

Julius Bär

MARKET OUTLOOK

Investing in a multipolar world
Mid-Year 2025



Marketing material

Publication date: 18 June 2025, 8:00 CET

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

Source: Bank Julius Bär & Co. Ltd. (Julius Bär), unless explicitly stated otherwise.

Julius Bär

Editorial

Dear Reader,

The first half of 2025 has proven to be anything but calm. Markets have struggled to find direction as shifting geopolitics and policy uncertainty have kept investors guessing. The days of US-led market dominance appear to be fading, with the world moving steadily towards a more multipolar investment landscape. Against this backdrop of heightened uncertainty, our Market Outlook Mid-Year 2025 aims to provide guidance for the second half of the year – and beyond.

Looking ahead, the US economy faces a challenging stretch marked by sluggish growth and persistent inflation, both impacted by policy constraints. Volatile fiscal signals and limited room for manoeuvre on both monetary and fiscal fronts will continue to weigh on sentiment.

In contrast, other regions offer more flexible policy frameworks and diverse growth drivers. However, investors should remain cautious. Geopolitical flare-ups, financial system vulnerabilities, a potential slowdown in China, and US political turbulence may add complexity.

So, how does our investment stance reflect this in our Market Outlook Mid-Year 2025? We suggest staying vigilant and selectively diversifying into non-USD assets. The US dollar faces downside risks in the medium-to-longer term, while gold remains a strategic hedge, with its long-term uptrend intact.

In fixed income, higher term premiums make long-duration strategies riskier. Instead, we favour moderate-duration crossover debt and select high-quality emerging market (EM) hard-currency corporate debt, which offer attractive yields at a manageable level of risk.

In equities, a clear rotation is in play, and we prefer to use short-term US equity strength to pivot towards Europe, Japan, China, and India. Our focus remains on high-quality, attractively valued companies in defensive sectors with limited tariff risks.

The world is complex, but complexity breeds opportunity – especially for those who stay focused on quality and strategic diversification. As always, we thank you for your trust in us and look forward to helping you navigate your way through your investment decisions in the coming months.

Yours faithfully,



Christian Gattiker
Head of Research

Contents

Macroeconomy and strategy	5
Fixed income	10
Equities	13
Important legal information	17

Digital version

Scan or click on the QR code to access the digital version of the Market Outlook.





Macroeconomy and strategy

Growth opportunities in Europe and Asia take centre stage

US exceptionalism is fading, with global capital flows shifting away from the US. Investors are looking to Europe and Asia for returns, as governments are eager to implement growth-supportive policies. Meanwhile, active currency management and strategic asset allocation remain crucial amid rising geopolitical uncertainty.

As the global economy navigates uncharted waters, one thing is certain: the US is no longer the sole captain steering the ship. The country's unpredictable politics, marked by a flurry of executive orders, have created a ripple effect that impacts trade and fiscal policies worldwide. This erratic behaviour has led to a softening of short-term economic growth. While we see an elevated risk of a recession looming on the horizon, it is essential to note that any downturn would be unlikely to be long-lasting, since the US economy is not plagued by major domestic imbalances. The US Federal Reserve is likely to react slowly given tariffs' potential inflationary impact. We forecast two 50-basis-point (bps) rate cuts in the second half of the year. However, companies are adopting a wait-and-see approach, putting investment and hiring plans on hold until the dust settles, which is softening the US growth outlook.

Forging new alliances

As the US trades blows in the context of its global trade war, the rest of the world is busy forging new alliances and strengthening existing ones. Europe and Asia, in particular, are eager to maintain open trade links and implement growth-supportive policies. This shift is giving rise to a fascinating phenomenon: the emergence of bilateral trade agreements that bypass the US as these regions seek to insulate themselves from the unpredictable whims of US politics. Indeed, we see this in real time.

Europe and Asia in the driving seat

Meanwhile, European countries are poised to ramp up public spending, having demonstrated remarkable fiscal discipline in recent years. By easing

regulations and cutting red tape, they are creating fertile ground for businesses to thrive. Looking ahead to the second half of 2025, we expect to see a surge in efforts to reduce the regulatory burden, increase fiscal spending, and stimulate growth without triggering inflation. We expect monetary policy in Europe to become expansionary in 2025, with the European Central Bank set to cut rates by 25bps at each of its next three meetings, accompanied by growth-supportive fiscal policies in 2026. In Asia, and particularly in China, trade talks will remain a source of volatility, but more supportive domestic and monetary policies should mitigate the impact.

The world will respond to US tariffs primarily with stimulus measures rather than by imposing retaliatory tariffs. The rebalancing of global trade will be driven by stronger growth in Europe and Asia, and weaker growth in the US.

A game changer in currency markets

A shift in global capital flows is underway, with investors increasingly looking beyond the US for returns. This has significant implications for the foreign exchange market and has much to do with the USD's safe-haven status, which was questioned in the wake of 'Liberation Day'. When the US finds itself at the epicentre of a crisis, the USD does not benefit in the early stages of risk-off episodes, but rather once recession risks spread from the US across the globe. Hence, we expect the USD to remain within its lower trading range of EUR/USD 1.10–1.20, with substantial downside risks. Traditional safe-haven currencies, such as the CHF, remain a better choice for investors seeking refuge,

despite the rising probability of a zero or even negative interest rate policy. In the context of a changing world order and heightened uncertainty, actively managing currency risks is paramount for investors.

Hope is not a strategy, but a robust strategic asset allocation is

2025 will not be an easy year for investors. Geopolitics, US policies, and fiscal errors, particularly in the US, remain major concerns for investors. The geopolitical transition is a complex process that introduces volatility into markets. This makes a broadly diversified investment strategy, designed to provide robustness amid choppy waters, all the more important. Hope for the best, but prepare for the worst. Investors' strategic asset allocation remains the fallback solution when uncertainty increases. Gold remains an integral part of any asset allocation, offering protection and diversification benefits amid economic and geopolitical risks. Trade tensions, and the related risk aversion in financial markets, are cyclical add-ons to gold's structural bull market, which is determined by central-bank buying. Both are a manifestation of our multipolar world, increasing our conviction about the solidity of the gold bull market.





“The world will
respond to US
tariffs primarily
with stimulus
measures rather
than by imposing
retaliatory tariffs.”

Christian Gattiker
Head of Research



A close-up photograph of a person's hand writing in a small notebook. The person is wearing a tan-colored coat and several gold rings on their fingers. The background is blurred, showing what appears to be a window or a bright light source. A dark blue semi-transparent rectangle is overlaid on the image, containing the text "Fixed income" in white.

Fixed income

Quality counts when bond-hunting

Credit spreads see-sawed in the first half of 2025, and although they recovered substantially, policy uncertainty remains. Investors might wish to exit positions in the riskiest names and stick with quality names in the belly of the yield curve. Extra yield can be found in the best USD high-yield names and hard-currency EM corporate issuers.

The story so far...

2025 saw the 'Trump 2.0' era arrive with quite a bang, and its impact has been felt across financial markets. When it comes to the bond markets, they were also not immune to the administration's shocks, but the spread-widening that occurred has now been broadly, if not completely, reversed. What remains, however, is the uncertainty about the outcome for global trade policy and beyond. Yes, the headline tariffs that shocked the markets on 2 April have been just as dramatically slashed, but policy

uncertainty remains, not just around trade but also with regards to fiscal policy and interest rates. In this context, our analysts do not recommend any big strategy changes in bond portfolios right now, apart from perhaps using spread-tightening to reduce positions in those issuers with the weakest balance sheets, and therefore most susceptible to credit risk. This does not mean, however, that we do not like the high-yield segment at all: in USD, the high-quality names there currently offer investors the best value, while default risks are still moderate.

Crossover quality offers real value



Source: Bloomberg Finance L.P., Macrobond, Julius Baer Fixed Income Research

Note: Data as at 10 June. Past performance and performance forecasts are not reliable indicators of future results. The return may increase or decrease as a result of currency fluctuations.

Quality crossover bonds in USD

Our analysts maintain a preference for the crossover space in USD bonds, i.e. BBB/BB rated corporates. The US high-yield bond market contains structurally better credit quality than it did in the past, and we believe that the highest-quality bucket within the segment (those companies rated BB) should be able to withstand any further cooling off in the US economy, especially given that current yields offer a meaningful buffer. For similar reasons, quality low-investment-grade bonds (i.e. those rated BBB) also fit the bill and are thus still rated Overweight.

We are often asked whether or not it is time to extend duration. The yields of 30-year US Treasury bonds have nudged higher and, indeed, even approached the multi-year highs that we last saw in October 2023. However, long-dated yields are likely to remain higher for longer now, as investors demand a higher premium to hold longer maturities. Technically speaking, the term premium will remain elevated, and we do not see yields collapsing from here, which reduces the attractiveness of very-long-duration position-taking. For this reason, we continue to prefer the so-called belly of the yield curve, i.e. the 'Goldilocks' 3-to-7-year maturities, which provide the best balance of both reinvestment and duration risks.

EUR investors – interesting opportunities at home

The erratic trade policy that has emerged from the US this year also led to a weaker USD, and the current risk-on phase due to easing tariff risks is not creating tailwinds for the currency. In fact, our currency analysts are of the view that despite its recent consolidation, the USD will remain in its lower trading range and faces substantial risks. As such, European investors are also looking for investment opportunities at home, and quality EUR bonds offer a decent return at this point. Continued disinflation should open the door for further cuts from the European Central Bank, ultimately benefiting those bonds. Moreover, safe-haven seekers might find bonds in currencies such as the CHF a valuable addition to their portfolios.

EM corporate bonds remain in focus

EM bonds have shown remarkable resilience so far in 2025. The US dilemma as to whether to cut interest rates to support growth or wait for hard data first is clearly having an impact on EM central banks, causing them to pause too. However, we believe that this pause will only be temporary and expect easing cycles to resume in the second half of 2025, prompted by downward revisions to growth, lower energy prices, declining inflation, and stronger EM currencies. Of course, these easing cycles should be further boosted when the US Federal Reserve starts easing as well, and our economists currently expect meaningful cuts before the end of the year. The current weakness in the USD is certainly another supportive factor for EM bonds. That said, we maintain our Neutral call on EM sovereign hard-currency bonds, not least because spreads are still very tight. EM corporate bonds, however, remain in favour, since corporate fundamental metrics are strong and default rates remain low. We maintain our Overweight rating on EM corporate hard-currency bonds, with a preference for the higher-rated names.

The background of the slide features a photograph of a modern building with large, multi-paned windows. Some windows have orange and red tinted glass. In the foreground, there are out-of-focus green plants, including a tall, thin palm-like plant on the left and a bushier plant on the right. A dark blue rectangular overlay is positioned in the center of the image, containing the word "Equities" in white text.

Equities

Go global with equities

Amid a changing global trade environment, it is time to consider diversifying away from US assets into non-US assets. In particular, we like German and Swiss mid-caps, as well as equities in China and Japan. The resilience of companies is more critical than ever in today's complex market, which underlines the importance of stock selection.

There is a heated exchange on whether or not US exceptionalism is coming to an end, but there is no denying that the high policy uncertainty in the US, as well as the US's limited room for manoeuvre on both monetary and fiscal fronts, is impacting the US economy. We believe that US markets may indeed see prolonged capital outflows as non-US investors scale back their US exposure. US stocks remain part of a well-diversified portfolio, but we believe that US equity allocations should focus on truly exceptional companies, where there is no equivalent outside of

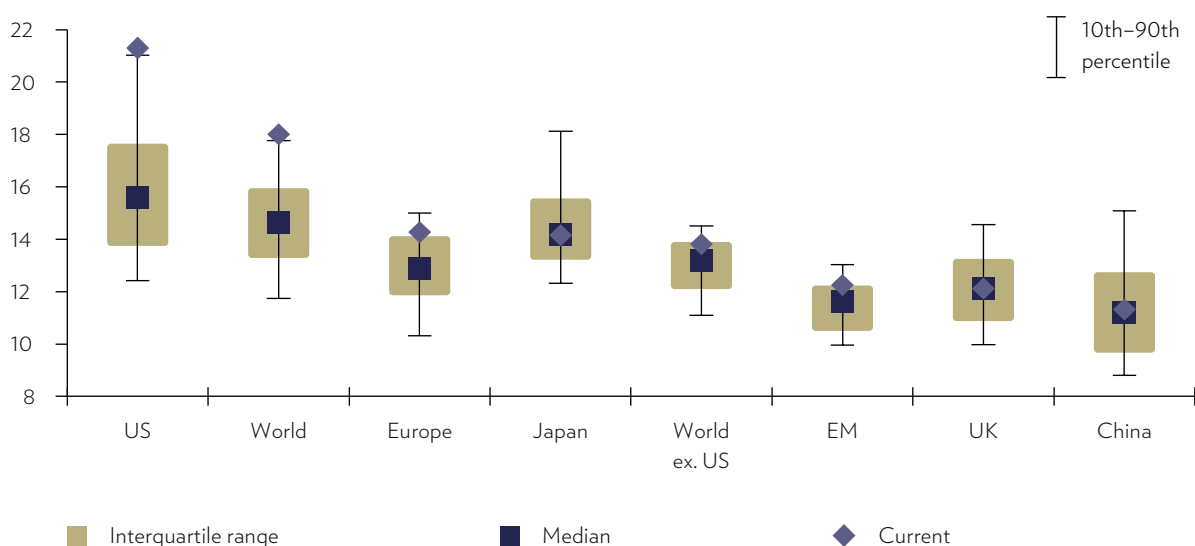
the US, and portfolios should be diversified wherever possible with non-US names.

Europe

There is a clear contrast between the policy dynamics in the US and Europe, with a notable shift towards fiscal easing evident in the latter. With fiscal policies becoming more supportive and the European Central Bank keeping interest rates low, earnings growth in Europe is poised to rebound after a prolonged period of stagnation.

Non-US equity markets are more attractively valued

12-month forward price/earnings ratio



Source: Bloomberg Finance L.P., Julius Baer

Note: Data is from the past 20 years, as at 19.05.2025; ex. = excluding; interquartile range = 25th-75th percentile. Past performance and performance forecasts are not reliable indicators of future results. The return may increase or decrease as a result of currency fluctuations.

Within Europe, we believe that German equities are positioned to do well due to their bias towards cyclical growth sectors, their attractive valuations, and their strong projected earnings growth. Specifically, we currently like German mid-cap stocks, as the MDAX Index's weighting of industrials and materials is heavier. These stocks should benefit more from the German government's unprecedented fiscal stimulus announcement earlier this year, which is aimed at boosting defence and infrastructure spending.

The 2025 earnings growth expectations for Swiss companies are also solid, and these tend to be more stable compared to those of their European and US peers. In Switzerland, we also prefer mid-cap stocks given their quality bias. In both Germany and Switzerland, mid-cap companies tend to be more sensitive to local growth dynamics and less exposed to global trade risks.

“We believe that US equity allocations should focus on truly exceptional companies ... and portfolios should be diversified wherever possible with non-US names.”

Christian Gattiker, Head of Research

Asia

Outside of Europe, we also see opportunities in Asia to diversify away from the US. In this region, we believe that China and Japan are currently attractive.

In China, some volatility can be expected depending on how further trade talks develop. Nevertheless, while the impact of the tariffs on Chinese exporters will still be significant, the de-escalation of the trade conflict overall should ease the pressure on the Chinese economy. Furthermore, Chinese firms

are now placing greater emphasis on controlling costs in order to enhance margins, and they are also increasing dividend payouts and share buy-backs to raise shareholder returns. All these factors should be reflected in the performance of their shares going forward. Valuations in China are currently at compelling levels and also have a low correlation to equities in the rest of the world, making Chinese equities a good diversifier.

Regardless of how the trade negotiations between Japan and the US play out in the end, further progress in terms of corporate governance and labour market reforms should support the Japanese equity market. We expect efforts by companies to drive long-term shareholder returns and value creation to both increase in pace and broaden in scope. We also see the potential for further support measures, with fiscal policy set to be expansionary and monetary policy remaining significantly accommodative with negative real rates.

Stock-picking

Morningstar data showed that active European funds saw more investor money outflows than inflows in 18 of the 24 months in 2022 and 2023, while passive funds saw relentless growth. However, the fiscal stimulus measures in Europe, together with the shifting international trade paradigm, may well change this trend, as this environment should favour more nimble stock-pickers over passive funds. There are undoubtedly some parallels that can be drawn between the outbreak of the Covid-19 pandemic in 2020 and President Trump's recent introduction of hefty new tariffs. Ultimately, how companies across the globe are able to navigate this complex and challenging situation will be key. The current environment highlights again that individual companies' resilience is more vital than ever, which in turn confirms the importance of stock-picking at the moment.

Next Generation

Among our Next Generation themes, we would currently focus on Extended Longevity and Future of Finance. Companies relevant to the Extended Longevity theme are set to benefit from shifting spending patterns as the population ages, together with the growing number of age-related diseases. As for Future of Finance, this theme should benefit from the ongoing disruption of the financial industry, as

well as from the resilient nature of the asset management industry. Investors could consider a barbell strategy with a mix of investments in Extended Longevity and Future of Finance, thereby pairing a more defensive theme (thanks to the exposure to health-care companies) with a more cyclical one.

Finally, the expectation of a pickup in fiscal spending in Europe should benefit the Future Cities theme, which should also structurally benefit from the growing urgency to tackle the challenges that climate change is posing to cities around the world.

Important legal information

Imprint

Authors

Michael Rist, Head Investment Content,

michael.rist@juliusbaer.com¹

Roman Canziani, Head Investment Writing,

roman.canziani@juliusbaer.com¹

Bernadette Anderko, Investment Writing,

bernadette.anderko@juliusbaer.com¹

Jan Bopp, Investment Writing,

jan.bopp@juliusbaer.com¹

Lucija Caculovic, Investment Writing,

lucija.caculovic@juliusbaer.com¹

Helen Freer, Investment Writing,

helen.freer@juliusbaer.com¹

Jacques Michael Rauber, Investment Writing,

mike.rauber@juliusbaer.com¹

Jonti Warris, Investment Writing,

jonti.warris@juliusbaer.com¹

¹ Employed by Bank Julius Baer & Co. Ltd., Zurich, which is authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

This content constitutes **marketing material** and is not the result of independent financial/investment research. The information and opinions expressed were produced by Bank Julius Baer & Co. Ltd., Zurich, ("Julius Baer"), which is authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA. This content may contain information obtained from third parties. **The information and opinions expressed were valid at the date of writing, and may be based on numerous assumptions and, thus, subject to change without notice.**

This content serves **for information purposes only** and is **not intended as a legal, accounting, or tax advice, or an offer**, or an invitation to buy or sell any financial instruments and/or products. Furthermore, it **does not constitute a personal recommendation or take into account specific personal circumstances** (e.g. investment objectives, financial situation, or investment strategies). Although the information is trusted to be accurate and complete and data has been obtained in good faith from sources believed to be reliable, no representation or warranty, expressed or implied, is made in this respect. **To the extent permitted by applicable laws and/or regulations, Julius Baer accepts no liability whatsoever for any claims for loss or damages of any kind arising directly or indirectly from this content** (including acts or omissions by third parties such as auxiliary persons and/or agents of Julius Baer).

Where the content is distributed into the United Kingdom by an offshore entity, it has been approved on the date shown on this content for distribution as a financial promotion in the United Kingdom by Julius Baer International Limited, which is authorised and regulated by the FCA (FRN 139179). If included, tax information is not based on individual circumstances and is subject to change. Clients should obtain independent tax advice before deciding to invest.

For further important legal information (e.g. regarding risks, sustainability, or third-party information) and country-specific disclaimers in connection with this content, please consult the following link or QR code:

Important legal information (click here)



Julius Bär

Founding Signatory of:



PRINCIPLES FOR
RESPONSIBLE
BANKING

Signatory of:



JULIUS BAER GROUP

Head Office
Bahnhofstrasse 36
P. O. Box
8010 Zurich
Switzerland
Telephone +41 (0) 58 888 1111
Fax +41 (0) 58 888 1122
www.juliusbaer.com

The Julius Baer Group is present in around 60 locations worldwide, including Zurich (Head Office), Bangkok, Dubai, Dublin, Frankfurt, Geneva, Hong Kong, London, Luxembourg, Madrid, Mexico City, Milan, Monaco, Mumbai, Santiago de Chile, Shanghai, Singapore, Tel Aviv, and Tokyo.

06/2025 Publ. No. PU00971EN
© JULIUS BAER GROUP, 2025