Global Investment Strategy

Third Quarter 2025

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Overview

World economy

- The data indicate that economic trends in Europe and Asia are largely in line with expectations, with some signs of weakness in the US. Inflation figures have been lower than forecast in both the euro area and the US – with a continued downtrend likely in the euro area.
- We expect US import tariffs to eventually settle at a significantly higher level than they were at the beginning of the year. The US economy will feel the negative effects of tariffs the most. In Europe, these effects will be smaller, and higher government spending, primarily in Germany, will be supportive. The Chinese government is keeping the economy on track in line with its targets.
- Military conflicts are usually relevant for the economy and the capital markets if they lead to a sharp rise in commodity prices, particularly oil prices.

Capital markets

- Depending on the news flow, the coming months could remain volatile, though the equity market outlook is not necessarily negative. Setbacks in equities would constitute a buying opportunity. Medium-term bonds remain attractive.
- Starting next year at the latest, we expect the news flow and economic outlook to normalise.

Agenda

Western Europe: Industry stabilises

After a soft final quarter of 2024, Europe's economy grew well in the first quarter of this year, partly due to US imports being brought forward in anticipation of higher tariffs. This effect will reverse in the current quarter (see the fall in industrial production in April).

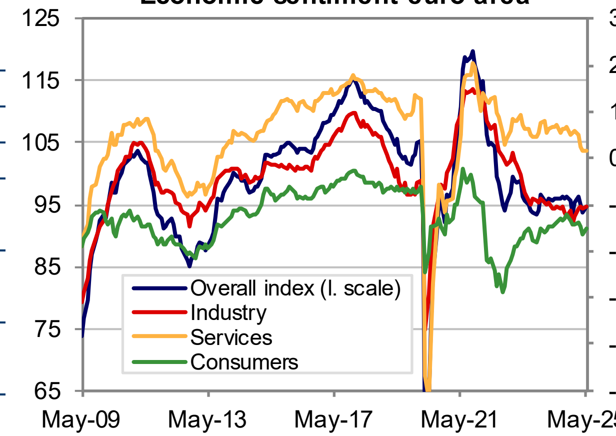
Nevertheless, the stabilisation observed in the industrial sector since the beginning of this year is a positive sign.

The foreseeable increase in government spending in Europe, especially in Germany, will be supportive of economic activity. The same is true of the easing of US tariff-related tensions. However, reaching a favourable tariff deal with the US remains a challenge for the EU.

European growth	**2Q-2024**	**3Q-2024**	**4Q-2024**	**1Q-2025**	**Avg.**
Eurozone	0.2	0.4	0.3	0.6	0.4
Switzerland	0.6	0.5	0.3	0.5	0.5
UK	0.5	0.0	0.1	0.7	0.3
Germany	-0.3	0.1	-0.2	0.4	0.0
France	0.2	0.4	-0.1	0.1	0.1
Italy	0.2	0.0	0.2	0.3	0.2
Spain	0.8	0.7	0.7	0.6	0.7
Austria	-0.2	-0.1	-0.4	0.2	-0.1
Sweden	0.0	0.6	0.5	-0.2	0.2

Note: Change in gross domestic product from previous quarter, in %. Source: Eurostat, UK ONS, Statistics Sweden, SECO

Economic sentiment euro area

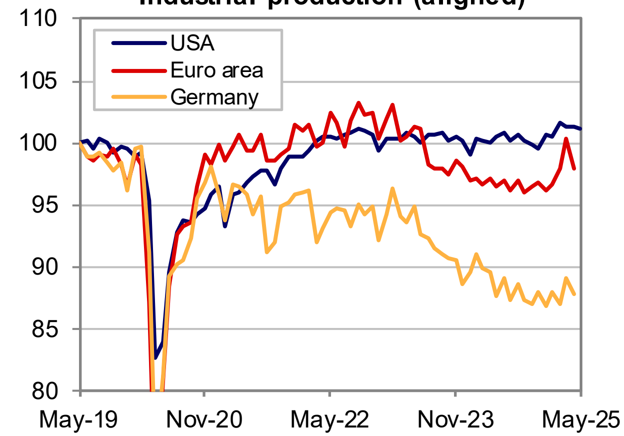


Source: European Commission

Eurozone: Purchasing managers indices

Source: S&P Global

Industrial production (aligned)



Source: Fed, Eurostat, Statist. Bundesamt

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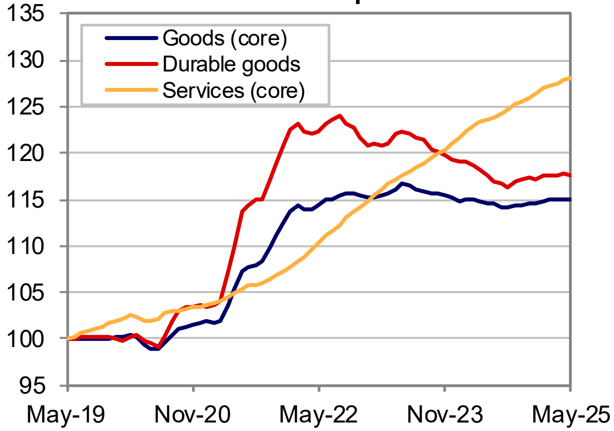
Tariffs so far not showing up in US goods prices

The PCE (consumption deflator) is the central bank's preferred measure of inflation, for a number of reasons. Nonetheless, the consumer price index deserves some attention as an additional indicator.

Following the pandemic inflation surge, goods prices in the US have stabilised in recent years, similar to Europe. Despite increased import tariffs since April, this is not reflected in goods prices (see chart). Goods prices are likely to tend higher in the remainder of the year.

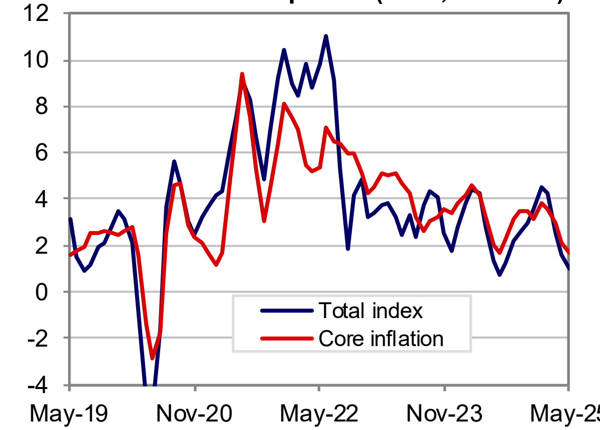
Inflation in the service sector, especially in rents, remains higher than the central bank would like. Easing wage pressure points to easing service sector inflation in labour-intensive areas (e.g. healthcare).

USA: Consumer price index



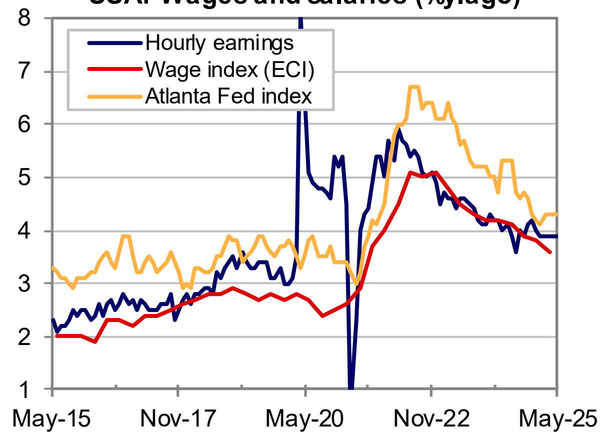
Source: Bureau of Labor Statistics

USA: Consumer prices (%3m, annual.)



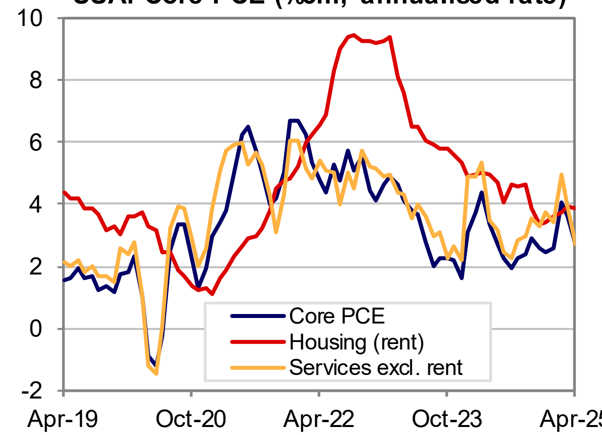
Source: Bureau of Labor Statistics

USA: Wages and salaries (%y.ago)



Source: Bureau of Labor Statistics

USA: Core PCE (%3m, annualised rate)



Source: Bureau of Economic Analysis

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Euro-Dollar: Fundamentals and technicals

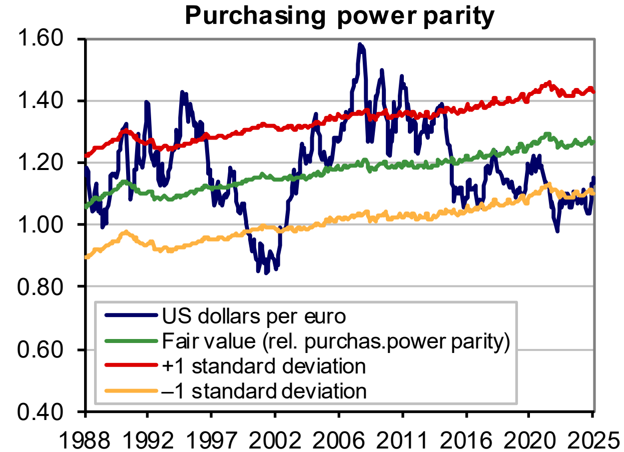
The USD/EUR indicator provides direction (e.g. for hedging purposes) on a monthly basis.

The charts show the purchasing power parity (i.e. the fair value taking into account the difference in inflation) and the interest rate differential as indicators of the USD/EUR exchange rate.

USD/EUR indicator

Date	Exch.rate	3m-MAV	Indicator
23.06.2025	1.1502	1.1393	Long EUR
30.05.2025	1.1347	1.1164	Long EUR
30.04.2025	1.1328	1.0840	Long EUR
31.03.2025	1.0816	1.0518	Long EUR
28.02.2025	1.0376	1.0364	Long EUR
31.01.2025	1.0363	1.0431	Short EUR
31.12.2024	1.0353	1.0605	Short EUR
29.11.2024	1.0577	1.0865	Short EUR
31.10.2024	1.0884	1.1022	Short EUR

Note: MAV = moving average. Source: Bloomberg BGN, ow n calcuations

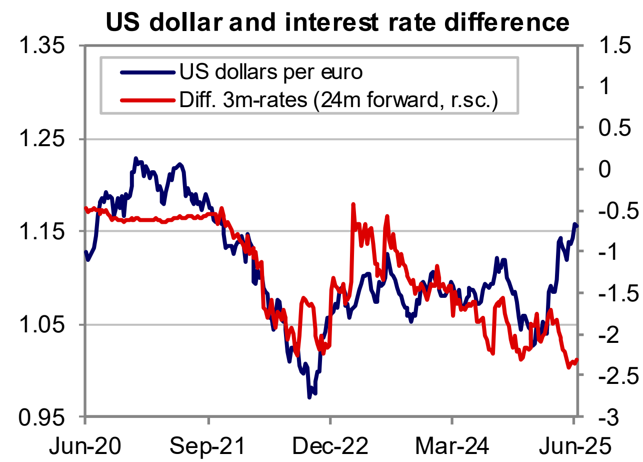


Source: BGN, national stat., own calculations

3m forward rates: Diff. vs. EUR

CCY	Forward date	Curr.	Change 1m	3m	6m	1yr
USD-EUR	Dec.25	2.02	-0.14	0.11	-0.12	0.75
	Dec.26	1.34	-0.12	-0.40	-0.64	0.20
	Dec.27	1.22	-0.13	-0.46	-0.66	0.13
GBP-EUR	Dec.25	1.88	-0.21	-0.05	-0.32	0.61
	Dec.26	1.62	-0.16	-0.21	-0.25	0.54
	Dec.27	1.47	-0.10	-0.23	-0.20	0.48
CHF-EUR	Dec.25	-2.00	0.05	-0.14	0.00	-0.25
	Dec.26	-1.99	0.12	-0.24	-0.01	-0.42
	Dec.27	-2.03	0.13	-0.40	-0.15	-0.55

Data as per 23-Jun-25. Source: ICE, CME



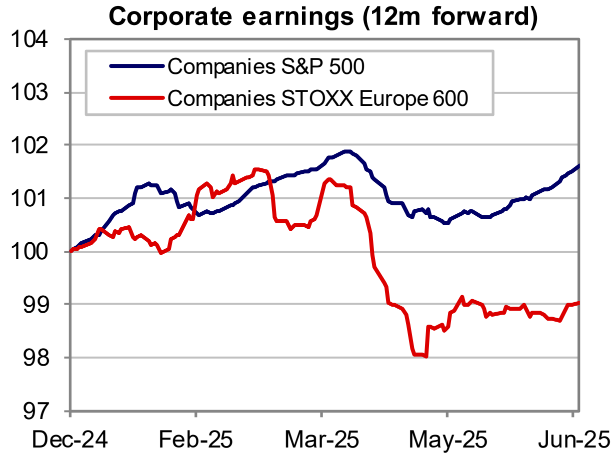
Source: Exchanges

Corporate earnings: Overall no significant revisions

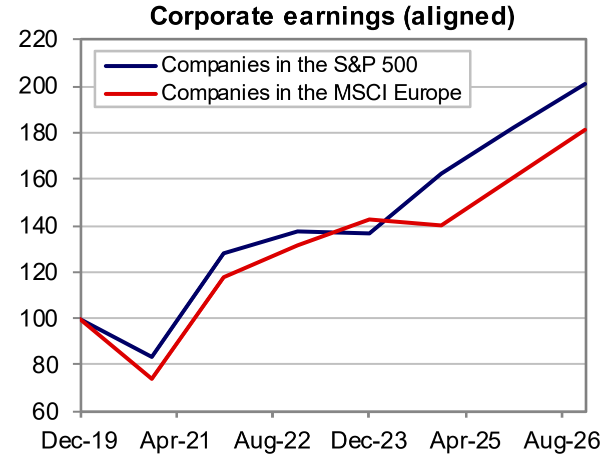
Corporate earnings provide a snapshot of the past quarter and, unlike economic data that are available in a more timely fashion, offer little tactical guidance at the index level.

The reports for the first quarter of 2025, as well as the companies' outlook, were broadly in line with expectations. As a result, analysts' earnings estimates (12m forward) have remained largely stable. The impact of US import tariffs was often discussed, though it seems to be manageable for the majority of companies. A few one-off negative surprises from US companies are nonetheless likely.

Profit margins have been high, in the US due in part to the significant weight of the Magnificent Seven. In Europe, a diminishing increase in unit labour costs points to good or even rising margins.



Soucre: Consensus estimates (Bloomberg)



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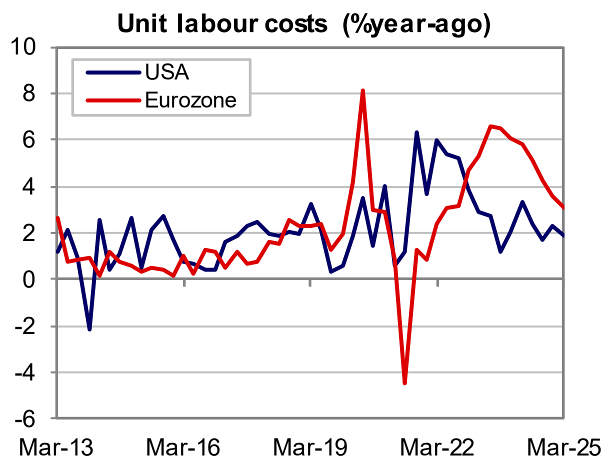
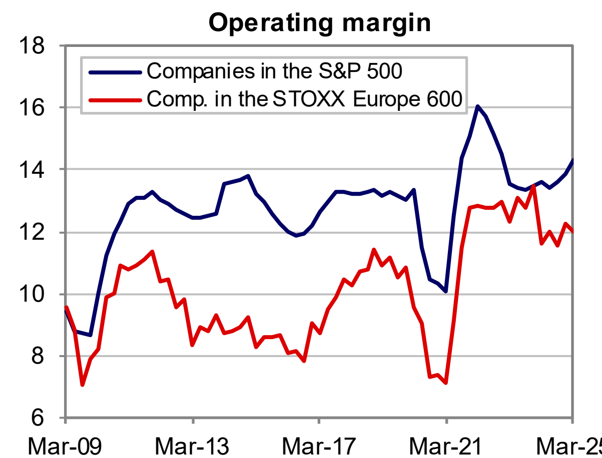


Source: Eurostat, BLS



Source: S&P Global, STOXX

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Healthcare sector: US politics drives underperformance

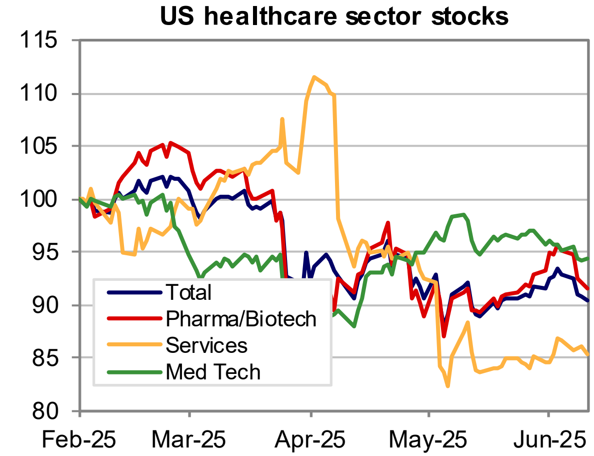
US politics plays a larger than usual role in the healthcare sector.

We consider the medical technology segment to remain relatively well positioned and mostly outside the core focus of US healthcare policy. Politically induced price pressure has been in place for most devices for years.

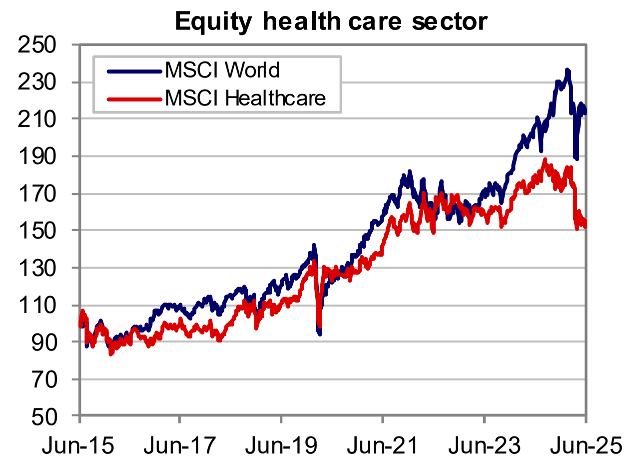
US health insurance companies, in contrast, are heavily exposed to government intervention and exhibit above-average policy-related volatility, which makes the segment unattractive. Laboratories and suppliers of tools and consumables are also under pressure (US budget cuts, weak demand in China).

The pharmaceuticals industry is a clear target of US policy. President Trump released an executive order in May, with the aim of lowering US drug prices to the lowest level seen in industrialised countries. In addition, there remains a tariff threat with the goal to reshore US pharma production (e.g. from Ireland, where taxes are low). Over the past decades, US lobby groups have helped to keep the US price level for pharmaceutical products the highest in the world, and Congressional approval for price measures appears difficult to be obtained. As for tariffs, European production could move to the US.

Our focus remains on medical technology companies. In addition, we believe that European and US pharma can weather potential pricing and tariff obstacles.



Source: S&P Global

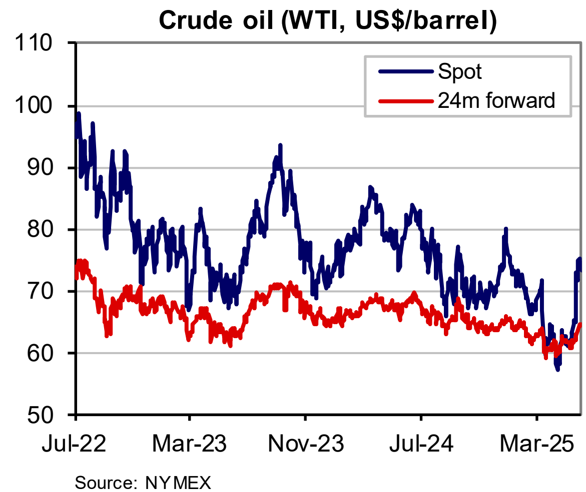


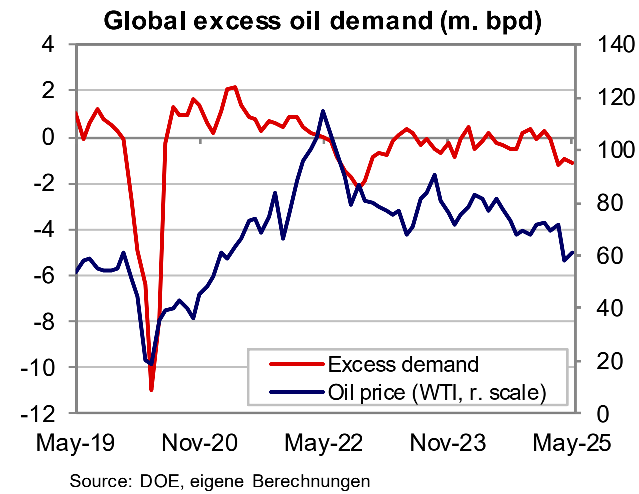
Source: MSCI

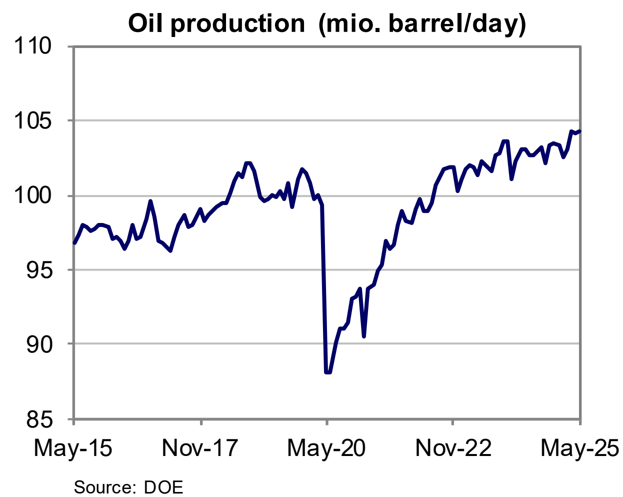
Oil markets

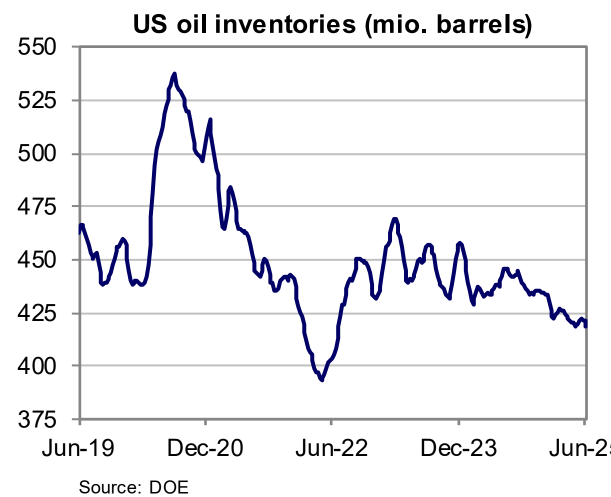
Global oil markets are in excess supply (despite OPEC+ cuts), which makes a sustained rise in oil prices unlikely. Nevertheless, a temporary, possibly sharp increase in the risk premium is a possibility as a result of the Israel-Iran conflict.

The Strait of Hormuz is considered a particular risk. At its narrowest point, it is around 40 km wide (8 km for the shipping route). Around 20 million barrels of crude oil pass through the strait every day, 2 million of which come from Iran. Oil is the lifeblood of Iran's economy, with China being the main buyer. This constellation, combined with the US military presence in the region, is among the reasons why Iran is unlikely to completely block the strait (sea mines) but may attempt to selectively disrupt shipping traffic (rockets, speedboats, submarines).









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Asset allocation

Asset allocation	**Equity allocation:** Neutral. **Bonds:** Overweighted. **Cash:** Underweighted.		
		Core allocation	**Non-core allocation**
Equities	**Regions/ sectors**	Diversified exposure with a focus on developed markets (Europe, US). Medium-term focus on consumer goods and services, healthcare, technology and industry.	May consider emerging Asia for fundamental diversification.
	Equity segments	Focus on Quality-Growth. Europe: Companies with high dividend yields.	Mid caps Europe/M-Dax.
	Themes	Digitalisation/AI, infrastructure, e-commerce.	Energy transition.
Bonds & currencies	**Duration**	Medium maturities.	
	Bond segments	Government and corporate bonds (investment grade). Insurance products (Cat bonds), hedged into the reference currency. Inflation-linked bonds. May add convertible bonds.	Corporate high yield bonds. Emerging market sovereigns (in euro and US dollar).
	Currencies	Reference currency focus. US dollar underweighted.	
Other		-	Gold possible for diversification purposes (medium-term view).

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