

A man and a woman are shown in profile, looking upwards towards the right. The background is a warm, orange-hued sunset or sunrise, with a blurred crowd of people in the distance. The man is in the foreground, wearing a brown jacket over a dark shirt. The woman is slightly behind him, wearing a light-colored jacket.

Julius Bär

SECULAR OUTLOOK

Economic and investment trends
shaping the current decade

Marketing material

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Please find important legal information at the end of this document.

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Julius Bär

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Editorial

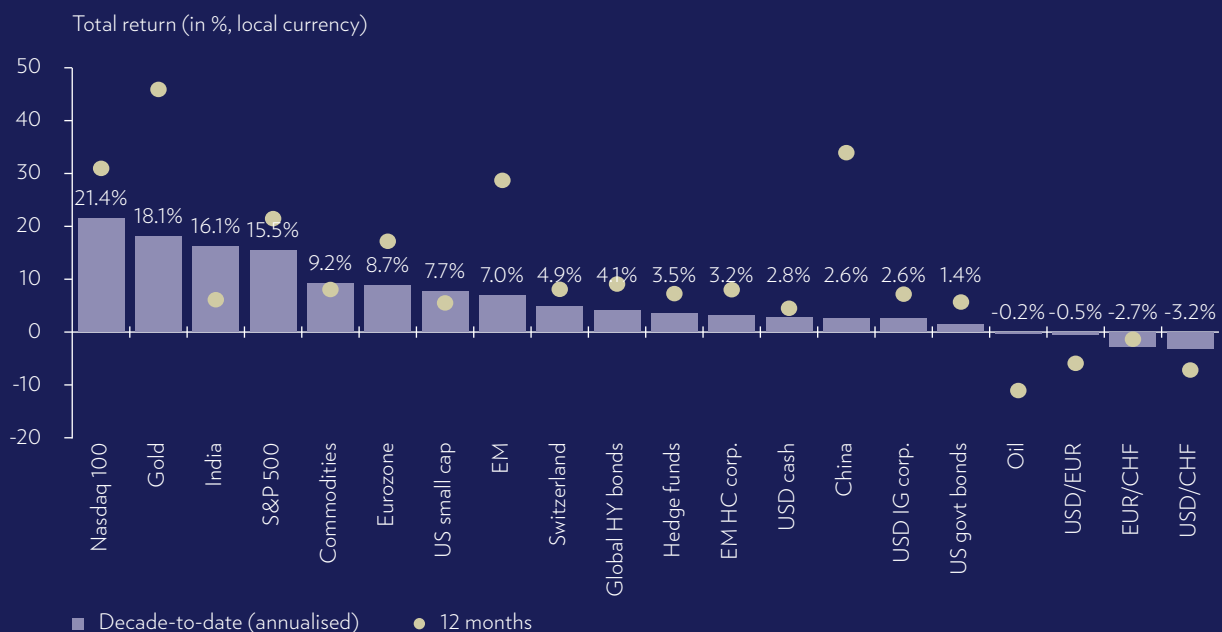
Dear Reader,

A look at capital market history reveals that leadership often transitions from one decade to the next, driven by economic and political events that shape the asset class performance hierarchy. It is therefore crucial to periodically reassess the gravitational forces in the system that result in structural trends, bearing in mind that they typically take a few years to emerge. This is what the yearly update of the Julius Baer Secular Outlook aims to achieve.

We are now midway through the 2020s, and most of the trends that emerged following the two major external shocks at the beginning of the decade, the Covid-19 pandemic and the war in Ukraine, are now firmly taking root. The tariff campaign, launched in April 2025 by the new Trump administration – ‘Liberation Day’, as the president termed it – has

accelerated the transition to a multipolar world, opening the door, if not to a full reset, then at least to a renegotiation of global trade rules. These new arrangements are built on bilateral trade agreements and focused on maintaining control over geopolitically critical resources and technologies. At the same time, despite a brief attempt early in the year to rein in government spending, the US government quickly pivoted right back to fiscal spending, maintaining its now habitual accommodative stance and cementing the path of fiscal dominance and continued government involvement in the economic cycle. The most significant fiscal policy shift occurred in Europe, where Germany’s reversal on both fiscal and defence policy has rekindled confidence in the continent’s ability to avoid stagnation and revitalise its industrial base.

Chart 1: Decade opportunity set – total return of key asset classes in local currency since the start of the decade



Source: Macrobond, Bloomberg Finance L.P., Julius Baer

Note: Data as at 31.10.2025. HY = high yield; EM = emerging markets; HC = hard currency; IG = investment grade; corp. = corporate; govt = government. Past performance and performance forecasts are not reliable indicators of future results. The return may increase or decrease as a result of currency fluctuations.

The most pressing concern among investors, stemming from the Trump administration's ongoing efforts to rebalance the US economy, revolves around the notion of US exceptionalism. Global markets were rattled as confidence in the future of US institutions fell following Liberation Day. Thus far, the fallout has been largely confined to the USD, while the US market – propelled by its technology sector and the artificial intelligence (AI) boom – continues to lead. However, the AI capital expenditure (capex) cycle is currently the sole driver of both the US economy and its markets. The sustainability of the US technology-led bull market now hinges on the ability of US hyperscalers to monetise their ever-increasing investments, a focal point for asset allocators in the second half of this decade.

In light of these ongoing developments, global diversification has returned to the forefront. Beyond Europe's resurgence and established store-of-value

markets such as Switzerland, countries like India and China are particularly well positioned to benefit from long-term structural tailwinds. In China's case, the foundations for a first secular bull market appear to be in place. Despite an ongoing real estate downturn and resulting balance sheet recession, the country is seeking to reignite consumer confidence by promoting more business- and shareholder-friendly policies. Meanwhile, the appeal of out-of-system assets continues to grow, as evidenced by gold's rise to the top of the asset class performance rankings for a second consecutive year.

We hope you will enjoy reading this edition of the Julius Baer Secular Outlook and that it serves as a useful guide for your investment decisions.

Yours faithfully,



Yves Bonzon
Group Chief Investment Officer

Historical secular trends

An overview

Every decade is characterised by a different economic and investment environment in which capital markets are shaped by structural socio-economic forces. As a result, some asset classes outperform while others lag behind. Importantly, shifts in market leadership may span more or less than ten years.

Chart 2: Historical secular trends

Bretton Woods		Neoliberal era (globalisation, financialisation, digitalisation)				State-sponsored capitalism	
What happened	Bretton Woods	Floating exchange rates	Disinflation	Fall of the Berlin Wall	European Economic and Monetary Union	Managed deleveraging in Western private sectors	Multipolarity and strategic reshoring
		Oil shock	Plaza Accord currency agreement	Globalisation	China joins WTO	Zero interest rate policies and quantitative easing	Active industrial and fiscal policies
		The Great Inflation	Deng Xiaoping's China reforms	Asian crisis	Rise and fall of structured credit	Shift from inflation to asset-price targeting	Interest rate normalisation
				Internet	Global Financial Crisis	EUR crisis	Innovation super cycle
				Electronic trading	Hedge funds	Private markets	China's balance sheet recession
			ETFs				
	1960s	1970s	1980s	1990s	2000s	2010s	2020s*
What profited	US Nifty-Fifty stocks: 50 most popular US large-cap stocks	Small caps	Government bonds	Nasdaq	Emerging market equities	Developed market quality equities	Private sector balance sheets
		Oil stocks	Nikkei Index	Swiss stocks	Commodities	High yield	Nasdaq+
		Gold, CHF, and JPY	Hong Kong equities	USD	EUR	60/40	European value
						FAANMG	India and China**
						USD	Gold and digital assets*** (out-of-system)
						CHF	

Source: Julius Baer

Note: Bretton Woods was established in 1944 and became fully functional in 1958; the Berlin Wall fell in November 1989; European Economic and Monetary Union refers to the launch of the euro; 60/40 = 60% equities/40% bonds; WTO = World Trade Organization; FAANMG = Meta (formerly Facebook), Apple, Amazon, Netflix, Microsoft, and Alphabet (formerly Google). *Julius Baer projection. ** China: from 2025 on. *** Investments in digital assets are exposed to elevated risk of fraud and loss and to price fluctuations.



Key macroeconomic trends

Multipolarity and strategic reshoring

Global fragmentation has intensified as national interests surpass global alliances, a trend accelerated by the US's tariff escalation. Strategic reshoring, not deglobalisation, is the likely outcome. Global diversification guided by secular trends is the new investment paradigm.

For much of the second half of the last century, the US and Soviet superpowers battled for global supremacy. With the dissolution of the Soviet Union in 1991, this contest was finally settled, and the Cold War came to an end, giving way to a unipolar world order with the US as the undisputed hegemon. In the ensuing post-Cold-War period, the global economy benefited from the so-called 'peace dividend'. The decline in political and macroeconomic uncertainty allowed for a greater degree of globalisation, which reduced inefficiencies, dampened inflationary pressures, and ultimately strengthened economic prosperity globally.

Since the Russian invasion of Ukraine in February 2022, however, it has become painfully clear that the peace dividend has come to an end. Today's world order is fundamentally multipolar, with more and more countries choosing to opportunistically prioritise their own national interests, rather than adhering habitually to one bloc or another. The number of countries involved in interstate conflicts is on the rise again after a relatively quiet last decade. This paradigm shift is also evident in military spending, which has risen relentlessly since the mid-2010s. Geopolitical confrontation as a permanent condition is fertile ground for mishaps, because the more actors there are, the harder it is to predict their behaviour towards each other. As a result, the risk of external supply shocks is structurally elevated.

2025 marked a clear acceleration in this trend, as the new Trump Administration launched a tariff crusade

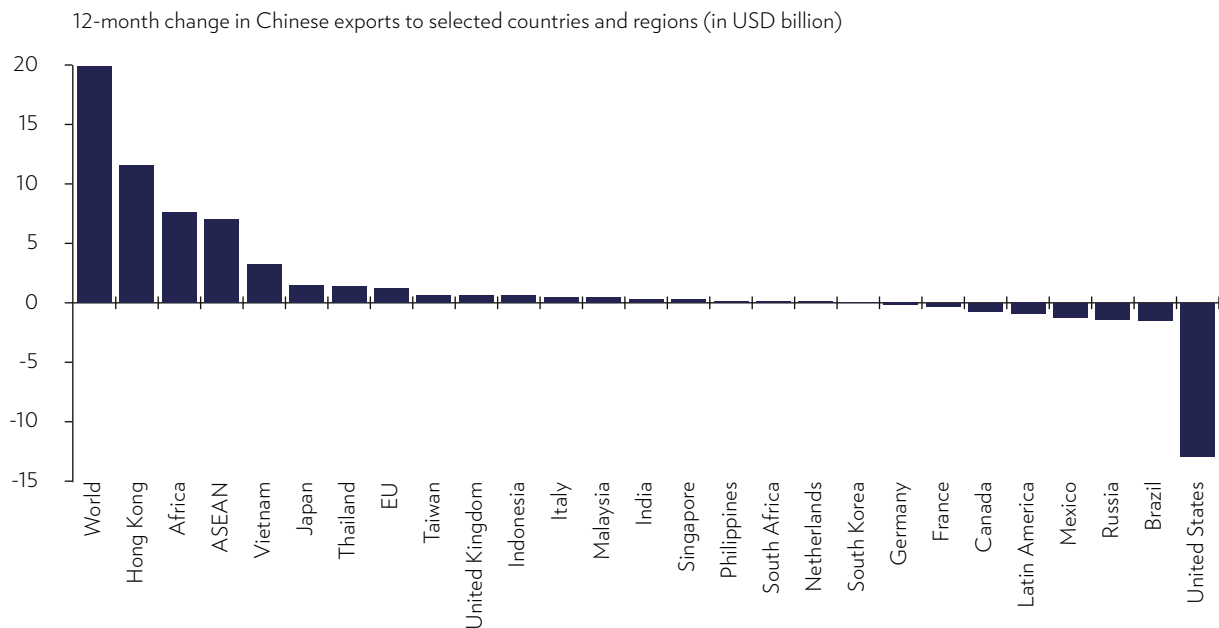
in April, declaring a slew of 'reciprocal' tariffs on Liberation Day. At the time, the proposed duties implied an increase in the US effective tariff rate to the mid-20% range – the highest level since the 1910s – justifiably spooking markets amid a sharply heightened risk of global recession. Ultimately, the US president backed down and agreed to delay the implementation deadline for the tariffs, paving the way for negotiations with the targeted countries in the ensuing months. While erratic and extreme announcements over social media perdured, it soon became clear that a full-blown trade war was not on the horizon. Rather, mostly bilateral trade negotiations, focused on strategic areas central to national security, have become the global norm, not only for the US but also among other trading partners responding to America's pivot. In a way, Liberation Day has given licence to countries to fully engage in the new multipolar world order.

More broadly, the aftermath of Liberation Day confirms our assumptions from previous years regarding the progression of the strategic reshoring trend. Trade wars do not work in a multipolar world, we posited. This has been clearly demonstrated by the swift redirection of Chinese exports from the US to its Asian neighbours and African partners (see chart 3). This notion was further reinforced when, following the announcement of steep punitive tariffs and subsequent sanctions on countries purchasing oil from Russia, oil markets barely flinched. Another of our assumptions – that global supply chains are too intertwined, complex, and mutually profitable for

countries to fully rebalance their operations – has also been confirmed, notably in the US’s latest round of negotiations with China, which laid bare the willingness of the strategic rivals to continue trading where economically advantageous. The exceptions are sectors deemed critical to national security, such as information technology (IT) or energy: indeed, both the US and China continue to draw firmer lines around high-end US chips and Chinese rare earths.

For investors, this confirms that political and geopolitical factors will increasingly overshadow endogenous market signals, resulting in increased macroeconomic and financial market volatility. By definition, attempts to anticipate these external shocks and assess their impact on each party involved are futile, with any success unlikely to be consistently replicable. This underscores the case for global portfolio diversification, guided by secular trends and their influence on major investable economies.

Chart 3: Trade finds a way – China rerouted its exports in response to US trade tensions



Source: China General Administration of Customs (GAC), Macrobond, Julius Baer

Note: Data as at September 2025. ASEAN = Association of Southeast Asian Nations; EU = European Union

Active industrial and fiscal policies

Supercharged by two major external shocks, fiscal policy took centre stage in managing early 2020s economic cycles. Active industrial and fiscal policies are now core to state-sponsored capitalism, the future extent of which will likely vary across regions. Fundamentally, geopolitical tensions are becoming the norm, rather than the exception, amplifying the push for fiscal activism.

With the transition to the current decade, there was a significant paradigm shift in how economic cycles were managed. Prior to this, dating back to the 1980s when Ronald Reagan and Margaret Thatcher led the charge towards neoliberalism, large-scale government intervention was viewed as ineffective and undesirable. For the record, in the neoliberal era, monetary policy was a tool for fine-tuning economic cycles, while fiscal stimulus was used only to smooth out economic downturns. However, in recent years, fiscal policy has been used procyclically by design, under the guise of addressing structural problems in advanced economies, such as record inequality, ageing demographics, and stagnant growth. Today, the applied principles of macroeconomic policy in the West firmly reflect state-sponsored capitalism.

The two major external shocks at the start of the decade, the Covid-19 pandemic and the war in Ukraine, decisively propelled us into this new era. In response to the Covid-19 pandemic, governments around the world implemented significant financial support measures, with particularly large efforts in the US. In fact, the US government embarked on a more active fiscal policy approach that went well beyond the immediate response to the global health crisis. When President Biden took office in 2021, significant public resources were devoted to strengthening domestic industrial capacity, such as investments in clean energy through the Inflation Reduction Act, infrastructure modernisation through the bipartisan Infrastructure Investment and Jobs Act, and advanced manufacturing (e.g.

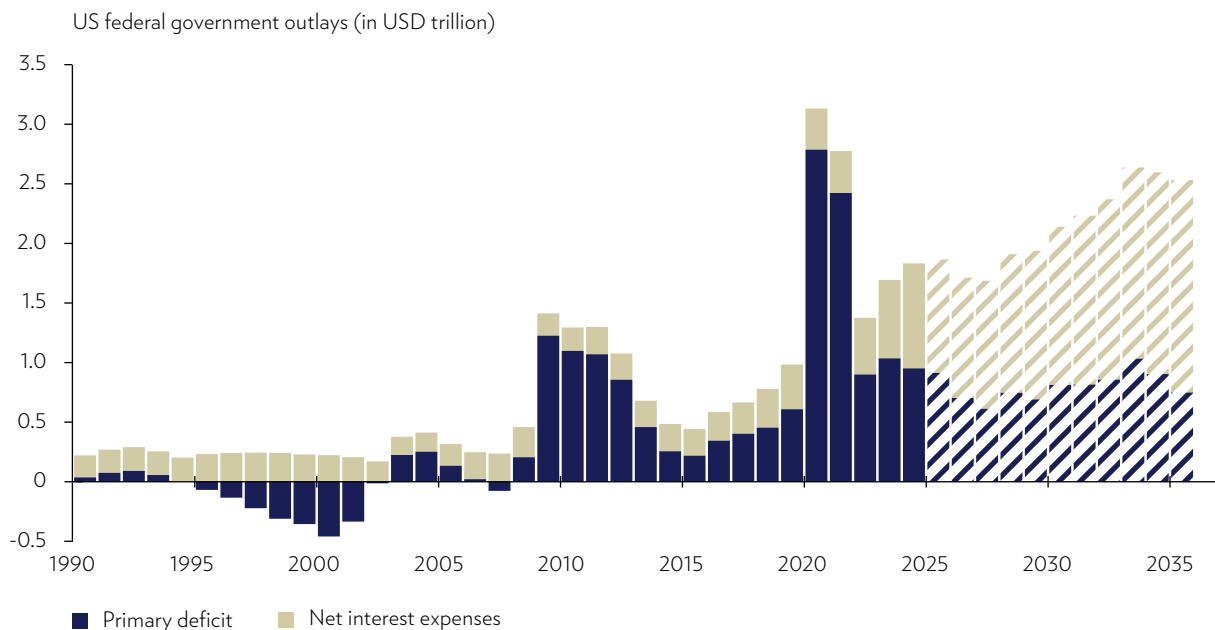
semiconductors) through the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act. At the beginning of Donald Trump's second term as US president, the US economy was prescribed a 'detox' as the realisation set in that it had become addicted to government spending. Not long after, however, the US administration changed course fundamentally. The signing of the One Big Beautiful Bill Act (OBBBA) in the summer of 2025 essentially implied a continuation of fiscal accommodation. No one talks about the Department of Government Efficiency (DOGE), formerly prominently headed by Elon Musk, anymore. More recently, the government has gone one step further – acquiring minority stakes in domestic companies that produce goods deemed relevant to national security. In the US, fiscal stimulus appears to have become permanently procyclical (see chart 4).

Active industrial and fiscal policies are not unique to the US. At present, we are confronted with a worldwide race to onshore strategically important industries through the use of state-sponsored subsidies and protection measures. The most significant shift this year has been observed on the other side of the 'pond'. Europe previously dipped its toes into the waters of 'big government' with the European Chips Act, signed in 2023. Since then, voices calling for the abandonment of the dogmatic commitment to fiscal austerity have gained traction. Former President of the European Central Bank, Mario Draghi, published a report in September 2024 recommending massive additional injections into the region over

the next few years – to address structural impediments to growth and improve economic competitiveness – amounting to nearly 5% of the European Union’s (EU) gross domestic product (GDP). This represents a substantial increase compared to the 1%–2% allocated under the Marshall Plan, the post-World-War-II US economic development programme aimed at rebuilding Europe. In 2025, however, the decision of the current US administration to no longer provide the service of ‘Pax Americana’ for free – and to turn its focus inward – likely served as the final wake-up call for the bloc. This prompted Europe to pursue greater energy and

military security independence through massive fiscal spending. Germany’s historic fiscal and defence U-turn, aimed at modernising the country’s ailing infrastructure and restoring its defence capabilities, could prove to be a turning point. Another major political commitment arose from the 2025 North Atlantic Treaty Organization (NATO) summit, where member nations committed to a new defence spending target amounting to 5% of GDP by 2035, which is more than double the previous 2% guideline. In a fragmented world characterised by heightened geopolitical rivalry, fiscal activism is here to stay.

Chart 4: The US is continuing on the path of procyclical fiscal deficits



Source: US Congressional Budget Office (CBO), Macrobond, Julius Baer
Note: Data as at March 2025. Striped bars show CBO forecasts.

Interest rate normalisation

Faced with an inflation spike for the first time in decades, Western central banks have rapidly reset the cost of capital in the system. In the current context of fiscal dominance, debt sustainability considerations are increasingly feeding into the ‘neutral’ interest rate equation.

After the Global Financial Crisis (GFC), Western central banks began using ultra-low, or even negative, interest rates in combination with large-scale asset purchase programmes to support ailing economies. Such action was necessary to prevent deflationary pressures, as private sector agents deleveraged their balance sheets. Both the US federal funds rate and the 10-year US Treasury yield reached record-low levels during this time, deviating from historical averages. The rapid increase in interest rates through 2022 and 2023 was thus a return to the mean for both measures. In retrospect, the last decade was a truly experimental period for monetary policy.

As of the autumn of 2025, we once again find ourselves in the midst of a global monetary policy easing cycle. The US Federal Reserve (Fed) has resumed its rate-cutting cycle, prompted by softening US labour market dynamics and US inflation measures stabilising at around 3% since mid-2023. By November 2025, the federal funds rate had been lowered by a cumulative 150 basis points – from its peak at 5.25%–5.5% in mid-2023 – to a range of 3.75%–4%. The 10-year US Treasury yield, which peaked at 5% in October 2023, has since eased, albeit with some volatility, to stand at just over 4% two years later. The big question confronting investors is whether we will ultimately return to the realm of financial repression, or whether interest rates have sustainably shifted to levels closer to their historical average.

If anything, the past two years have confirmed the resilience of Western economies, particularly the US, to a normalised cost-of-capital environment. Underpinning this resilience is the continued strength of private sector balance sheets, which have transitioned from balance sheet recession to balance

sheet strength. The economic expansion that followed the brief Covid-19-related recession was fuelled by government transfers on the one hand, and by income and profit growth on the other. This contrasts with previous expansion cycles, such as those that ended in 2001 and 2007, which were driven by debt creation in the private sector. As a result, developed economies are much less sensitive to interest rate changes in the current economic cycle.

That alone, however, is not a sufficient condition to conclude that the era of lower interest rates is behind us. Many of the trends that were in force prior to the 2020s – and that drove the decades-long decline in interest rates – remain deeply entrenched. These include ageing demographics and digital disruption, both of which continue to exert disinflationary pressure in developed economies. The extreme financialisation of modern economies is another central element. Our long-standing conviction that the ‘tail wags the dog’ – i.e. that asset price cycles drive the real economy – is more relevant than ever. The size of the financial ‘cloud’ relative to the real economy has grown even larger in the Western world, and policymakers cannot afford to allow asset prices to deflate in a disorderly manner.

Record government debt and a rising interest burden are putting pressure on monetary policy authorities globally. Debt sustainability considerations are playing an increasingly dominant role in policy-setting debates. Global debt (public and private) amounted to just above 235% of global GDP last year, meaning that current interest rate levels pose elevated risks due to rising refinancing costs. These risks are mostly concentrated in the public sector, where leverage has been on a secular uptrend since the GFC. In the case of the US, interest outlays

are increasingly straining the federal budget and monetary authorities are facing heightened political pressure to help alleviate the cost of government debt through lower rates.

Ultimately, the level of central bank interest rates – and resulting inflation – is a political choice. Nowadays, monetary authorities can access an extended policy toolbox, enabling them to actively target longer-term rates if needed, i.e. through yield-curve control or a rebranded form of quantitative easing. There is no denying that fiscal dominance will continue to exert a strong influence on the future course of monetary policy. Monetary subordination, if not outright surrender, will eventually reinforce the debasement trade. In this context, our long-standing conviction that Western policymakers will settle for 3% rather than 2% inflation this decade remains valid.



Innovation super cycle

What distinguishes the current super cycle conjuncture is not the existence of innovation, but the pace and breadth at which it unfolds, as complementary technologies continue to converge: AI, the energy transition, and advances in life sciences, among others.

To suggest that innovation is a key trend confined to a single decade would be preposterous. Innovation has always been the driving force propelling humanity forward, igniting economic progress, and fostering evolution in countless domains. What makes the current decade special is that the pace of innovation has markedly accelerated, partially due to external shocks such as the Covid-19 pandemic, which exacerbated the need to innovate as the world came to a temporary standstill. Beneath the surface, we see a convergence of multiple technologies leading to severely disruptive forces. The combination of exponential growth in computing power at decreasing costs and the growing abundance of data provides a fertile ground for disruptive change.

Underlining the importance of innovation in an economic context, the 2025 Nobel Prize in Economic Sciences was awarded to Joel Mokyr, Philippe Aghion, and Peter Howitt for their work on innovation-driven economic growth. Their research highlights the necessity of continuous technological advancement to sustain long-term growth. Mokyr used historical sources to uncover the importance of scientific understanding and societal openness in fostering innovation, while Aghion and Howitt introduced a model of growth through ‘creative destruction’, capturing the dual nature of progress – each breakthrough generates both winners and losers, as new innovations replace the old. This model of growth resonates strongly with our investment approach. We believe the world economy and financial markets are not mean-reverting – a financial theory which suggests that asset prices and returns will eventually revert to their long-term average – but instead follow an exponential rather than a linear trajectory. While mean-reversion investment strategies might work in the short term, they could struggle structurally. In other words, waiting for

markets to revert to historical averages is structurally unsuitable within a meaningful investment horizon. Instead, our process seeks exposure to equity segments benefiting from secular tailwinds, where disruption – driven by the emergence or convergence of technologies – could drive shareholder value creation.

In the spirit of innovation, AI remains the fulcrum of market narratives and corporate investment. US equity markets, led by AI hyperscalers, have surged to new highs, fuelling an unprecedented capex cycle. These hyperscalers have committed gigantic sums to AI infrastructure: chart 5 illustrates that spending on data centres is now close to overtaking investment in new office buildings in the US. Power has emerged as the binding constraint, with grid capacity becoming the limiting factor. If 2025 made anything clear, it is this: in the race to scale AI, energy is the new currency. The best-electrified economies will enjoy a major energy advantage amid the wave of data centres in development, since energy and grid access are the bottlenecks to AI’s scale, demanding vast infrastructure investment to keep pace.

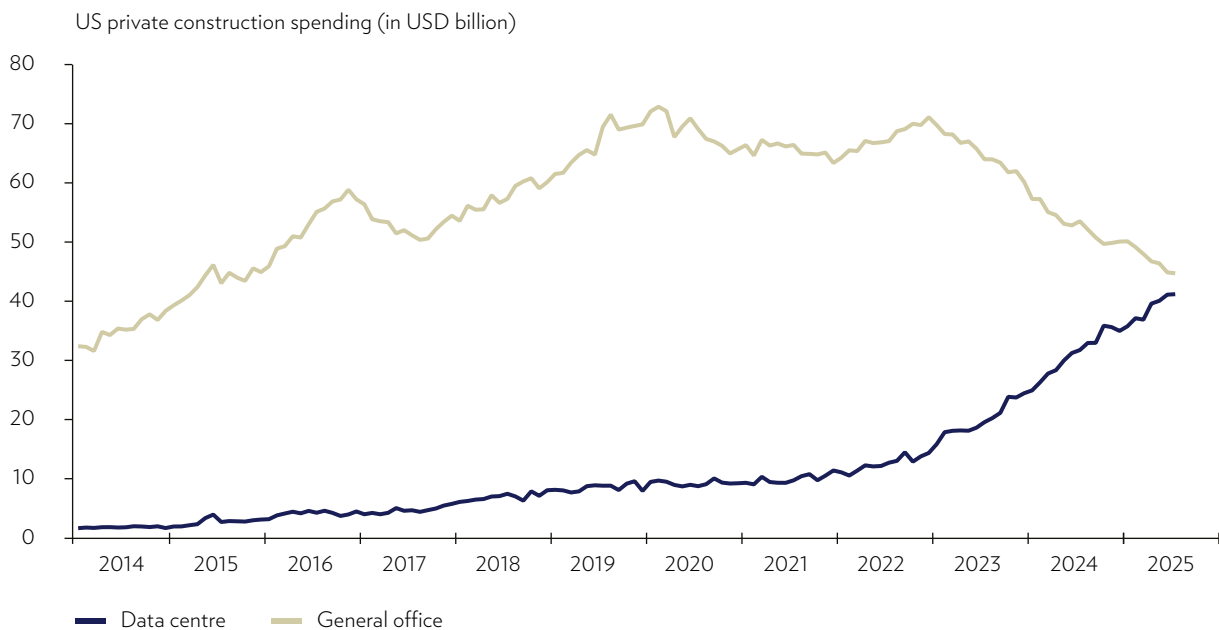
It is highly probable that AI’s disruptive potential is larger than that of the internet. Its promise is undeniable, yet its payoff is anything but straightforward. While the fate of hyperscalers hinges on their ability to preserve their unmatched free cash flow production, the broader technology industry is disrupting itself – a trend underscored by the cooling of sector employment following the public release of ChatGPT. Job creation in the US IT sector has stalled, demonstrating how AI is reshaping even its own inventors. Generative AI tools are everywhere, yet widespread adoption does not guarantee business transformation or bottom-line impact.

In summary, the benefits of AI remain clouded by uncertainty, and this uncertainty extends to productivity measurements, compounding the difficulty of understanding AI's true economic impact.

Two years ago, we defined the innovation super cycle as a convergence of multiple forces, not just AI. That remains true, even if AI dominates the headlines. Energy technologies continue to move down their cost curves, and storage pairing and grid modernisation have shifted from 'nice-to-have' to systemically necessary. These developments will shape the speed and magnitude of the structural disinflationary impulse we expect from cheaper clean energy. Meanwhile, innovation in life sciences and healthcare is advancing more quietly, but the integration of AI into drug discovery and diagnostics is beginning to show tangible results, even if

commercial impact remains years away. Such innovation is gaining strategic importance as societies grapple with rising life expectancy and ageing populations. Continuous innovation is also taking place in other areas, such as mobility – though at a smaller scale for now – where electrification and autonomous systems are reshaping transportation. Norway offers a perfect example, with electric vehicles accounting for nine out of ten new car sales, demonstrating how policy support and infrastructure investment can accelerate adoption and reshape urban ecosystems, although such progress remains uneven across the globe. In the end, we believe that the innovation super cycle, which is driven by the convergence of several of the disruptive technologies outlined above, will reshape the way we live and work, and as such, will profoundly impact both productivity and economic growth in this decade.

Chart 5: Data centre vs general office construction in the US



Source: US Census Bureau, Macrobond, Julius Baer
Note: Data as at July 2025.

China's balance sheet recession

While China is still stuck in a balance sheet recession, a managed and sustainable domestic equity bull market, in combination with its increased self-reliance, its progress on the AI front, and its electrification advantage, point towards an improved structural picture.

We continue to see broad evidence that China is in a balance sheet recession. Such a situation is characterised by the private sector prioritising debt minimisation over profit maximisation despite low or zero interest rates, which would normally encourage new borrowing. This typically occurs after the bursting of an asset bubble, which leaves a large number of private sector agents with unrealised losses (since they carry liabilities on their balance sheets, while the assets they acquired using borrowed funds have collapsed in value). In China, this was triggered by the bursting of the real estate bubble in 2021, which strongly affected the population, as real estate made up a disproportionately large part of

household balance sheets. The occurrence of a balance sheet recession is reflected in persistently low consumer confidence, a stubbornly high household savings rate, and a collapse in consumer borrowing. Another structural challenge is that China's population peaked in 2021, and its birthrate has been plummeting for years. While seemingly unrelated, a closer look reveals a potential connection between the two. Consumer confidence in China varies significantly across generations. While it holds up relatively well for Baby Boomers and Generation Z, it is Millennials in large cities – as well as the rural elderly – who feel the most despondent. Most likely, Millennials paid excessively high prices for real estate, only to

Chart 6: China's consumer confidence has not recovered from the real estate shock



Source: China Economic Monitoring & Analysis Center (CEMAC), Macrobond, Julius Baer
Note: Data as at September 2025.

witness the bubble burst shortly afterwards. Unsurprisingly, this is exactly the generation that seems to be unwilling or unable to reproduce, contributing to the weakening demographic trend.

In recent months, evidence has mounted that Chinese policymakers recognise that one of the most effective ways to reflate household balance sheets damaged by the prolonged downturn in the real estate sector is to engineer a managed and sustainable equity bull market. China's financial authorities have recently enacted measures aimed at encouraging listed companies to return cash to their shareholders and at further institutionalising domestic equity investments. This should incentivise Chinese households to shift some of their savings into equities and gradually participate in the wealth creation process. A managed and sustainable domestic equity bull market would, in turn, help restore depressed consumer confidence – especially among Millennials – and the consumption share of China's GDP would increase accordingly. To support this transition, the government is likely to prioritise the consumption of services over goods, accelerating the rebalancing of the economy towards domestic demand. The Chinese economy has been shifting from manufacturing to services for quite some time, but substantial untapped potential remains in sectors such as healthcare, financial services, and leisure and travel, areas where deregulation and a greater private sector role could boost consumption.

One year ago, we noted that unless there was sufficient evidence that Beijing was embarking on a true paradigm shift, Chinese equities would likely remain rangebound, with alternating sharp reratings followed by prolonged consolidation periods, similar to Japanese equities in the 1990s. We now believe that we are indeed witnessing the start of such a shift, one that could boost both the Chinese economy and its equity market for the remainder of this decade and beyond. China has become significantly more self-sufficient in recent years, reducing its vulnerability to global tensions. While shipments to the US have naturally declined since President Trump's tariff salvo in April 2025, exports to other countries – especially within the Asia region – have compensated for that, leaving China's overall export levels steady. Moreover, its advancements on the AI front should not be underestimated, as evidenced by the release of DeepSeek in early 2025. Lastly and most

importantly, China is considerably ahead of every other major economy in the process of developing electricity generation capacity, including storage and grid facilities. In fact, the country significantly surpasses the US in terms of additions to power generation capacity and now adds the equivalent of the entire US power grid approximately every 18 months. North America leads globally with regards to data centre capacity, but this is only half of the equation. Countries able to avoid energy bottlenecks will increasingly hold an advantage going forward. Advanced electrification will provide China with a massive energy cost advantage for the foreseeable future.

Key capital market trends

Private sector balance sheets

Fundamentally, investing is about participating in the financing of the private and public balance sheets that form the backbone of a market economy. From this perspective, the present situation in public and private sectors across most Western economies is profoundly different.

At its core, investing capital means financing the balance sheets of government and/or private sector entities. There is a high degree of interconnectedness among these balance sheets – not least because one agent's liability is always another agent's asset. Successful investing, therefore, requires a solid understanding of both the health of, and the dynamics between, balance sheets in the system.

Governments have balance sheets that are distinctly different from those of private sector entities. Two types must be distinguished: governments that are indebted in a currency they can issue (governments with monetary sovereignty), and those indebted in a foreign currency. If a government issues the money in which it owes debt – such as the US – it can default only for political, not economic, reasons. Should the US fiscal policy stance be deemed irresponsible, the adjustment mechanism would be the USD, which would depreciate. Put differently, holders of US Treasuries would still receive their coupon payments and be repaid the principal amount, but in a currency that had lost relative value. In this sense, there are various ways in which a government can fail to meet its payment obligations: explicitly, through non-payment; or more subtly, through currency depreciation.

After the GFC in 2008–2009, the US private sector underwent a prolonged period of balance sheet repair. After a decade of sustained deleveraging, US household and corporate balance sheets are in considerably better shape today. In fact, US households have moved from balance sheet recession to balance sheet strength, more than doubling their net

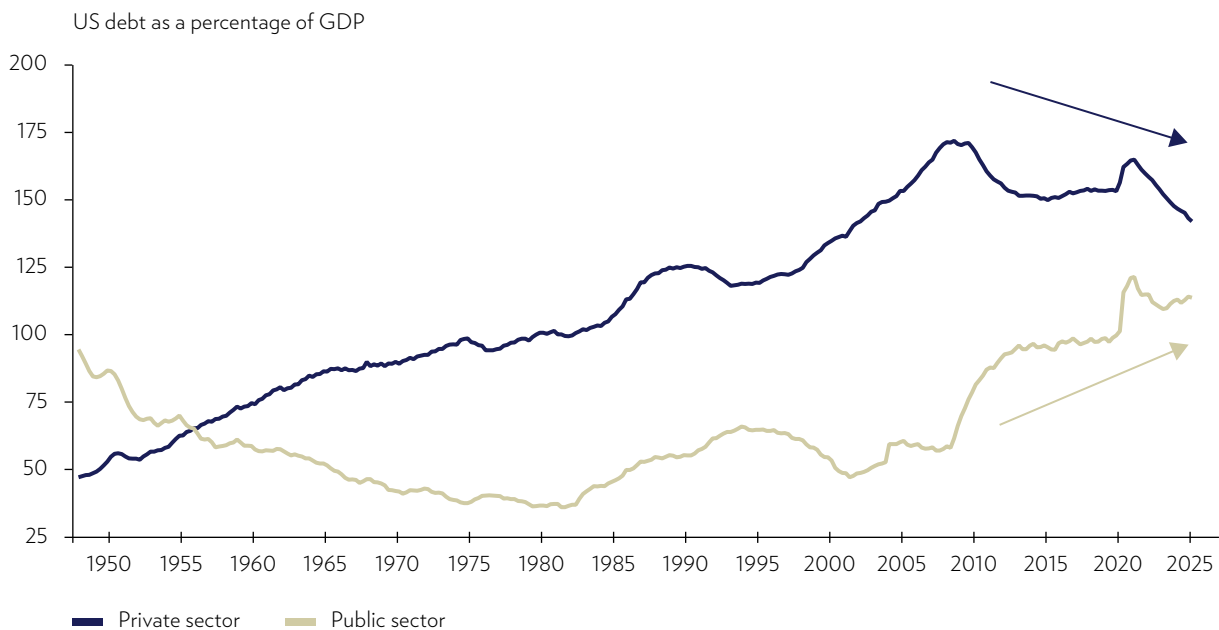
wealth since the beginning of last decade (USD 71 trillion in Q3 2007 vs USD 161 trillion in Q2 2025). Asset price inflation over the past 15 years, along with direct government transfers more recently, has played its part – while liabilities have grown very little over the same period. Most of these liabilities consist of mortgages at fixed interest rates, many of which were cleverly refinanced when rates hit record lows in the early 2020s. Today, the average rate paid on existing mortgages remains meaningfully below current market rates for new mortgage borrowings. Against this backdrop, US households proved relatively insensitive to the interest rate normalisation in 2022/2023. As far as the US corporate sector is concerned, higher policy rates have even benefited certain segments. This may appear counterintuitive at first. Yet in the case of large-cap US equities – which tend to hold large cash balances and have relatively low leverage (much of it in the form of long-term, fixed-rate debt) – the effect on net interest income has been positive, not negative. This represents an unprecedented phenomenon in a monetary tightening cycle.

The flip side of stronger private sector balance sheets is weaker public sector ones. While the US private sector has deleveraged, the opposite is true in the US public sector. Persistent procyclical US government deficits, coupled with normalised interest rates, have caused the cost of servicing US debt to skyrocket since the Fed began raising interest rates in March 2022. Today, the US has reached a tipping point where it spends more on interest payments on its federal debt than on defence. US Treasury Secretary Scott Bessent has stated his intention to reduce the US federal budget deficit from the

current 6% to 3%, aiming to end a prolonged period of record peacetime budget deficits. However, the efforts of the newly founded DOGE to cut unnecessary government spending have been, to put it mildly, fairly modest. In reality, the upward trajectory of public debt is a widespread global issue, and contrary to conventional belief, rising interest rates are currently hurting public finances and balance sheets more than those of private entities – disproportionately so. Granted, there are different ways to repair weak public sector balance sheets. Yet, given that

fiscal consolidation is politically sensitive, if not suicidal, and growth strategies offer no guarantee of success, controlled inflation and the monetisation of government debt with the result of fiat debasement appear to be the most promising policy options. The anticipation of repressive measures by governments, such as targeting interest rates to ensure the smooth functioning of the refinancing of public debt, provides an incentive for investors to diversify away from government bonds and structurally shift capital from public balance sheets to private ones.

Chart 7: The US has seen divergent private and public sector leverage trends since the 2008 Global Financial Crisis



Source: Bank for International Settlements, Macrobond, Julius Baer

Note: Data as at Q1 2025. 'Private sector debt' measures the total stock of loans and debt securities issued by US households and non-financial corporations as a share of US gross domestic product (GDP). 'Public sector debt' measures the total stock of debt liabilities issued by the US general government as a share of US GDP.

Nasdaq+

US technology companies remain at the forefront of shareholder value creation during the current innovation super cycle. However, while the benefits of AI tools affect companies worldwide, the downside risks if the capex cycle implodes are highly concentrated in the US.

In many of our previous Secular Outlook publications, we have highlighted the importance for global money managers of determining whether the USD is in a bull or bear market. During USD bull cycles (e.g. 1994–2001 and post GFC), US equities have outperformed rest-of-the-world assets, including commodities. Conversely, during USD bear cycles (e.g., 2002–2008), non-US assets have outperformed US equities. This sequence has been driven by the unique status enjoyed by the USD as the world's main reserve currency. At each of our past Secular Outlook offsites, we have asked ourselves whether the dollar's dominance as the world's reserve currency – and with it, the supremacy of US capital markets – is nearing its end. To date, our conclusion has remained unchanged every year: no currency or alternative capital market appears poised to challenge the status quo of USD capital market outperformance.

This year, the Trump administration has embarked on a quest to rebalance the global trading system, as outlined in Stephen Miran's infamous report 'A User's Guide to Restructuring the Global Trading System'. In doing so, it not only altered the rules of globalisation overnight but also pushed the limits of US presidential power, undermining confidence in key US institutions. So far, the collateral damage from these erratic policy actions has been confined to the USD. The administration's challenge is to engineer a lower valuation of the USD against its major trading partners' currencies, without triggering a loss of confidence in US assets. Thus far, it seems to have been successful: the USD sharply declined by roughly 12% in the first half of the year and stabilised thereafter, while US Treasuries held up well and US equities continued to outperform. It remains to be seen whether this tactic of USD debasement in large steps, rather than a gradual

decline, will continue to be effective or whether non-US investors will start asking for higher risk premia on US assets as they discount future losses on the currency. Put simply, as long as international investors continue to channel their dollars back into US equities, the dollar remains attractive and is less likely to enter a prolonged bear market. However, if global interest in US equities fades, the foundation for a USD bear market would be firmly in place.

This brings us to the question of whether the major US technology companies will be able to extend their market leadership during this era of accelerated innovation. Since the 1980s, every major iteration of technological progress has been driven by US-based companies. From the proliferation of the personal computer and the dawn of the internet, through the advent of the smartphone, the rise of the cloud, and the emergence of generative AI, each technological breakthrough has been characterised by the dominant, and at times exclusive, leadership of US technology giants. Since the AI boom took off with the introduction of ChatGPT in late 2022, these franchises have morphed, at least temporarily, from capital-light to capital-intensive business models. Against a backdrop of soaring capex, rising equity valuations, and growing concerns over circular financing, one question naturally resurfaces: are we in a bubble? As Howard Marks, co-founder and co-chair of Oaktree Capital Management, has observed, valuations alone rarely settle this debate. Rather, it is shifts in corporate and investor behaviour that offer better indicators on tipping points. This holds particularly true during innovation super cycles driven by disruptive technologies – such as the internet in the 1990s and AI today. There is simply too much optionality in the business models of emerging disrupters. Their business models, potential addressable markets, and

future profitability cannot be valued – even remotely – with precision. What we do know is that the secular US de-equitisation trend remains on track, with more capital returned to investors via dividend and share buy-back channels than they raise from capital markets.

In this context, we believe it is not the time to underweight major US technology stocks, especially given their profitability and the strength of their franchises. We therefore expect the continued leadership of the Nasdaq+¹ companies to be the most likely scenario, while acknowledging that their contribution to the outperformance of the US market is likely to be more challenging in the future. Critically, while the benefits of AI tools affect companies worldwide, the downside risks if the capex cycle implodes are highly concentrated in the US. Despite the fact that the US significantly outpaces other nations in AI investments, the adoption and utility of AI technologies – ChatGPT being a prime example – span the globe, with a substantial proportion of users residing outside the US, be it individuals or businesses. This underscores AI's global impact, extending well beyond its primary source of funding. Consequently, non-US investors should continue to focus their US equity exposure on truly exceptional franchises, i.e. those that cannot be found in other developed markets, and diversify wherever possible with rest-of-the-world names.

‘The benefits of AI tools affect companies worldwide, but the downside risks if the capex cycle implodes are highly concentrated in the US.’

Yves Bonzon, Group Chief Investment Officer

¹ Nasdaq+ refers to the technology-heavy Nasdaq Composite Index, as well as to selected companies listed elsewhere that are driving the next iteration of global technological progress.

European value

Europe's secular stagnation has long been treated as a foregone conclusion in recent economic history. Germany's historic fiscal stimulus package and the overhaul of its debt brake are bound to mark a turning point for the Old Continent. European value equities are poised to benefit.

At the turn of the millennium, against a backdrop of favourable global economic conditions and strong confidence in the newly introduced euro, the European project was off to a solid start. Yet ever since the GFC and the single bloc's subsequent debt crisis, various measures of European economic prosperity and growth have fallen behind their US counterparts. A striking illustration of this divergence is the evolution of the two regions' nominal GDP per capita in USD terms. While US GDP per capita increased from around USD 49,000 at the peak of the GFC to over USD 87,000 at the end of 2024, European nominal GDP per capita has essentially stagnated over the same period, growing by just about USD 3,500 and standing at USD 43,500 today (see chart 8). These numbers are, of course, dependent on the evolution of the USD, which entered a secular bull market at the beginning of the period under review, depleting Europe's relative wealth in USD terms. However, from whatever angle one views it – whether nominal or real GDP, per capita or aggregate, in local currency or in purchasing power parity terms – the lag in Europe's economy is evident. The fact of the matter is that while the European Union (EU) accounted for 27% of global GDP in 2008, briefly surpassing the US, it represents just 17% today. Over the same period, the US share of global GDP has risen.

What went wrong? A major structural problem weighing on the common market since its inception 35 years ago has been its fragmented financial, energy, and telecommunications markets – a conscious choice made by member states at the time, who wished to retain sovereignty over these three strategic sectors. For the record, Italy's economy was the same size as China's at the time. Next in line is the issue of regulatory rigidity, where the EU repeatedly scores lower on ease-of-doing-business

indicators than the US. Other factors of concern include insufficient investment, innovation gaps and, last but not least, the demographic situation, in which Europe is ageing faster and recording fewer births than other developed economies, including the US.

Despite the challenges, European economies have managed to produce a select number of outstanding companies. These gems – sometimes not so hidden – are typically industry leaders with a global revenue footprint, characterised by strong balance sheets, high profitability, and scalable business models. Beyond these companies, which play a core role in our portfolios as part of our global equity allocation, we have so far treated European equities as fulfilling a tactical (or cyclical) rather than strategic role in investors' asset allocations – expected to remain sensitive to the global economic cycle and geopolitical developments.

This narrative might just have changed fundamentally over the course of the last 12 months. As with many turning points in recent European history, it was once again a sense of immediate distress – in the form of the US turning inward and retrenching from its traditional role as global hegemon – that provided the impetus for a coordinated, proactive response on the Old Continent. Washington's policy shift on Ukraine presented European policymakers with a window of opportunity to break free from the 'Maastricht straitjacket' and move from fiscal austerity to fiscal profligacy. This time, the opportunity was not dismissed. Germany's fiscal stimulus measures, combined with a reform of its self-imposed debt brake, represent a decisive break from the dogmatic adherence to the 'black zero' (zero deficit) rule in Berlin – paving the way for reindustrialisation and durable economic growth across Europe. The EU's

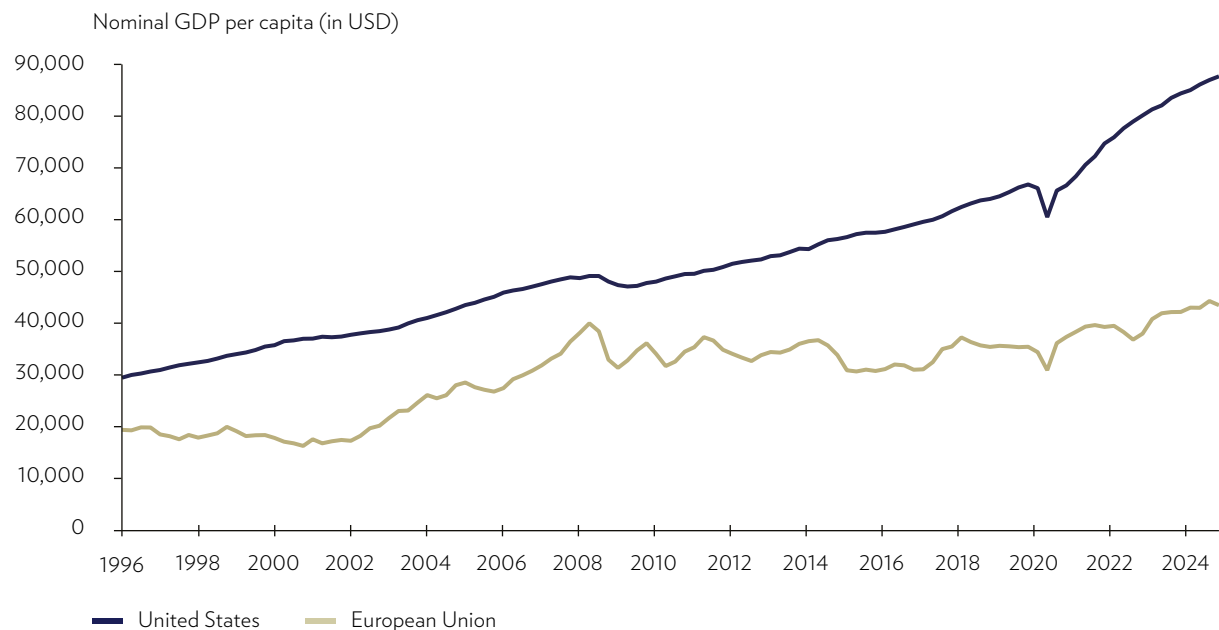
commitment to defence spending on the scale of EUR 1 trillion over the next decade marked another milestone. All in all, it seems that the famous Draghi and Letta reports – published shortly before Germany launched its ‘fiscal bazooka’ – have done more than merely gather dust in archives: they have helped steer European governance decisively in the right direction.

European value equities are positioned to be among the principal beneficiaries of the economic upturn in Europe, triggered by the end of fiscal austerity. While the largest constituents in Europe’s flagship indices typically have global revenue footprints, value sectors such as financials, utilities, and basic consumer goods maintain some of the highest domestic market shares – ideally positioned to benefit from expanded fiscal room and pro-growth reforms. Since the Covid-19 market crash at the beginning of this decade, European value equities – led by European banks – have outperformed their growth counterparts by more than 5% per annum on average. There are, however, two caveats to this

investment thesis going forward. First, political fragility remains a concern. France appears to be the weakest link today – a vulnerability that could once again potentially test European cohesion. Second, as a considerable portion of Europe’s capital stock is in dire need of rejuvenation, much of the planned fiscal spending may go towards replacing ageing infrastructure rather than expanding productive capacity. This could leave overall output unchanged, thereby limiting the long-term multiplier effect.

Nonetheless, the current starting point remains compelling. For more than 15 years in the post-GFC era, non-US investors have relentlessly recycled excess dollars into US assets, leaving them considerably underweight in European equities. Global capital pools are likely to shift incrementally to Europe as part of rebalancing exercises, as non-USD investors reassess their appetite to take on US currency risks, particularly the one associated with investments in US multinationals that can be easily substituted with non-US peers.

Chart 8: European GDP per capita has stagnated since the GFC



Source: World Bank, Eurostat, Macrobond, Julius Baer
Note: Data as at Q4 2024.

India and China

India and China remain our preferred strategic choices across the emerging market equity universe, as both feature a large local market, monetary sovereignty, a mix of hard and intangible assets, and the potential for structural reforms.

To further enhance diversification, we seek to add equities of large, independent emerging market economies to our asset allocation mix. While we have been allocating strategically and tactically to Asian equities (excluding Japan) for some time, we have added stand-alone tactical positions in Indian and Chinese equities throughout 2025. Today, the largest emerging economies arguably face the most precarious geopolitical and trade environments since the dissolution of the Soviet Union. Nevertheless, they remain our preferred choices across the emerging market equity universe, as both feature a large local market, monetary sovereignty, a mix of hard and intangible assets, and the potential for structural reforms.

India has been on our secular growth radar for some time. The country is poised to rank among the fastest-growing economies over the medium-to-long term. Favourable demographics, a growing middle class, and rising GDP per capita levels are driving both urbanisation and consumption. Meanwhile, Indian equities have significantly outperformed their global peers since the beginning of this decade. Only investments in US large-cap equities have delivered superior returns, measured in USD total return terms (see chart 9). Perhaps most importantly, unlike most other emerging market economies – which tend to be export-driven – the Indian economy is predominantly powered by domestic consumption, accounting for almost 60% of the country's GDP. This insulates it somewhat from the global economic cycle, making Indian equities a valuable complement to developed-market stocks with global revenue footprints. India has

been disproportionately affected by US trade tariffs, which have inevitably weighed on its recent equity market performance. However, we believe that the tariff dispute may ultimately prove beneficial, as it prompts the government to accelerate domestic-growth-supporting reforms – such as the recent overhaul of the Goods and Services Tax (GST) structure, designed to stimulate consumer spending and industrial output by reducing the tax burden on businesses and consumers.

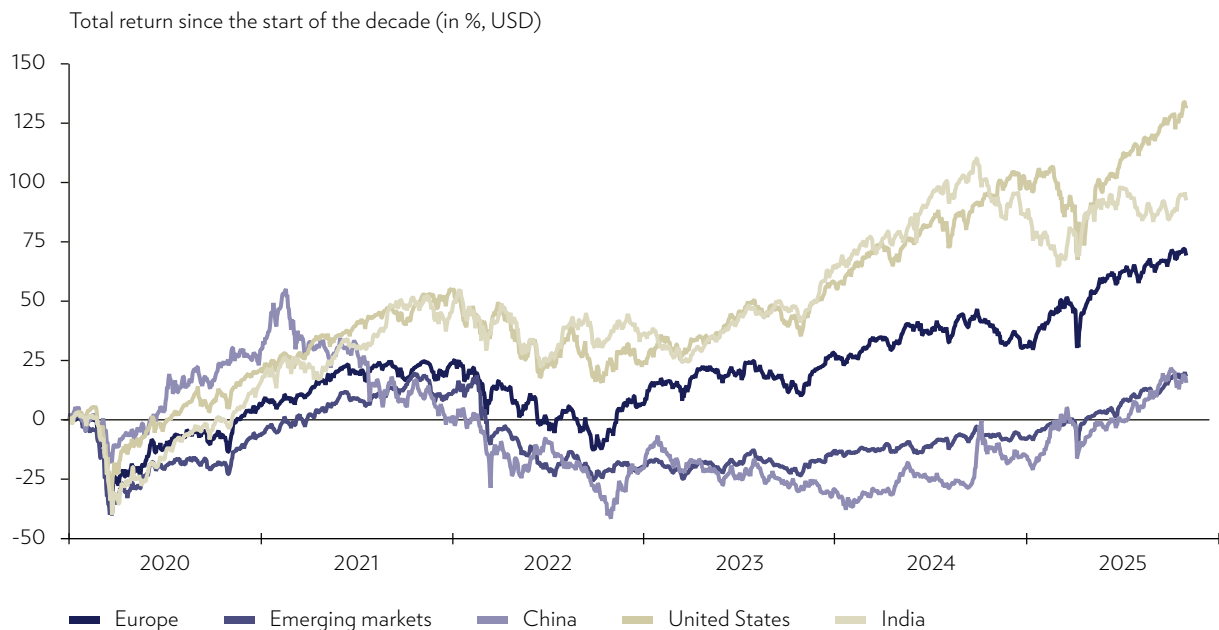
In 2021, we decided to reduce our strategic positioning in Chinese assets and subsequently removed them altogether from our strategic and tactical asset allocation in early 2022. In hindsight, this proved to be the right decision, particularly as China still faces significant domestic challenges – as outlined in the chapter entitled 'China's balance sheet recession'. However, the leadership in Beijing now appears to grasp the dynamics of a balance sheet recession – the prevailing condition affecting its economy. As previously explained, the most effective way to rebalance the economy and reflate private sector balance sheets is to strengthen the long-term role of Chinese equities as a store of value for household savings. Today, China's household savings rate is more than 30%, compared to just 5% in the US. If Chinese households can be persuaded by a managed bull market narrative and gradually move a part of their savings into the domestic equity market, this could provide a substantial boost to Chinese equities. However, it is not only government policies and domestic demand that add to the attractiveness of Chinese equities. China has emerged as the world's largest exporter of automobiles, ships,

telecommunications equipment, and much more. With half of the world's population living within 4.5 flight hours of Hong Kong – and 69 of the world's top 100 cities located within this radius – the region's innovation potential is immense. Furthermore, Chinese companies should not be underestimated in the ongoing AI arms race. The release of DeepSeek in early 2025 underscored this capability. While China lags the US in terms of frontier models and advanced chip design, it has demonstrated remarkable agility in rapidly adopting new developments and now leads in open-source large language models (LLMs).

One crucial risk for investors in Chinese equities – one we have consistently highlighted – is geopolitics,

especially the potential escalation of the tensions in Taiwan. Under the Trump administration, this risk has diminished significantly, reducing the tail risk of sanctions targeting Chinese assets. Our working assumption remains that of a peaceful and drawn-out resolution between Taipei and Beijing over a long period. By design, China's timeline is much longer than that of Western democracies. This outlook underpinned our re-entry into Chinese equities earlier this year. We believe the conditions for the first secular – rather than cyclical – equity bull market in China are slowly falling into place. Investor participation is further encouraged by today's truly multipolar geopolitical world order, which favours increased global diversification.

Chart 9: Indian equities have outperformed global peers



Source: MSCI, Macrobond, Julius Baer

Note: Data as at 31.10.2025. Past performance and performance forecasts are not reliable indicators of future results. The return may increase or decrease as a result of currency fluctuations.

Gold and digital assets (out-of-system assets)

Gold's rise reflects a structural demand for assets outside the centralised financial system. As Western governments weaponise capital markets and maintain fiscal dominance, investors – especially those based outside the West – seek protection from confiscation and currency debasement.

For a second consecutive year, at the time of writing, gold is at the top of the cross-asset performance rankings. Excluding digital assets², and viewed over the period since the start of this decade, gold has trailed only the major US technology stocks. In 2025, gold continued to reach nominal all-time

highs, surpassing its real (inflation-adjusted) peak from 1980. It broke through the USD 4000 per troy ounce threshold in mid-October before entering a consolidation phase.

Chart 10: Gold decoupled from its habitual drivers following the weaponisation of the USD-based financial system



Source: US Treasury, Macrobond, Julius Baer

Note: Data as at 27.10.2025. Past performance and performance forecasts are not reliable indicators of future results. The return may increase or decrease as a result of currency fluctuations.

² Investments in digital assets are exposed to elevated risk of fraud and loss and to price fluctuations.

Remember that gold's most valuable characteristic – when held in physical form – is that it does not represent a claim against anyone else. Consequently, the yellow metal serves as the ultimate hedge against counterparty risk and can offer protection against systemic risk, as it did during the 2008 GFC and the European debt crisis of the early 2010s. Yet gold's sustained relative outperformance so far this decade is fundamentally at odds with the lack of evidence of systemic problems in Western economies. Unlike previous episodes of gold strength, most of its traditional drivers – notably lower US real interest rates and heightened investor risk aversion – have been largely absent during this year's exceptional price surge (see chart 10).

We believe we have entered a new investment regime, driven by two structural forces: weak government balance sheets and the increasing instrumentalisation of the centralised financial system by Western governments for sanctioning purposes.

We addressed the first trend in earlier chapters: developed-market governments are engaging in fiscal dominance, placing strain on public G7³ government balance sheets, and prompting investors to seek alternative refuge. Regarding the second driver, we are witnessing a bifurcation in the investment reaction functions of Western and non-Western investors. Given the unprecedented weaponisation of the global financial system by Western nations in response to Russia's invasion of Ukraine in 2022, non-Western pools of capital may have decided to move some money out of that system and into assets where Western governments do not have the ability to freeze or seize them. In the case of gold, its remarkable ascent – while also subject to some speculative demand – is fundamentally supported by structural demand for physically backed gold financial instruments, particularly from non-Western central banks.

Quite simply, when investors grow more concerned about the return *of* their capital rather than the return *on* their capital, the premium required to hold out-of-system assets, even if they are unproductive, shrinks. Given that the Western governments are demonstrating a healthy appetite for using capital markets for confiscation or sanctioning purposes, we must work with the hypothesis of increased structural demand for out-of-system assets that protect against its consequences, e.g. precious metals, led by gold, as well as digital assets⁴. We maintain a strategic allocation to gold in portfolios to capture this trend.

³ Canada, France, Germany, Italy, Japan, UK, US

⁴ Investments in digital assets are exposed to elevated risk of fraud and loss and to price fluctuations.

CHF: Swiss assets as a store of value

In a multipolar world, Swiss assets – anchored by the safe-haven CHF – offer investors, especially those outside the West, store-of-value protection and enhanced diversification, supported by strong institutions, innovation, and structural economic strengths in real estate and equities.

According to our Secular Outlook, the global investor of the 2020s should thus be holding a well-diversified international portfolio – capitalising on the innovation super cycle driven by the US, while also benefiting from geopolitical tailwinds in Europe, and favourable dynamics across the largest emerging market economies. To this, they can add a sprinkle of out-of-system assets as a hedge against Western fiscal dominance and the growing weaponisation of global capital markets. While the asset class landscape is already broad, we would argue that another type of asset is poised to benefit from the above-described secular tailwinds: store-of-value assets, and particularly the CHF and Swiss assets more broadly, offering investors an additional source of risk premium and enhanced portfolio diversification.

Store-of-value assets have been featured in the Secular Outlook asset class table since 2022, when geopolitics re-emerged as a central factor in global asset allocation for the first time in four decades. Though still integrated within the global financial system, store-of-value markets are more likely to shield investors from confiscatory policies – much like out-of-system assets such as gold and digital assets⁵. We define these assets as those situated in jurisdictions where property rights and shareholder value are strongly protected, characterised by robust institutions, sound governance, and efficient capital allocation. A clear example is the US (despite its institutions facing challenges this year), to which

portfolios are already significantly exposed. Another example is Switzerland, including Swiss equities and Swiss real estate, underpinned by the CHF's safe-haven status and structural strength.

Switzerland, though small in size and population, punches above its weight economically. It ranks 20th globally in nominal GDP and among the top five in GDP per capita. Its financial sector is world-class, with its equity market ranking as the tenth-largest globally, accounting for roughly 2% of global equity capitalisation.

Swiss assets exemplify store-of-value investments. The country's stable institutions and governance protect shareholder and property rights. Switzerland's strategic appeal is further enhanced by its flexible labour market and innovation-driven business environment – supported by leading institutes of science and technology – that enable the country to sustain competitiveness and foster growth despite its modest size. In terms of labour productivity, Switzerland remains one of the top performers in the region, while its unit labour costs have increased less than in the eurozone or the US, particularly this decade, making its workforce competitive despite higher wage levels (see chart 11). The country consistently tops global competitiveness and innovation rankings⁶. Moreover, while other developed nations continue to accumulate debt and pursue fiscally dominant policies, Switzerland's public sector remains among the least indebted globally (see

⁵ Investments in digital assets are exposed to elevated risk of fraud and loss and to price fluctuations.

⁶ Including those compiled by institutions such as the International Institute for Management Development, European Institute of Business Administration, World Economic Forum, World Intellectual Property Organization, and the EU.

chart 12). Overall, the Swiss ecosystem offers fertile ground for high-quality businesses to flourish, compounding returns and ultimately preserving wealth across generations. These attributes reinforce the CHF's safe-haven status and support its long-term appreciation.

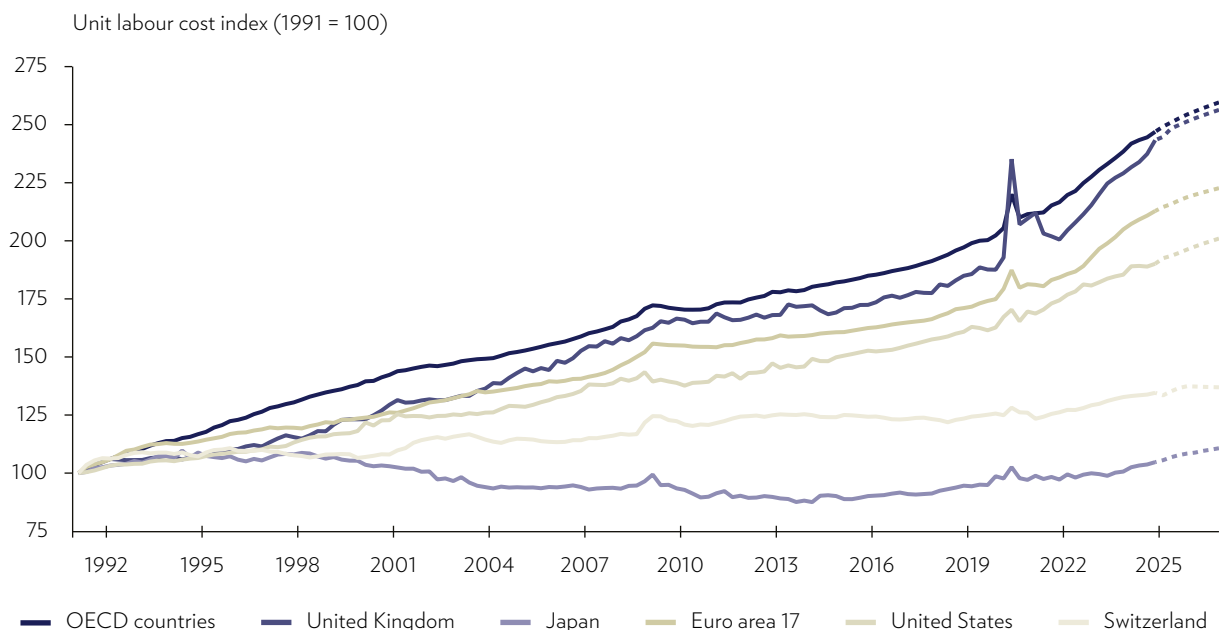
The steady appreciation of the CHF particularly benefits foreign investors, especially those based in emerging markets where currencies tend to be more volatile. For these investors, the CHF offers additional protection against capital erosion caused by inflation. Swiss real estate and equities, as real assets, serve as an even more effective hedge against inflation.

The long-term investment case for Swiss real estate remains compelling, particularly in the residential segment. The market is structurally supported by a growing population – one of the highest projected growth rates in Europe. Switzerland's appeal to foreign workers contributes to a rising number of households, keeping vacancy rates low. At the same time, supply remains constrained, exerting

upward pressure on rents and making sustained price declines unlikely. There are several ways to invest in this asset class. While institutional investors and ultra-high-net-worth individuals may build diversified direct real estate portfolios, a lower-maintenance and more liquid alternative is to invest in pooled vehicles, such as public or private property funds.

The favourable structural characteristics of the Swiss economy also spill over into the Swiss equity market. The market is predominantly tilted towards defensive sectors, given its strong exposure to global healthcare and consumer defensive heavyweights – accounting for 60% of the Swiss Market Index – and presents a bias towards high-quality companies. This mix may be out of favour in 2025, but it proves particularly beneficial during economic slowdowns, as the earnings of high-quality companies usually demonstrate comparative resilience due to market-leading margins and superior pricing power. Conversely, the Swiss equity market also tends to preserve value during periods of low inflation and economic prosperity, bolstered by its thriving small- and mid-cap landscape and its international

Chart 11: The Swiss labour market stays competitive, in part thanks to its flexibility



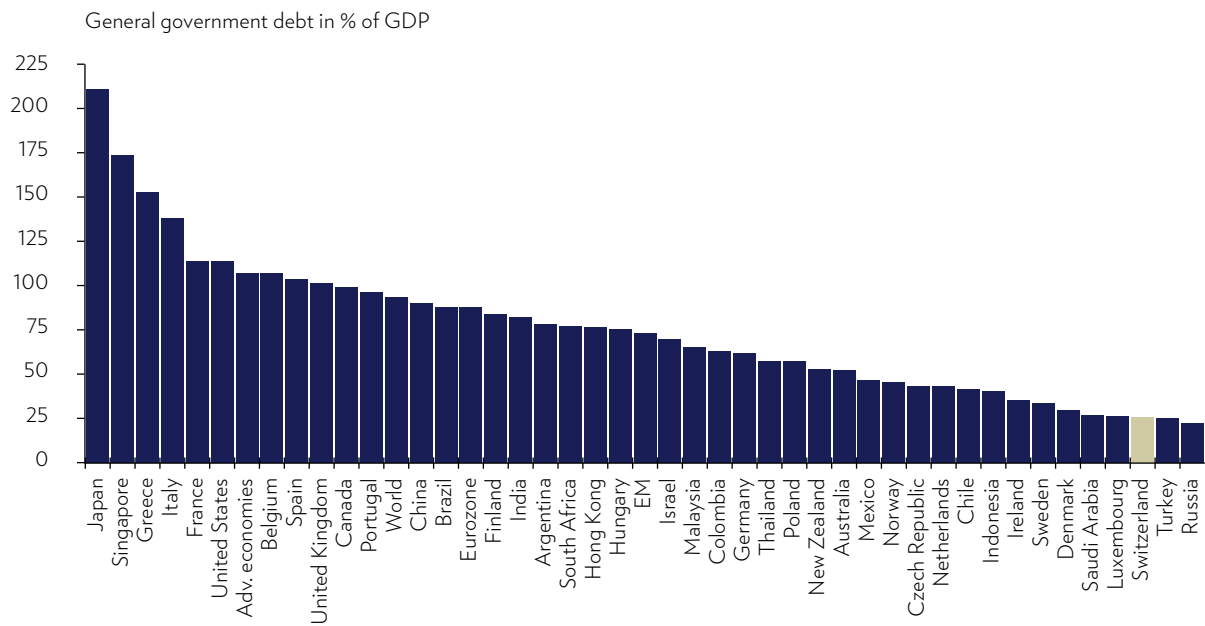
Source: Organisation for Economic Co-operation and Development (OECD), Macrobond, Julius Baer

Note: Data as at Q2 2025. Euro area 17 indicates the euro area excluding Latvia, Lithuania, and Croatia. Dotted lines represent OECD forecasts.

geographic diversification. A word of caution: Swiss equities are not suited to passive management. Passive index investing works effectively in well-diversified equity markets. Given the exceptional concentration of the Swiss market, however, mitigating specific company and style risks requires a comprehensive, all-cap, well-diversified, and active investment approach.

In summary, against the backdrop of a multipolar world marked by opportunistic manoeuvring on the geopolitical stage – keeping macroeconomic and financial market volatility elevated – the case for the CHF and Swiss assets has become increasingly compelling, particularly for investors based outside the Western sphere.

Chart 12: The Swiss government is one of the least indebted in the world



Source: Bank for International Settlements, Macrobond, Julius Baer
Note: Data as at Q1 2025. Adv. = advanced; EM = emerging markets



Key risk factors

Key challenges for the global economy

Growing climate, cyber, and geopolitical threats – alongside systemic vulnerabilities and infrastructure weaknesses – are heightening global economic risks. These interconnected challenges demand resilience strategies to protect financial stability and sustainable growth amid rising uncertainty.

Climate risk

The physical risks of climate change are becoming more evident by the day. From rising sea levels to desertification, the consequences are substantial – spanning the destruction of productive assets, forced migration, and a slowdown in economic growth.

Recent headlines have brought this issue to the forefront. For now, we see the emerging concerns as idiosyncratic rather than systemic. Nevertheless, investors should remain vigilant and closely monitor developments in this space – mindful that it represents, by definition, a blind spot that has so far not been tested in a recession.

Cyber risk

In an increasingly digitalised and connected world, cybercrime and ransomware are likely to continue posing a growing threat to businesses and individuals, as well as to governments and the broader economy.

Geopolitical risk

As demonstrated by the ongoing conflicts in Ukraine and the Middle East, geopolitical rivalries have returned with renewed intensity in recent years – extending well beyond a strategic confrontation between the US and China. The new geopolitical landscape is complex and fragile, as countries driven by national interests tend to deviate opportunistically from seemingly strong alliances.

Dormant systemic risk

The shadow-banking system – including private credit – remains the main blind spot for global investors. Balance sheets in this ecosystem are opaque by design. Listed banks and insurers are not perfectly transparent either; however, their equity and debt prices still transmit useful market signals. In contrast, such signals in shadow banking are often delayed or entirely absent, complicating timely risk assessment. This matters today because a large share of capital over the past decade has been raised and intermediated through private markets, rather than public venues that provide continuous price discovery.

Infrastructure risk

Infrastructure risk lies at the crossroads between climate change and cyber risk. This is driving governments to accelerate countermeasures and compelling infrastructure projects to strengthen their resilience.



Imprint

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