

Vontobel

Investors' Outlook

Handle with care

July 2025

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Handle with care



—
Dan Scott
 Head Multi Asset,
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Dear readers,

Recent weeks have brought a fresh cycle of investor optimism. Various surveys showed that sentiment picked up, smoothed by a de-escalation in trade tensions between the world's two largest economies, the US and China, and some better-than-expected macroeconomic data. Small business owners in the US reported stronger, inflation-adjusted sales expectations, as well as confidence in near-term business conditions. And consumers' moods lightened amid a broader sense that the worst may have been rinsed out.

The improvement is welcome but still fragile, and consumers continue to cite tariffs as a source of concern. After all, trade expectations have gone through a few extra spins. The early rhetoric of "90 deals in 90 days" has not come to fruition, and even the agreements reached so far leave effective tariff rates materially higher than they were before the trade war.

The US-China trade engagement ended in an agreement that will see China supply rare earth materials to the US (essential for everything from clean energy to everyday electronics and defense industries), a move welcomed by markets. With the July 9 deadline for the current tariff pause approaching, US officials have hinted at further deals, adding to the optimism but also leaving investors alert to any setbacks.

Global geopolitical tensions are also still tangled in the mix. In Ukraine, hoped-for negotiations have yet to materialize. Meanwhile, the recent developments in the Middle East have once again shown how quickly geopolitical risk events can escalate and unsettle markets.

Amid this rising geopolitical uncertainty, defense budgets have come back in focus. Across Europe and beyond, governments are opening the fiscal taps for military modernization, energy security, and autonomy. Some argue that this sidelines the green transition, but we believe the opposite may be true. Energy resilience, technological sovereignty, and climate adaptation are actually part of national security.

In this edition of the Investors' Outlook, our colleagues in the Conviction Equities Boutique examine the foundations of the green transition, focusing on its essential building blocks. You'll also find a closer look at the changing European macroeconomic and policy developments, along with an update on oil prices and the factors driving them.

We're seeing partial improvement. Some areas look brighter, others are still stuck on spin. But this is still a delicate load.

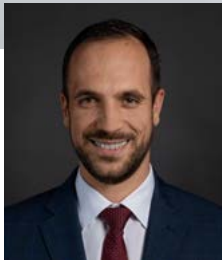
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→ **Webcast**

To view our webcast on recent market developments, click [here](#).

.....

4 Investment strategy



Stefan Eppenberger
Chief Investment Strategist,
Multi Asset Boutique, Vontobel

Creasing conflicts

Markets entered June relatively well-pressed. While a few trade creases remained (such as the US doubling tariffs on steel and aluminum imports), US President Donald Trump's tariff delays gave countries time to ponder their next steps, and new US-China talks helped smooth sentiment.

But Israel's attacks on Iranian nuclear facilities abruptly shattered the calm and drove crude oil prices sharply higher. As of today, it seems that our baseline scenario (attacks by Israel, retaliatory strikes by Iran, followed by limited US military involvement, and a temporary rise in crude oil prices to USD 70 to 80 per barrel) has materialized.

We believe there is currently little reason to fear significantly higher inflation. Monetary policy has eased but is not excessively accommodative. And a significant surge in demand is unlikely as global economic growth continues to slow.

Still, Middle East tensions have added another layer of uncertainty to the US Federal Reserve's already complicated task. It held interest rates steady in June and made upward revisions to both inflation and unemployment expectations. The European Central Bank (ECB) delivered another interest rate cut, with markets expecting at least one more cut by year-end. The Swiss National Bank brought its key interest-rate to zero to manage the franc's strength and deflationary pressures.

Find the details of our asset allocation on page 5.

	UNDERWEIGHT ¹		NEUTRAL ²	OVERWEIGHT ³		
	significantly	slightly		slightly	significantly	
1 Liquidity				→		We remain overweight in cash and are ready to reallocate when opportunities arise.
2 Bonds		→				We maintain our slightly negative view on fixed income. US bond yields continue to navigate a complex landscape, as focus returns to concerns over US fiscal and debt sustainability. In response, Treasury yields have risen, with the steepest increases in longer-dated maturities. Within fixed income, we have a slight preference for government bonds (neutral) over high-yield bonds (negative). After the recent spread tightening on more positive trade news, yields now fail to provide sufficient compensation relative to historical levels, considering elevated risks and market volatility. We remain neutral for emerging-market (EM) hard currency bonds.
3 Equities				→		We reiterate our slight equity overweight, primarily expressed through a modest overweight in EM equities, mainly because we believe the “DeepSeek” moment ⁴ has set the stage for more business-friendly policies in China. Additionally, we have observed that investors continue to reduce their exposure to US assets, which could benefit other regions, including EM. Finally, our bearish outlook on the US dollar further supports a slight overweight EM equities, as these markets have historically performed well during periods of US dollar weakness. That said, we acknowledge that the summer months could bring a somewhat bumpy ride. Donald Trump’s 90-day tariff deadline is approaching in early July, and as of now, there has been little progress. There is a risk that some tweets from Trump could send equity markets on a roller-coaster ride, much like what occurred during his first term. We believe it’s important for investors to look through the temporary noise.
4 Gold			→			We reiterate our neutral positioning in gold. June served as a powerful reminder of gold’s safe-haven appeal. The Israel-Iran crisis drove the yellow metal to over USD 3,400 per ounce. While we view the yellow metal as structurally attractive—supported by high government debt levels, declining trust in paper money, and central banks’ efforts to diversify away from the US dollar—we are a bit more cautious in the short term. Gold is far from being a “cheap” hedge at these levels, and Chinese demand appears to have taken a backseat.
5 Commodities			→			Much of the tariff-induced front-running is now behind us. Global manufacturing purchasing managers’ indices (PMIs) have come down again. Chinese data has not been great either (e.g., Caixin PMIs, export data, deflation issues). Coupled with increasing fears over economic growth, this suggests a cautious stance toward this cyclical asset class. At the same time, geopolitical risks have come back, pushing oil and gold prices temporarily higher. We deem a neutral take the most sensible.
6 Alternative strategies			→			We maintain a neutral stance on both alternative funds and real estate.

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

¹ See “Glossary and sources” on p. 21.

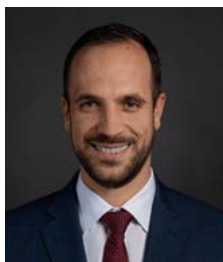
Changes month-on-month: same → higher ↗ lower ↘

Ironing out Europe's future?

European stocks have had an impressive run this year. Major European equity indices have climbed between 20 percent and 25 percent, with Germany's DAX Index even rising more than 30 percent⁵. At the start of the year, the rally was mostly driven by valuations as many European stocks were trading at a significant discount to their US counterparts. In the months that followed, however, optimism took over: hopes for an end to the war in Ukraine, hopes for generous stimulus packages... and maybe even hopes for a kind of "Make Europe Great Again."



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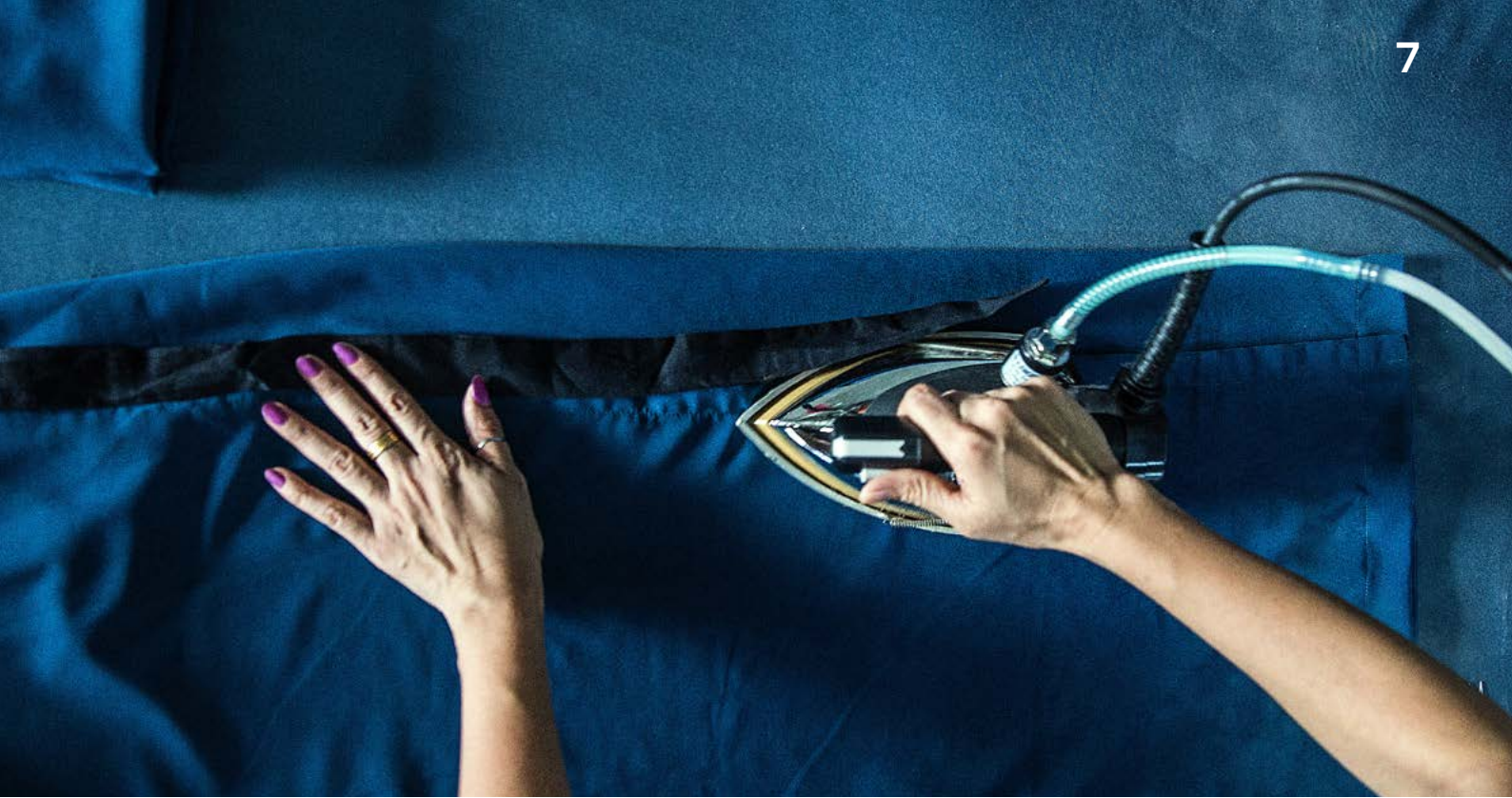
European stocks are no longer as cheap as they were at the beginning of the year but they're still more affordable than US stocks. That valuation gap reflects, among other things, investors' belief that the Eurozone is less productive than the US or other regions. There are several reasons for this productivity lag, one of the biggest being the fragmentation of the Eurozone itself.

Despite sharing a common currency, the 20 countries that make up the Eurozone each maintain different tax systems, labor markets, and economic policies. This fragmentation makes it harder for companies to operate efficiently across borders and limits economies of scale. Their capital markets are similarly fractured along national borders. The European Union itself acknowledges that integration of European capital markets remains "relatively modest."⁶ Well-functioning, integrated capital markets are important for helping domestic markets grow and for supporting innovative start-ups and scale-ups. A fully unified capital market could also boost cross-border investments, attract more foreign capital to the region, and strengthen the euro's role as a global investment currency.

So it doesn't come as a surprise that the US is the leader in the development and adoption of new technologies, especially in fields like artificial intelligence, big data, and cloud computing. US tech giants like Google, Amazon, Apple, and Microsoft drive productivity through innovation. Europe has its own share of innovative firms, but they often struggle to scale up as quickly or assertively.

External pressures

US President Donald Trump's "America First" agenda has strained transatlantic ties and challenged Europe's export-driven economic model. In Germany, the Eurozone's largest economy, exports of goods and services account for more than 40 percent of gross domestic product (GDP). Countries like Spain (36.7 percent), France (33.5 percent), and Italy (32.3 percent) are similarly exposed to global trade flows. In addition, the war in Ukraine continues to weigh on business and consumer confidence, with growing concerns that Russia could eventually threaten more European nations. Rising security threats have also sparked calls for increased defense spending.



Trump has repeatedly criticized NATO allies for falling short on defense budgets and has even threatened to withhold US support if they don't contribute more—he's floated a target of 5 percent of GDP. While European defense spending rose 11.7 percent to EUR 423.3 billion last year, hitting that 5 percent mark remains far off for most countries given current budget constraints.

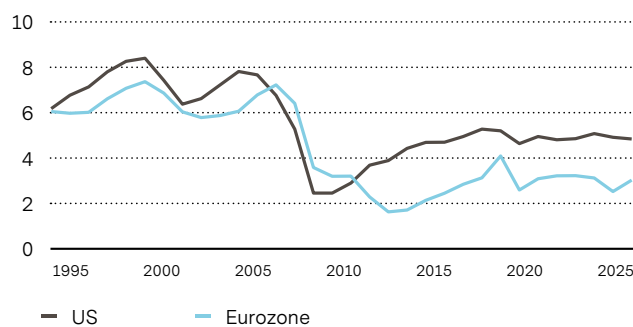
Europe also faces pressure from the East. China is flooding global markets with cheap high-tech products, such as electric vehicles and solar panels, posing a threat to key European industries. At the same time, European companies continue to struggle to gain a meaningful foothold in the Chinese market.

Add to that the lingering aftershocks of past crises. The Eurozone still bears scars from the euro crisis that followed the 2008 financial meltdown⁷. As shown in chart 1, investment spending in Europe collapsed during that time and has yet to fully recover.

And on the domestic front, immigration remains a hot-button issue. Expectations around integration, housing, and internal security often fuel populist and anti-EU political movements, particularly in countries like Germany and France.

Chart 1: Europe's capex has never recovered from the global financial crisis

Net fixed capital formation as a % of GDP

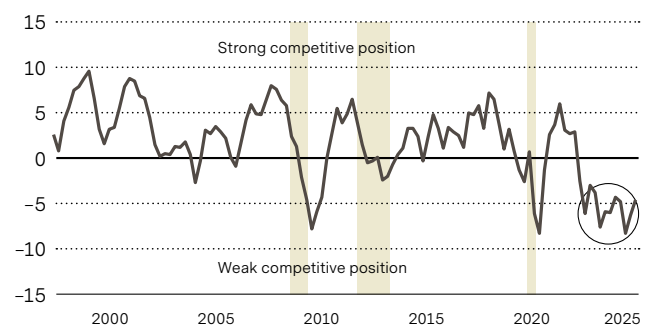


Net fixed capital formation as a percentage of GDP is an economic indicator that measures the net investment in fixed assets (such as buildings, machinery, equipment, and infrastructure) relative to the size of a country's economy. It reflects the portion of a nation's GDP that is being reinvested into productive assets after accounting for depreciation.

Source: LSEG, Vontobel; as of June 17, 2025.

Chart 2: Eurozone companies admit that their international competitive position is weak

Net balance

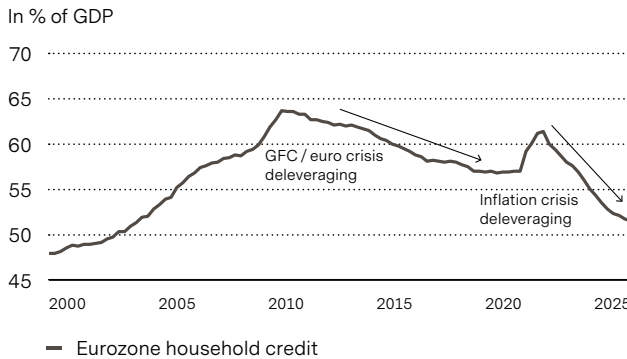


— Industry survey: Competitive position on the foreign market
 ■ Eurozone recession

Source: Directorate General for Economic and Financial Affairs, Vontobel; as of 2Q 2025.

8 Market highlights

Chart 3: European households have done their homework



Source: LSEG, Vontobel; as of June 17, 2025.

Given all these headwinds, it may not be surprising that European businesses take a fairly pessimistic view of their global competitiveness (see chart 2).

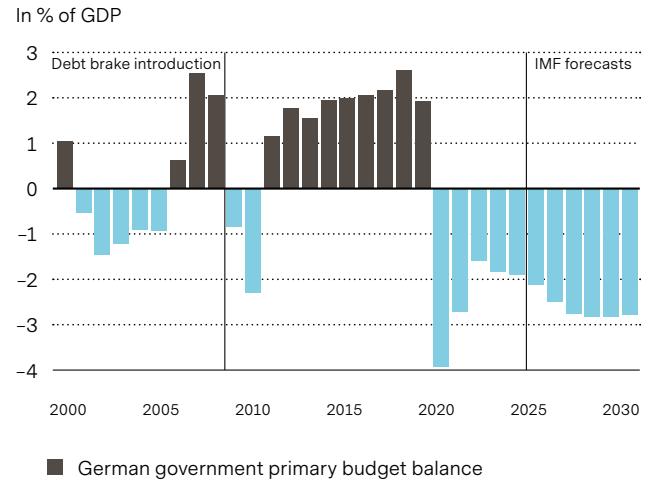
Progress has been made

Despite the gloom, the Eurozone has made real structural progress in recent years. One standout achievement is the sharp reduction in structural unemployment. Since the depths of the euro crisis, the Eurozone's unemployment rate has been cut in half (April 2025: 6.2 percent). The improvement has been even more dramatic in southern Europe, where unemployment peaked above 18 percent but is now down to just 7.7 percent⁸. Households have also gotten their finances in better shape, with debt levels now significantly lower than they were after the financial crisis or the pandemic (see chart 3).

The banking sector has made strides as well. The share of non-performing loans (NPLs), especially in countries like Greece, Italy, Spain, Portugal, and Ireland, has dropped from more than 10 percent during the crisis to under 3 percent today amid economic recovery and key reforms. Banks are also better capitalized, with stronger Tier 1 capital ratios⁹.

Years of ultra-low interest rates have also helped reduce the Eurozone's net interest burden. As a percentage of GDP, interest costs have fallen from more than 5 percent

Chart 4: Germany has ended fiscal austerity by relaxing the debt brake



Source: International Monetary Fund, LSEG, Vontobel; as of June 17, 2025.

at the height of the euro crisis to just 3 percent—that's a far more comfortable position than in the US, where they now exceed 8 percent¹⁰. That said, some countries, like Italy (over 6 percent) and Spain (4 percent), still face high debt-servicing costs.

Short-term tailwinds

On top of those longer-term improvements, there are also short-term positives. Ironically, Donald Trump might be one of them. His first term sparked a handful of minor but positive reforms in Europe. The pressure is on again with his second term—one could argue that European leaders have no choice but to act.

A prime example is Germany's debt brake reform (see chart 4). In February, then-chancellor candidate Friedrich Merz flatly rejected any changes to Germany's balanced-budget rule. But by March, citing the "threats to freedom on our continent"¹¹, he called for a constitutional amendment to allow hundreds of billions of euros in debt-financed investment for defense and infrastructure. This shift appears to have had a ripple effect across Europe: other countries have also announced higher defense spending, though not at the same scale. According to NATO Secretary General Mark Rutte, all NATO members are on track to hit the alliance's 2 percent spending target this year.

Chart 5: Make Europe Great Again (MEGA)—Checklist

		WHAT IS NEEDED?	CHECK?	COMMENT
EXTERNAL ENVIRONMENT	1	Accelerating global economy	(x)	Elevated policy uncertainty
	2	Stable global trade environment		US-EU trade deal is needed
	3	Russia-Ukraine ceasefire		A lot of talk, no action
DEMAND-SIDE POLICY	4	Supportive EMU monetary policy	x	ECB rate cutting cycle on-going
	5	Supportive EMU fiscal policy	x	End of austerity announced
SUPPLY-SIDE POLICY	6	Noticeable deregulation		First attempts (e.g., Omnibus IV)
	7	Concrete R&D initiatives		First attempts (e.g., AI factories)
	8	Creating a capital market union		Watch cross-border mergers
	9	Providing competitive energy		Prices still elevated versus peers
	10	Labor market liberalization measures		Focus on skills, not liberalization

Source: Vontobel; as of June 19, 2025.

Industrial policy is gaining momentum as well. Former ECB chief Mario Draghi presented a comprehensive competitiveness report in September 2024, highlighting the weaknesses of the European economy¹², which European Commission President Ursula von der Leyen used as the foundation for a new “Competitiveness Compass.” According to comments by von der Leyen in late January, Europe has “everything it needs to succeed in the race to the top,” and that regaining competitiveness is now needed to overcome weaknesses. The Competitiveness Compass is meant to translate Draghi’s recommendations into an actionable roadmap. “So now we have a plan,” she said. “We have the political will. What matters is speed and unity. The world is not waiting for us. All member states agree on this. So, let’s turn this consensus into action¹³.”

The plan focuses on three core areas: 1) Closing Europe’s innovation gap, 2) aligning decarbonization with competitiveness, and 3) reducing dependencies and strengthening security. A range of initiatives stem from these priorities, including a “Competitiveness Fund,” a “European Savings and Investment Union,” and an “Omnibus Initiative” aimed at cutting red tape.

Another encouraging development: inflation is returning to normal. In May, consumer price inflation in the Eurozone fell to 1.9 percent, below the ECB’s 2 percent target.

Wage growth is also slowing. The ECB’s wage tracker, based on ongoing collective bargaining agreements, projects a 3.1 percent average increase in 2025, down from 4.7 percent in 2024. Excluding one-time bonuses, wage growth may fall to 2.9 percent, down from 4.9 percent.

This gives the ECB room to continue easing monetary policy. In June, it cut interest rates for the eighth time, bringing the deposit rate to 2 percent. Although the central bank signaled it may pause over the summer to reassess the outlook, markets are still pricing in at least one more rate cut by year-end. Ongoing rate normalization could give the struggling Eurozone economy a needed boost.

What would it take to make Europe “great” again?

On our in-house “Make Europe Great Again” checklist, only two out of 10 boxes are currently checked (see chart 5). Not all criteria have to be met, but it likely requires more than two. With some initial steps taken and the sails now set, all Europe needs is a bit more tailwind to breathe new life into the old continent.

From raw to renewables: it's all about the recipe



Growing geopolitical tensions and recent policy reversals have made the path to net-zero seem more arduous. In the US, the return of President Donald Trump has brought uncertainty around the future of the Inflation Reduction Act (IRA¹⁴) and long-term climate policy. In parts of Europe, coal-fired power plants are back online to secure electricity supply during energy crises. And globally, fossil fuels are more embedded in the energy mix than many anticipated. It’s fair for investors to ask, “Is the green transition dead?”



Marco Lenfers
Client Portfolio Manager,
Conviction Equities

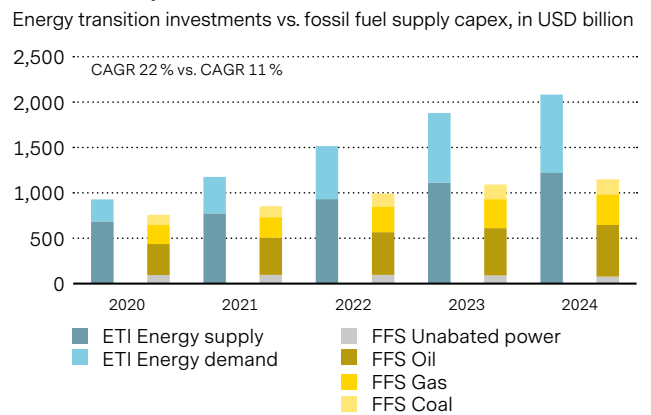


Romain Hohl
Portfolio Manager, Impact &
Thematic Investing team,
Conviction Equities

We believe the opposite may be true. In 2024, clean energy investment reached an all-time high of USD 2.1 trillion, more than double the level in 2020, according to BloombergNEF’s 2025 Energy Transition Investment Trends Report published earlier this year¹⁵. Electrified transport, renewable energy, and power grids made up the bulk of that growth. Over the past five years, clean alternatives have outpaced fossil fuels with double the compound annual growth rates (see chart 1). This tells us that the global energy transition is still gaining ground, even if unevenly.

In the US, President Donald Trump quickly moved to dismantle key provisions of the IRA when he took office earlier this year. Within days, he signed executive orders halting federal support for clean energy initiatives, pausing IRA fund disbursements, and rolling back emissions and fossil fuel regulations. Europe presents a similarly complex picture. In Germany, coal plants were temporarily reactivated through 2024 to manage gas shortages caused by the war in Ukraine and reduced Russian imports¹⁶. And China, the world’s largest emitter, is still approving dozens of new coal-fired power plants.

Chart 1: Energy transition investments outpace fossil fuel capex



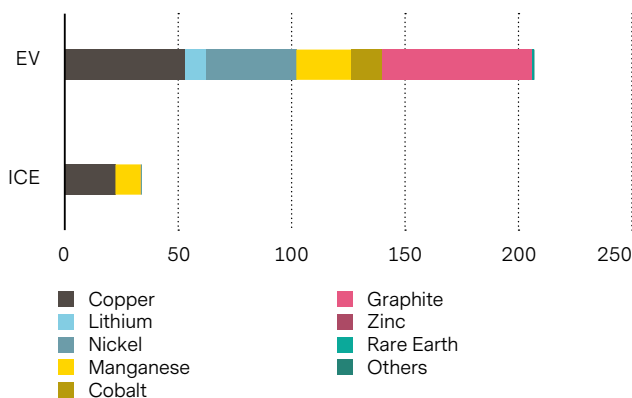
ETI stands for Energy Transition Investment. FFS stands for fossil fuel supply. Historical volumes for FFS investment were aggregated from IEA World Energy Investment 2024. Investment includes upstream, midstream, and downstream sectors and unabated fossil power generation. Dollar values have been adjusted to nominal terms. Investment in demand for fossil fuels—like gas boilers—is not included.

Source: BNEF, “Energy Transition Investment Trends 2025”, January 2025.

12 Viewpoint

Chart 2: The green transition is materials-intensive

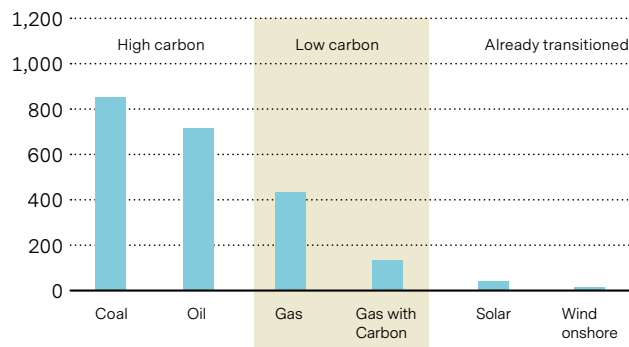
Critical minerals in an EV vs. ICE, in kilogram per vehicle



EV: Electric vehicle. ICE: Internal combustion engine. For illustrative purposes only.
Source: IEA, "Minerals used in electric cars compared to conventional cars", May 2021.

Chart 3: Ensuring energy security while scaling up clean alternatives

Lifecycle emissions in EU28, in g CO₂ per kWh



Source: United Nations Economic Commission for Europe, "Life Cycle Assessment of Electricity Generation Options", October 2021. Since oil is not conventionally used for electricity production figures, oil lifecycle emissions have been taken from Turconi et al., "Life cycle assessment (LCA) of electricity generation technologies", 2013.

Yes, the green transition faces certain regional headwinds. But it's not stalling globally, from what we can observe. Other major economies are stepping up, helping to fill potential gaps in the absence of US leadership: The EU remains fully committed to its broader climate goals, allocating more than EUR300 billion through the European Green Deal and REPowerEU to cut fossil fuel dependence and scale renewables¹⁷. China is actually moving on two parallel tracks; the coal-fired power plants are juxtaposed by also adding more than 216 gigawatts of solar and wind capacity in 2023 alone¹⁸, nearly double the UK's total installed capacity. And Japan is pressing ahead with its "Green Transformation" policy¹⁹ that aims to mobilize more than USD 1 trillion in public and private investment over the next decade, focuses on decarbonizing industry, expanding hydrogen and ammonia use, and boosting renewable energy.

And in this environment, mature technologies like renewable energy, grids or electrified transportation are well supported by a cost-benefit analysis as they often are economically viable without subsidies, highly scalable and come with limited technology risk. As a result, they receive the vast amount of the energy transition investment, and we expect them to continue to grow despite some political headwinds.

Upstream matters

The "downstream" part of the transition (renewable energy, EVs, green buildings, and clean industrial technologies) has already become a core component of many investors' global equity portfolios. However, an orderly transition towards a net-zero world is materials-intensive and requires energy security and stability while scaling up clean alternatives. Getting the "upstream" part of the transition right is therefore crucial for the overall progress.

The road to a carbon-free energy system is quite literally paved with metals (see chart 2). To build the net-zero world, we need upstream inputs: the raw materials and infrastructure that make clean technologies possible. Copper, lithium, nickel, cobalt, and aluminum, or the "big five." They are key components of solar panels, wind turbines, batteries, and power grids, which can't exist without them. It should come as no surprise then that demand for these materials is forecast to surge in the years ahead.

According to the International Energy Agency (IEA), the market value of transition-critical minerals is projected to more than double by 2040, reaching about USD 770 billion under the Net Zero Emissions (NZE) Scenario. Demand is expected to nearly quadruple by 2040 in the NZE Scenario, reaching almost 40 million tons²⁰, but the supply side is struggling to keep up.

Today, we still rely on primary mining. Developing new mines has become more expensive and time-consuming: lead times from discovery to production now average 18 years, triple the duration of the 1990s. Rising capital costs, regulatory hurdles, and community resistance all add to the challenge. Increasing mineral supply is further complicated by the long-time horizons required to move from identification of a mineral deposit to extraction, rising capex inflation to develop new mines as well as the significant negative externalities mines impose on nearby communities.

That's why we believe that recycling is crucial. It likely won't replace primary mining, but it offers a valuable secondary source. Recycling can enhance supply security and reduce waste and the environmental impact. And it opens the door for investors to tap into this emerging value chain that ranges from primary mineral extraction (e.g., copper, lithium) to urban mining and process technologies (e.g., recycling operators and services, recycling equipment and technology) to innovative materials (e.g., polysilicon or low-carbon cement).

Power-hungry

A second challenge awaits us on our path to a green transition: electrification. As the world moves toward more electric solutions, power demand is only increasing across industries. Data centers are a prime example: in the US, they accounted for 4.4 percent of electricity consumption in 2023 and could rise to as much as 12 percent by 2028²¹. Globally, data center energy demand may more than double by 2030, surpassing the total electricity use of Japan²².

And here's the catch: they have an immediate need for power and, as of today, can't fully rely on renewable resources, which still need to be scaled. For the next several years, their incremental power demand will need to be met with fossil sources (at least in part) to ensure an uninterrupted, reliable, and affordable energy supply. However, different fossil resources come with very different environmental impacts (see chart 3). Therefore, data centers and other energy-intensive sectors are pushing their decarbonization efforts forward, driven by carbon neutrality goals and mounting public scrutiny. For investors, this opens the door to tap into a broad opportunity set across the low-carbon energy value chain. This includes not only pure-play transition enablers but also select traditional energy producers, specifically those that can demonstrate a credible strategy for shifting toward lower-carbon energy sources and are actively increasing their share of such activities.

We see the green transition accelerating, but it's also becoming more complex, creating further opportunities, including emission-reduction technologies such as carbon capture and nuclear power, and next-generation fuels like hydrogen and sustainable aviation fuel.

Investing in enablers of change

In the Conviction Equities Boutique, one area of focus is upstream, so the pillars that make the downstream transition possible. From raw materials to enabling infrastructure, we identify companies that are essential to the transition but often overlooked by mainstream capital. We believe an orderly path to net zero must be materials-intensive, secure, and resilient. That means investing in companies that not only scale clean technologies but also ensure stability.

We take a holistic, repeatable approach anchored in fundamental research and focus on long-term drivers, model multi-year cash flows, and target competitively advantaged businesses with strong balance sheets and the ability to generate superior returns

It's important to us to look beyond headlines and noise and understand the key ingredients that go into the green transition. For those taking a holistic and forward-looking view, the upside is clear: Companies delivering scalable solutions, with strong fundamentals and a long-term profitability focus, may be poised to lead. By investing across the full spectrum, from basic resources to technology enablers, investors can contribute to both accelerating the transition and share in its rewards.

Set to delicate



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

The Fed held rates steady at 4.25–4.5 percent and reaffirmed guidance for two interest-rate cuts this year, but new projections point to slower growth, stickier inflation, and growing internal disagreement. The path to easing now looks more uncertain, with September now likely the earliest plausible window—data permitting.

The Fed’s updated forecasts show 2025 GDP revised down to 1.4 percent (from 1.7 percent), core PCE inflation²³ up to 3.1 percent, and unemployment expected to rise to 4.5 percent. These stagflation-like conditions complicate the Fed’s balancing act between supporting growth and keeping inflation under control.

Divisions within the Federal Market Open Committee (FOMC) are growing. Two distinct camps are emerging: one favoring cuts, citing slowing growth and rising unemployment, and the other calling for patience, pointing to persistent inflation. As of June, seven of the 19 members now expect no cuts this year, up from four in March, despite the median still signaling two. Projections for rate cuts in 2026 and 2027 were also trimmed, suggesting a slower pace of normalization. Still, the FOMC voted unanimously to hold rates steady for now. At his press

conference, Chair Jerome Powell emphasized caution: “We’re well positioned to wait and learn more.” That phrasing reinforces the Fed’s data-dependent approach, while leaving the door open to action if needed.

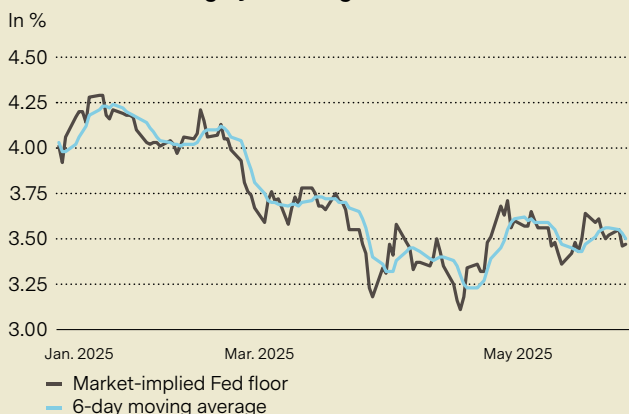
Inflation risks remain, particularly from tariffs and geopolitical tensions, especially in the Middle East, which could push energy prices higher. Powell acknowledged the delayed impact of tariffs: “Someone has to pay for them.” A September cut remains possible, but only if disinflation can be confirmed and the labor market softens further. Until then, the Fed is poised to sit tight, watching both sides of its mandate.

Market expectations for the Fed’s terminal rate have remained stable (see chart 1), reflecting confidence that recent inflation data, labor market conditions, and policy signals are consistent with a higher-for-longer stance.

Spreads defy volatility

Credit markets are showing signs of complacency. Given current volatility levels, spreads would typically be wider (see chart 2). The sharp rally and spread compression after spring’s stress episode may have overcorrected, leaving spreads misaligned with underlying macro and credit risks. Tighter spreads now leave little cushion should volatility pick up or fundamentals deteriorate. The investment-grade risk premium looks rich relative to the level of market stress implied by the Volatility Index (VIX), raising questions about downside protection and growing vulnerability in credit valuations.

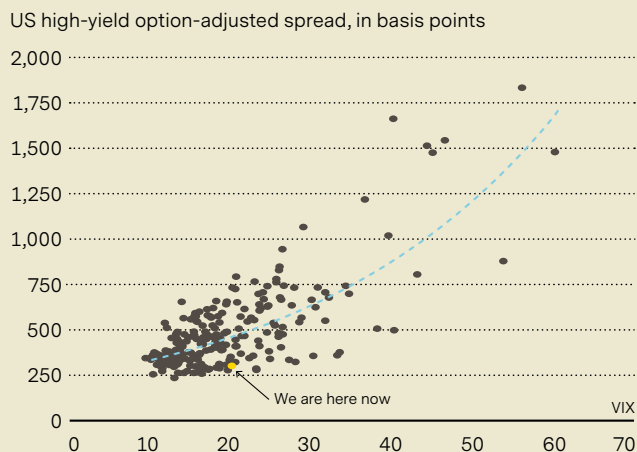
Chart 1: Market expectations for the Fed’s terminal rate have remained largely unchanged in recent weeks



Note: The terminal rate is lowest market-implied Fed funds rate implied by overnight index swaps over the next three years

Source: LSEG, Vontobel; as of June 18, 2025.

Chart 2: Credit risk premium is tighter than it should be



Source: LSEG, Vontobel; as of June 18, 2025.

Sorting through Europe's mixed signals



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

As we move into the second half of the year, it's clear that markets have just been through a turbulent spin cycle, capped by the outbreak of conflict in the Middle East. So, what may lie ahead?

Markets remain laser-focused on what really moves the needle: inflation, central banks, the trajectory of monetary policy, and their impact on economic growth. Against this backdrop, we reiterate our modest overweight in equities, primarily expressed through an overweight in emerging markets.

In Europe, after a strong first quarter, equities began to lose momentum by the end of the second one. Much of the outperformance in the first half of the year came from the cyclical sectors, particularly financials (mainly banks) and industrials (mostly defense-related stocks). Using the German DAX Index as an example, defense-related names alone accounted for roughly 30 percent of the index's year-to-date gains. Stripping away these cyclical drivers, the broader European market is relatively flat in local currencies, similar to Switzerland's staples- and healthcare-heavy market or the US, where performance was dragged further by dollar weakness. What stands out

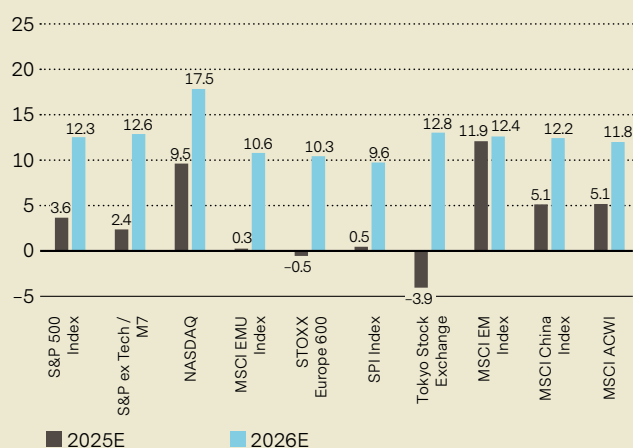
to us is policy contrast between the US and Europe. While US monetary policy remains tight, Europe has been moving toward fiscal easing. With the ECB keeping interest rates low, we believe European earnings growth is poised to rebound after years of stagnation (see chart 1). A key catalyst here is Germany's historic fiscal stimulus, announced earlier this year, focused on defense and infrastructure.

Still, one key question is whether the good news is already priced in. Valuations in some sectors look stretched to us, and global institutional investors' surveys show long positioning in European stocks, especially banks, remains a crowded trade. It's also worth highlighting that the relative performance of cyclical stocks versus defensives²⁴ has reached a 10-year high—an extreme that is typically supported by strong PMI²⁵ data, which is notably lacking in the current environment (see chart 2). This means PMIs will need to improve to sustain the trend markets have already priced in. On top of that, as central banks cut rates, banks—so far among the rally's main engines—may begin to lose steam.

Add to this mix the looming July deadline for Donald Trump's 90-day tariff threat, and we see a recipe for renewed volatility through summer. That's why, despite some positive developments, we remain neutral on European equities for now, preferring to let the current load rinse before declaring anything clean.

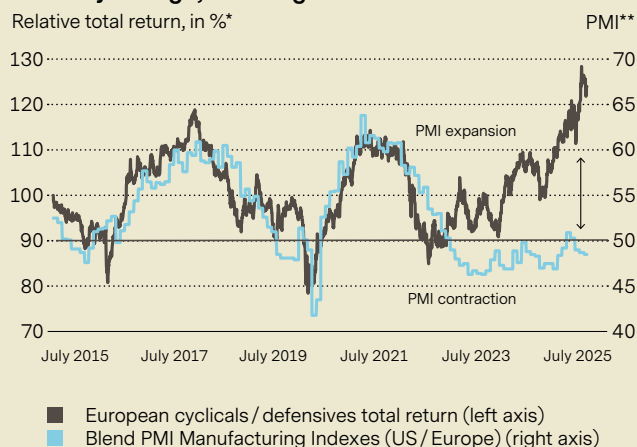
Chart 1: EPS growth estimates for 2025 trimmed in most developed markets

Year-on-year growth, in % and in local currencies



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

Chart 2: Relative performance of cyclicals vs. defensives hits 10-year high, breaking from PMI trends



* Indexed at 100%, ** Blend of US, European data

Source: LSEG, Vontobel; as of June 20, 2025.

A loud roar from the oil market



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

There’s a saying among commodity analysts: “Oil markets always pay attention when Iran is involved.”²⁶ After a lackluster performance for most of the year, “Operation Rising Lion” temporarily drove crude oil prices above USD 80 per barrel.

As of today, our base-case scenario has been confirmed. In this scenario, we anticipated Israeli attacks and Iranian retaliatory strikes, followed by limited US military involvement. Consequently, we projected no or only minimal impacts on oil supply and only temporarily higher oil prices (USD 70 to 80 per barrel). Thereafter, we assumed the situation would stabilize.

As in previous conflicts, Iran has once again threatened to close the Strait of Hormuz²⁷ which is effectively controlled by Iran. Often referred to as the world’s oil artery, approximately 20 percent of global petroleum product shipments pass through this chokepoint (see chart 1). Nearly two-thirds of the volume consists of crude oil from Iran, Kuwait, Saudi Arabia, Qatar, and the United Arab Emirates, while the remainder is made up of oil products and natural gas. The closure of the Strait remains the largest tail risk, which could drive prices well above USD 100.

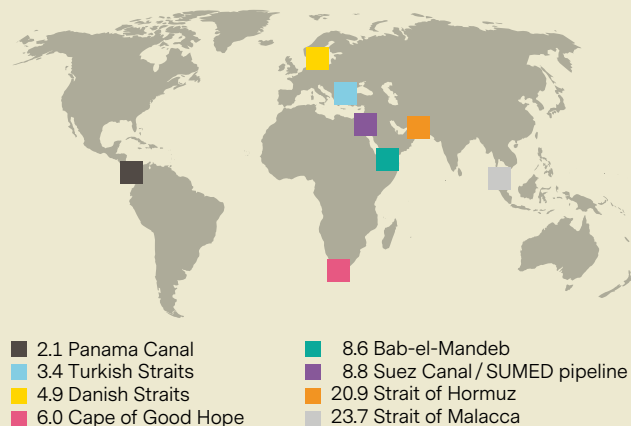
However, we consider this scenario unlikely. There’s a reason why Iran has never followed through on its threat to close off the Strait – by doing so, it would effectively cut off its own oil exports and, consequently, its revenue streams. We believe Iran would resort to such a drastic step only if it feared a forced regime change.

If, contrary to expectations, the Strait were to become embroiled in the conflict, the US Strategic Petroleum Reserve (SPR²⁸) and/or OPEC+ could step in to help (see chart 2). However, there are some caveats. Following multiple emergency withdrawals, the SPR is depleted²⁹ and now holds “only” 402 million barrels. As for OPEC+, doubts remain about the actual extent of spare capacity. Years of production cuts and reduced investments following Covid-19 have left some oil fields and facilities unable to resume operations easily. Likely, only Saudi Arabia and the United Arab Emirates would be able to ramp up production quickly.

Beyond the geopolitical headlines, our crude oil forecast remains subdued through the end of 2025. This is due in part to uncertainties surrounding trade wars, associated growth concerns, and additional supply from other producers (Brazil, Guyana, and Canada).

Chart 1: The Strait of Hormuz—the world’s oil artery

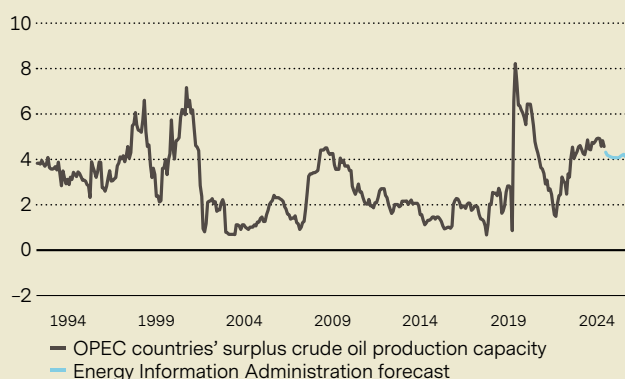
Petroleum liquids supply, in %



Source: Energy Information Administration (2023), Vortexa tanker tracking and Panama Canal Authority data, last updated June 25, 2024. Numbers in million barrels per day.

Chart 2: If the worst were to happen, OPEC+ could offer some help

Million barrels per day



Source: LSEG, Vontobel; as of May 2025.

Permanent stains on the greenback?



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

The US dollar still anchors the global monetary system. It commands the largest share of official reserves, denominates most cross-border debt and trade credit, and accounts for roughly 40 percent of daily FX turnover. Yet its pre-eminence is no longer taken for granted. Two forces—shifting trade patterns and widening fiscal stress—are prompting a reassessment by reserve managers and currency investors (see chart 1).

US tariff measures, coupled with a gradual re-routing of global supply chains, are likely to reduce the share of world commerce settled in dollars. Every time an exporter chooses another invoicing unit, baseline demand for dollar liquidity inches lower. Central banks seem to be drawing similar conclusions: IMF data show the dollar's slice of reported reserves falling for nine consecutive quarters, while official gold holdings rise. The pace is measured, but the intent appears strategic.

Domestic fundamentals reinforce the drift. Net interest outlays now rival defense spending, and annual borrowing needs exceed USD 2 trillion through 2029. With Congress preparing yet another round of spending bills—and another debt-ceiling vote—long-bond term premia

have widened as investors demand compensation for fiscal risk once viewed as immaterial.

This growing policy-driven risk premium is already visible in FX-option pricing and reinforces the market's increasingly entrenched bearish view on the dollar. Option skews suggest that weakness into 2026 will stem not only from cyclical forces such as Fed cuts and narrower interest differentials, but also from a structural rethink of how the US engages with global capital. The implication is a weaker and more volatile dollar as the traditional rules that underpin reserve-currency status begin to fray. USD / CHF options make the point explicit (see chart 2): as of 19 June, market-implied probabilities of the pair trading below 0.80 stand at 51.8 percent within nine months, 57.1 percent in one year, and 69.3 percent over two years, while the probability assigned to the 0.80–0.85 range shrinks steadily. Such pricing signals structural repricing rather than short-term caution.

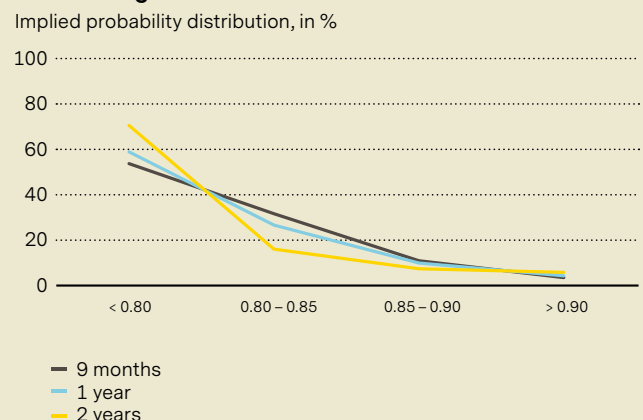
In sum, the greenback now faces a dual challenge: a cooling domestic economy and an expanding fiscal premium layered over a policy backdrop that no longer guarantees unfettered capital access. Reserve status will not vanish overnight, but marginal shifts in trade invoicing, portfolio allocation, and perceived policy credibility are set to exert more influence on exchange-rate dynamics than in previous cycles. The balance of risks points toward a measured, if occasionally volatile, depreciation path.

Chart 1: Greenback under pressure at lowest since early 2022



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

Chart 2: USD / CHF skews lower as market expects franc strength



Source: LSEG, Vontobel; as of June 20, 2025.

18 Forecasts

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 %)	2024¹	CURRENT²	2025 CONSENSUS	2026 CONSENSUS	
Global (G20)	3.0	1.9	2.3	2.4	
Eurozone	0.9	1.2	1.0	1.1	
USA	2.8	2.1	1.4	1.6	
Japan	0.1	1.7	0.8	0.7	
UK	0.9	1.3	1.1	1.2	
Switzerland	1.4	1.9	1.1	1.4	
Australia	1.0	1.3	1.8	2.3	
China	5.0	5.4	4.5	4.2	

INFLATION	2024³	CURRENT⁴	2025 CONSENSUS	2026 CONSENSUS	VONTOBEL VIEW IN 2025⁵
Eurozone	2.4	1.9	2.0	1.9	↓
USA	3.0	2.4	3.0	2.8	↓
Switzerland	1.1	-0.1	0.3	0.6	→

KEY INTEREST RATES (IN %)	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
EUR (deposit rate)	3.00	2.00	1.74	1.77	↓
USD (Fed funds rate, upper bound)	4.50	4.50	4.30	3.70	↓
CHF	0.50	0.00	-0.10	-0.05	↓

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
EUR (Germany)	2.37	2.52	2.57	2.76	↓
USD	4.57	4.41	4.32	4.17	↓
CHF	0.33	0.39	0.35	0.46	↓

FOREIGN EXCHANGE RATES	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
CHF per EUR	0.94	0.94	0.94	0.95	↑
CHF per USD	0.91	0.82	0.82	0.81	↓
USD per EUR	1.04	1.15	1.15	1.18	↑

COMMODITIES	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
Brent crude oil, USD per barrel	75	77	66	64	↑
Gold, USD per troy ounce	2,625	3,354	3,155	3,206	→
Copper, USD per metric ton	8,768	9,615	9,178	9,600	↓

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

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

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- ¹ Underweight means the Vontobel Multi Asset Investment Committee has a lower preference for an asset class or sub-asset class.
- ² Neutral means the Vontobel Multi Asset Investment Committee has neither a higher nor lower preference for an asset or sub-asset class.
- ³ Overweight means the Vontobel Multi Asset Investment Committee has a higher preference for an asset class or sub-asset class.
- ⁴ Refers to the sharp market correction in January 2025 triggered by the unexpected underperformance and ethical backlash against DeepSeek, a major generative AI firm. It marked a turning point in sentiment toward AI stocks, leading to widespread tech sector repricing.
- ⁵ Total return in US dollars, as of June 18, 2025.
- ⁶ Source: European Council, consilium.europa.eu/de/policies/capital-markets-union-explained/#:~:text=Die%20EU%20arbeitet%20an%20der,davon%2C%20wo%20sie%20ans%C3%A4ssig%20sind.
- ⁷ The euro crisis, also known as the Eurozone debt crisis, was a severe economic and financial crisis that affected Eurozone countries starting in 2009. It originated from the global financial crisis of 2008, which exposed structural weaknesses in the Eurozone and poor fiscal management in some member states. The crisis began with Greece, when it was revealed in 2009 that the country had been misreporting its budget figures for years. Greece could no longer service its debt and was forced to accept a bailout. The crisis quickly spread to other countries, including Ireland, Portugal, Spain, and Italy. These countries were struggling with either high debt levels, weak banking systems, or both. Because many European banks were heavily invested in government bonds from the affected countries, several governments had to bail out their own banks to prevent a collapse of the financial system.
- ⁸ Southern Europe: Average of Spain, Portugal, and Italy.
- ⁹ The Tier 1 capital ratio (also known as the core capital ratio) is a key metric in banking regulation. It indicates how much core capital a bank holds in relation to its risk-weighted assets. Core capital is the highest-quality form of a bank's equity and primarily consists of common shares and retained earnings. A high Tier 1 ratio signals that a bank has a strong capital base and is better equipped to handle financial risks.
- ¹⁰ Net interest expenses of the public sector as a percentage of GDP measure how much a government spends on interest payments relative to the size of its economy. This is an important indicator of a government's financial health and the sustainability of its debt.
- ¹¹ Source: BBC article, published March 5, 2025. bbc.com/news/articles/c981w25y5wpo
- ¹² Source: European Commission, commission.europa.eu/topics/eu-competitiveness/draghi-report_en
- ¹³ Source: European Commission, published January 29, 2025. germany.representation.ec.europa.eu/news/eu-kommission-stellt-kompass-fur-wettbewerbsfahigkeit-vor-2025-01-29_de?prefLang=en
- ¹⁴ The IRA was signed into law by President Joe Biden in 2022, which, among other things, aims to encourage investment in clean energy.
- ¹⁵ Source: BloombergNEF's Energy Transition Investment Trends 2025, published January 30, 2025. about.bnef.com/blog/global-investment-in-the-energy-transition-exceeded-2-trillion-for-the-first-time-in-2024-according-to-bloombergnef-report/
- ¹⁶ Source: Reuters article, published December 16, 2022. reuters.com/markets/commodities/energy-crisis-fuels-coal-comeback-germany-2022-12-16/
- ¹⁷ Source: European Commission, commission.europa.eu/topics/energy/repowerEU_en?
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- ²² Source: IEA report, published April 10, 2025. iea.org/news/ai-is-set-to-drive-surgency-electricity-demand-from-data-centres-while-offering-the-potential-to-transform-how-the-energy-sector-works
- ²³ Core PCE inflation is a measure of US consumer price changes that excludes food and energy to reflect underlying inflation trends. It's the Fed's preferred gauge for tracking long-term inflation pressure.
- ²⁴ Cyclical stocks rise and fall with the economy, while defensive stocks stay stable because they sell essential goods or services people need in any economic condition.
- ²⁵ PMIs (Purchasing Managers' Indexes) are surveys that measure the health of the economy by tracking business activity. A reading above 50 indicates growth, while below 50 signals contraction.
- ²⁶ Iran is an energy heavyweight: Its production stands at around 3.3 million barrels per day (bpd), and it is said to export over 2 million bpd of oil and fuel.
- ²⁷ The Strait of Hormuz links the Persian Gulf with the Gulf of Oman and the Arabian Sea, and separates Iran from the Arabian Peninsula.
- ²⁸ The Strategic Petroleum Reserve (SPR) is considered the world's largest supply of emergency crude oil. It was established primarily to reduce the impact of disruptions in supplies of petroleum products and to carry out obligations of the US under the international energy program. The federally owned oil stocks are stored in huge underground salt caverns at four sites along the coastline of the Gulf of America.
- ²⁹ The Organization of the Petroleum Exporting Countries and its allies. It's a coalition of the 12 OPEC members plus 10 non-OPEC oil-producing countries.
- ³⁰ After Russia's invasion of Ukraine (2022), the Biden administration authorized emergency sales from the Strategic Petroleum Reserve (SPR), depleting it by more than 40 percent.

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