Vontobel

Investors' Outlook

Stitching fraying seams

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Stitching fraying seams

—
Dan Scott
Head Multi Asset,
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Dear readers,

Markets have surprised many by defying what had appeared to be a fraying economic outlook. A policy patch between the US and China—a 90-day trade truce—helped calm immediate tensions. Washington temporarily slashed tariffs on Chinese goods from a staggering 145 percent to 30 percent, while Beijing lowered its levies to 10 percent. Soon thereafter, US President Donald Trump was in full dealmaker mode, signing large commitments in the Middle East.

This exceeded investors' expectations and improved sentiment. Markets responded with optimism that the worst of the tariff damage might be mended, boosting hopes that the US economy could regain some traction after a sluggish start to the year, dragged down by surging imports ahead of Liberation Day. From trade talks to the Russia-Ukraine war, diplomatic efforts are positive but not yet a reversion to stability and are still susceptible to strain, in our view. Nevertheless, we believe markets have been too quick to price in the positives. And when optimism becomes consensus, it can leave little room for market upside.

One big question is whether a temporary policy reprieve can restore confidence before more fundamental tears emerge in the economic fabric. In the US, hiring and consumer spending have slowed, and the labor market seems to be at a tipping point: Companies aren't hiring aggressively, but they also haven't started laying off in large numbers.

The US Federal Reserve is in a similar holding pattern. Unlike past cycles that triggered emergency intervention, the market stress following Liberation Day didn't reach that level. And the Fed has signaled no rush to cut interest rates, preferring to wait for clearer data, citing the risk of higher inflation and unemployment from Trump's tariff policy. We believe investors may need to be more patient for the Fed's next rate cut.

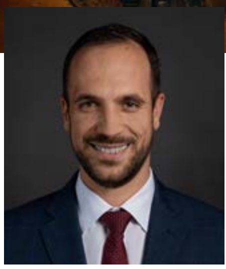
In the meantime, Moody's recent downgrade of the US credit rating has also refocused the spotlight on other topics of concern, such as the ballooning budget deficit, driven in part by the prospect of unfunded tax cuts and the effects of Trump's spending bill.

The past few months have underscored the importance of diversification across geographies and asset classes. And despite a weaker US dollar and louder talk of de-dollarization, it's worth noting that not all dollar-denominated assets have suffered equally. While US Treasuries have seen selling pressure, US equities and US corporate debt have held up quite well.

In this Investors' Outlook, we analyze the US dollar and put the currency's bear markets under the magnifying glass, explore the current macroeconomic environment, and share our thoughts on asset classes.

The road ahead is unlikely to be seamless. But as active managers, we don't pull at every loose thread.

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



—
Stefan Eppenberger
Chief Investment Strategist,
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Threading the needle

After April's trade-related headlines unraveled market confidence, sparking sharp sell-offs in equities and bonds, May helped patch things back together. Improved news flow and progress on US trade deals supported a market rebound, while inflation and labor market data remained intact, at least for now.

We believe the most disruptive phase of the trade war is likely behind us. The relief was swiftly reflected in surveys. The Bank of America Global Fund Manager Survey[1] showed hard landing[2] expectations fell to 26 percent in May, down from nearly 50 percent in April. But companies and consumers alike still struggle to assess the extent of economic damage trade tensions may have inflicted. Further easing of uncertainty is crucial to prevent a spillover from weakening soft data (e.g., consumer and business sentiment surveys) into hard data (e.g., the US labor market).

April and May served as powerful reminders that Trump's policy actions hit some constraints, as his moves met resistance not just on Wall Street but abroad. In May, Japan's Finance Minister Katsunobu Kato suggested that its Treasury holdings "exist as a card" in trade talks. He later softened the remark[3], but investors took the mere acknowledgement as a subtle yet significant shift in communication. Japan is the largest foreign holder of Treasuries.

Later in the month, Moody's downgraded the US credit rating to "Aa1" from "Aaa", citing concerns over the government's growing debt pile and rising costs to service its debt. As the last of three major rating agencies to act (after S&P in 2011 and Fitch in 2023), the downgrade barely stirred equities—but pushed long-term US yields higher.

The Multi Asset Boutique's Investment Committee has decided to refrain from making alterations to its asset allocation. See page 5 for details.

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

	UNDERWEIGHT[4]		NEUTRAL[5]	OVERWEIGHT[6]		
	significantly	slightly		slightly	significantly	
1 Liquidity				→		We remain overweight in cash and are ready to reallocate when opportunities arise.
2 Bonds		→				We maintain our negative view on the fixed income segment. 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. While it is true that Treasuries' appeal as a "safe haven" has diminished, we believe they will remain fundamentally supported (due to a lack of credible alternatives to the country's deep and liquid government bond market and the US dollar's role as the world's reserve currency). We maintain an underweight position in corporate investment-grade (IG) bonds. After spreads tightened on positive trade news, yields fail to provide us with enough compensation relative to historical levels, given elevated risks and market volatility. The same goes for high-yield bonds, where we maintain our underweight stance. We remain neutral for emerging-market (EM) hard currency bonds.
3 Equities				→		We hold a slight overweight position in stocks, favoring EM equities. The positive news flow on trade, with tariff reductions exceeding market expectations, has supported a sharp recovery in global stocks, bringing them back near the all-time highs reached earlier this year. European equities have also regained momentum, further buoyed by expectations for fiscal support and hopes of a Russia–Ukraine ceasefire. While recession fears have eased, lingering risks around tariffs and the US deficit remain, while valuations are already back to stretched levels. This leaves markets vulnerable to new pullbacks while the overall lack of visibility still warrants a cautious approach to risk-taking, in our view. We therefore remain neutral on US equities, having trimmed our exposure in early April. Ongoing policy uncertainty, high valuations, and a wait-and-see Fed and their ripple effects on the economy have weakened the case for US equity outperformance. We remain overweight EM equities since upgrading them in February. Investors reducing exposure to US assets, along with US dollar weakness, could also act as catalysts for stronger EM equity returns.
4 Gold			→			We reiterate our neutral positioning in gold. The yellow metal had surged to an all-time high of USD 3,500 per ounce in late April before the broad risk-on rally and improved sentiment pushed gold temporarily below USD 3,200. 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—developments in May have made us a bit more cautious in the short term.
5 Commodities			→			We remain neutral on commodities. While this asset class can serve as an interesting portfolio diversifier, it could come under pressure if economic growth slows down further or if the Organization of the Petroleum Exporting Countries and its allies (OPEC+)[7] choose to flood the market with oil (speculation about a potential OPEC+ price war resurfaced in late May).
6 Alternative strategies			→			We continue to hold a neutral view on alternative funds and real estate.

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

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

King Dollar's crown is tilting

Why the recent weakness in the US dollar may be just the beginning and what it means for investors.

—
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—
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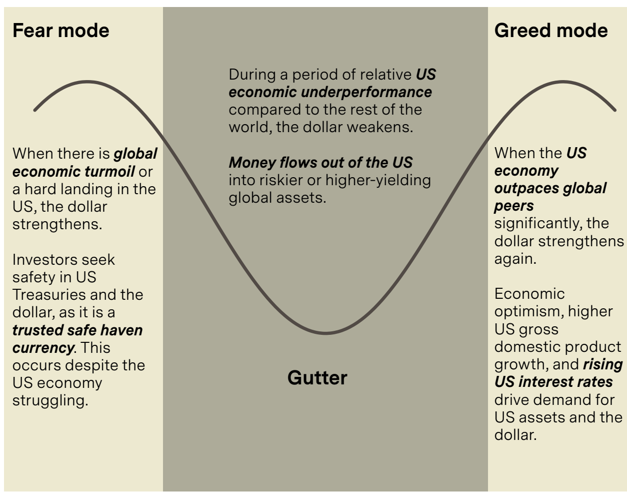
Any investor familiar with foreign exchange (FX) knows that, in the realm of currencies, the dollar is king. Since the end of World War II, the greenback[8] has reigned as the world's reserve currency. This means that foreign institutions (e.g., governments, central banks) hold dollar-denominated assets (e.g., US Treasuries) to manage their currencies' FX value, borrow money in dollars to insure their creditors against FX risk, or simply use the dollar for international payments or trade transactions. This dominance has been an "exorbitant privilege[9]" for the US, as "it costs only a few cents for the Bureau of Engraving and Printing to produce a 100-dollar bill, but other countries had to pony up 100 dollars of actual goods in order to obtain one[10]".

The dollar "smile" theory

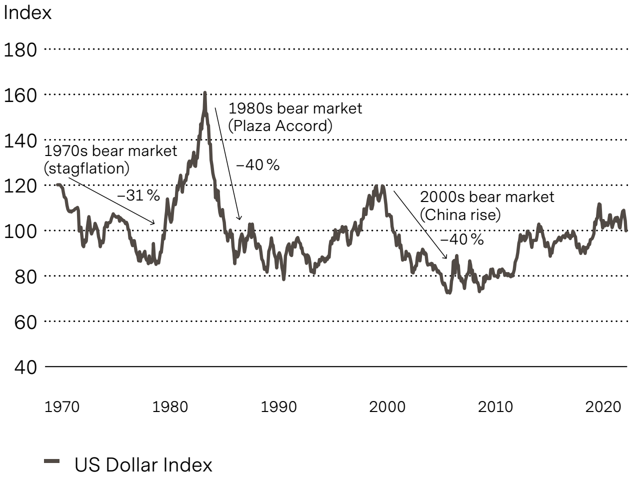
However, the floating exchange rate system[11] used by many economies means that even the king of currencies is not immune to fluctuations in supply and demand. This is where the dollar smile theory comes in. Coined about 20 years ago by economist Stephen Jen, the theory describes how the dollar tends to behave in relation to the health of the US economy. Visually depicted as a smile,

Chart 1: The simplified theory explains the relationship between economic conditions and the value of the dollar



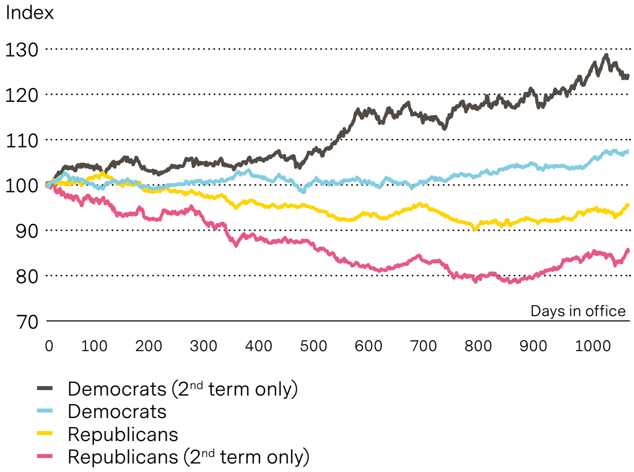
Source: Stephen Jen, as simplied by Vontobel.

Chart 2: There were three major USD bear markets after Bretton Woods



Source: LSEG, Vontobel; as of May 16, 2025.

Chart 3: Republicans tend to be negative for the USD



Average performance of the US Dollar Index during presidential terms (rebased to 100)

Source: LSEG, Vontobel; as of May 16, 2025. Data since 1970.

the theory suggests that the dollar tends to strengthen in two scenarios: during times of economic boom and during periods of global economic crisis. The left side of the smile represents a "fear mode" environment, where global economic distress prompts investors to flock to the dollar as a safe haven. The right side reflects "greed mode", when a strong US economy attracts investment and boosts the dollar. However, the middle of the smile, when the global economy is stable but the US economy is not necessarily outperforming, often sees a weaker dollar, figuratively "in the gutter" (see chart 1).

Dollar bear markets and how they come about

When the dollar is stuck "in the gutter" for too long, it can slip into a bear market. There have been three such bear markets in modern history (see chart 2). The first was triggered by the collapse of the Bretton Woods system. Established in 1944 at the Bretton Woods conference, representatives from 44 Allied nations agreed to tie the value of the dollar to gold and to peg other currencies to the dollar. Initially, the system worked well. However, over time, the US faced mounting economic challenges (e.g., increasing fiscal strain from Vietnam War and President Lyndon B. Johnson's "Great Society" programs[12], high inflation). Meanwhile, countries like Germany and Japan were experiencing rapid economic growth. By the 1960s, the dollar had become significantly overvalued.

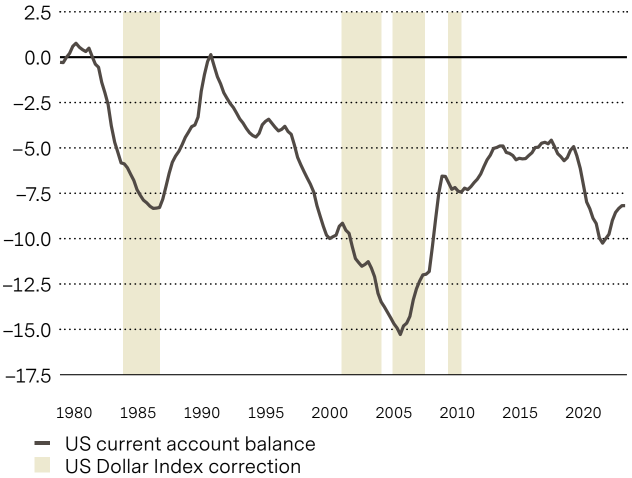
Other countries, worried about the dollar's high valuation and growing US deficits, started to demand more and more gold as "cover[13]" for their dollar assets. But by that point, the volume of dollars in circulation far exceeded the US gold supply. In 1971, President Richard Nixon effectively ended the dollar's convertibility to gold (an event known as the "Nixon shock"). The ensuing dollar bear market lasted until the early 1980s, when Fed Chair Paul Volcker aggressively raised interest rates.

The second major bear market took place from 1985 to 1995. Volcker's restrictive monetary policy, paired with President Ronald Reagan's expansionary fiscal policy, led to another dollar appreciation. In addition, the US was running a large trade deficit, while key trading partners (e.g., Japan, Germany) were recording significant trade surpluses[14]. The overvalued dollar made US exports expensive and imports cheaper, exacerbating the trade imbalance. To address this issue, the 1985 Plaza Accord was signed—an agreement between the US, UK, France, West Germany, and Japan—to depreciate the dollar relative to the Japanese yen and the German Deutsche mark.

The third major bear market lasted from 2002 to 2008. During that period, the US not only ran a significant trade deficit but also ramped up borrowing to finance tax cuts and military spending. Meanwhile, other economies (par-

Chart 4: Deterioration of the US trade deficit has often been followed by a weak USD to rebalance US trade

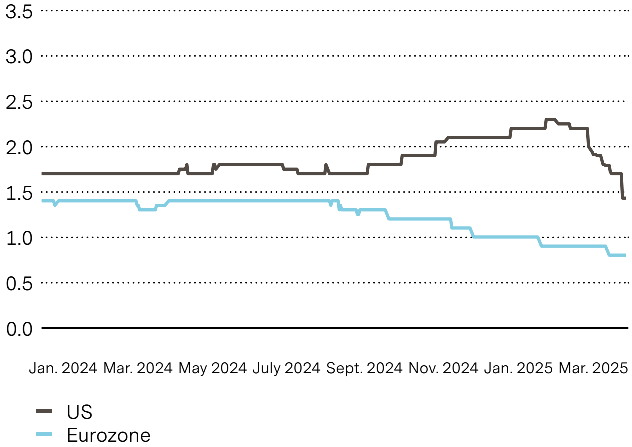
In % of gross domestic product (GDP)



Source: LSEG, Vontobel; as of May 16, 2025.

Chart 5: US growth exceptionalism is likely behind us given Trump's new trade and fiscal policy

2025 GDP forecast, in %



Source: LSEG, Vontobel; as of May 16, 2025.

ticularly China) were growing faster than the US, prompting investors to seek higher returns in non-US markets. Amid a series of shocks, including the bursting of the dot-com bubble, the 9/11 attacks, and the early stages of the global financial crisis, the Fed cut interest rates in an effort to support the US economy and restore investor confidence in US assets[15].

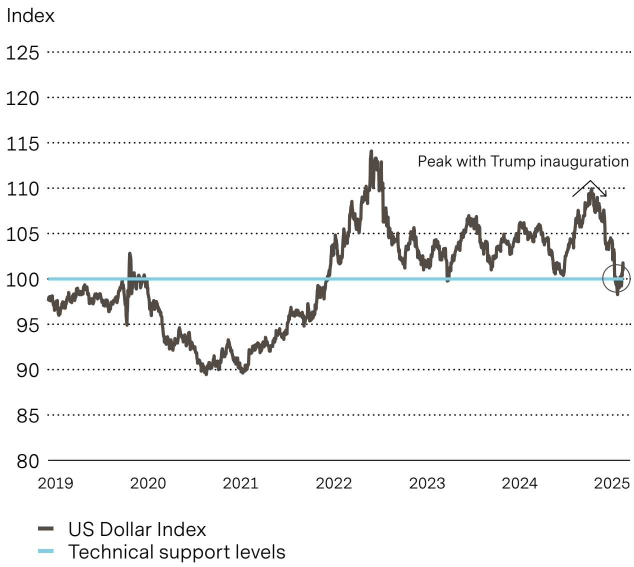
Notice a pattern? Dollar bear markets typically occur when one or more of the following conditions are in place: the dollar's valuation is expensive, US trade and fiscal deficits are high (and need to shrink), US economic growth outperformance has peaked, investors turn towards non-US assets, the Fed has more room to cut interest rates than other central banks, and/or geopolitical risks have reached a high point. Interestingly, all three major dollar bear markets occurred while a Republican President was in office.

Why we believe we're already in the early stages of another dollar bear market

Looking at today's world, it's hard not to wonder whether we're on the verge of another dollar bear market. We believe the answer is yes. To start with, there is once again a Republican president in the White House (one who has openly expressed a preference for a weaker greenback[16]) (see chart 3). Beyond politics, the dollar also appears richly valued from a purchasing power parity perspective[17], which has historically been a common precursor to devaluation.

Third, the US economy faces significant trade imbalances. According to the US Bureau of Economic Analysis, the country's goods and services deficit stood at USD 140.5 billion in March 2025. A weaker greenback could help rebalance US trade by making US exports cheaper for foreign buyers and imports pricier for US consumers (see chart 4). Fourth, the US is again living beyond its means. The Congressional Budget Office estimates that the federal budget deficit totaled USD 1.1 trillion in the first seven months of fiscal year 2025 (that's USD 196 billion more than in the year-earlier period). As a result, the US is now spending more on its debt servicing costs than on defense—a situation that's hardly sustainable. Fifth, there are mounting signs that the era of US growth exceptionalism we have become so used to—especially in the aftermath of the Covid-19 pandemic—may be fading. This is partly due to US President Donald Trump's policy approach, which has wreaked havoc on US consumer and business sentiment, and partly due to other, country-specific reasons (e.g., Germany's unexpected reform of the debt brake). A Bloomberg survey shows that economists have significantly cut their US gross domestic product (GDP) forecasts (see chart 5). Less US growth out-

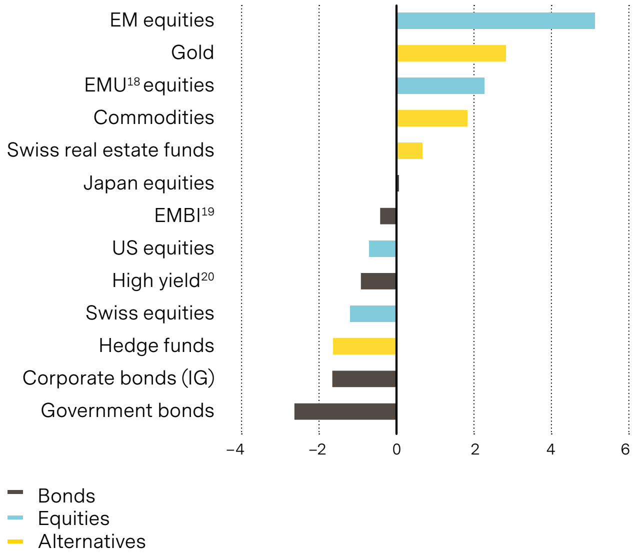
Chart 6: Investors turn against the greenback



Source: LSEG, Vontobel; as of May 16, 2025.

Chart 7: Multi Asset—what worked best in USD down markets?

Score based on historical USD correlation



Source: LSEG, Vontobel; as of May 16, 2025. Data 2008 – 2025.
Returns may rise or fall due to currency fluctuations.

performance could allow the Fed to cut interest rates more than other central banks and reduce the dollar's yield advantage. Lastly, investor sentiment toward the US appears to have soured. Trump's "maximum pressure" stance on trade and foreign policy has triggered outflows from dollar-denominated assets and contributed to a weaker dollar (see chart 6).

Risks to our bearish dollar view

While we believe a dollar bear market is likely, there are some risks that could temporarily challenge this view. Although the dollar's safe haven appeal may have lost some of its luster, it could start to shine again—for example if the Fed acts too hawkishly or if there is a deep recession.

So, what does this mean for us as multi-asset investors? From a historical perspective, past dollar bear markets created a few (unsurprising) winners and losers. EM and European equities, gold, and commodities fared best while government and corporate bonds fared worst (see chart 7). Why do we call this "unsurprising"? First, many EM borrow in dollar terms. A weaker dollar makes it cheaper for these countries to service their debt, freeing up more capital for growth and investment. Second, a weaker dollar also makes goods and services from EM cheaper for international buyers, boosting exports and strengthening these economies. Third, a weaker dollar usually incentivizes investors to look for higher returns elsewhere (e.g., in EM or Europe). Fourth, many EM are heavily dependent on commodity exports. Since commodities are generally priced in dollar terms, a weaker dollar can lead to higher commodity prices, benefiting these economies.

The throne is contested, not vacant

Predictions about the dollar losing its status as the world's reserve currency are nothing new. For years, BRICS[21] nations have discussed creating a dollar alternative backed by their own currencies. China's 2013 Belt and Road Initiative[22] was also widely regarded as an attempt to reduce China's dependence on the dollar and promote trade and investment in yuan. More recently, the Russia-Ukraine war and the subsequent freezing of the Russian central bank's FX reserves by Western nations reignited the de-dollarization efforts. At the 2024 BRICS summit in Kazan, Russia, participants revisited the idea of a reserve currency (dubbed "the Unit") that's potentially backed by gold. Russian President Vladimir Putin even presented what appeared to be a prototype of a BRICS banknote.

Chart 8: USD reserve currency status not challenged yet

Attributes of key currencies and alternatives

CURRENCY ATTRIBUTES	USD*	EUR*	CNY*	JPY*	GBP*	INR*	BTC*	GOLD
Store of value	High	High	High	High	High	High	Low	High
Medium of exchange	High	High	High	High	High	High	High	Medium
Unit of account	High	High	High	High	High	High	Medium	Medium
ECONOMIC FACTORS								
Open capital account	High	High	Low	High	High	Low		
Can politically sustain current account deficit	High	High	Medium	High	High	High		
Sizable economy	High	High	High	Medium	Medium	Medium		
Share of global trade	High	High	High	Medium	Medium	Medium		
Financial markets: Size, depth and openness	High	High	Medium	High	High	Medium	Low	Low
Currency use as peg/anchor	High	High	Low	Medium	Medium	Low		
Stable economy	High	High	High	High	High	Medium		
GEOPOLITICS								
Strong geopolitical alliance system	High	High	Medium	High	Low	Low		
Dominant naval, air and cyber power	High	Medium	Medium	Low	Low	Low		

High Medium Low

* USD = US dollar, EUR = Euro, CNY = Chinese yuan, JPY = Japanese yen, GBP = British pound, INR = Indian rupee, BTC = Bitcoin

Source: Atlantic Council's Dollar Dominance Monitor, Alpine Macro, Vontobel; as of May 2025.

While we expect a structurally weaker greenback, we don't believe its reserve currency status is under serious threat just yet. That's because any currency aiming to take on that role must meet several important criteria. First and foremost, it must embody all three key currency attributes (i.e., it must serve as a reliable store of value, a widely accepted medium of exchange, and a unit of account). Second, the country issuing the currency should also tick several boxes. Although there is no definitive checklist, an analysis by the US Treasury Department provides a good starting point: 1) the size of the domestic economy, 2) the importance of the economy in international trade, 3) the size, depth, and openness of financial markets, 4) the convertibility of the currency, 5) the use of the currency as a peg, and 6) domestic macroeconomic policies[23]. Ideally, the world's reserve currency should also fulfil several "geopolitical criteria". This means that the country issuing the currency should be able to draw on the strengths of a strong geopolitical alliance system and possess dominant naval, air, and cyber power. A look at chart 8 suggests that while there are potential contenders, the dollar still clearly outpaces its rivals in meeting these key criteria for reserve currency status[24].

Tension on the loom

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

Moody's latest downgrade of the US credit rating was more confirmation than shock, but it highlights Washington's growing deficit problem just as investors brace for a flood of new Treasuries. With no real substitute for US debt, yields may stay jumpy, yet the market's foundation looks solid. Meanwhile, the Fed sits tight, signaling a wait-and-see approach until autumn as traders trim their hopes to two rate cuts this year.

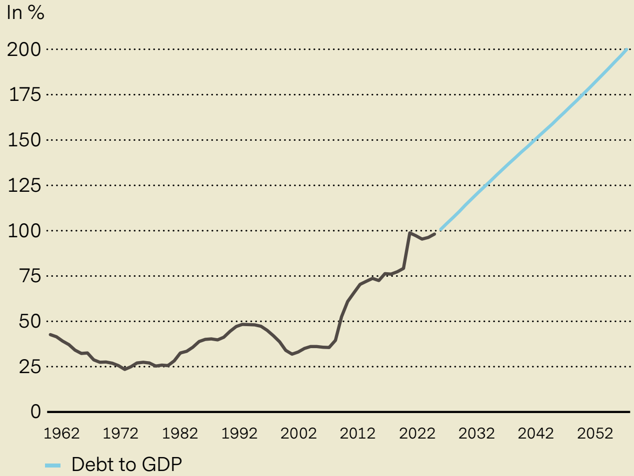
Moody's May 16 decision to strip the US of its last remaining top-tier rating carries more symbolic weight than actual market consequence. When S&P took that first step back in 2011, the shock was real. By the time Fitch followed suit years later, the downgrade barely raised eyebrows. Now, Moody's move mostly confirms what markets have already priced in: The US's fiscal trajectory is troubling, and the political system isn't offering much reassurance.

A key question is whether this becomes the trigger the bond market's been waiting for. Investors have been on edge, with swelling deficits and a flood of new issuance pushing yields higher. Moody's might not move markets by itself, but it sharpens the spotlight on Washington's unwillingness (or inability) to rein in spending. Proposals to extend Trump-era tax cuts in the May tax bill, for instance, would add more than USD 3.5 trillion to the deficit in the next decade[25]. If made permanent, they'd push the US debt-to-GDP ratio toward 200 percent within a generation[26] (see chart 1), a level exceeded only by Japan and Sudan. The lack of serious alternatives to the US's deep and liquid government debt market means that, while a widening fiscal deficit is likely to keep term premiums elevated and market volatility high, overall support for the Treasury market remains intact.

Traders still expect the Fed to ease before year-end. The logic is simple: if data confirms that inflation is cooling, growth momentum is slowing, and hiring softens, the Fed will act quickly rather than tinker. Policymakers have been repeating the same message over and over again: patience first, action later. Some say more data is needed before cuts are considered, pointing to trade tensions and an uneven growth outlook. Other voices on the panel echo this cautious stance, noting that, although inflation is cooling, tariffs and stubborn price expectations still cloud the picture. Traders have hence halved their rate-cut expectations within just a few weeks (see chart 2).

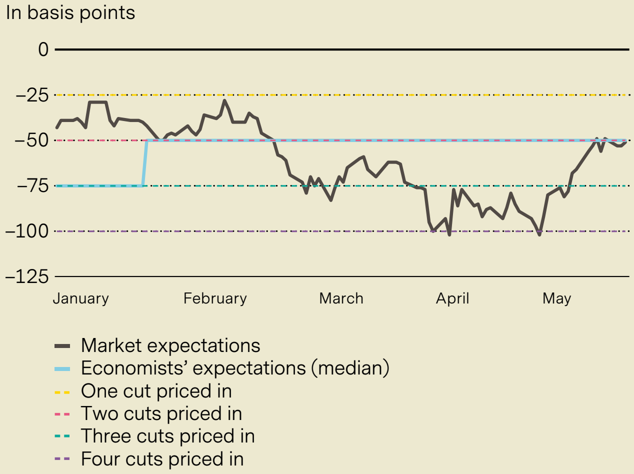
For now, the Fed's stance is clear: hold steady, watch the data, and reassess in September.

Chart 1: Budgetary effects of the May 2025 tax bill



Source: LSEG, The Budget Lab at Yale, Vontobel; as of May 21, 2025.

Chart 2: What does the market believe? Rate cuts priced in by December 2025



Source: LSEG, Vontobel; as of May 21, 2025.

Back to the first pin: what's next after the relief rally?

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

The tariff narrative has sharply reversed, culminating in the mid-May China-US truce. This helped markets recover most earlier losses, with the rally further boosted by a solid first-quarter earnings season. The question now: what thread will markets follow next?

Total returns have been robust across most markets since the April 9 truce, especially in US mega-cap tech and AI-linked stocks (see chart 1). These still account for over 40 percent of the S&P 500 Index's market capitalization and more than a third of its profits, keeping them central to the broader US equity story. After a strong earnings season, most major tech firms confirmed or raised guidance. Earnings revisions are in neutral territory, and mid-teens earnings growth is forecast for this group, which is expected to contribute more than a quarter to S&P 500 year-on-year earnings growth in 2025 – 2026.

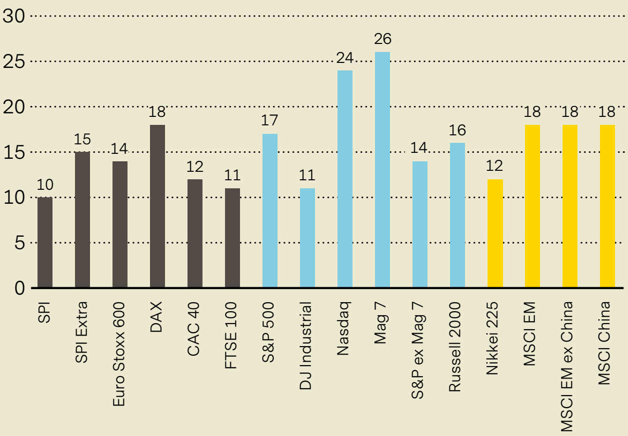
However, full-year earnings forecasts for broader stock markets continue to drift lower, except in EM. With the post-April rally, valuations have rebounded close to early-year peaks. The S&P 500 now trades at over 20× 2025 forward price-to-earnings (P/E) ratio[27] excluding tech/Magnificent 7[28] stocks, and around 22× overall—both well above the 10-year average. Europe and EM show similar patterns, though the extremes are less pronounced (see chart 2).

Is the tariff risk fully priced in? We don't think so. Three key risks linger. First, trade tensions could flare up again this summer, as seen more recently with Europe, echoing the volatility that followed the 2018 trade truce. Second, despite some rollbacks, average tariffs remain elevated at 15 – 18 percent, well above year-end 2024 levels. They now affect more than 150 countries and USD 3 trillion in US imports. Assuming no impact on growth may be overly optimistic. Third, 10-year US Treasury yields recently climbed back above 4.5 percent, partly on rising inflation expectations, which has historically been an unfavorable environment for stocks. Still, we believe any inflation impact will likely be limited and short-lived. Unlike during the pandemic, this isn't a supply shock: there's no large fiscal stimulus, and durable goods inventories remain high. If this turns out to be a policy-driven slowdown, we believe it's likely to be brief.

Lower 2025 earnings estimates could lay the groundwork for a strong rebound in 2026, helped by favorable base effects. Barring severe shocks and assuming muted inflation, the Fed is likely to pivot to rate cuts, potentially driving multiple expansion. We believe this outlook supports our constructive stance on equities, with a continued overweight in EM.

Chart 1: What happened on stock markets after April 9's announcement of the 90-day truce?

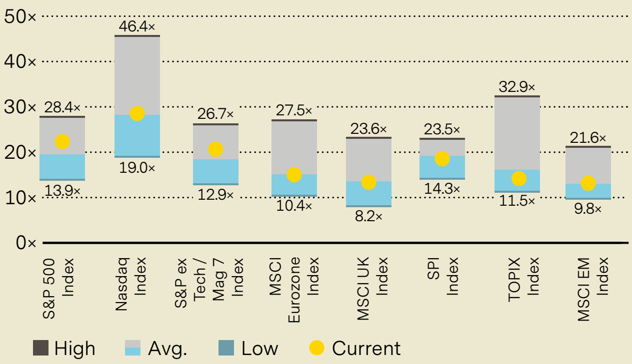
Total return in local currencies, in %



Source: LSEG, Vontobel; as of May 22, 2025.
Returns may rise or fall due to currency fluctuations.

Chart 2: Comparing forward price-to-earnings ratio* in 2025 to the last 10 years

Forward P/E estimates for 2025



*The forward price-to-earnings (P/E) ratio is a valuation metric used to assess the relative value of a company's stock on future earnings potential

Source: LSEG, Vontobel; as of May 22, 2025.

Crude oil's Mona Lisa moment

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

Since Leonardo da Vinci painted Mona Lisa's enigmatic smile onto a canvas more than 500 years ago, the world has been left pondering its meaning. Today, the crude curve also flashes a smile. But unlike Mona Lisa's, its meaning is less mysterious[29].

Anyone looking at the crude oil futures curve is currently met with a friendly sight. The curve appears to be "smiling", i.e., downward-sloping ("in backwardation") at the front but upward-sloping ("in contango") further down[30]. This rare structure signals short-term tightness but long-term oversupply.

One example occurred in 2014, when Brent crude was trading at USD 115 per barrel in June, only to drop below USD 60 by the end of the year. The drivers behind the 2014 decline include oversupply from the US shale boom, weaker demand from slowing economies in Europe and China, and output policy (from OPEC+'s refusal to cut its own oil production despite the oversupply). Similar factors have led to today's smile.

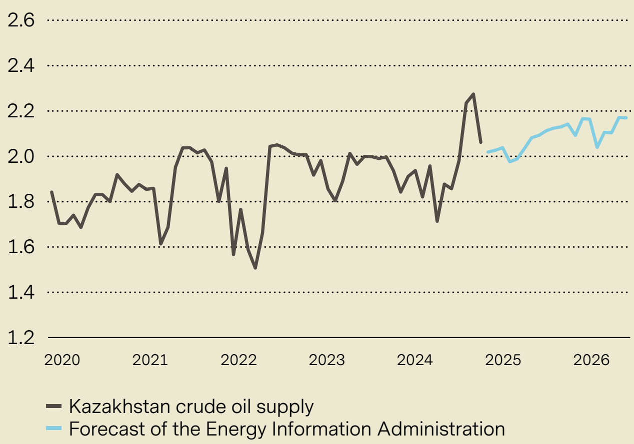
While the market is poised to benefit from seasonal support (US driving season) in the near term, it is likely to be oversupplied in the long term. The trade war, along with the economic growth fears it brings, dampens oil demand.

Meanwhile, OPEC+ is no longer trying to keep supply artificially low: it has announced bigger-than-expected output hikes for April, May, and June—almost one million barrels per day. There are several possible explanations for this: a desire to please US President Donald Trump (who has called for lower oil prices) or an attempt to punish overproducers within the group (who are themselves hurt by lower prices). Whatever the motivation, OPEC+ kingpin Saudi Arabia seems to have killed two birds with one stone. First, notorious overproducer Kazakhstan has fallen back in line—at least for now (see chart 1). Second, it has also thrown a wrench into the works of non-OPEC+ producers[31] (see chart 2). Still, whether Kazakhstan will rein in its oil production remains to be seen. In the past, it often merely paid lip service to its commitments, nevertheless exceeding its assigned quota. If Kazakhstan's production surprises to the upside again, more OPEC+ output hikes (and further downside pressure on oil) are likely, in our view.

That combination is why our outlook for oil is structurally bearish—unless Trump were to target Iran again, as he did during his first term. However, that scenario is not our base case, as it would clash with his desire to see oil prices at or below USD 50.

Chart 1: Overproducer Kazakhstan has promised to stick to its assigned quota

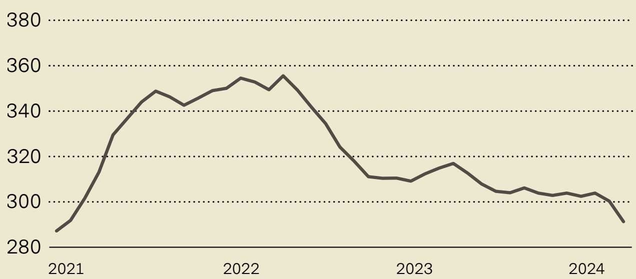
Million barrels per day



Source: LSEG, Vontobel; as of April 2025.

Chart 2: Rig declines in the Permian Basin* have accelerated

Actual rig count



*The Permian Basin stretches from eastern New Mexico and covers most of West Texas. It is considered the largest oil-producing region in the US.
** The active rig count acts as a leading indicator of demand for products used in drilling, completing, producing and processing hydrocarbons.

Source: Baker Hughes, Vontobel; as of May 21, 2025.

Currency strains

—
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There's growing speculation that a modern-day version of the Plaza Accord could be in the making, driven by the sharp appreciation of Asian currencies like the Taiwanese dollar and Korean won. Whether or not there's any coordinated effort behind the scenes, the US dollar's broader trajectory looks increasingly like a drawn-out decline rooted in structural imbalances, in our view.

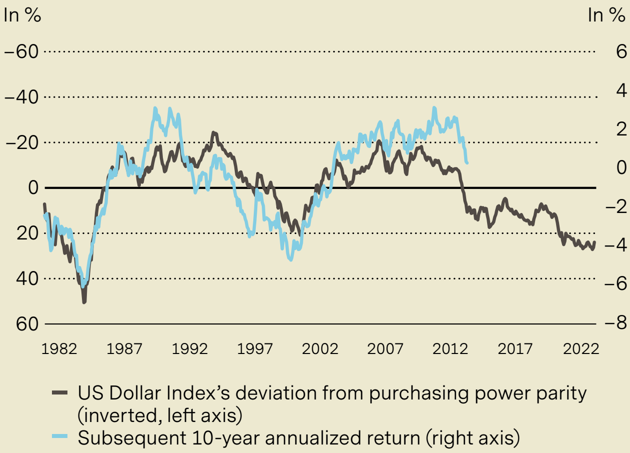
Of course the greenback plays a central role in global finance. But what's changing is the trust underpinning that role. Confidence is being chipped away, and the dollar has begun to retreat from its highs, and yet is still overvalued (see chart 1). If history is any guide, we could see 3 to 4 percent average annual depreciation over the next decade, echoing the post-Plaza path of the 1980s (see Market Highlights on page 6). And rising long-term US Treasury yields are no longer supporting the dollar, instead coinciding with new weakness. Moody's downgrade highlighted the US's worsening fiscal outlook, and in a world questioning dollar dominance, these cracks are gaining importance for bond investors and currencies alike. Structural vulnerabilities like current account and fiscal deficits, long shrugged off in the US context, are starting to bite.

Elsewhere, Switzerland is sliding toward deflation[32], and the Swiss National Bank (SNB) is running out of options. After kicking off the G10 easing cycle in March 2024, it now faces vanishing inflation, with the headline number at zero and core at 0.6 percent. Without the delayed effect of rising rents, price growth would likely already be negative. And that support is fading fast: falling mortgage reference rates are poised to drag rental inflation lower in the coming months.

The SNB is widely expected to cut again in June, bringing the policy rate to zero. That likely won't end the easing cycle. More cuts, even below zero, are possible if inflation stays weak. Markets already price in one more cut to −0.25 percent (see chart 2). Returning to negative rates is a last resort, as they're unpopular and potentially counterproductive as they hurt bank profits and may do little to boost credit. At best, they might weaken the franc—but with the European Central Bank also easing, yield differentials might still move in favor of the franc.

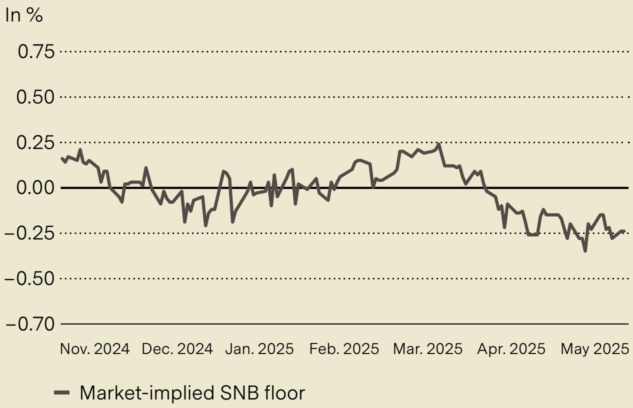
If the currency doesn't respond to rates, the SNB could turn to direct FX intervention. President Martin Schlegel has already signaled readiness, calling the franc's strength excessive. In short, the SNB is boxed in: inflation is too low, rates are near zero, and the franc is too strong. A cut to zero appears imminent. Beyond that, the choices get harder.

Chart 1: When overvaluation catches up



Source: LSEG, Vontobel; as of May 21, 2025.
Returns may rise or fall due to currency fluctuations.

Chart 2: Sinking floor—markets push SNB terminal rate expectations lower



Source: LSEG, Vontobel; as of May 21, 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	1.5	2.2	2.3
Eurozone	0.9	0.9	0.8	1.1
USA	2.8	2.0	1.4	1.5
Japan	0.1	1.7	0.8	0.8
UK	0.9	1.3	1.0	1.1
Switzerland	1.3	1.6	1.1	1.4
Australia	1.0	1.3	1.8	2.3
China	5.0	5.4	4.3	4.0

INFLATION	2024[3]	CURRENT[4]	2025 CONSENSUS	2026 CONSENSUS	VONTOBEL VIEW IN 2025[5]
Eurozone	2.4	2.2	2.1	1.9	→
USA	3.0	2.3	3.1	2.8	→
Switzerland	1.1	0.0	0.4	0.7	↓

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	2.25	1.91	1.87	↓
USD (Fed funds rate, upper bound)	4.50	4.50	4.30	3.60	↓
CHF	0.50	0.25	0.00	0.00	→

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	2.65	2.56	2.78	↓
USD	4.57	4.58	4.18	4.1	↓
CHF	0.33	0.40	0.43	0.56	↓

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	0.95	↑
CHF per USD	0.91	0.83	0.83	0.82	↓
USD per EUR	1.04	1.13	1.14	1.16	↑

COMMODITIES	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
Brent crude oil, USD per barrel	75	64	67	69	↓
Gold, USD per troy ounce	2,625	3,312	3,048	3,103	→
Copper, USD per metric ton	8,768	9,534	9,200	9,605	↓

Note: Views are as of May 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

Source: Vontobel, respective statistical offices and central banks; as of May 22, 2025.

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Glossary and sources

[1] Source: Bank of America, Global Fund Manager Survey, May 2025

[2] A hard landing is when an economy slows down sharply after a period of growth, often leading to a recession.

[3] Source: Bloomberg article, published May 4, 2025. bloomberg.com/news/articles/2025-05-04/kato-says-won-t-use-sale-of-us-treasuries-in-trade-negotiations

[4] Underweight means the Vontobel Multi Asset Investment Committee has a lower preference for an asset class or sub-asset class.

[5] Neutral means the Vontobel Multi Asset Investment Committee has neither a higher nor lower preference for an asset or sub-asset class.

[6] Overweight means the Vontobel Multi Asset Investment Committee has a higher preference for an asset class or sub-asset class.

[7] The Organization of the Petroleum Exporting Countries (OPEC) and its allies (OPEC+) is an influential producer group which represents oil-exporting nations such as Saudi Arabia, Iran, and Russia.

[8] Nickname for the US dollar, stemming from the green color of the back side of US dollar bills.

[9] The term “exorbitant privilege” (privilège exorbitant) was first coined in the 1960s by French finance minister Valery Giscard d’Estaing.

[10] Source: Barry Eichengreen: “Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International monetary system” (2012).

[11] A floating exchange rate system is when a country’s money value goes up and down freely depending on how much people want to buy or sell it, rather than being fixed by the government.

[12] Set of government initiatives launched in the 1960s to reduce poverty, improve education, provide healthcare, and promote civil rights in the US.

[13] Gold reserves used to guarantee or support the value of dollar-denominated assets held by foreign governments.

[14] This means that the US imported more goods, services, and capital than it exported, while other countries exported more than they imported.

[15] Lower US interest rates can reduce the returns of dollar-denominated assets.

[16] Source: Bloomberg article, published July 18, 2024. bloomberg.com/opinion/articles/2024-07-18/trump-s-weak-dollar-clashes-with-inflation-other-economic-priorities

[17] Compares the value of different currencies through the cost of a common basket of goods and services, and is often used to assess whether a currency is undervalued or overvalued relative to another.

[18] EMU equities refers to stocks of companies based in countries that are part of the Economic and Monetary Union (EMU) of the European Union

[19] EMBI stands for Emerging Market Bonds Index

[20] High yield refers to bonds that offer higher interest rates (yields) because they carry higher credit risk

[21] BRICS nations were originally composed of Brazil, Russia, India, China and South Africa. As of 2025, there are 10 member nations: Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Indonesia, Iran and the United Arab Emirates.

[22] China’s plan to invest in roads, railways, ports, and other projects around the world to make trade easier and strengthen its global influence.

[23] Source: US Treasury Department’s “Report to Congress on International Economic and Exchange Rate Policies” (2009), home.treasury.gov/system/files/206/FXReportFINALOctober152009.pdf

[24] Source: The Atlantic Council’s Dollar Dominance Monitor (2025), atlanticcouncil.org/programs/geoeconomics-center/dollar-dominance-monitor/

[25] Source: Reuters article, published May 22, 2025. reuters.com/world/us/us-house-republicans-set-pre-dawn-votes-get-trump-tax-bill-over-finish-line-2025-05-22/

[26] Source: Washington post article, published May 22, 2025. washingtonpost.com/business/2025/05/22/trump-tax-bill-debt-investor-bonds/

[27] The forward price-to-earnings (P/E) ratio is a valuation metric used to assess the relative value of a company’s stock on future earnings potential

[28] Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms, Tesla.

[29] The crude oil curve, also known as the oil futures curve, is a graphical representation of the prices of futures contracts for crude oil. It shows the price of oil for delivery at different points in the future. The shape of the curve can indicate market expectations about future oil prices.

[30] When a market is in backwardation, the forward price of the futures contract is lower than the current spot price. When a market is in contango, the forward price is higher than the spot price.

[31] Non-OPEC+ producers need much higher oil prices to “break even” than OPEC+ producers. If oil prices are too low, non-OPEC+ producers oftentimes curb their production.

[32] Source: Wall Street Journal article, published May 5, 2025. wsj.com/finance/currencies/switzerland-nears-deflation-as-snb-mulls-rate-cuts-ad6ea1b7

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