting option-adjusted spread and 12-month excess returns in investment-grade credit, using 15 years of monthly data. Each point plots the option-adjusted spread (x-axis) against the excess return over the following year (y-axis). A polynomial curve[18] is fitted to show how, on average, excess returns have historically varied with starting spreads. When spreads start tight, forward excess returns are often flat or negative, as the risk of widening outweighs limited potential for further compression. At these tight levels, there's little room for spreads to tighten further, and even a small widening would lead to losses.

In short, the strong gains once available when spreads were wider are no longer on the table. We believe further upside in excess returns would require spreads to move from extremely tight to even tighter.

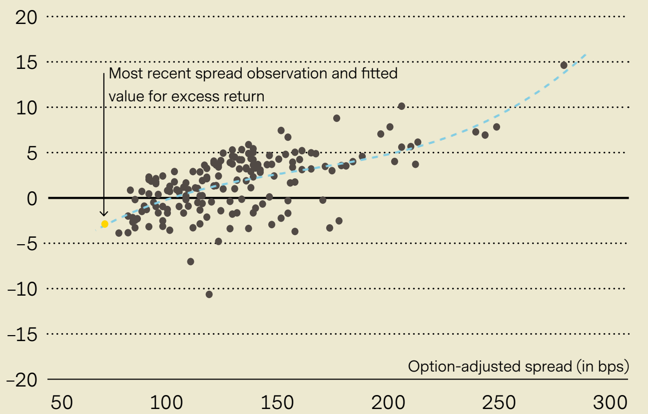
Chart 1: Markets are pricing a deeper trough in the Fed's easing path

Market-implied Fed floor, in %

Source: LSEG, Vontobel; as of September 19, 2025.

Chart 2: With spreads at historic tights, can investors still expect gains?

12-month forward-looking excess returns in investment-grade credit, in %



Source: LSEG, Vontobel; as of September 19, 2025.

Emerging-market equities in the fast lane

—
Mario Montagnani
Senior Investment Strategist,
Multi Asset Boutique, Vontobel

When it comes to global equity markets, the technology sector still appears to be in the driver's seat. That comes as no surprise in the US, where Silicon Valley has often driven rally after rally. But it has surprised some investors as a novelty in emerging markets (EM), where stocks have also received quite the boost from a small cluster of Asian technology companies.

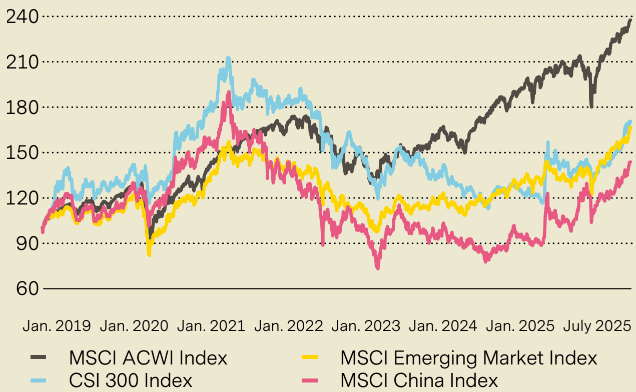
Global equity indices climbed to record levels in September amid investor expectations of interest-rate cuts by the Fed grew stronger and positive news flow within the tech industry. Within the S&P 500 Index, Alphabet's market capitalization topped USD 3 trillion after a favorable antitrust ruling. Oracle surged more than 40 percent in a single day on news of a massive increase in its contract backlog, which was driven by strong demand for its artificial intelligence (AI) cloud infrastructure. And Intel shares spiked nearly 30 percent in one day after announcing a partnership with Nvidia in a joint effort to develop central processing units (CPU) for AI data centers.

EMs haven't idled on the sidelines either, with the MSCI Emerging Markets Index up nearly 30 percent year-to-date (in USD), surpassing its 2021 peak (see chart 1). We see two main explanations. First, China's monetary policy is still supportive, with the People's Bank of China maintaining a moderately accommodative stance. Second, fundamentals play a critical role. EM equity performance has been concentrated in roughly a dozen Asian technology firms with significant AI exposure (see chart 2), which have managed to consistently deliver positive earnings surprises in recent quarters. Collectively, these companies account for half of the index's year-to-date performance—a structure that bears close resemblance to the US market, where fewer than 10 technology / AI-related firms represent nearly 30 percent of the index by market capitalization, and make up about 60 percent of the year-to-date performance.

We believe this concentration, along with the accelerating AI race, shows the growing influence of the technology sector on global equity markets. This is a trend that has so far been US-centered, but one that could spark a structural shift in leadership. We also believe it highlights the need to monitor these companies' ability to monetize massive capex that's unfolding amid intensifying competition and faster market dynamics, which could create new leaders while pressuring others' profitability. One clear example is the recent US-China dispute over Nvidia's AI chip supply.

Chart 1: Emerging-market stocks hit highest level since 2021

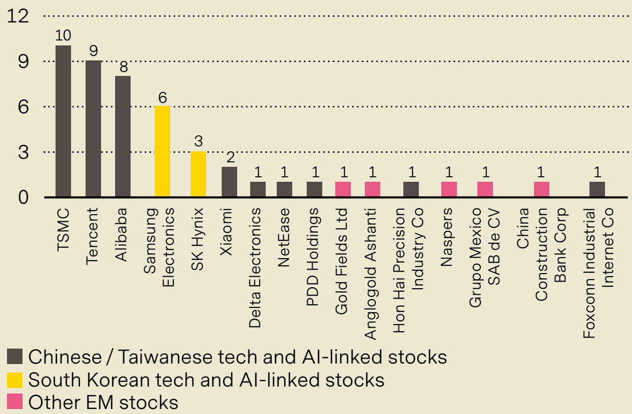
Total return, in % and in USD (indexed January 2019 = 100)



Source: LSEG, Vontobel; as of September 19, 2025.
Returns may rise or fall due to currency fluctuations.

Chart 2: Half of MSCI EM Index's year-to-date gains tied to technology and AI stocks

MSCI EM Index, year-to-date contribution by stock, in %



Source: LSEG, Vontobel; as of September 19, 2025.
Returns may rise or fall due to currency fluctuations.

Silver speeding ahead

—
Michaela Huber
Senior Cross-Asset Strategist,
Multi Asset Boutique, Vontobel

Gold is the undisputed heavyweight in the precious metals world: the safe haven, the store of value. Silver, often viewed as its little brother, is more volatile and more reactive to economic road bumps. But recently, silver has floored it down the highway.

Gold continued its record-breaking streak, surpassing the USD 3,800 per ounce mark in September (+46 percent year-to-date). A key catalyst was weaker-than-expected data. Amid signs of a weakening US labor market—two consecutive disappointing monthly jobs reports, along with an annual benchmark revision that revealed the US economy had added 911,000 fewer jobs than previously estimated for the year ending in March—investors ramped up their US interest-rate cut expectations. Lower rates typically boost demand for non-yielding assets like gold.

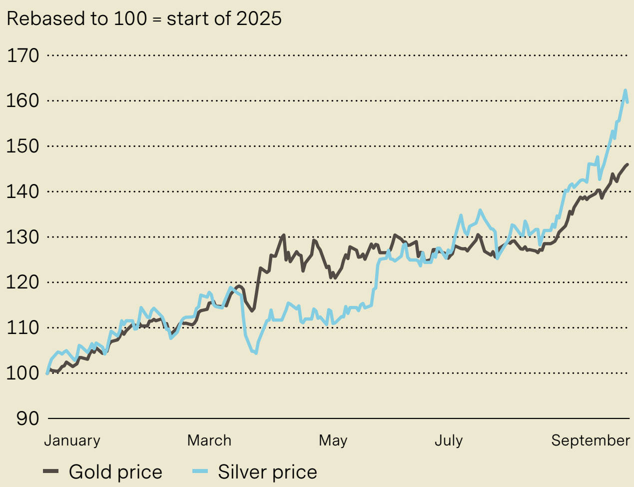
Additional support came from a weaker US dollar and sustained central bank demand, with key buyer China continuing to add gold to its reserves for a tenth consecutive month. President Trump's attempt (so far unsuccessful as of October 1, 2025) to dismiss Fed Governor Lisa Cook also contributed to the rally, as it heightened fears about central bank independence.

That said, gold's younger brother has recently hit the gas pedal. Silver surged past USD 46 per ounce, a level last seen in 2011, bringing year-to-date gains to nearly 60 percent (see chart 1). Several factors have contributed to this outperformance. Silver typically lags during bull runs but often gets pulled higher when interest in metals surges. Finally, investment demand (retail and institutional) via strong exchange-traded fund (ETF) inflows is adding a tailwind to the recent rally (see chart 2).

On the technical side, the gold-silver ratio, which measures how many ounces of silver are needed to buy one ounce of gold, has narrowed. Although still elevated, the ratio declined as silver began to catch up. For investors tracking this metric, silver appeared "cheap" relative to gold, which made it look compelling to investors[19]. That said, silver's volatility is a double-edged sword. It can rally to the upside, but just as quickly reverse to the downside. Industrial demand accounts for 55 percent of total silver demand. Consequently, prices are more vulnerable to pullbacks should rate-cut expectations fade or industrial demand slow.

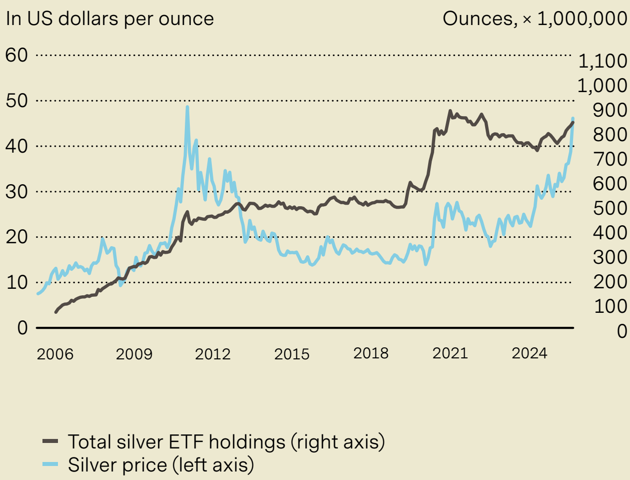
Key to watch is also jewelry demand, which accounts for around 17 percent of total silver demand. Trade association "The Silver Institute" expects silver jewelry demand to decline by 6 percent this year[20].

Chart 1: Precious metals are living life in the fast lane



Source: LSEG, Vontobel; as of October 1, 2025.

Chart 2: Silver ETF demand has accelerated



Source: LSEG, Vontobel; as of October 1, 2025.

Resilience in the euro and Swiss franc

—
Christopher Koslowski
Senior Fixed Income &
FX Strategist,
Multi Asset Boutique, Vontobel

The euro remains supported by resilient growth, moderating inflation, and a stable policy outlook. As the Fed continues easing, narrowing rate differentials may be reducing the dollar's advantage and helping support the euro.

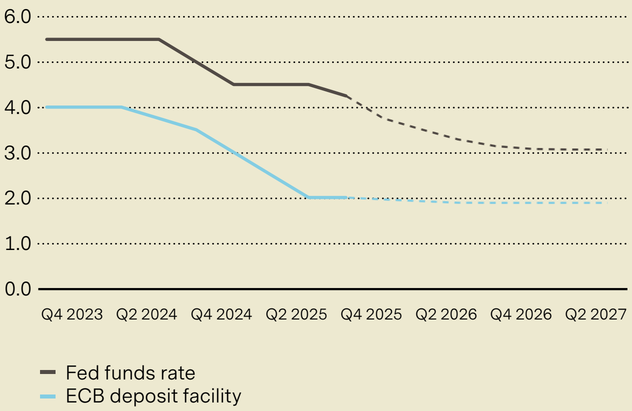
Most of the euro's gains this year came early, as markets priced in Fed cuts and euro area data surprised to the upside. Over the summer, momentum slowed somewhat amid renewed tariff concerns and stronger US numbers, but we believe the broader uptrend remains in place. European Central Bank (ECB) projections show inflation near target and growth stabilizing around 1 – 1.2 percent through 2026. With inflation gradually cooling and activity holding up, the ECB has likely reached the end of its easing cycle. In contrast, the Fed is expected to continue cutting into next year, which would shift the policy differential in favor of the euro (see chart 1). While US yields remain higher in absolute terms, narrowing rate expectations may be reducing the dollar's advantage and helping to support the single currency.

The Swiss franc has strengthened more than 12 percent against the dollar this year and held steady versus the euro. Despite 175 bps of rate cuts since early 2024, the currency has remained resilient. Inflation is low and hovering near the bottom of the Swiss National Bank's (SNB) target range, while the franc continues to draw support from Switzerland's strong fundamentals, including low public debt, a solid external position, and institutional credibility.

In a world increasingly sensitive to fiscal risks and debt sustainability, the franc stands out. Markets have punished currencies like the British pound and Japanese yen when long-end yields rise on budget concerns. By contrast, the franc has attracted flows, not only as a safe haven but also as a structurally sound alternative. Looking ahead, the SNB is poised to remain focused on inflation, not growth. If needed, we believe it could cut rates below zero again (it has surprised markets before). Another lever is foreign-exchange (FX) intervention, but despite claiming readiness, the SNB has barely acted over the past five quarters (see chart 2). We believe heavy intervention now would carry balance-sheet risks and could provoke political backlash, especially from the US. To us, talk of reintroducing negative rates or stepping into the FX market seems more like a warning than a likely scenario. As long as inflation stays contained and deflation risks remain limited, the SNB appears willing to tolerate a gradual strengthening of the franc.

Chart 1: ECB pause and Fed easing are pushing rate differentials in the euro's favor

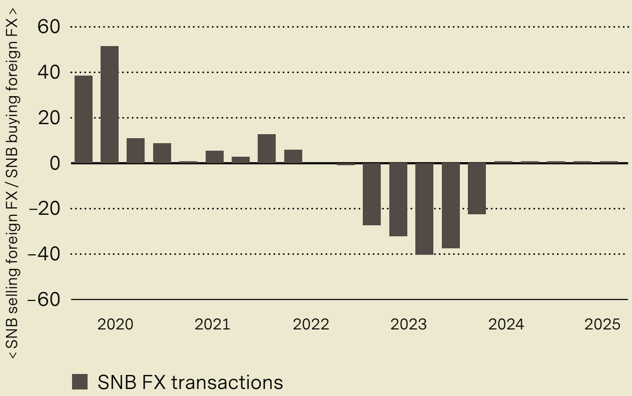
Policy rate, in %



Source: LSEG, Vontobel; as of September 19, 2025.

Chart 2: The SNB has barely intervened in currency markets in recent quarters

In CHF billion



Source: LSEG, Vontobel; as of September 19, 2025.

Economy and financial markets 2024 – 2026

The following list shows the actual values, exchange rates, and prices from 2024, as well as consensus forecasts for 2025 and 2026 for gross domestic product (GDP), inflation / inflationary expectations, key central bank interest rates, 10-year government bonds, exchange rates, and commodities.

GDP (IN %)	2024[1]	CURRENT[2]	2025 CONSENSUS	2026 CONSENSUS
Global (G20)	3.0	3.2	2.3	2.4
Eurozone	0.9	1.5	1.2	1.1
USA	2.8	2.1	1.6	1.7
Japan	0.1	1.7	1.1	0.7
UK	0.9	1.2	1.3	1.1
Switzerland	1.4	1.3	1.1	1.4
Australia	1.0	1.8	1.6	2.2
China	5.0	5.2	4.8	4.2

INFLATION	2024[3]	CURRENT[4]	2025 CONSENSUS	2026 CONSENSUS	VONTOBEL VIEW IN 2025[5]
Eurozone	2.4	2.0	2.1	1.8	↓
USA	3.0	2.9	2.8	2.8	↓
Switzerland	1.1	0.2	0.2	0.6	→

KEY INTEREST RATES (IN %)	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
EUR (deposit rate)	3.00	2.00	1.81	1.83	→
USD (Fed funds rate, upper bound)	4.50	4.25	3.91	3.43	↓
CHF	0.50	0.00	–0.09	–0.07	→

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
EUR (Germany)	2.37	2.70	2.68	2.83	↓
USD	4.57	4.08	4.20	4.14	↓
CHF	0.33	0.20	0.43	0.54	↓

FOREIGN EXCHANGE RATES	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
CHF per EUR	0.94	0.93	0.94	0.96	↑
CHF per USD	0.91	0.79	0.80	0.80	↓
USD per EUR	1.04	1.18	1.19	1.22	↑

COMMODITIES	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
Brent crude oil, USD per barrel	75	68	63	64	↑
Gold, USD per troy ounce	2,625	3,666	3,400	3,570	↑
Copper, USD per metric ton	8,768	9,996	9,588	9,773	→

Note: Views are as of September 18, 2025. Subject to change without further notice.
Forecasts do not guarantee future results.

1 Subject to revisions (e.g., potential revisions to 4Q data)
2 Latest available quarter
3 Subject to revisions
4 Latest available month, G20 data only quarterly
5 ↑ above consensus, → in line with consensus, ↓ below consensus

Source: Vontobel, respective statistical offices and central banks; as of September 18, 2025.

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Glossary and sources

[1] Source: Bloomberg article, published September 17, 2025. www.bloomberg.com/news/articles/2025-09-17/fed-cuts-rates-quarter-point-signals-labor-market-concerns

[2] The dot plot is a chart that the Fed releases. It shows where each Fed official expects interest rates to be in the future. Each dot represents one policymaker's projection.

[3] Government-issued money that isn't backed by a physical commodity like gold or silver but has value because people trust the government that issues it, such as the US dollar, the euro, or the Japanese yen.

[4] Source: Barrons article, published September 17, 2025. www.barrons.com/livecoverage/fed-september-meeting-interest-rate-announcement/card/miran-was-the-sole-dissent-XEtjd84RlcYMhGAUdlaq

[5] US federal law signed by US President Donald Trump in 2025. It bundles together major tax cuts, spending provisions, and policy changes.

[6] "Underweight" means the Vontobel Multi Asset Investment Committee has a lower preference for an asset class or sub-asset class. This reflects the belief that the asset class is less attractive relative to others in the current market environment. It is not a recommendation to avoid the asset entirely but suggests a reduced allocation.

[7] "Neutral" means the Vontobel Multi Asset Investment Committee has neither a higher nor lower preference for an asset or sub-asset class. This reflects a balanced view, where the asset class is expected to perform in line with its historical or market-average performance. It is not a recommendation to take action but suggests maintaining the current allocation.

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[9] The Bretton Woods institutions (International Monetary Fund and the World Bank) were created at the United Nations Monetary and Financial conference in 1944 in the town of Bretton Woods, New Hampshire, to safeguard monetary stability and foster global development.

[10] Source: Bloomberg article, published April 23, 2025. www.bloomberg.com/news/articles/2025-04-23/bessent-says-us-backs-imf-world-bank-while-calling-for-reforms

[11] Serving as a primary source of demand for global goods and services when other economies are struggling to generate sufficient domestic spending.

[12] Source: World Bank, as of September 16, 2025. data.worldbank.org/indicator/NE.GDI.TOTL.ZS?locations=CN

[13] Source: Bloomberg article, published June 19, 2025. www.bloomberg.com/news/articles/2025-06-19/massive-overcapacity-threatens-to-prolong-china-s-car-price-war

[14] Source: Reuters article, published June 13, 2025. www.reuters.com/sustainability/climate-energy/china-solar-industry-address-overcapacity-challenge-turnaround-far-off-experts-2025-06-13/

[15] The Chinese government, primarily through the People's Bank of China, manages the value of the yuan rather than letting it be fully determined by free market supply and demand. This means the government keeps strong limits on how far and how fast the currency can move.

[16] Numbers based on LSEG data, as of September 19, 2025.

[17] Priced for perfection refers to a situation where a stock or asset's current market price already assumes the company will deliver strong results (i.e., strong growth, no setbacks, and meeting or beating expectations). Because all the good news is already priced in, there's usually little room for upside, and even small disappointments can cause the price to drop.

[18] A polynomial curve is a fitted line used in charts to capture non-linear relationships between variables.

[19] The gold-silver ratio is a metric and may not be appropriate for all investors. Investment decisions should take into account an individual's objectives, financial situation, and risk tolerance, and should not be based solely on this metric.

[20] Source: Silver Institute press release, published January 29, 2025. silverinstitute.org/global-silver-market-forecast-to-remain-in-a-sizeable-deficit-in-2025/

Bank Vontobel AG
Gotthardstrasse 43
8022 Zurich
Switzerland

vontobel.com