

A photograph of a woman in a red tango dress dancing with a man in a black suit. The woman is wearing a red dress with intricate lace and sequin details, and black high-heeled shoes. The man is wearing a black suit and black shoes. They are dancing on a paved surface in front of a building with a decorative metal gate.

Vontobel

Investors' Outlook

Tariff tango

March 2025

2 Content



3 Editorial

4 Investment strategy

Markets two-step around risks

6 Market highlights

“Tariffs are the most beautiful word in the dictionary!”—
Donald Trump

10 Viewpoint

Simpler and cleaner: profitable opportunities from efficiency

14 Asset classes in focus

18 Forecasts

21 References

Glossary and sources

Imprint

Publishing by
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Frequency
Ten times per year
(next issue April 3, 2025)

Concept
MetaDesign AG

Creation & Realization
Vontobel

Images
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Input deadline for this edition
March 5, 2025

Remarks
See “Legal information” on page 19

Tariff tango



—
Dan Scott
 Head Multi Asset,
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Dear readers,

February opened with markets stepping into an orchestrated dance of quarterly earnings and economic policy moves that drove market sentiment in tandem.

Earnings of big tech companies revealed dispersion within the sector, as some tech giants like Meta and Microsoft reported better-than-expected results, while others, like Tesla, stumbled. And old-economy stocks¹ showed steadier footing, drawing attention to potential sectoral shifts. Interestingly, after two years of tech dominance, the Dow Jones Industrial Average has outpaced the Nasdaq Composite so far this year—an early sign that investors may be pivoting toward traditional industries and value-oriented stocks, likely amid concerns over lofty tech valuations.

President Donald Trump also disrupted the beat with a wave of tariff announcements. A blanket 25 percent tariff on Canadian and Mexican imports is now in effect, prompting retaliatory tariffs from both countries. Additionally, Trump has raised the levy on Chinese goods from 10 percent to 20 percent, and China has responded with its own retaliatory measures. Trump also outlined a 25 percent tariff on steel and aluminum imports, due to begin in mid-March, and floated reciprocal tariffs against countries with levies on US imports to start in April.

We're keeping a close eye on US consumers, who seem worried about tariffs' impact on inflation, which is also why markets are rattled. Consumer sentiment has already taken a hit, and that's worth noting because that's what has helped keep the US economy afloat. If long-term inflation expectations become dislodged, it's likely going to impact monetary policy. We believe these measures could pose short-term inflation risks but are more likely

to slow economic growth, though that would weigh on demand and ultimately curb inflation. Rather than a permanent policy, tariffs still appear to be a negotiating tool for advancing "America First" policies. We don't expect them to last all year or remain at current levels.

Investors are also closely monitoring prospects for a Russia-Ukraine ceasefire. A resolution may allow Trump to push Europe to increase its military spending while shifting US fiscal spending. For Europe, it could serve as a catalyst for more fiscal stimulus, and reduced policy uncertainty may improve economic sentiment.

The macroeconomic divergence between the US and Europe remains stark, which may drive different central bank responses. Recent inflation and macroeconomic data in Europe are likely to pave the way for further rate cuts by the European Central Bank (ECB), while the US Federal Reserve's path to its 2 percent target looks more challenging. In China, the National People's Congress committed to a growth target of about 5 percent.

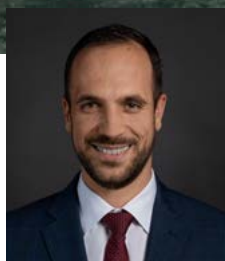
In this Investors' Outlook, we examine Trump's "Trade War 2.0"—his motives and the potential impact on economic growth, inflation, and monetary policy—while exploring possible scenarios ahead. You'll also find our take on commodities and the details of our asset allocation.

The dance floor is crowded, but we aim to make every step count.

→ **Webcast**

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

¹ See "Glossary and sources" on p. 21.



—
Stefan Eppenberger
Chief Investment Strategist,
Vontobel

Markets two-step around risks

Investors had plenty to juggle last month—improving economic growth, persistent inflation, and geopolitical tensions. We maintain our outlook of steady growth, moderate inflation, and further central bank easing, which we believe would favor equities over bonds.

Trade war fears surged as headline after headline focused on levies on Chinese goods, or tariffs on all steel and aluminum imports as well as on cars, pharmaceuticals, and semiconductor chips. This hit US consumer sentiment and raised inflation concerns. However, if the first US-Chinese trade war is any guide, tariffs alone are unlikely to drive a sustained rise in goods prices. Instead, greater inflation risks could stem from mass deportations tightening the labor supply and pushing up wages or a tougher US stance on Iran—though we consider an aggressive approach against Iran to be unlikely. And while January's US inflation came in hotter than expected, we don't see this as a lasting trend. Early-year inflation spikes are common, as companies often adjust pricing at the start of the year.

Against this backdrop, we see room for some interest-rate cuts this year. Markets are cautiously pricing in only 36 basis points (bps) of Fed cuts in 2025. The Fed's March meeting will update its forecast (previously 50 bps). The ECB and the Swiss National Bank may accelerate easing given Europe's weak economy.

The Vontobel Investment Committee has upgraded emerging-market stocks to overweight², and downgraded high-yield bonds to underweight. We continue to favor US stocks but believe that emerging markets present compelling valuations amid potential Chinese stimulus. They have also weathered trade wars well and stand to gain from a weaker dollar. Turn to page 5 for more details.

	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		
	significantly	slightly		slightly	significantly	
1 Liquidity			→			We maintain our neutral stance on cash and stand ready to deploy it when opportunities emerge.
2 Bonds		→				Our overall negative view on bonds remains unchanged. We have downgraded high-yield bonds to underweight from neutral, as their strong rally has made their valuations look rather expensive to us, and we believe current spreads offer insufficient compensation for the risks involved. Our other fixed-income views remain intact: we reiterate our neutral view on government and emerging-market bonds and our negative stance on investment-grade bonds due to what we consider unattractive spreads.
3 Equities				→		We remain overweight in equities, expecting the bull market that began in late 2022 to gain further support from strong consumption, fiscal stimulus, easing inflation, and looser monetary policy. Regionally, we favor US equities amid economic outperformance and structural growth, despite the turbulent start of the year, particularly in the tech space. We've upgraded emerging-market stocks to overweight from neutral, as potential Fed rate cuts, a weaker US dollar, and policy shifts in China could provide tailwinds. We remain neutral on Swiss, Japanese, and European equities. Europe's recent rally—driven by industrials, financials, and consumer discretionary—seems to have largely been tied to expectations of a Chinese consumption rebound. However, this strength should be viewed in context, as earnings have delivered few positive surprises, and European stocks lagged in the final quarter of 2024. This suggests the rally was more likely a result of sector and regional rotation ahead of a potential geopolitical shift (Ukraine–Russia) or lack of short-term catalysts in the US rather than a true fundamental or growth-driven rebound.
4 Gold			→			Gold has surged to record highs, approaching the USD 3,000 per ounce mark, despite stubborn inflation and increasingly hawkish Fed signals. This rally has been largely fueled by uncertainty—both geopolitical and economic. A (temporary) pullback in the US dollar may have provided some support, though this relationship remains debated. Central bank demand has stayed strong, with China, for example, continuing to add to its reserves. The key question now is whether central banks will maintain their gold purchases. While a potential Russia-Ukraine peace deal could slow demand, we don't anticipate them to become net sellers. The structural case for gold remains intact. We hold on to our neutral view.
5 Commodities			→			Commodities have had a strong start to the year, with natural gas, gold, and select agricultural commodities driving the Bloomberg Commodity Index up over 9 percent year-to-date. While crude oil's momentum has faded, geopolitical uncertainty and front-loading—buying in anticipation of tariffs—have fueled gains. For the rally to continue, demand must keep up with supply concerns. Our 2025 outlook remains supportive of cyclical assets, bolstered by economic growth, central bank easing, and a weaker US dollar. But given low geopolitical visibility, we maintain a neutral stance on commodities for now.
6 Alternative strategies			→			We confirm our neutral take on alternative funds and real estate.

“Tariffs are the most beautiful word in the dictionary!”—Donald Trump

Trade protectionism has a long tradition in the US. But does it work? As the US again ramps up tariffs and trade restrictions, it’s worth taking a closer look at the history, impact, and potential future of protectionist policies.



—
Michaela Huber
Senior Cross-Asset Strategist,
Vontobel



—
Stefan Eppenberger
Chief Investment Strategist,
Vontobel

Tariffs have always been a popular tool in US economic policy. The Tariff Act of 1816 introduced a 25 percent tax on wool and cotton goods imported from abroad, helping to create a budget surplus and fuel the country’s industrialization. By 1861, the Morrill Act entrenched a prolonged phase of protectionism—often championed by Republican presidents—which lasted until the passage of the Underwood-Simmons Tariff Act. The turning point came after World War II with the introduction of the General Agreement on Tariffs and Trade (GATT) in 1948, a landmark accord that paved the way for the World Trade Organization (WTO) in 1995. The WTO’s guiding principles remain the same today: reducing trade barriers, opening markets, and improving the integration of developing countries into the global economy.

Yet, while free trade is generally seen as beneficial in the long run, it has also brought unintended negative side effects. One glaring issue is the US trade deficit, which has ballooned to USD 118.7 billion—meaning the US imports significantly more than it exports. Trade deficits can negatively impact the domestic economy, weighing on productivity, employment, and even interest rates.

Already in the late 20th century—when the world was still caught up in free trade euphoria—a Donald Trump was already voicing his frustration over the flaws in global trade. In a 1987 interview with talk show host Larry King, he lamented: “A lot of people are tired of watching the other countries ripping off the United States. This is a great country³.” By mid-2016, Trump’s rhetoric had sharpened. During a campaign speech at a metal recycling company, he accused Hillary Clinton of waging a “trade war” against American workers, alleging that she had backed “terrible deals (...) from NAFTA⁴ to China to South Korea.” He vowed that, under his leadership, the US would end this war and negotiate a “fair deal” for the American people⁵.

What followed is now history (see chart 1). In January 2018, the Trump administration introduced a series of tariffs and trade barriers. While China, the world’s second-largest economy, was the primary target, other countries also found themselves in the crosshairs. The conflict quickly escalated. Within months, the US imposed a 25 percent tariff on Chinese imports, triggering swift retaliation from Beijing. By January 2020, after two years of economic brinkmanship, both sides brokered a Phase One Agreement, a fragile truce in which China pledged to increase US imports by USD 200 billion over two years.

2025: The return of the trade war

“Trade War 2.0” is taking shape. Once again, the focus is on countries running a trade surplus with the US (see chart 2). The latest round of tariffs encompasses 25 percent duties on imports from Mexico and Canada, 25 percent tariffs on aluminum and steel, and 20 percent tariffs on all Chinese goods. Additionally, Trump has proposed 25 percent tariffs on cars, pharmaceuticals, and semiconductor chips.

So, why does Trump love tariffs? Many US presidents have used tariffs, but Trump takes it a step further, famously calling them “the most beautiful word in the



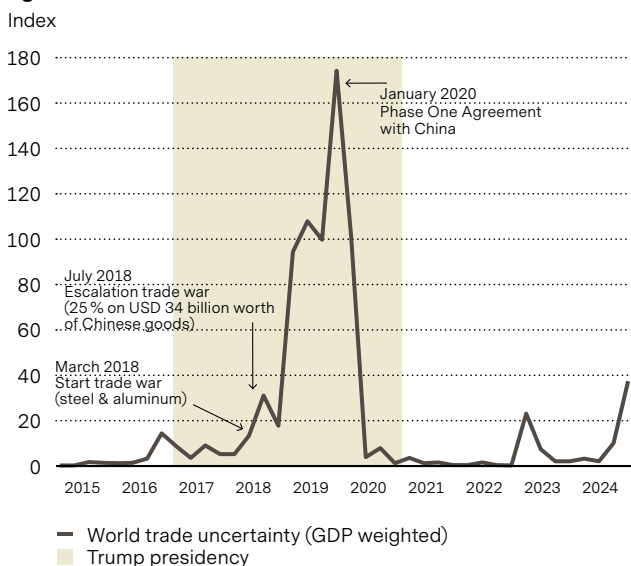
dictionary⁶”. We see three key reasons: First, Trump views tariffs as a source of government income that can help reduce the US fiscal deficit and finance his campaign promises. His role model in this regard is William McKinley, a “great president” who, according to Trump, “made the US very rich⁷.” Trump’s admiration for McKinley was so strong that he has issued an executive order to rename Denali, North America’s tallest mountain, back to “Mount McKinley⁸.” Second, Trump sees tariffs as a shield for key national industries—whether by safeguarding US technological leadership in semiconductors or bringing back manufacturing jobs through “re-shoring” instead of “off-shoring.” Third, Trump considers tariffs a bargaining

tool to advance broader policy goals, such as fighting the fentanyl crisis or pressuring NATO⁹ allies to increase military spending.

Downside risks for the economy, limited upside risks for inflation

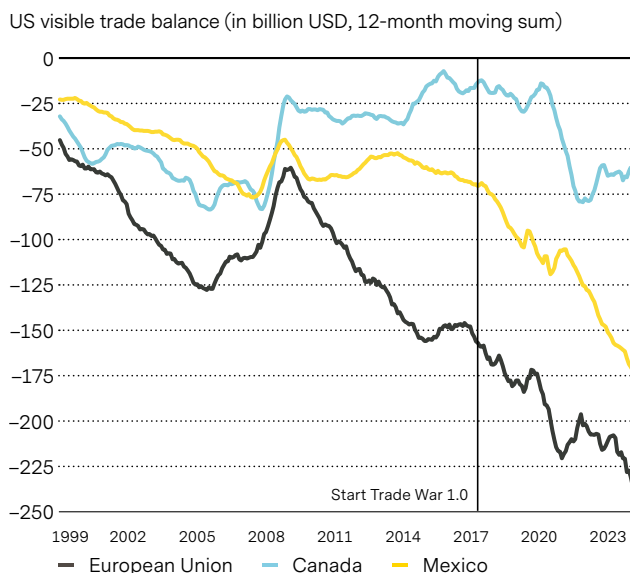
In the event of a full-blown Trade War 2.0, we believe investors would likely be more concerned about the global and US economy than about inflation. Why? Simply put, tariffs disrupt nearly every economic player—they create uncertainty for both businesses and consumers alike. If taken too far, companies may scale back investments and hiring, while consumers respond by cutting back on

Chart 1: Trump put tariffs back on the political agenda in 2018



Source: LSEG, Vontobel; as of 4Q 2024.

Chart 2: The US is dealing with a major trade deficit



Source: LSEG, Vontobel; as of December 2024.

8 Market highlights

spending. This domino effect weakens corporate earnings, consumer demand, and overall economic growth, potentially pushing the economy into a downturn. In such a scenario, any inflation concerns would largely resolve themselves as weaker demand cools price pressures.

A look at chart 3 shows that even Trade War 1.0 had only a limited impact on US goods inflation. One exception was tariffs on washing machines and parts, which in some cases soared to 50 percent, but even those prices started to fall again by the end of 2018¹⁰. Perhaps new US Treasury Secretary Scott Bessent has a point when he argues that “tariffs can’t really be inflationary—because if the price of one thing rises, people have less money to spend on other things¹¹”...?

Conclusion: In our view, trade wars don’t work

In the short term, tariffs can create market volatility, but in the long run, they fail to deliver lasting economic benefits. The increased US imports that China pledged under the Phase One Agreement have yet to be fully realized. While Covid-19 and its impact on global trade played a role, they don’t tell the whole story.

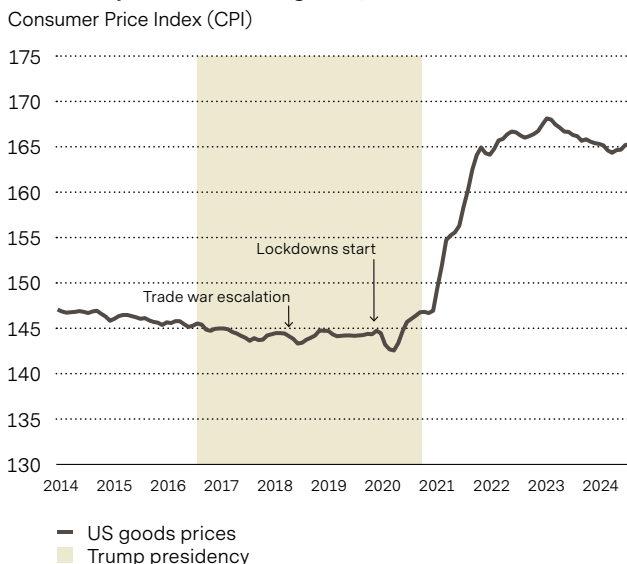
Nations affected by tariffs often find ways to adapt, limiting the intended economic pressure. One method is to diversify export routes. For example, China’s exports to

developed markets have steadily declined, from nearly 60 percent before the trade war to about 50 percent by late 2024, while exports to other countries have surged (see chart 4). Trade has boomed particularly in countries like Vietnam (due to its proximity to China) and Mexico (due to its proximity to the US). Vietnam’s trade surplus with the US reached a record high of over USD 123 billion last year—a nearly 20 percent increase.

Another common strategy is currency devaluation, which can help offset higher tariffs. This was evident during Trade War 1.0, when China allowed the yuan to weaken beyond 7 per US dollar, its lowest level since the 2008 financial crisis. While President Xi Jinping has repeatedly emphasized the need for a “stable” currency, a renewed devaluation remains a real possibility if trade tensions escalate¹².

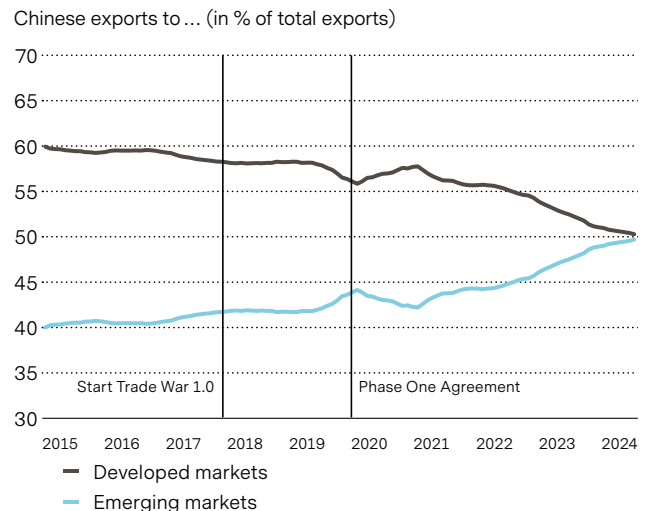
Chart 5 highlights another key issue: the effort to re-shore jobs has largely fallen short. One of the biggest hurdles is the stark wage gap between the US and other countries. According to the Bureau of Labor Statistics, by mid-2024, a US manufacturing worker earned nearly USD 30 per hour, compared to about USD 7 per hour in China—and even less in some other countries. This disparity, along with stricter safety and environmental regulations, raises production costs for US companies and shrinks profit margins.

Chart 3: Trump’s first round of tariffs in 2018 had a limited impact on overall (goods) inflation



Source: LSEG, Vontobel; as of 4Q 2024.

Chart 4: Alternative export routes can offset the impact of tariffs



Source: LSEG, Vontobel; as of 4Q 2024.

Even mathematically, Trump will struggle to replicate McKinley’s “tariff king” legacy. McKinley governed at a time when federal spending was below 5 percent of gross domestic product (GDP). By 2023, that figure had surged past 22 percent, with the Congressional Budget Office projecting even further increases in the years ahead¹³. In short, tariffs alone are nowhere near sufficient to fund today’s US government.

According to a poll by public policy research organization The CATO Institute, 55 percent of Americans have a favorable view of international trade, and 53 percent support free trade, while only 34 percent view tariffs positively. We believe Trump’s “maximum pressure” trade policy is less about tariffs themselves and more about leveraging trade negotiations to secure good deals on the issues that truly matter to voters, namely inflation, health-care, and the economy¹⁴.

The Fed’s reaction is key

From an investor’s perspective, one key question is whether the Fed has learned from the last trade war. The Fed had already begun a tightening cycle in late 2016, continuing to raise interest rates throughout 2017 and 2018—essentially hiking straight into the trade war. By summer 2019, however, mounting pressure from nervous stock markets and growing concerns over slowing economic growth (see chart 6) forced the Fed to reverse course and cut rates.

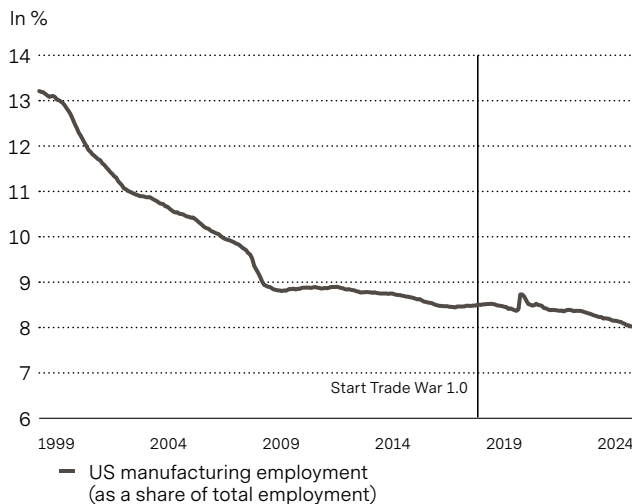
This time around, it’s crucial that the Fed recognizes temporary price spikes for what they are and avoids responding with even tighter monetary policy.

Trade War 2.0: Potential scenarios and our estimated probabilities

DE-GLOBALIZATION	SLOWBALIZATION	RE-GLOBALIZATION
Permanent trade wars with no agreements; structurally higher tariffs; WTO becomes obsolete.	WTO rules remain mostly intact, but there is no further progress; temporary US trade wars followed by what Trump would call “great” trade deals; some US tariffs remain in place.	The WTO evolves based on a free trade philosophy; a “great” US-China agreement is reached.
20%	70%	10%

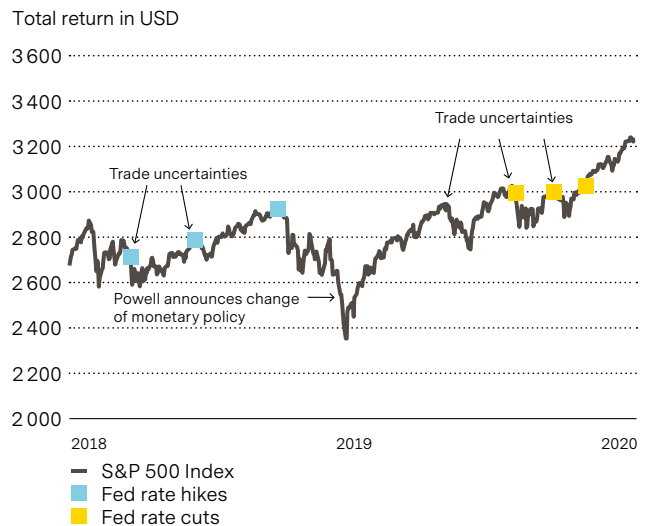
Source: Vontobel estimates; as of January 2025.

Chart 5: The reality behind the onshoring myth in US manufacturing



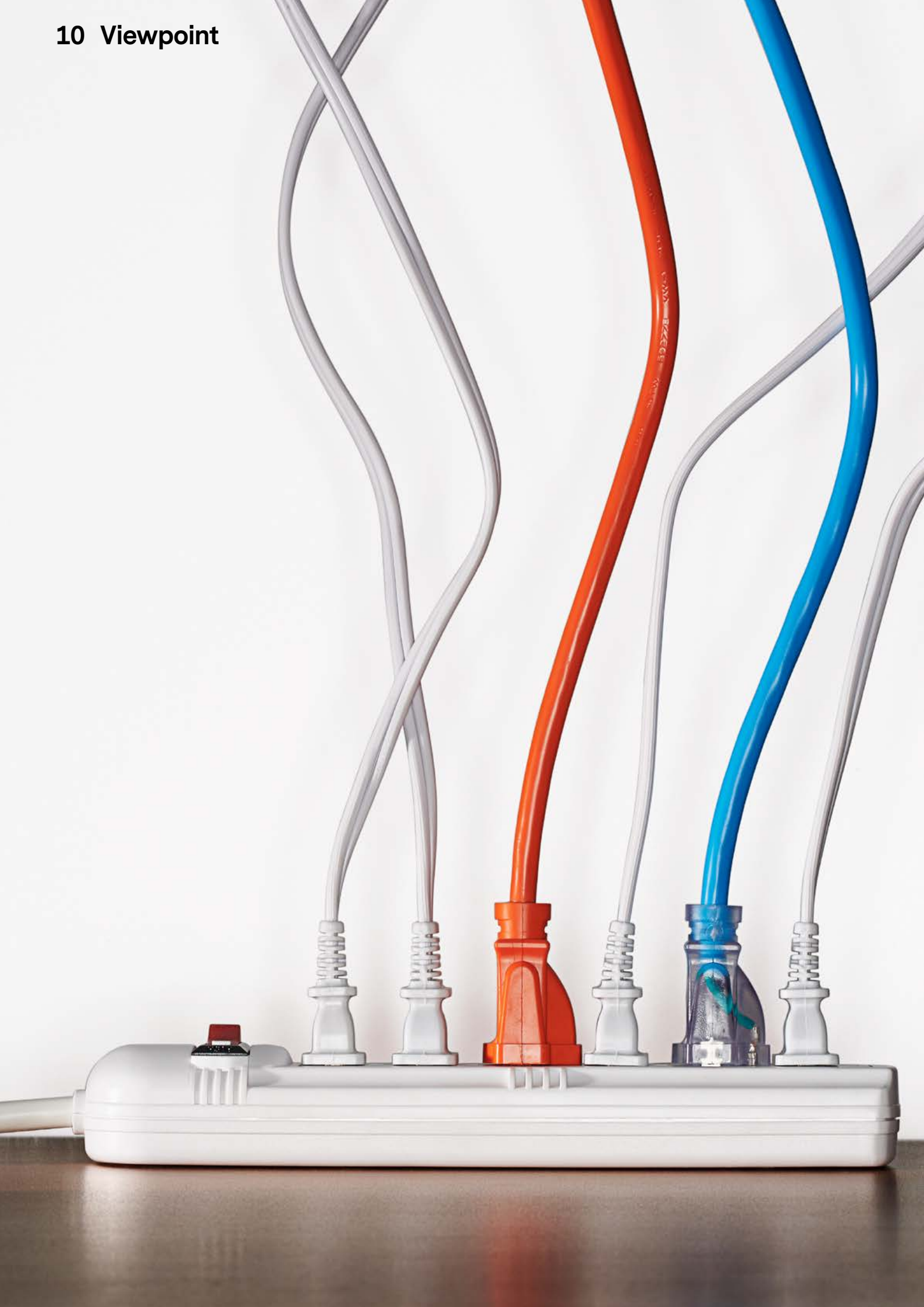
Source: LSEG, Vontobel; as of January 2025.

Chart 6: Tariff impact is temporary, Fed reaction is key



Source: LSEG, Vontobel; as of January 2020.

10 Viewpoint



Simpler and cleaner: profitable opportunities from efficiency

As bottom-up stock pickers, portfolio allocations to our six investment pillars are essentially an outcome of our investment process. However, looking at how these allocations have evolved over longer periods of time can provide us with some fascinating insights, and highlight some important global trends.



—
Marco Lenfers
Client Portfolio Manager,
Conviction Equities Boutique



—
Anthony Corrigan
Client Portfolio Manager
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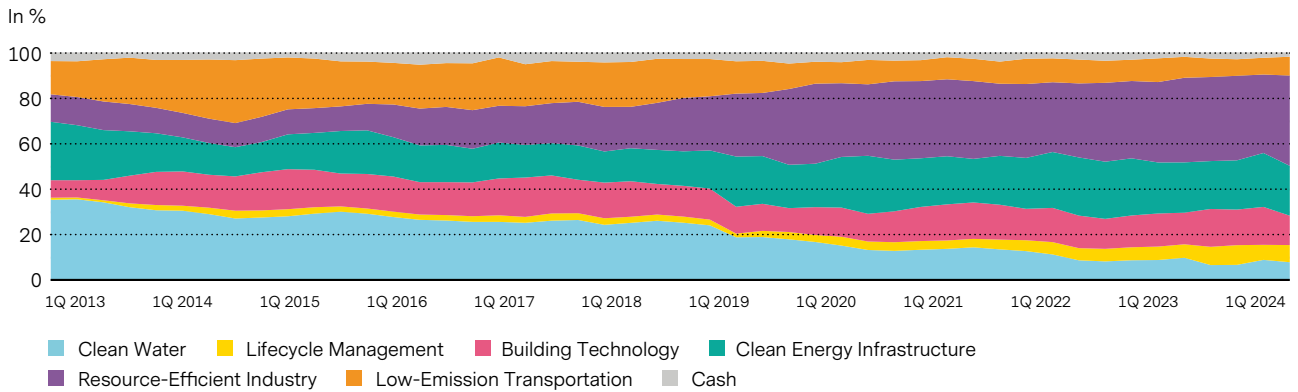
*Note: This article expresses the views of Vontobel's Conviction Equities Boutique.

One such example is our allocation to the “Resource-Efficient Industry” pillar, which has increased over recent years and now represents around 40 percent of our portfolio. With such a significant evolution comes many important questions, such as why we have found this pillar increasingly compelling over recent years and the impact this positioning has on the overall portfolio. In this chapter, we aim to provide some perspective around why we believe an allocation to resource efficiency plays a critical role in tackling climate change.

Efficiency plays a key role in driving global emissions lower

While there is little debate on the role of renewable energy sources in reducing global emissions, the contribution of energy and resource efficiency is frequently underappreciated. Its benefits are often less visible and

unmeasured. However, looking at the numbers, efficiency has likely enabled more avoided emissions globally than the generation of renewable power over the past decade¹⁵. Climate scientists have long argued for the benefits of being efficient when it comes to energy and resource usage, and we believe that this focus on efficiency will continue. Indeed, given the enhanced digitalized age that we live in, it may even accelerate further. Solutions in this space are diverse in nature, backed by impressive levels of technological progress (think about the advancements in AI in recent years), and help to positively impact carbon intense processes across numerous industries. Electrification of transportation, manufacturing processes, and intelligent heating of buildings allow for significant carbon emissions reductions, whereby innovative light-weight materials or high-performance insulation materials further reduce energy needs.

Chart 1: Historic allocation to impact pillars from 2013 to 2024

Allocations and characteristics subject to change without notice.

Source: Vontobel; as of December 31, 2024.

In addition, the election of President Donald Trump in the US has ushered in a period of higher uncertainty when it comes to the future growth rates of renewable energy in the world's largest economy, which could result in efficiency playing an even larger role in the coming years. Companies providing products and services that help to lower consumption intensity of energy and other resources without hampering quality of processes, could face structural tailwinds as they are often in a good position to reduce environmental footprints while potentially also limiting inflationary pressures.

What are the enablers of efficiency?

Enablers are crucial to realize efficiency gains and accelerate change. An excellent example of such an enabling technology are semiconductors, where exponential growth in computing performance, combined with gains in energy efficiency and cost deflation drives reductions in energy intensity across many products, and accelerates the expansion of critical green technologies such as solar panels or electric vehicles. Consequently, automotive, and industrial electronics, that are key parts of our investment opportunity set, are poised to outgrow not only global gross domestic product (GDP) but also other areas of the semiconductor market.

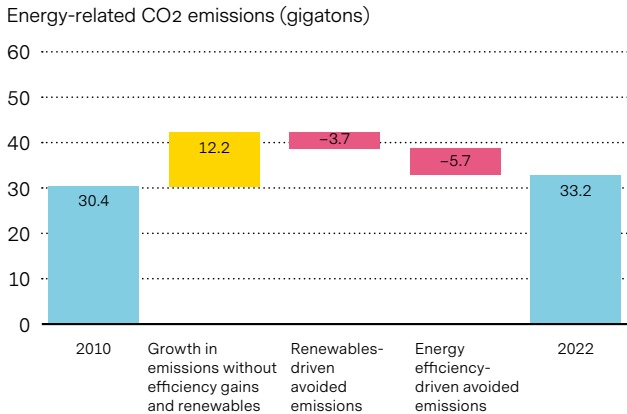
Modern semiconductor chips also require electronic design automation tools that enable everything from the design of individual transistors to the development of

software before any hardware is built. Addressing any complications from the outset and managing the whole lifecycle with simulation software gains importance as a product's full lifecycle environmental impact is often determined during the design phase, making early modifications the most sustainable and cost-effective approach.

Efficiency gains are not limited to hardware and software. Modern production equipment facilitates factory, warehouse, and process automation, helping to reduce energy consumption, increase precision and speed, and ultimately improve reliability and safety, as well as working conditions. Elsewhere, industrial combustion processes can be improved by using steam or replacing air with oxygen; such industrial gases also play a key role in other environmental applications, such as water treatment or air pollution control.

These different types of enablers are crucial to move the needle and our process has managed to unearth many attractive companies with commercially scalable technologies and proven business models. However, we don't believe there is any single solution or silver bullet that can transform our climate to lower carbon or net zero. Breaking down the allocation of the Resource-Efficient pillar, we invest in many different sub-scopes ranging from semiconductors to innovative industrial components and solutions. More traditionally speaking, this currently

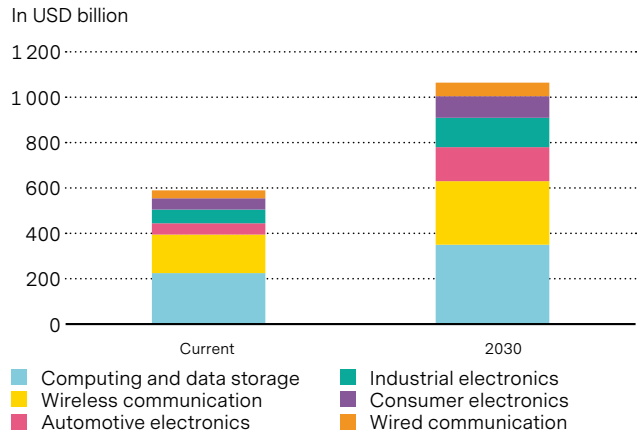
Chart 2: Attribution analysis of avoided emissions from renewable energy deployment and energy efficiency gains*



*2010 baseline

Source: Goldman Sachs, "Demand not just supply, consumers not just corporates: Energy efficiency focus likely to grow"; as of August 2024.

Chart 3: Global semiconductor market value by vertical



Source: McKinsey & Company, "The semiconductor decade: A trillion-dollar industry"; as of April 2022.

covers companies from three different Global Industry Classification Standard (GICS) sectors and eight countries, ensuring a broad level of diversification.

Renewable energy and efficiency: Two sides of the same coin

The role of renewable energy in a net zero world is undisputed. However, we believe that efficiency also plays a vital role that is often unrecognized and certainly underappreciated. Energy and material prices are highly volatile,

and in the longer run tend to increase. Efficiency solutions allow using less for the same output, which significantly de-risks the full lifecycle costs of investments. As we move into a more digitalized economy, the role of efficiency could arguably become more important and therefore represents an important part of our wider investment landscape.

Chart 4: Resource-Efficient Industry: A deep and diverse opportunity set

Pillar	Resource-Efficient Industry		
	Digitalization	Modern Production Equipment	Functional Materials
Scope			
Sub-scope	Software	Factory, warehouse & process automation	Industrial gases
	Semiconductors	Innovative industrial components & solutions	Light weight & high strength materials
	Sensors		Specialty materials
	Controllers		
	Testing equipment		
	Semi equipment		
Opportunity set	~ 70 stocks	~ 30 stocks	~ 30 stocks

Source: Vontobel; as of January 2025.

The Fed’s slow dance



—
Christopher Koslowski
Senior Fixed Income & FX Strategist,
Vontobel

January’s Consumer Price Index report indicates that inflationary pressures remain, driving two-year and 10-year breakevens to multi-year highs. While the five-year, five-year gauge⁴⁶ remains steady, short-term expectations have unsettled investors. Meanwhile, the Fed maintains a cautious stance, demanding clear evidence of disinflation before cutting rates. Markets are pricing in 1.6 cuts, around 40 bps for 2025, while the Fed’s guidance suggests a larger 63-bps move.

Despite markets reacting sharply, January’s inflation figures merely reinforced an inflationary trend long signaled by the data. The biggest market moves came in inflation breakevens, which reflect market-implied inflation expectations by comparing yields on nominal and inflation-linked government bonds. Rising breakevens signal that investors anticipate higher inflation over a bond’s maturity.

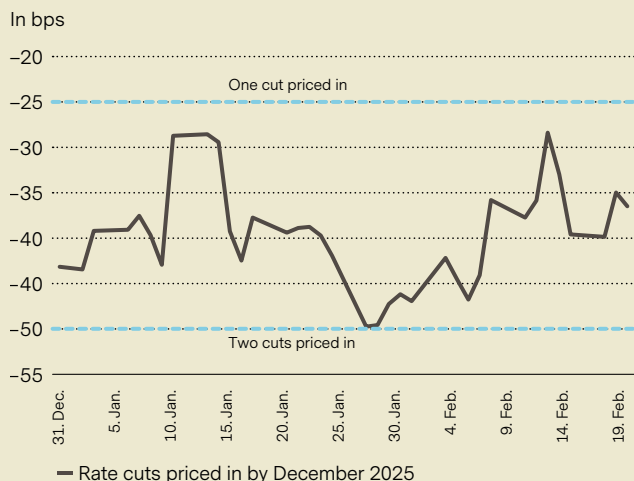
Shorter-dated breakevens hit two-year highs, while longer-dated measures also reached multi-year peaks. Meanwhile, the five-year, five-year forward gauge held

steady, but rising short-term expectations highlight growing market anxiety over inflation risks. For the Fed, the data reinforces a patient stance, with any rate cut hinging on clear, sustained progress toward its inflation target. As Chair Jerome Powell recently noted, the Fed doesn’t overreact to a few months of strong or weak data—nor should markets.

Market expectations for Fed rate cuts this year have fluctuated between one and two cuts (see chart 1), with 1.6 cuts (40 bps) currently priced in. Nearly two months into the year, seven Federal Open Market Committee meetings remain, with a March pause highly likely, May all but certain, and June still a toss-up – leaving four “live” meetings for potential action. While markets expect 40 bps of easing, the Fed’s year-end median dot suggests a 63-bps reduction could be on the table.

Despite a flurry of executive orders, appointments, and policy moves, credit spreads remain remarkably stable, supported by persistent yield-driven demand and robust fundamentals. Credit spreads remain exceptionally tight (see chart 2), limiting room for further compression and heightening susceptibility to negative market developments or economic shocks. With less of a cushion, investors may find themselves more exposed to risk.

Chart 1: Rate-cut roulette



Source: LSEG, Vontobel; as of January 14, 2025.

Chart 2: Spreads grinding ever tighter



Source: LSEG, Vontobel; as of January 14, 2025.

“Objects in mirror are closer than they appear”



—
Mario Montagnani
Senior Investment Strategist,
Vontobel

The familiar safety warning engraved on passenger-side mirrors—“Objects in mirror are closer than they appear”—is a fitting analogy for China’s latest breakthrough in artificial intelligence (AI). DeepSeek’s game-changing development in January served as a wake-up call, proving that despite setbacks, China remains a formidable competitor in the global AI race.

The first months of 2025 have been shaped by major geopolitical and economic events, largely driven by US policies. From Russia-Ukraine peace talks that sidelined European allies to the looming threat of global tariffs and Washington’s mediation efforts in the Middle East, the US has been setting the global agenda.

But China has not been standing still. The People’s Bank of China is keeping liquidity flowing, cutting interest rates, and fueling credit growth to support markets. Meanwhile, Beijing is backing away from its crackdown phase on tech and property, focusing instead on measures to revive key industries. Direct stock market interventions have also intensified, sending a clear signal that stabilizing investor

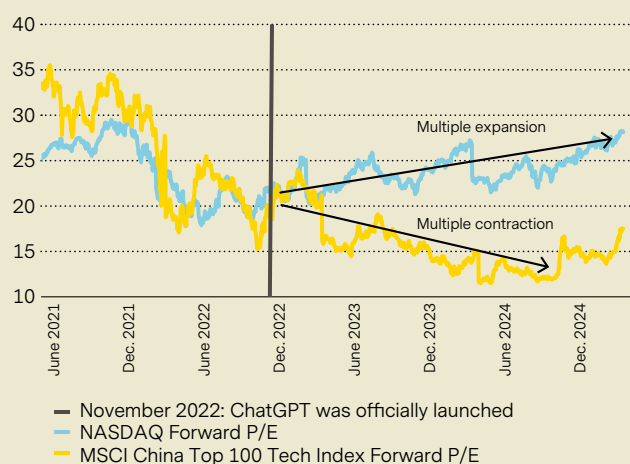
sentiment is now a priority. We expect even more government stimulus in the coming months, boosting consumption and investment. All of the above leads us to believe that after years of economic struggles, a turning point may finally be on the horizon.

Amid this backdrop, we see structural opportunities across key sectors in a market that’s still trading at a significant discount compared to developed economies (see chart 1). Companies like Huawei and DeepSeek are making strides in semiconductors and AI, strengthening China’s role as a serious global competitor. In green energy, China remains the dominant force in electric vehicles (EVs), solar panels, and battery production, riding the wave of the global energy transition. Despite ongoing geopolitical tensions, China remains a dominant export powerhouse—a global manufacturing hub with strong demand for high-tech and industrial goods. This leads us to believe that Chinese manufacturers could easily absorb tariffs.

We also see potential for a foreign investment revival, as global funds reassess Chinese assets—especially with US interest rates stabilizing and China’s stimulus kicking into gear. After years of negative sentiment (see chart 2), we believe much of the pessimism is likely already priced in, meaning any positive policy shift or fundamental improvement could trigger a powerful rebound. We remain overweight on equities and have upgraded emerging-market stocks to overweight from neutral. Find the details of our asset allocation on page 5.

Chart 1: Valuation bottomed out for Chinese tech stocks, along with supportive earnings momentum

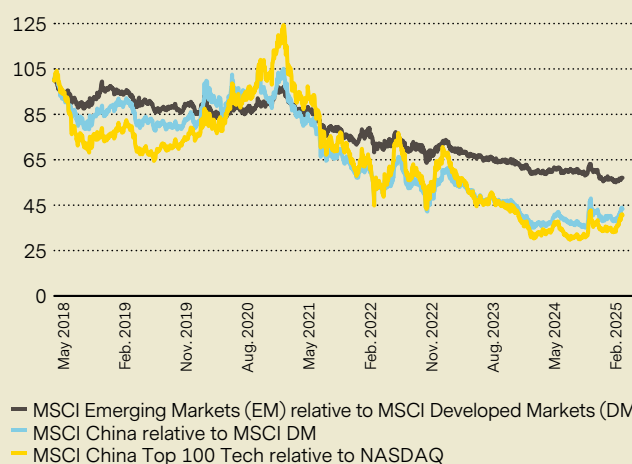
1-year forward price-to-earnings ratio



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

Chart 2: EM and Chinese stocks may have hit relative bottom vs. tech-heavy US and developed markets

Relative net total performance (in % and USD, indexed May 2018)



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

Past performance is not a reliable indicator of current or future performance.

Coffee—the new “black gold”?



—
Michaela Huber
Senior Cross-Asset Strategist,
Vontobel

According to American author and environmentalist Edward Paul Abbey, “our culture runs on coffee and gasoline”, with “the first often tasting like the second”¹⁷. While crude oil, the foundation of gasoline, has been trading in a comfortable range of USD 70 to 75 per barrel for months, the price of the coffee beans has been on a relentless upward trajectory.

Since the start of 2024, the price of high-quality arabica beans, known for their smoother, less bitter taste, has surged by more than 100 percent. Meanwhile, robusta beans, typically used for instant coffee, have risen by over 90 percent (see chart 1). The primary culprit? The weather.

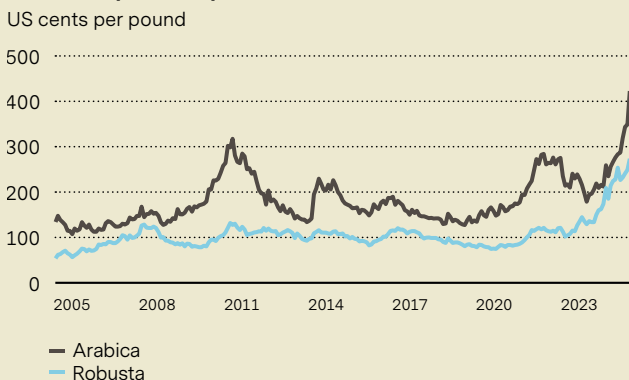
Brazil, responsible for nearly 40 percent of global coffee production and the largest arabica supplier, has been hit by a devastating mix of frost and prolonged drought¹⁸. In Vietnam, the world’s second-largest producer and the dominant robusta supplier, extreme weather swings—drought followed by heavy rainfall—have also taken a toll (see chart 2). As a result, crop yields have plummeted, tightening supply. The situation is particularly acute for arabica beans, a staple for major coffee chains.

Further upward pressure came from generally rising production costs, including higher transportation and labor expenses. There were also reports that some farmers have been reluctant to sell their beans, speculating that prices will climb even further. More recently, geopolitical developments, such as Donald Trump’s (temporary) threats of sanctions against Colombia (which accounts for 8 percent of global coffee production) have also played a role.

In response to soaring prices, major food companies have implemented price hikes. Despite this, demand for coffee remains strong. Coffee is either an essential daily staple or a luxury people refuse to forgo—depending on whom you ask. Unless harvests improve or consumers significantly cut back, the rally could continue for some time. For now, Brazil’s crop forecasting agency, Conab, expects the country’s coffee harvest to fall to 51.81 million bags in 2025/26—a 4.4 percent decline from the previous year.

However, the example of cocoa also shows that markets lose their appetite at some point, even for luxury goods: the commodity, which has been spoiled by success (+180 percent in 2024), has already lost more than 25 percent of its value in 2025 as we go to press.

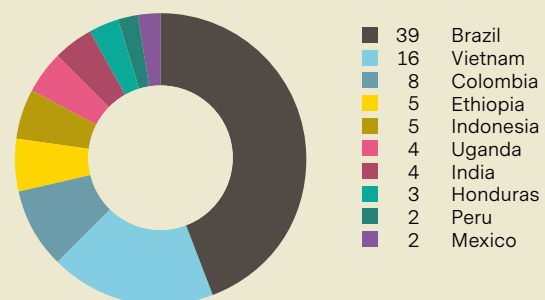
Chart 1: The price of consumers’ favorite pick-me-up drink has picked up



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

Chart 2: The world’s biggest coffee-producing countries

2023/2024 coffee production (in %)



Source: US Department of Agriculture; as of 2023 / 2024.

US dollar near 40-year high: strength or strain ahead?



—
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The Trade-Weighted Real Dollar Index nears a 40-year high, driven by higher US interest rates, capital inflows, and safe-haven demand. After years of stability post-2008, the US dollar surged from 2015 onward as US yields outpaced global peers, reshaping trade and investment flows.

The index measures the dollar's value against a basket of major trading partners' currencies, adjusted for inflation, offering a more accurate picture of its purchasing power and competitiveness than nominal measures. Currencies from countries with significant US trade ties carry greater weight in the calculation. As chart 1 illustrates, the dollar has climbed steadily over the past decade. After remaining range-bound following the 2008–09 financial crisis, the dollar gained momentum from 2015, as the Fed raised rates while the ECB and Bank of Japan held policy rates near or below zero. Higher US yields made dollar-denominated assets more attractive, reinforcing its strength. With real dollar valuations approaching four-decade highs, the impact on trade, investment, and global financial stability is in sharp focus.

The dollar's short-term trajectory remains closely linked to tariff policy developments. While a hardline stance has historically supported the currency, recent tough rhetoric is increasingly seen as strategic posturing, dampening its impact. Beyond trade uncertainty, economic fundamentals remain the strongest pillar of dollar strength. Optimism about US growth persists, but with the economy now in a later stage of the cycle, downside risks are higher than a year ago. Unlike early 2024, when skepticism prevailed, early 2025 expectations favor continued US dominance—leaving the dollar vulnerable to any signs of underperformance.

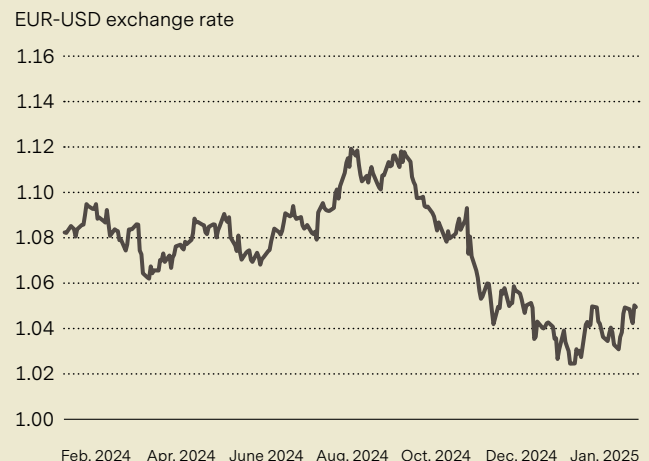
The euro's rebound against the dollar (see chart 2) stems from a mix of factors, including dollar bull fatigue and lingering uncertainty around US trade policy. While tariffs remain a key risk, there is little clarity on how they will unfold. If Donald Trump's proposed reciprocal, country-specific approach materializes, it could leave room for negotiation—potentially weakening the bullish dollar case. It's too soon to call a lasting euro-dollar trend reversal, as the move appears more driven by dollar weakness than fundamental euro strength. Optimism over a potential Ukraine-Russia ceasefire is another factor that, if realized, could further support the euro. A stronger euro-dollar in a risk-on environment may also lift other currency pairs, with euro-franc among those poised to benefit.

Chart 1: US dollar approaches 40-year high in real terms



Source: LSEG, Vontobel; as of February 21, 2025.
Past performance is not a reliable indicator of current or future performance.

Chart 2: Euro rebound—dollar fatigue or a lasting shift?



Source: LSEG, Vontobel; as of February 21, 2025.
Past performance is not a reliable indicator of current or future performance.

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)	3.2	2.8	2.6	2.6	
Eurozone	0.7	0.9	0.9	1.2	
USA	2.8	2.5	2.3	2.0	
Japan	0.1	1.2	1.2	0.9	
UK	0.9	1.4	1.1	1.4	
Switzerland	1.3	1.7	1.3	1.5	
Australia	1.0	0.8	1.9	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	2.5	2.1	1.9	→
USA	3.0	3.0	2.8	2.6	↓
Switzerland	1.1	0.4	0.5	0.8	→

KEY INTEREST RATES (IN %)	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
EUR (deposit rate)	3.00	2.75	2.10	1.82	→
USD (Fed funds rate, upper bound)	4.50	4.50	4.35	3.95	↓
CHF	0.50	0.50	0.20	0.20	→

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	2.46	2.34	2.34	↓
USD	4.57	4.42	4.44	4.32	↓
CHF	0.33	0.58	0.40	0.51	↓

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	0.94	↑
CHF per USD	0.91	0.90	0.91	0.90	↑
USD per EUR	1.04	1.05	1.02	1.05	↑

COMMODITIES	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
Brent crude oil, USD per barrel	75	74	75	72	↓
Gold, USD per troy ounce	2,625	2,941	2,788	2,700	→
Copper, USD per metric ton	8,768	9,559	9,338	9,600	↓

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 Stocks from traditional industries like manufacturing, energy, transportation, or consumer goods that can provide stable earnings, dividends, and long-term value.
- ² Overweight means the Vontobel Investment Committee has a higher preference for an asset class or sub-asset class.
- ³ Source: Frontline transcript, www.pbs.org/wgbh/frontline/documentary/trumps-trade-war/transcript/
- ⁴ North American Free Trade Agreement
- ⁵ Source: Time article, published June 28, 2016. time.com/4386335/donald-trump-trade-speech-transcript/ “Hillary Clinton unleashed a trade war against the American worker when she supported one terrible trade deal after another – from NAFTA to China to South Korea (...) a Trump Administration will end that war by getting a fair deal for the American people. The era of economic surrender will finally be over.”
- ⁶ Source: Bloomberg article, published January 21, 2025. <https://www.bloomberg.com/news/videos/2025-01-21/trump-says-tariffs-are-most-beautiful-word-in-dictionary-video>
- ⁷ Source: Washington Post article, published January 27, 2025. www.washingtonpost.com/history/2025/01/27/trump-mckinley-tariffs-history/
- ⁸ Source: Executive Order “Restoring names that honor American Greatness”, published January 20, 2025. www.whitehouse.gov/presidential-actions/2025/01/restoring-names-that-honor-american-greatness/
- ⁹ North American Treaty Organization. Military alliance established in 1949, consisting of countries from North America and Europe, aimed at collective defense.
- ¹⁰ Source: Coalition for a Prosperous America, published January 16, 2024. prosperousamerica.org/economic-view-tariff-jumping-investment-the-success-of-the-2018-washing-machine-tariffs/
- ¹¹ Source: US Treasury Secretary Scott Bessent on the Larry Kudlow Show (November 2024). Full quote: “Tariffs can’t be inflationary because if the price of one thing goes up, unless you give people more money, then they have less money to spend on the other thing, so there is no inflation.”
- ¹² The Chinese yuan is allowed to fluctuate 2% in either direction from a daily midpoint set by the central bank.
- ¹³ Source: Federal spending per series Y 457-465 in “Historical Statistics of the United States, Colonial Times to 1970, Part II” and per White House OMB. GDP prior to 1930 per Louis Johnston and Samuel H. Williamson, “What Was the U.S. GDP Then?” MeasuringWorth, 2010, GDP post 1930 per White House OMB, KPCB
- ¹⁴ Source: CATO Institute 2024 Globalization and Trade National Survey www.cato.org/sites/cato.org/files/2024-08/Globalization%20Survey_2024.pdf
- ¹⁵ Goldman Sachs report, published August 2024. ids.gs.com/signin?flowId=q0Jl7. Log-in required.
- ¹⁶ The five-year, five-year gauge is a key measure of market expectations for future inflation
- ¹⁷ Source: Book entitled “Down the River” by Edward Abbey
- ¹⁸ Source: US Department of Agriculture (2023/2024)

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