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# Looking ahead to the second half of the year

11 July 2025, 12:56 UTC, written by Daniel Kalt

**After the rollercoaster ride of the first half of the year, we are monitoring five key areas in the remainder of the year that are likely to set the direction for financial markets. We prefer broad diversification in quality assets and alternative investments.**

What a wild ride the first half of the year has been. Rarely have investors faced such a wide array of challenges at the same time. Two conflicts on Europe's doorstep, an escalating global tariff and trade dispute, and a drastic shift in priorities across various policy areas. There were also positive "shocks," such as disruptive developments in various technological fields, especially in artificial intelligence.

Accordingly, markets behaved like a rollercoaster. After a sharp drop in April, triggered by the announcement of "reciprocal" tariffs, a steep rally in equity markets followed the announcement of a tariff pause and positive corporate results, especially from the technology sector, bringing markets back to levels seen at the start of the year. Only the US dollar has yet to recover—burdened by ballooning debt and repeated critiques on the Federal Reserve chair by the president.

And it seems this volatility will continue. In the second half of the year, we are watching five areas that are likely to be decisive for the further course of financial markets.

First, in the coming weeks and months, we will likely gain more clarity on the impact of US trade and fiscal policy. The US government has postponed "Liberation Day 2.0" to early August, accompanied by renewed threats to introduce "reciprocal" tariffs. In our base case, we expect that in most cases a negotiated solution can be found and that the average tariff rate on US imports will settle between 10 and 15 percent. We therefore do not expect a hard landing for the US economy, but rather a slowdown in economic momentum.

Second, geopolitical risks are likely to remain elevated, especially due to ongoing conflicts in the Middle East and Eastern Europe. Investors should therefore diversify their portfolios as broadly as possible and hedge against further escalations.

Third, we assume that the Federal Reserve will continue its rate-cutting cycle in the second half of the year, which should lead to falling interest rates and bond yields—supported by weaker growth, declining inflation, and a continued shift into safer assets.

Fourth, the US dollar is likely to weaken further in such an environment, even if the pace of decline may slow. The trend toward “de-dollarization” is likely to persist.

And fifth, structural growth themes such as artificial intelligence, power and resources, and longevity will likely continue to drive equity markets, supported by innovation and the increasing application of innovative technologies and products.

In this environment, we prefer to focus on quality stocks within the equity space, particularly those related to the aforementioned growth themes. In our view, investment grade corporate bonds and select foreign government bonds remain attractive, as they should benefit from the decline in the yield curve. We also continue to like gold as a strategic portfolio component for hedging against geopolitical uncertainties and as an inflation hedge. In the currency space, Swiss investors in particular should consider their USD allocation and actively manage currency risks. Finally, alternative investments such as hedge funds, private market investments, and real assets like infrastructure and real estate can help make portfolios more robust and achieve even better diversification.

## Non-Traditional Assets

**Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments).** Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

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