Julius Bär

MARKET OUTLOOK

All eyes on policy responses
Year-End 2025

Marketing material
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Julius Bär

Editorial

Dear Reader,

This year, markets have swung between fading growth and hopes of a policy rescue. In such times, the adage 'keep calm and carry on' still applies. For investors, this means staying constructive: volatility triggered by weak macroeconomic data should be treated as a re-entry point rather than an exit signal.

The US is cooling, with consumer fatigue slowing demand. Inflation remains sticky but is gradually easing, allowing the Federal Reserve (Fed) to start cutting interest rates again. Europe sits in a rare sweet spot of growth, inflation, and policy support, though fiscal follow-through remains crucial. In China, weaker domestic momentum is likely to prompt further stimulus.

For portfolios, the message is clear: look beyond the US. Europe, Japan, China, and India all offer compelling opportunities and valuable diversification. In fixed income, the five-to-seven-year segment remains attractive, with corporate credit favoured over government bonds and selective opportunities in BB-rated debt. In currencies, we expect the US dollar's long-term weakening trend to resume, while gold continues to shine as a safe-haven anchor. Finally, top-tier alternative fund managers can offer not only diversification benefits, but also access to unique and highly attractive return streams.

As 2025 moves towards its final months, we thank you for the trust you place in Julius Baer. We look forward to navigating these opportunities together – and helping you turn today's uncertainty into tomorrow's potential.

Yours faithfully,

Christian Gattiker
Head of Research

Digital version

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Macroeconomy and strategy

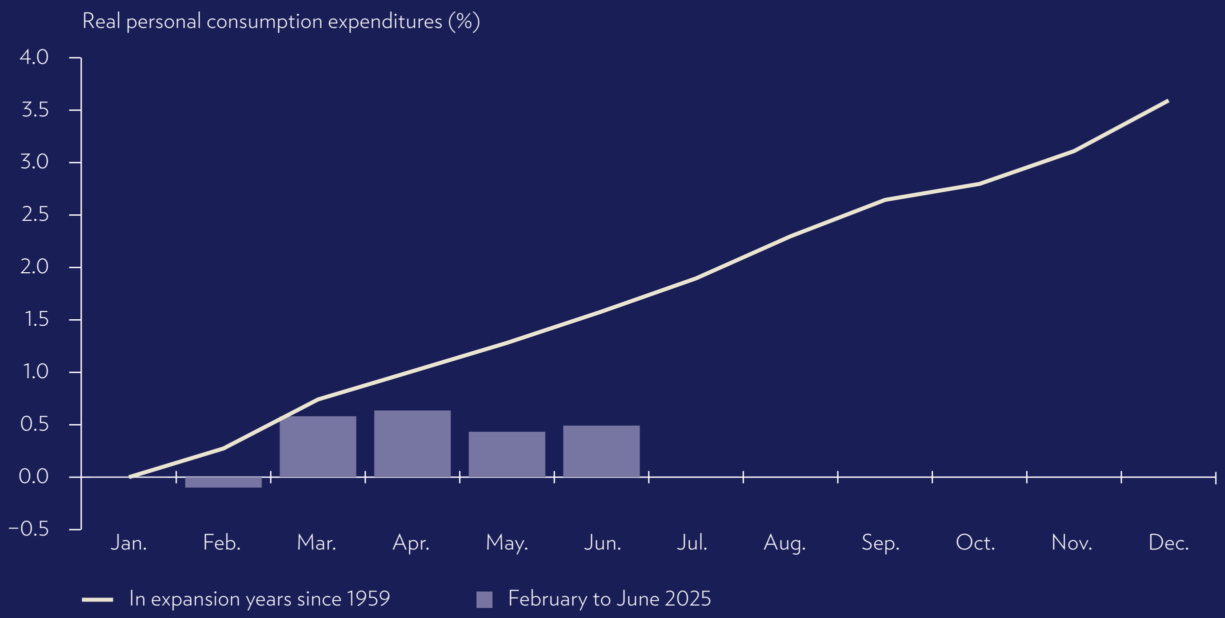
Shifting gears

While the global economy slows, Europe remains in a sweet spot of growth, inflation, and monetary policy. Numbers may disappoint, but markets will focus on supportive policies. We remain constructive; our analysts suggest using potential dips as entry points.

As we approach the end of 2025, the global economic outlook is characterised by slowing growth, with the US economy losing steam due to consumer fatigue and China continuing to struggle due to weak domestic demand. In contrast, Europe sits in a rare sweet spot of growth, inflation, and monetary policy, although the effective implementation of the various fiscal initiatives will be critical, in our view.

The US economy is facing challenges, including softer job growth, the impact of tariffs, and policy uncertainty, which are weighing on consumer spending. US consumers are responsible for about 70% of US gross domestic product growth. This fundamental backdrop, together with the growing confidence that any tariff-induced inflation spike will remain transitory, will potentially allow the Fed to respond with several rate cuts into year end. As the yield advantage shrinks, the USD would thus be likely to resume its downward trend again.

US consumer spending growth in 2025 is lagging



Source: Macrobond, Julius Baer
Note: Data as at 19 August 2025.

In Europe, the outlook is more positive, driven by lower inflation, lower interest rates, and upcoming fiscal stimulus. The European Central Bank is well positioned with a range of tools at its disposal to support the economy. China, meanwhile, keeps on struggling with domestic vulnerabilities and a reliance on exports, which are fuelling global deflation.

Our investment stance

Despite cyclical clouds on the horizon, our investment stance remains constructive. Momentum in global stock markets is strong, and now is therefore not the time to sit on the sidelines. Shifting gears calls for active participation, not hesitation. Going forward, our analysts consider treating any episode of weak macroeconomic data that triggers a broader sell-off as an entry point rather than an exit signal. Ultimately, a diversified portfolio that takes into account the complexity of the global economic outlook is likely to be the best approach.

Equities

With the US as the traditional growth driver of the world economy showing some cracks, it is paramount for investors to consider allocating funds to other, more promising, countries and regions. Europe, Japan, China, and India stand out in that respect.

Fixed income

The current fixed income backdrop appears favourable due to expected Fed rate cuts and less policy volatility. Amid narrow spreads and low expected default rates, our analysts' investment preference is for bonds with solid income streams.

Currencies

According to our currency experts, beneficiaries of a weakening USD are, in the order of likelihood, the EUR, the JPY (due to further policy normalisation), and, potentially, the CHF, despite the last of these being hampered by the US tariff blow. The GBP may also strengthen, driven by its high carry vs European peers.

Commodities

Commodity markets are also worth watching over the coming months, with gold potentially standing out as a bright spot. Driven by safe-haven demand, central-bank buying, and a weaker USD, gold is expected to reach new highs, potentially exceeding USD 3,500 per ounce into year end, according to our analysts. Other commodities, such as oil, are experiencing a period of abundance and depressed prices, characterised by a peak in both US production and Chinese consumption.

Alternative investments

The private equity (PE) market offers access to unlisted companies. Market volatility often results in mispricing, giving top-tier PE fund managers the opportunity to select the right businesses to support through challenging cycles, which then enables them to generate significant capital gains when they exit the investment.

European direct lending may offer an appealing spread premium over liquid credit, generating decent income and helping to diversify USD exposure. Our specialists remain constructive on hedge funds amid current macroeconomic and political uncertainty. Multi-manager platforms and well-managed fixed income relative value managers can help stabilise portfolios, while event-driven and credit strategies continue to uncover compelling, complex situations offering attractive returns. However, returns can vary significantly within a strategy, making it critical to partner with top-tier managers who possess experience, depth, and expertise.

Digital assets

Digital assets have exhibited strong growth over recent months, driven by increased inflows from exchange-traded fund purchases and a considerable rise in tokenisation applications, highlighting their disruptive potential and ongoing institutional adoption.[1]

Wild cards

The greatest risks to our outlook into year end are potential policy missteps, geopolitical events, systemic issues around shadow banking, a credit crunch, and infrastructure blackouts. However, with the right strategy and a keen eye on market developments, investors can navigate these challenges and capitalise on emerging opportunities.

Note concerning digital assets for UK clients

Don't invest unless you are prepared to lose all the money you invest. This is a high-risk investment and you should not expect to be protected if something goes wrong. Take 2 mins to learn more at: sites.juliusbaer.com/da_uk

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

“We remain constructive, and our analysts suggest using dips as entry points, with gold as a hedge.”

Christian Gattiker
Head of Research

Fixed income

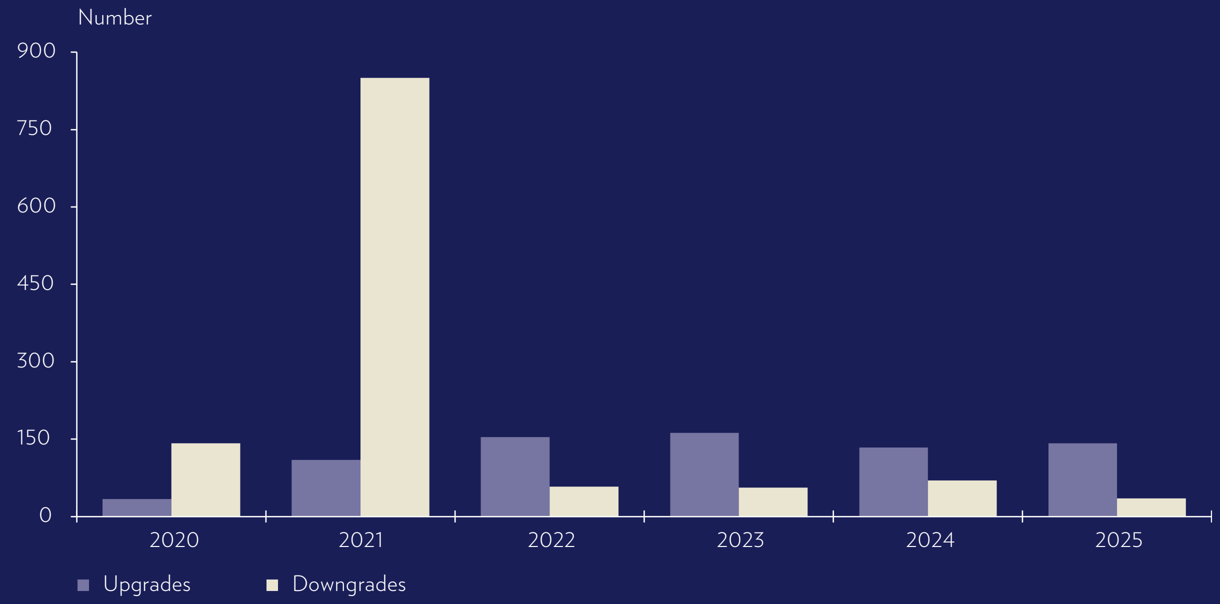
Clipping corporate coupons

The corporate world is in fine form. We anticipate this will continue and potentially even improve with US central bank rate cuts, making it an opportune time to invest, particularly in developed and emerging market corporate bonds. The outlook for European bonds has also brightened noticeably.

The stage is set for less volatile times in bond markets, characterised by inflation rates still above target but getting closer to it, and the Fed resuming its rate-cutting cycle. Additionally, strong demand, limited new issuance, and robust corporate fundamentals are underpinning market stability. Hence, despite the recent tightening in credit spreads, corporate debt remains an attractive option for income-seeking investors, offering the potential for positive excess returns in a relatively stable environment.

As concerns over tariffs and fiscal and monetary policies subside, a more stable environment is emerging for global bond investors. Our Fixed Income Research team expects that 10-year US Treasury yields will trade around 4.20% towards the end of

European ratings are improving



Source: Bloomberg Finance L.P., Julius Baer Product & Investment Content
Note: The chart shows the number of rating upgrades and downgrades within the European investment-grade segment on a yearly basis.

2025, while the yield curve will continue to steepen due to lower Fed policy rates. To take advantage of this evolving yield landscape, our strategists recommend focusing on corporate bonds that provide regular income through coupon payments, while extending duration to the upper end of the intermediate target range of five to seven years. This approach enables investors to capture capital gains by 'rolling down the upward-sloping yield curve', i.e. investors benefit from the capital gain created by the natural fall in a bond's yield as it approaches maturity, as well as by collecting ('clipping') still attractive corporate bond coupons. Thus, despite admittedly narrow spreads, the total returns on investment, which include both coupon payments and capital appreciation, remain attractive.

Low-investment-grade and emerging market hard-currency bonds, in particular, offer compelling return expectations coupled with low default risk. This is reflected in historically low default rates and in an equally promising outlook. So far this year, there have been 145 upgrades vs 38 downgrades within the investment-grade segment in the US, which is echoed in Europe.

From a regional perspective, while USD corporate markets remain dominant, global capital is partly rebalancing away from the US. In the wake of the geopolitical tensions, US domestic policy shifts, and USD weakness during the first half of the year, the case for geographic diversification is becoming harder to ignore, and is, in fact, a critical component in our investment strategy.

In Europe, corporate bonds are in a sweet spot, benefiting from lower inflation, improving growth prospects, and strong foreign demand. Meanwhile, emerging market corporate debt denominated in USD or EUR offers a vast and diverse market with strong fundamentals, solid credit quality, and low default rates. By investing in these areas, investors can tap into the growth potential of emerging markets and partially mitigate potential further USD weakness, without taking on emerging market currency risk, as the emerging market segment typically benefits from a weaker USD.

Artificial intelligence is not just an equity story

The generative artificial intelligence (AI) boom is no longer solely an equity story, but is now also being significantly financed through (private) credit. Large-scale cloud computing providers are issuing large amounts of debt to fund data centre construction, while early stage AI companies are accessing debt markets to expand their operations. As capital expenditure increases and adoption of AI technology accelerates, credit investors are playing a crucial role in funding the infrastructure that underpins the AI economy.

Equities

Capitalising on a global playing field

While the current equity bull market is in its later stages, we remain upbeat on the outlook for equities and would stay invested. Diversification is key, and we see opportunities in selected areas of the US market and more broadly in Europe, Japan, China, and India.

Although we are likely in the later stages of the current equity bull market, we remain optimistic about the prospects for equities and believe investors should stay invested. While valuations are no longer cheap, market sentiment and investor positioning have yet to reach excessively optimistic levels. What will be important though, as leadership differs across global markets, is building an internationally diversified portfolio.

US

Within the US, the top performers are still in a small group of exceptional companies with robust earnings growth, particularly those in the artificial intelligence space. Notably, the Magnificent 7 stocks continue to outpace the broader S&P 500 Index in terms of capital expenditure growth. We would therefore focus on unique segments in the US that cannot be replicated elsewhere. Meanwhile, after any short-term rallies in US equities, we would use the opportunity to rebalance and diversify further into equities elsewhere with more compelling valuations and more attractive growth prospects than their US counterparts.

Europe

Increasing exposure to Europe is one way investors can enhance portfolio diversification. We believe European equities stand to benefit from a brighter economic outlook for the continent, supported by additional fiscal stimulus measures. We favour value and domestically oriented cyclical sectors, which are well positioned to gain from improving local growth prospects and are less exposed to tariff and currency risks. German equities are particularly attractive due to their cyclical tilt, with mid-caps offering more compelling valuations and greater potential to benefit from fiscal support. Pro-growth policies from Germany's new government further support the outlook for German share prices.

Industrials and financials

With regard to sectors, industrials and financials stand out. In the industrials space, our focus is on companies that are poised to benefit from long-term structural growth trends. We favour the machinery and equipment subsector, followed by infrastructure, with a regional preference for Europe over the US due to its more favourable cyclical backdrop. Meanwhile, financials should benefit from an environment characterised by sustained higher bond yields as well as the steepening of the yield curve. This scenario is expected to boost banks' interest income and consequently their overall profitability. Within the sector, we maintain our Overweight rating on European banks given their more attractive valuations.

Japan

Our positive outlook for Japanese equities remains, supported by continued progress with regard to corporate reforms and heightened corporate activity this year. The gradual return to normality with interest rate hikes also supports this positive view. Dividend growth is set to accelerate, alongside a record pace of share repurchases. While we favour high-quality Japanese stocks, some of these – particularly exporters – may face short-term headwinds due to trade tensions. We highlight three key opportunities: information technology leaders, domestic champions, and businesses undergoing significant structural transformations.

China

Although ongoing trade talks may cause volatility in Chinese markets, more supportive domestic policies should partly mitigate this. We remain constructive on Chinese equities, as fundamentals – like profitability and shareholders' returns – and liquidity conditions are improving. We continue to like high-dividend stocks, and now expect A shares to catch up with H shares, as the A-share premium nears a new low and onshore market liquidity improves.

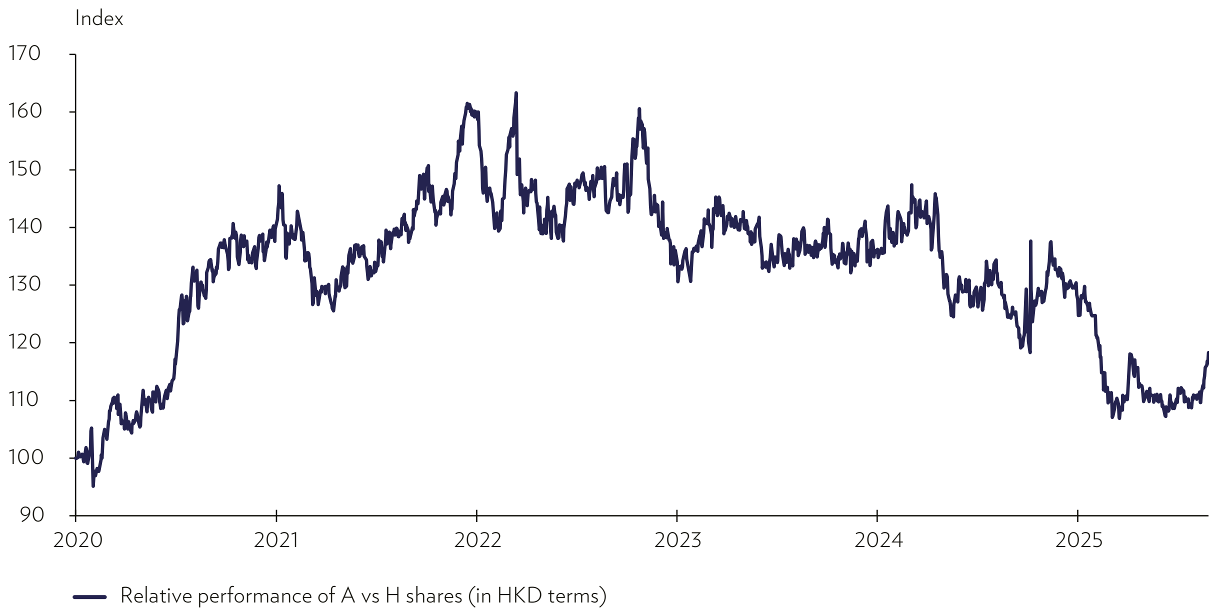
India

The new 50% tariff on Indian exports to the US threatens to significantly erode the country's export competitiveness. However, despite the near-term uncertainty regarding tariffs, equity fundamentals, as well as the structural drivers and resilience of the economy, suggest a positive long-term outlook for Indian stocks. We see tailwinds from double-digit earnings growth, monetary policy easing, and consumption tax cuts.

Investment conclusion

In the current environment, investors should stay invested in equities, but diversification is key. We would focus only on unique segments in the US, and increase exposure to other equity markets, including those in Europe, Japan, China, and India.

China's A shares may catch up after prolonged underperformance



Source: Bloomberg Finance L.P., Julius Baer Equity Strategy Research
Note: Data as at 28 August 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.

Alternative investments

Private equity in a changing world

The PE market provides professional investors exposure to firms at a time when they might have their strongest growth potential. As public markets shrink and companies stay private for longer, PE investment allows investors to participate in early value creation and tap into dynamic businesses that are not publicly accessible.

Exclusive access

Public markets are shrinking. The number of listed companies in the US, for example, has declined by approximately 40% since the late 1990s. At the same time, companies are remaining private for longer, with the average time to an initial public offering (IPO) now exceeding ten years. This means that many of the world's most innovative and dynamic businesses are generating their strongest growth while still in private hands. In 2023, around 85% of US companies, generating more than USD 100 million in annual revenue, were privately owned.

It therefore follows that a large majority of high-revenue, high-potential businesses are not yet available through public markets. PE investment provides a way to participate in this early value creation, which means that investors might be able to gain access to companies that could be scaling globally, refining business models, or consolidating leadership positions, potentially long before a public listing or strategic sale.

Disciplined value creation in a higher-rate world

The current macroeconomic environment, which in the US consists of higher interest rates and tighter liquidity, has made operational excellence more important than ever. Gone are the days when leverage alone could drive returns. Indeed, recently, the lion's share of PE value creation has come from earnings growth, not financial engineering. Well-capitalised PE managers are in a strong position to acquire companies on attractive terms and implement strategic transformations. Their ability to improve margins, expand market reach, and enhance governance can support stronger outcomes over the long term, with greater resilience during periods of economic stress.

Diversification beyond public markets

PE investment can also offer meaningful diversification. Unlike public equities, whose performance is often driven by market sentiment and macroeconomic trends, PE returns are rooted in company-level value creation. Free from the demands of quarterly earnings reporting, private companies can focus on strategic transformation and long-term growth, supported by engaged ownership and operational expertise. This structural difference enables PE to deliver both portfolio diversification and disciplined long-term performance. Importantly, PE markets do not tend to move in tandem with public ones. Correlations typically range from 0.5 to 0.8 depending on strategy and geography (much lower for smaller buyouts, growth equity, and venture capital). This lower correlation can help reduce portfolio volatility and introduce return streams that are not dependent on public equity market movements.

Turning volatility into opportunity

Periods of market dislocation and uncertainty often result in mispricing and that can be an opportunity for PE to shine. With capital ready to deploy and the flexibility to structure deals on favourable terms, leading managers can capitalise on market inefficiencies and support companies through challenging cycles. Studies show that PE funds launched, for example, during the dot-com crash or the Great Financial Crisis achieved higher-than-average returns due to lower entry valuations and favourable exit conditions. Indeed, a 25-year analysis of PE's resilience published by Institutional Investor in 2024 revealed that PE has outperformed public markets in every major modern crisis, with an average excess return of +8%. This highlights that volatility need not only be a challenge but can also be a source of long-term opportunity, especially for managers with capital, discipline, and operational expertise.

Participate in transformative growth themes

Some of today's most powerful secular trends are unfolding in private markets. Innovations in artificial intelligence, digital infrastructure, healthcare, and the energy transition are often led by private companies, which then grow under private ownership or are acquired by strategic buyers. PE provides access to these long-term themes at an earlier stage, offering qualified investors exposure to industry disruptors before they become part of benchmark indices.

From private to public – three examples

Spotify – the streaming platform remained private for more than a decade before bypassing the traditional IPO route and listing directly in 2018, giving early private investors liquidity without issuing new shares.

Dell Technologies – the information technology company was taken private in 2013 in one of the largest technology buyouts ever and then proceeded to reshape its business model before relisting in 2018 at a higher valuation.

McAfee – the cybersecurity company was taken private multiple times by different PE owners who each helped reorient the business, spin off non-core units, and prepare it for re-entry into public markets. It was taken private again in 2022.

Smarter diversification through manager selection

PE offers asset class diversification, but there is significant variation in performance between managers. The dispersion in returns is greater in PE than in any other major asset class. The difference between a top- and bottom-quartile manager can exceed 20 percentage points, making manager selection essential.

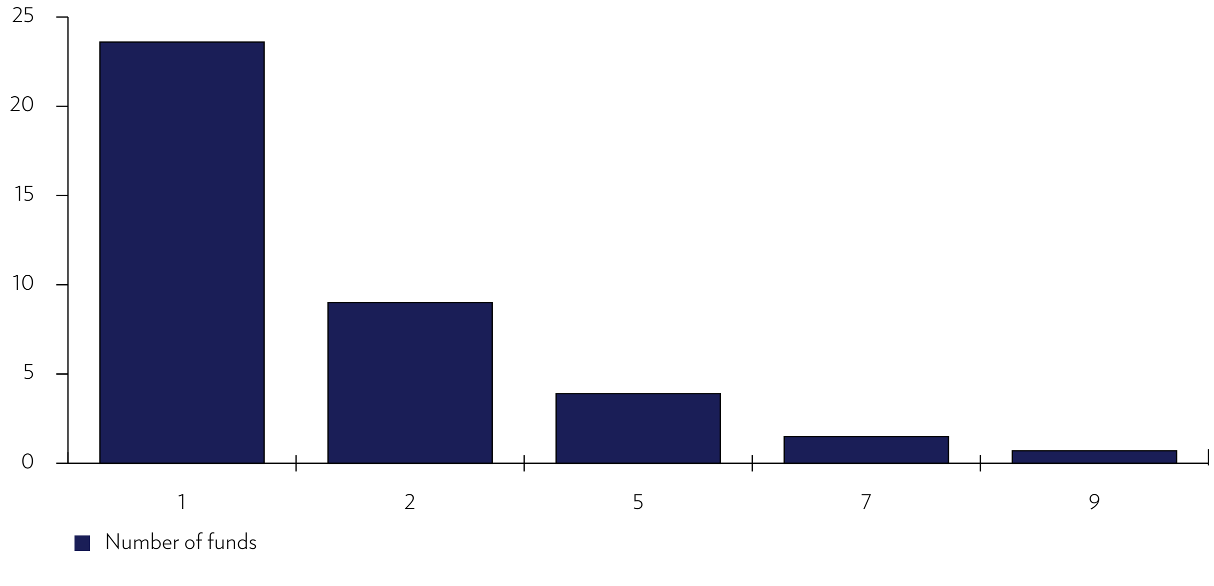
Furthermore, it is beneficial to consider investing with managers who have different specialisations in order to benefit from the multiple sources of value creation. As shown in the chart below, a portfolio with only one PE fund has a 23.6% probability of having a total-value-to-paid-in-capital (TVPI) ratio of less than 1.0x, a measurement which indicates that an investor is expected to book a loss, whereas a portfolio with nine PE funds sees that probability drop to 0.7%.

Positioning for long-term advantage

In an environment defined by higher rates, geopolitical complexity, and accelerating innovation, PE markets potentially offer professional long-term investors something public markets increasingly struggle to deliver: access to growth, operational control, and differentiated returns. But realising these benefits requires careful access, and selecting higher-performing managers is key. Added to this, the higher-return potential comes at the price of longer holding periods and sometimes higher risk, depending on the choices made in terms of portfolio construction, instruments, and strategies, as well as industry exposure. Nevertheless, as the investment landscape continues to evolve, we believe that PE can play a core role in positioning portfolios for the decade ahead, enabling investors to move beyond market exposure towards genuine value creation.

Diversification reduces the risk of capital loss

Probability of a portfolio with a TVPI < 1.0x based on the portfolio size (in %)



Source: Cambridge Associates, Julius Baer
Note: Simulated portfolios based on Cambridge Associates benchmark data for 3,077 funds with vintage years from 1991 to 2005. The funds are equally weighted in terms of committed capital.

Imprint

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