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# A leap forward

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**The sustainability of fiscal policy is increasingly coming into focus for investors, especially in countries where there is no stable political majority. In the medium term, investors with more risk-tolerant strategies are likely to fare better than those who rely on money-market instruments in a low interest rate environment.**

The latest US labor market data provided further evidence that the world's largest economy is cooling, and we see a series of rate cuts by the Federal Reserve ahead. We expect four cuts over the next two quarters, marking a much faster pace of easing than in other countries. The Swiss National Bank, for example, is likely to keep its policy rate unchanged for now, and we expect only one more rate cut from the European Central Bank this year.

We believe the dollar will continue to weaken in this environment. Our exchange rate forecasts for the Swiss franc and the euro reflect this view: We expect USDCHF to move toward 0.76 over the next 12 months and EURUSD toward 1.23. This represents a depreciation of around 5% for each currency pair, which is above current hedging costs.

However, this could also only be a temporary phase. Factors such as upcoming Fed rate cuts, the slightly pro-cyclical US tax reform, and declining uncertainty regarding US import tariffs should support the US economy and could lead to an acceleration in growth in 2026. This should be positive for US equity markets: The S&P 500 has historically responded positively to Fed rate cuts in the absence of a recession. Over the past decades, the index rose nearly 20% on average one year after the first rate cut.

By comparison, our equity forecasts are more conservative. They suggest that investors should maintain their equity positions and use any price setbacks to increase their equity allocation if it is below the strategic target. If concerns about a potential correction seem too high, suitable structured products could provide the necessary security to manage higher volatility while still allowing investors to participate in subsequent price gains.

The outlook for bond markets is less encouraging. While expectations for rate cuts are rising, shorter-duration bonds have performed well. At the same time, long-term bonds in many countries have lost value: In the UK, yields on 30-year

government bonds are now around 5.7%, the highest level since 1998. In France, Italy, Germany, Japan, and the US, yields on long-term bonds are also well above levels seen in recent years.

Concerns about the sustainability of fiscal policy are often at the forefront, combined with increased political uncertainty. Political crises in France, the UK, and Japan are examples of this. After decades of a secular downward trend in interest rates, high issuance needs and elevated interest payments are increasingly coming into focus for these markets. In countries where a lack of political majority prevents sustainable solutions to fiscal challenges, long-term interest rates could remain under pressure. This increases the risk of negative implications for equity markets.

In this context, it is noteworthy that the gold price recently broke through the USD 3,600 per ounce mark for the first time. We see this as confirmation of our view that, given these fiscal, monetary, and (geo)political issues, investors are increasingly seeking to diversify their portfolios.

This is not an easy environment for investors: Money-market instruments do offer protection against volatility, but in a low interest rate environment, they almost certainly lead to a loss of purchasing power. Over the medium term, investors who prefer more risk-tolerant strategies are likely to be rewarded by staying invested in equities and using any price setbacks to optimize equity allocations, partially hedging US currency risks, and using alternative investments or structured products to optimally diversify or selectively hedge the portfolio. A “forward escape” is not always the most intuitive or straightforward approach, but it has historically worked well and is likely to continue to do so, in our view.

## Non-Traditional Assets

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