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Tariffs dominate the headlines, but innovation shapes the future

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The US government's tariffs are dominating headlines. It remains unclear how severely the recently announced tariffs will impact Switzerland. At the same time, equities have reached new all-time highs. However, risks have not yet been eliminated, and investors should expect market volatility in the near future. This volatility could be mitigated with a diversified portfolio. While President Trump may command the headlines, we believe the future belongs to transformative innovations, such as artificial intelligence. We see any potential setback in equity markets as an opportunity to increase exposure to companies that are leaders in these innovations.

Contrary to expectations, Switzerland did not reach a trade agreement with the US before the deadline on 1 August. The US government subsequently published a new list of tariffs, increasing the levies on Swiss imports to 39% as of 7 August. If no further agreement is reached, this would be the fourth-highest tariff rate on a US trading partner.

With two days to go, we assume that delegations from the US and Switzerland are continuing to negotiate a solution. We expect that Switzerland will ultimately reach a deal similar to the one between the US and the EU—with a tariff rate of around 15% on US imports from Switzerland and a commitment for Swiss companies to make significant investments in the US. In a risk scenario where tariffs remain close to 40% for an extended period, the economic impact could be substantial.

So far, the stock market has shown little reaction to the political uncertainty and growth risks. In July, equity markets reached all-time highs, driven by the belief that the worst of the trade dispute would soon be over. However, US tariffs are now much higher than before "Liberation Day," and the economic effects are only just beginning to be felt.

Investors should therefore prepare for volatile markets in the near future. A broadly diversified portfolio could help mitigate the volatility in this environment.

This raises the question: Why stay invested and diversify rather than moving into cash or remaining on the sidelines? While Donald Trump may dominate the headlines, it is also becoming clear that innovation has the potential to fundamentally transform the economy in the coming years. The increasing application of artificial intelligence across various industries suggests that the integration of this technology into everyday life is far from reaching its peak. This is not limited to artificial intelligence. The transformation of energy infrastructure and demographic shifts are also likely to fundamentally change our lives and economies.

Companies that benefit from these transformative innovations could boost further potential for equity markets. This means that investors who are not yet, or only partially, invested could use potential setbacks in the coming weeks as an opportunity to enter markets or increase their exposure.

History, while no guarantee of future performance , could help to assess the potential of innovative companies. Over the past 30 years, 1% of (mostly technology) companies have been responsible for 80% of the wealth creation in the global equity market, which is typically driven by significant technological changes.

But which ones are likely to generate 80% of the value growth in the coming years? The dramatic decline of Nokia, once the world leader in the mobile phone market, illustrates that the answer to this question is not always straightforward. This is another reason to invest in a diversified portfolio. Only a few stocks will ultimately drive returns, but broad coverage can increase the chances that they will be included in your portfolio.

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