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Much Ado About Nothing?

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The Swiss stock market has weathered the recent escalation in the tariff dispute with the US well. Although we expect an economic slowdown, both in Switzerland and globally, we still believe it is worthwhile for investors to continue investing. In times of weaker growth and higher volatility, good diversification becomes especially important.

We are pleased to introduce Michael Bolliger as the new Chief Investment Officer Switzerland. As part of the "Thoughts of the Week," he will discuss market developments with you and share targeted investment strategies for Swiss investors. Daniel Kalt remains Chief Economist and will continue to provide concise macroeconomic and political analyses and forecasts, as well as insights into the Swiss economy.

Hindsight is always 20/20. This also applies to US tariff policy. Although Switzerland was hit with high US tariffs on 1 August, there was no strong reaction on the stock market: the SMI ended the trading day down 0.2%. As a reminder: when President Trump announced the "reciprocal" tariffs on 2 April, it declined 15% over the days that followed. Companies, investors, and politicians are thus learning to better assess the sometimes unpredictable tariff announcements and are also preparing for the impact of higher tariffs.

Finger-pointing for the less-than-favorable outcome was discussed in detail in the Sunday press. We consider the insights that follow to be more important.

Switzerland, as an export-dependent economy, is more exposed to US tariffs than many other countries and also has a very high trade surplus with the US. This is largely due to exports of pharmaceuticals and gold, but also to the machinery, luxury goods, and watch industries. For a small country, negotiations can be more difficult, also because threats of retaliation are neither truly credible nor effective. Measures such as China's export restrictions on rare earths, which have made US defense and technology companies acutely aware of the vulnerability of their supply chains, are not possible for Switzerland (even if restrictions on chocolate exports might have some effect!).

A healthy dose of pragmatism has led elsewhere to results that, while not outstanding, are at least more or less acceptable. In the EU, competence over foreign direct investment or arms and energy imports lies with the member states and companies, not with the EU Commission. Nevertheless, this has not prevented the Commission President from signaling far-reaching purchasing and investment intentions. We believe that Switzerland still has room for improvement in this area. Accordingly, we are confident that US tariffs will ultimately settle at a lower level.

The relatively muted reaction of the Swiss stock market suggests that investors are anticipating progress in negotiations. At the same time, it shows that markets now better understand how tariffs affect companies. Listed companies in the SMI, in particular, are globally positioned and generate over 90 percent of their sales and profits outside Switzerland, with a third of those coming from the US. Their tariff burden is therefore significantly lower. In addition, they produce around two-thirds of their US sales in the United States. And companies are able to adapt better to the new circumstances, including through higher prices or lower margins for US consumers or importers. Tactical investors can certainly try to take advantage of corresponding price fluctuations.

However, localization of supply and production chains is not possible for every company, and there are also major differences between sectors. The unequal treatment of individual countries and industries is likely to lead to competitive distortions in the medium term. We also note that tariffs are now significantly higher than a few quarters ago. The Swiss economy, with its many successful small and medium-sized enterprises, will therefore be much more affected by the tariff dispute than the large companies in the SMI. Accordingly, we expect a further slowdown in the economy in the short term, both in Switzerland and globally. While we see no reason to panic, it is very important for investors to carefully review portfolio diversification.

Two key insights remain for investors: First, they should prepare for periods of higher volatility in the short term. During such periods, it often makes sense to continue investing regularly, but to position portfolios more defensively while ensuring optimal diversification. In the past, dividend stocks or quality stocks have performed better than the broader index in times of slow growth and uncertainty. Structured strategies, such as reverse convertibles or covered call strategies, are also attractive in this environment, in our view. Second, we believe that the risk of a major financial crisis remains moderate, not least because the world is learning to better cope with the new US economic and trade policy.

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