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Switzerland between tariff shock and US debt debate

23 May 2025, 15:37 UTC, written by Daniel Kalt

Even though the markets have now adjusted to a calming of the tariff dispute, the US budget debate is likely to increasingly become a topic of discussion. We continue to recommend staying well diversified, hedging risks, and taking advantage of long-term opportunities.

It is quite remarkable how quickly markets have recovered from the "Liberation Day" tariff shock and adjusted to a new narrative. It seems Donald Trump and his advisors have realized that their attempt to overhaul the "unfair global trading regime" in favor of the US through "reciprocal" tariffs would, in the short term, cause too much damage to the economy and international confidence in the US.

A situation is now emerging in which the US will maintain a 10% base tariff, impose sector-specific special tariffs, and introduce trade restrictions in certain areas. In addition to strategic products like chips and critical raw materials, pharmaceuticals—which are particularly relevant for Switzerland—are also in the crosshairs. In parallel, the US aims to conclude trade agreements with numerous countries, thereby suspending reciprocal tariffs. As one of the 15 major countries with which the US wants to negotiate as a priority, Switzerland can hope for such a "deal." We assume that in this scenario of a gradually calming trade conflict, there will be a growth dip in the US and globally during the year, but no severe recession.

At the same time, markets will likely be increasingly influenced in the coming weeks by the ongoing debate about the US federal budget and the large budget package being negotiated in Congress by the Trump administration. This package includes higher spending on defense and immigration, an extension of the 2017 tax cuts, as well as further tax reductions and investment incentives. In addition, there are planned spending cuts in social and health care sectors and an increase in the US debt ceiling by four trillion US dollars. According to estimates, this would cause the already high budget deficit to rise from 6.3% of GDP to over 7%. In the short term, there is little doubt that the US, thanks to its economic strength and high household wealth, should be able to service its debt. Nevertheless, recent events and the rating downgrade by Moody's have repeatedly raised questions about how long "US exceptionalism" can last and how investors should allocate their assets regionally.

These questions are particularly relevant for Swiss investors, especially in view of the franc exchange rate. We therefore advise using periods of US dollar strength to review the extent of US dollar exposure and consider (partial) hedging. We also recommend aiming for the broadest possible diversification of investments. After all, broad diversification across asset classes, regions, and sectors is the most effective protection against market disruptions that can arise in geopolitically unpredictable times.

At the core of every Swiss portfolio, we recommend focusing on defensive, high-yielding investments, such as high-quality Swiss and foreign dividend stocks. These core holdings can be supplemented with satellite investments in our so-called TRIOs ("Transformational Innovation Opportunities"). These include companies that are leaders in promising long-term sectors, such as artificial intelligence, the power and resources sectors, and companies that benefit from the trend toward longevity.

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