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# A hot July lies ahead

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**Even though important (geo-)political decisions are pending in July and may cause temporary uncertainty, we believe the medium- and long-term outlook for the markets is positive.**

In July, summer in our region typically enters its hottest phase. Similarly, at the beginning of July this year, the financial markets are also likely to experience another heated phase. Even though the increased conflict in the Middle East has already made June a month of heightened volatility, July will bring important decisions regarding US trade and fiscal policy. The upcoming decisions regarding US import tariffs as well as US budget legislation, otherwise known as the “One Big Beautiful Bill Act,” could trigger bouts of volatility. However, we do not expect these to derail the still solidly growing US economy or to cause a sustained market downturn. With regard to tariff developments, Switzerland is hoping that either the key parameters of a trade agreement with the US can be outlined very soon, or that, following the expiration of the “pause” on reciprocal tariffs on 8 July, the US will at least grant additional time to reach an agreement.

At the same time, geopolitical tensions in the Middle East and Eastern Europe continue to create elevated uncertainty. So far, however, their impact on financial markets has been limited and short-lived.

Meanwhile, central banks in Europe and the UK are continuing to cut interest rates, and we expect the US Federal Reserve to follow suit in September. At its most recent monetary policy assessment, the Swiss National Bank lowered its key interest rate to 0%, emphasizing that the hurdle for a further cut below zero is high. However, it is unlikely to avoid further rate cuts if the EURCHF exchange rate moves to 0.90 franc or lower.

This environment of falling interest rates and yields is likely to support equities and high-quality bonds, especially in interest rate-sensitive sectors. On the other hand, the US dollar is expected to remain weak as interest rate differentials narrow, US growth slows, and investors reassess the attractiveness of the dollar and its perceived safe-haven status. For Swiss investors, we see this as a favorable time to review their currency exposures and reduce excessive dollar holdings.

After strong price gains, we expect only limited returns for global equity markets through the end of the year. Nevertheless, we recommend investors with an underweight equity allocation gradually increase their positions in broadly diversified equities or balanced portfolios to position themselves for better return opportunities in 2026 and beyond. US and emerging market equities are likely to outperform their European counterparts, supported by stronger earnings growth and an expansionary monetary policy. We find the best opportunities in US technology and health care, as well as the technology sector in Taiwan, India, and mainland China. Companies that are particularly well positioned in structural growth themes such as artificial intelligence, energy and resources, and longevity are expected to outperform the market.

As interest rates on liquid assets are extremely low in Swiss francs and continue to fall in foreign currencies, investors seeking higher returns should consider high-quality bonds, diversified fixed income strategies, and dividend strategies. In addition, gold remains an effective hedge against geopolitical risks. Finally, alternative investments such as hedge funds, private credit, and real estate can contribute to diversification and strengthen the portfolio.

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