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# A step in the right direction

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**The recent US-China trade agreement reduces short-term risks, but the global race for strategic raw materials is likely to persist. In our view, international diversification and investments along future-oriented supply chains are more important than ever for investors. Alternative investments are also likely to play a central role, such as private equity or direct exposure to infrastructure and raw materials.**

The recent meeting between President Trump and President Xi represents a step in the right direction, as it provided a temporary respite in the US-China trade dispute. The immediate outcomes—such as the reduction of US tariffs on Chinese imports by 10%, the delay of new export controls, and China's commitment to resuming purchases of US soybeans—are welcome, but the market reaction was muted. Much of the optimism had already been priced in, and it is unlikely that the agreement will significantly change the short-term outlook for global trade or economic growth. The temporary truce also means that uncertainty will persist in the medium term, while the longer-term trend of supply chain restructuring and economic decoupling is likely to remain intact or even accelerate.

From an investor perspective, however, the trade deal could help markets worry less about short-term downside risks for the time being. This is probably also due to a better understanding of how capable and willing China is to use its strategic advantages, even against the US.

The agreement may also indicate that opportunities for other countries to reach deals with the US have improved. President Trump's trip to Asia led to new agreements with Malaysia, Thailand, Vietnam, and Cambodia, while a group of Southeast Asian countries upgraded their free trade agreement. South Korea agreed to lower tariffs on cars and to invest up to USD 20bn a year in the US. The upcoming US midterm elections and a weak labor market may help increase its willingness for pragmatic compromises. In the end, this could also benefit Switzerland, which is seeking to lower tariffs on its exports to the US.

Furthermore, countries that offer access to strategically relevant raw materials could increasingly come into focus. Major players such as Australia, Canada, the Democratic Republic of Congo (DRC), Greenland, or Indonesia could enter into

multimodal partnerships with the US, Europe, and other countries, potentially with profound long-term effects on these economies. In addition, public investment in private companies may increase, an approach the Trump administration has recently used more frequently.

Despite the progress, we think investors should not become too complacent: While agreements can ease tensions, the underlying rivalries remain. Access to strategically relevant raw materials is likely to continue to lead to tensions and market turbulence in the coming years.

What does this mean for investors? We think that political and geopolitical risks have faded a bit in recent weeks. This supports our constructive outlook for equities and other risk assets. At the same time, strategic competition for critical raw materials and minerals is likely to increase rather than decrease in the coming years, given their crucial role in the development of key technologies such as artificial intelligence, automation, electrification, and digitalization, as well as in access to cheaper and cleaner energy. One possible way to prepare for any market turbulence, in our view, is to have sufficient exposure to companies involved in the supply chains of such transformative technologies. This could include alternative investments, such as private equity or direct exposure to infrastructure and commodities. Investors should be aware of the risks inherent to alternative investments, such as illiquidity and lower transparency, among others. And finally, we also believe that international diversification makes sense, including stocks in China and Asia. Chinese companies in particular often have a dominant position in the supply chains of strategically relevant industries.

## 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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