J. Safra Sarasin

Cross-Asset Weekly

08 August 2025

Switzerland hit by the tariff sledgehammer

President Trump appears uncompromising with his latest punitive tariffs against Switzerland, Brasil and India, among others. Yet elevated US tariffs also came into effect this week for countries that had secured 'deals' with the US. The economic effects are clear: Tariffs are diverting production and capital from their most efficient allocation, leading to higher prices and lower returns on capital. Most of these costs will be borne by the US itself. However, the tariffs also weaken labour markets in countries that are heavily dependent on the US for their exports. We expect the negative effects on investment and consumption to prevail over the coming months and the world economy to recover only next year.

In our monthly forecast update, we have confirmed our expectation of Fed rate cuts in September and December. Based on the hawkish comments from the ECB, we have abandoned our call for a rate cut in September, but still believe that a cut in Q4 is likely. In Switzerland, severe job losses are all but certain in the coming months, if there is no swift resolution to the US tariff shock. As a result, the likelihood of negative SNB policy rates has risen. So far, rising inflation rates and the hawkish communication by the SNB make a rate cut in September unlikely. We also don't expect any FX interventions in this environment. However, if US tariffs were to stay at their elevated level of 39% for a longer period of time, the risk of a rate cut by 50bp in December would clearly rise, even if that is not our base case.

Risk markets, meanwhile, continue to price a 'not-to-cold-not-too-hot' economic environment, accompanied by expected central bank rate cuts, and a relatively benign resolution to the US tariff announcements. This also applies to the Swiss equity market that has remained surprisingly unfazed given the potential damage that President Trump's tariffs could cause.

This week's highlights

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Monthly macro and strategy forecast update

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The world economy is increasingly being held hostage to US trade policy. So far, the economic effects have been benign. Companies have published positive earnings results for Q2 and equity markets are close to their all-time highs in many countries. While we have revised up our US GDP estimates for this year, we expect the negative effects of higher tariffs to become visible in the coming months – both in the US inflation, trade and production data of its trading partners. Switzerland will be hit especially hard as it faces a 39% tariff rate on most of its goods and potentially even a higher rate on its pharma exports. Higher tariffs will make many companies uncompetitive in the US market and could lead to severe job losses. We expect major developed market central banks to cut interest rates in 2025. The Fed will probably lower rates twice this year. The ECB and the UK will likely cut its policy rates by 25bp as inflationary pressures ease. We also expect growth in Emerging Markets (EM) to slow in H2 as US tariffs start to bite, allowing central banks across EM to cut rates over the next 6-12 months. The backdrop for fixed income continues to be constructive. Lower policy rate expectations should allow for somewhat lower bond yields and steeper yield curves. We expect the dollar to soften further, though the pace of depreciation should be more gradual. Gold remains well-supported from a structural standpoint. In the equity space, we expect support for euro area equities to rise as FX headwinds fade, and fiscal tailwinds increase over the coming months. We remain neutral on Swiss equities in our regional allocation, despite the potential negative impact of the 39% US tariff rate. Softer global economic momentum over the next few months could favour the more defensive Swiss market. Also, if a trade deal at a significantly lower tariff rate were to be signed, upside risks for Swiss equities may materialise.

Global macro

Tariffs matter and a payback is coming

The US trade policy is shaping the current global business cycle. It has already led to higher US imports as companies raced to secure inputs at lower rates before higher tariffs took effect. This had depressed GDP growth in the US in Q1 while it lifted growth in other countries. It is clear that there will be a payback in the form of lower growth once tariffs come into effect starting in Q3. At the same time, policy uncertainty should be a drag on investment spending both in the US as well as for its trading partners.

While tariffs and uncertainty are bad for investment spending, the structural trend in AI investment and fiscal policy offer some offset

While tariffs are unambiguously weighing on the industrial sector, the important underlying trend of AI investment and deployment should continue to drive investment spending and potentially productivity growth. In addition, more expansionary fiscal policies should stimulate demand by next year in some European countries like Germany and to a smaller extent in the US. Monetary policy is also becoming less restrictive in most countries. We therefore remain cautiously optimistic for the coming 12 months.

Upward revision of our 2025 US GDP forecast

We have revised up our US GDP forecast for 2025, but have left our 2026 forecast unchanged. In particular, we have pushed up our GDP growth forecast for the second half of the year to 1.1% from 0.8% as most indicators suggest that the economy is more resilient than expected. However, there are indications that the economic dynamic is slowing. Final sales to private domestic purchasers have come down steadily from 3.2% qoq in Q4 last year to 1.2% in Q2 this year. We expect to see the pace of consumer spending fall further in H2 as inflation picks up. Surveys suggest that capex spending should fall in H2 even with a lower level of policy uncertainty. All in all, it means that GDP growth this year is a bit higher at 1.7% (1.5% previously) and unchanged next year at 1.4%. We still expect inflation to pick up over the coming months. Core CPI should peak at 3.1% yoy in July and August, and core PCE at 3%. The bottom line is that the tariff passthrough should continue to rise, while weaker aggregate demand should weigh on services inflation. The net impact on inflation is therefore quite small. Still, inflation rates will remain stuck above their target for the rest of this year and the first half of 2026.

The Fed likely to cut in September

The Fed is right to remain data dependent and to communicate cautiously in this environment. The latest labour market report for July has clearly disappointed. Still, we note that the unemployment rate (4.2%) is exactly at the median level that FOMC members expect for the long term. Hiring and firing have both come down and the number of unemployed broadly matches job openings. In other words, the labour market seems to be in balance. But a weak August labour market report may make a September rate cut unavoidable. Yet, the coming two inflation reports will determine the Fed's leeway. Since February, core inflation has fluctuated between 0.1% and 0.2% mom as the impact of higher tariffs has been benign so far. This may change very soon. We expect July inflation to come in at 0.3% mom. A lower inflation print would clearly shift market expectations to three rate cuts this year, while a higher number would make a rate cut in September more uncertain again.

Euro area GDP revised up

For the euro area we have also revised our 2025 GDP forecast to 1.1% (from 0.8% previously) as the Q2 numbers (0.1% qoq) were not as weak as we expected following the exceptional Q1 growth of 0.6% (Ireland had made up around half of the total GDP increase in Q1 and exports ahead of higher US tariffs were also exceptionally strong). Going forward, we expect slightly negative growth in Q3 as tariffs kick in and a rebound in Q4. We note that many other countries face higher US tariffs than the EU does. This implies that the EU's relative competitiveness versus other countries on the US market is not deteriorating. It only does so versus US companies. Fiscal policy should become expansionary from next year as Germany has opened its coffers and Europe intends to increase its defence capabilities. A cyclical upswing is quite likely. Yet, we wouldn't get too enthusiastic about it as the fiscal leeway is limited outside of Germany and major structural reforms are not visible so far neither in Germany nor elsewhere.

ECB has sounded surprisingly hawkish

We were surprised about the rather hawkish stance that many Governing Council members adopted around the last ECB policy decision. As a result, we have revised our ECB call and only expect one further rate cut in Q4 – the probability of which is still underestimated by money markets. In our view, downside risks prevail to both GDP and inflation in the short term. Given the dismal environment for exports, moderating wage growth, the appreciation of the euro and the high policy uncertainty, an 'insurance' rate cut in September would have been appropriate in our view. While this is obviously still possible, ECB communication indicates that the hurdle for a rate cut is high, given that fiscal policy should lead to higher growth rates next year.

Switzerland is hit particularly hard by US tariffs

Switzerland is in shock. First, unlike other advanced economies, it has failed to negotiate a trade deal with the US, even after its President and Vice-President travelled to Washington this week. Second, it has been treated much worse than the EU despite the seemingly solid relations with the US and a widely held belief that not being a member of the EU is economically advantageous for Switzerland. And third, the tariff rate of 39% it faces now exceed by far any worst-case scenario it had considered up until last week. It is clear that this would make many Swiss manufacturing companies uncompetitive in the US market and drive out production to neighbouring EU countries. Producers of non-essential goods like luxury watches will suffer in particular as potential buyers might postpone purchases in expectation of lower tariffs at a later stage. Food products are another important export category. While clearly essential in nature, there are many substitutes from other countries that face lower tariffs and most likely lower production costs.

Lower drug prices might be key to secure a better trade deal with the US

The elephant in the room is the pharma sector that may face even higher tariffs. It is also the most likely reason why Switzerland is hit so hard. President Trump has vowed to lower health care costs in the US. He could do so by having more companies produce drugs in the US, or by reducing import prices for pharmaceutical goods that are produced abroad. Hence, a possible trade deal that might lead to a lower tariff rate than 39% likely incorporates the pharma sector. Trump might want the Swiss government to make concessions to the pharma sector such as higher prices or weaker regulation within Switzerland in order to compensate them for lower export prices to the US.

We don't expect a negative policy rate even though the odds of a rate cut in December have risen

We expect that tariffs will weigh on investment spending, exports and private consumption in the second half of the year but we believe that an outright recession is still unlikely given the flexibility of the economy and its ability to adjust to external shocks. Still, unemployment is going to increase and wage growth will slow down further. Obviously, this increases the likelihood of negative policy rates at the coming SNB meetings. We still regard them as rather unlikely. (1) Inflation has exceeded expectations for two successive months such that we had to increase our inflation forecast for 2025 to 0.3% from 0.2%. (2) At 0%, the policy stance is clearly expansionary. (3) The marginal benefits of cutting the policy rate to below zero are declining while potential negative side-effects especially for financial stability are increasing. (4) The SNB clearly communicated at its last meeting that the hurdle for lower policy rates is high – given their unpopularity and their side effects. This doesn't make a rate cut impossible in September, but would show how unfortunate the SNB communication was in June. (5) Negative policy rates could reinforce the US view that Switzerland manipulates its exchange rate, which would not be a helpful signal in its current trade dispute. Rather than cutting by 25bp in September, we believe that the odds of a 50bp rate cut have increased for December if tariffs stay at their elevated level, even if that is not our base case. Finally, we would like to stress that FX interventions remain unlikely in the coming months. The Swiss franc has remained almost unchanged versus the euro for many months and interventions versus the US dollar might not help the negotiations with the US administration. They are also unlikely for economic reasons. The US dollar is rather overvalued such that any depreciation will bring it down to a more reasonable level. There is no point in trying to intervene to slow down that process.

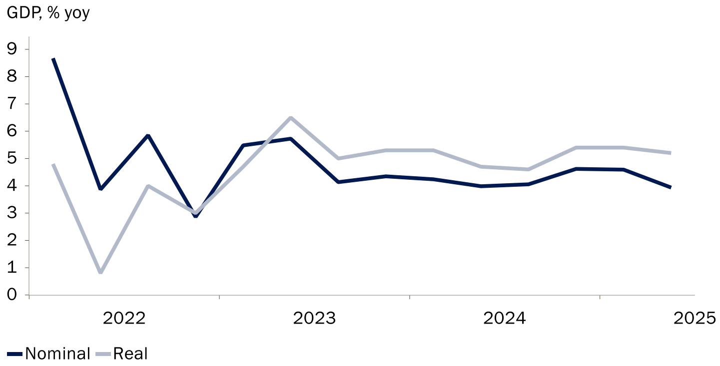
Growth in China is expected to slow in the next few months

We maintain our growth forecast for China at 4.8% for 2025, assuming that US tariffs remain at the current level until year-end. After growing at 5.3% in H1, we expect a gradual slowdown in H2 as the payback to frontloaded exports and policy support starts to bite. Deflationary pressures have increased, however. Despite robust real GDP growth at 5.2% in Q2, nominal GDP growth at 3.9% during the same period was the lowest since 2022 during the COVID lockdown (Exhibit 1). China's export market growth is strong with robust growth across regions outside of the US (Exhibit 2), which should lend support to activity in the near term. As expected, the July Politburo meeting did not announce more specific measures to support domestic demand given the resilience of the economy.

We expect EM central banks to remain dovish amidst a significant payback to frontloaded activity in H1

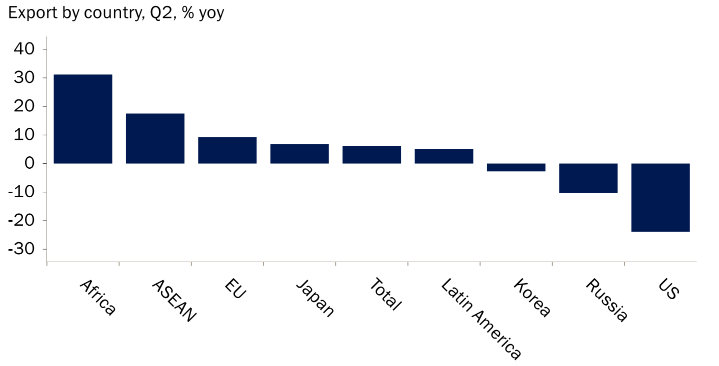
We expect growth in Emerging Markets (EM) to slow down in H2 as US tariffs start to bite. In Asia, US tariffs are 19-20% for most ASEAN countries and Taiwan, and 15% for Korea starting in August. India and Brazil face a US tariff rate of 50%. The US has also threatened to impose tariffs on semiconductors and pharmaceutical products soon. Central banks across EMs are already quite dovish and we expect more rate cuts in the next 6-12 months.

Exhibit 1: China - robust real growth but weaker nominal GDP growth



Source: Macrobond, Bank J. Safra Sarasin, 07.08.2025

Exhibit 2: China gains export market share outside the US



Source: Macrobond, Bank J. Safra Sarasin, 07.08.2025

Fixed Income

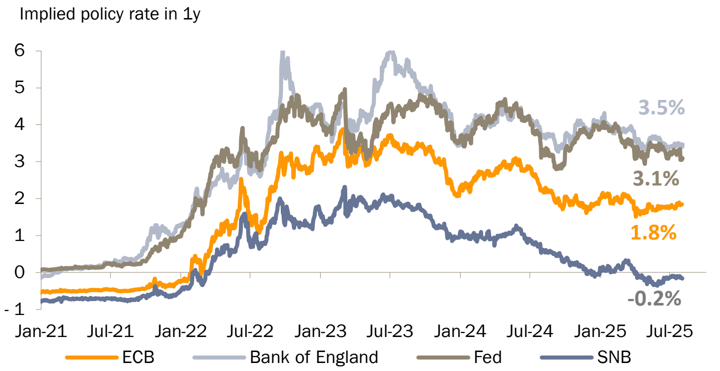
The bar for negative SNB policy rates is high

The imposition of 39% tariffs on Swiss exports to the US (not including pharmaceutical products, which will be dealt with separately) is fuelling investor concerns about a potential industrial recession, if they were to be made permanent. Consequently, markets are pricing increasing odds for negative Swiss franc policy rates again. However, we would expect the Swiss government to present a credible action plan to reduce the sizeable trade surplus with the US over time, and hence we expect a much lower tariff rate at the end of the day. As a result, we refrain from forecasting negative SNB policy rates for now. This would also imply that there is little scope for Swiss bond yields to fall further from here.

More rate cuts by the Fed, the ECB and the Bank of England in 2025

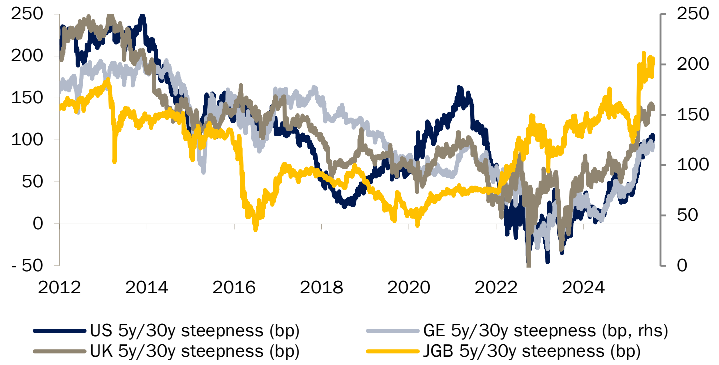
Global real long-term government yields remain high and continue to present a headwind to the global economy at a time when global growth is already at risk of slowing further. Inflationary pressures are likely to ease over the next quarters despite the tariffs. We therefore see scope for central banks to cut interest rates further, confirming that the overall direction for most policy rates is still down (Exhibit 3). Consequently, we expect yield curves to steepen further, with intermediate maturities outperforming (Exhibit 4).

Exhibit 3: Overall direction for most policy rates is still down



Source: Bloomberg, Bank J. Safra Sarasin, 07.08.2025

Exhibit 4: Intermediate maturities to outperform long-term maturities



Source: Bloomberg, Bank J. Safra Sarasin, 07.08.2025

Two cuts from the Fed in 2025, one cut each from the ECB and the Bank of England

We expect two cuts from the Fed in 2025. The US labour market is clearly slowing with the July non-farm payroll report registering a mere 35k average monthly employment growth over the past three months. This is uncomfortably low; hence the Fed will likely cut rates twice this year and next. Given higher odds of an inflation undershoot, we think that the ECB will lower policy rates by 25bp to a terminal rate of 1.75% in December. In the UK, real long-term yields are at their highest level in 20 years, mostly as a result of higher risk premiums. UK economic dynamics have been worsening over the past months, and the priced policy rate path remains above our estimate of the neutral rate. Consequently, we find that UK rates continue to be too high across the maturity spectrum. We expect at least another cut in 2025 and two more in 2026.

Prefer the intermediate maturity band, long ends of all curves still fraught with risk

Exhibit 5: Positive asymmetric pay-off, exemplified here by Investment Grade (IG) bonds

US IG

Maturity	Approximate total returns for US IG bonds over 12 months under different yield scenarios								
Segment	-100	-75	-50	-25	0	25	50	75	100
2	5.4	5.2	4.9	4.7	4.4	4.2	3.9	3.7	3.5
5	8.8	7.8	6.9	6.0	5.1	4.2	3.3	2.4	1.6
7	11.2	9.8	8.5	7.2	5.9	4.6	3.3	2.1	0.9
10	13.5	11.6	9.7	7.9	6.1	4.4	2.6	1.0	-0.7
30	21.7	17.6	13.7	10.0	6.5	3.1	0.0	-3.0	-5.9

EUR IG

Maturity	Approximate total returns for EA IG over 12 months und different yield scenarios								
Segment	-100	-75	-50	-25	0	25	50	75	100
2	3.2	3.0	2.7	2.5	2.2	2.0	1.8	1.5	1.3
5	7.3	6.3	5.4	4.4	3.5	2.5	1.6	0.7	-0.2
7	9.9	8.4	7.0	5.6	4.2	2.9	1.5	0.2	-1.1
10	12.4	10.4	8.3	6.3	4.4	2.5	0.6	-1.2	-3.0
30	23.7	18.5	13.6	9.0	4.6	0.5	-3.4	-7.0	-10.5

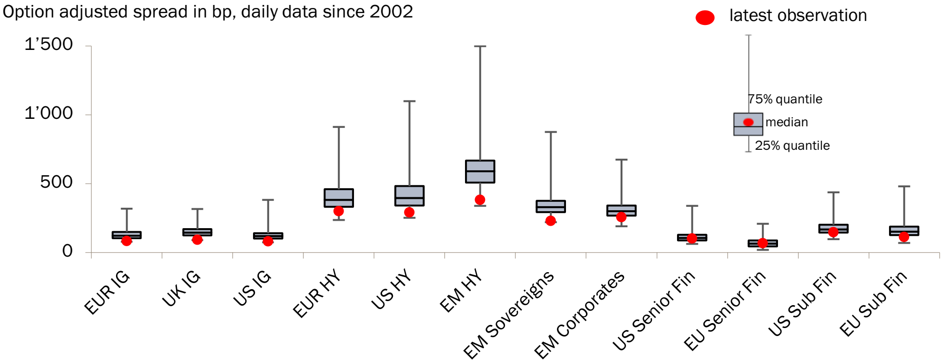
Source: ICE, Bank J. Safra Sarasin, 07.08.2025

Global yield curves have steepened meaningfully over the past 24 months. Steep yield curves are a boon for fixed income investors since they imply higher starting yields than money market investments and more meaningful 'rolldown' returns. The current yield levels provide a beneficial asymmetric payoff for investors (Exhibit 5). Additionally, we see some room for lower bond yields, particularly in intermediate maturities over the next 6 to 12 months as yield curves should steepen further. We deem the long ends of all yield curves (> 10 years) still fraught with too much risk and prefer intermediate maturities (5 to 7 years): (1) They benefit from steeper curves, (2) have sufficient duration to profit from lower yields, and (3) have enough carry to provide a cushion against adverse rate moves.

Neutral on credit for now despite credit spreads close to multi-year lows

Exhibit 6: Credit spreads remain close to their multi-year lows

Option adjusted spread in bp, daily data since 2002



Source: Macrobond, Bank J. Safra Sarasin, 07.08.2025

Credit risk premiums across all fixed income sub-asset classes remain close to their tightest levels in 20 years (Exhibit 6). Valuations are therefore not compelling and risks for wider spreads are increasing. That said, our base scenario does not call for a sharp economic slowdown, let alone a recession, hence current yields likely offer enough of a cushion (break-even yield) to protect against losses. Therefore, a structural underweight in credit is not justified. We retain our neutral assessment for now, with a preference for financials.

FX

Even though 'sell America' has moved out of focus, we remain bearish on the dollar, given our expectation of a moderation of US growth

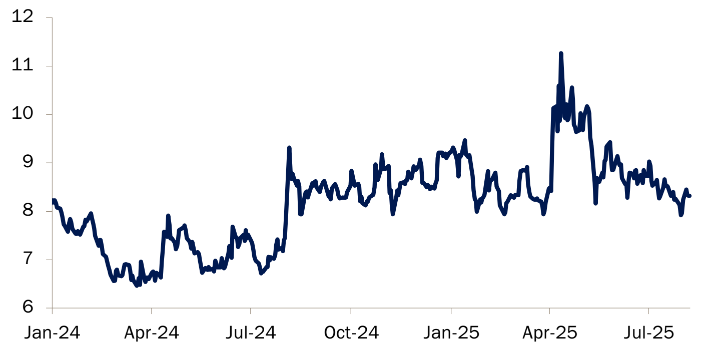
With the expiration of President Trump's August 1 deadline for the negotiation of bilateral US trade deals, uncertainty has risen again and option-implied FX volatility has started to pick up (Exhibit 7). The conclusion of US trade deals with the EU and Japan, both of which feature a 15% base tariff rate on their goods exports to the US, has pushed the effective tariff rate on US imports up, strengthening the dollar in July. Yet we opine that going forward, tariffs will probably matter less for G10 FX than cyclical developments. We stick to the conviction that the moderation of the US relative to the rest of the world should weigh on the dollar. We note that the 'sell America' narrative has moved a bit out of focus. Still, the early resignation of Fed Board Member Adriana Kugler and the dismissal of Bureau of Labor Statistics Chief Erika McEntarfer have raised concerns about the future integrity of US institutions and economic data, adding downside risk for the dollar.

Euro to gain on narrowing growth and policy rate differentials to the US

For the euro, relative macro momentum has presented a headwind in recent months. Yet this is set to change as the disbursement of German fiscal stimulus will increase over the coming months. Recent PMIs and macro data surprises in the euro area are already pointing in this direction (Exhibit 8). Following the ECB's communication at its July meeting, we expect the ECB to cut only once this year, meaning that the policy rate differential between the euro area and the US is set to shrink, providing additional support to the euro.

Exhibit 7: Expiration of August 1 deadline revives FX volatility

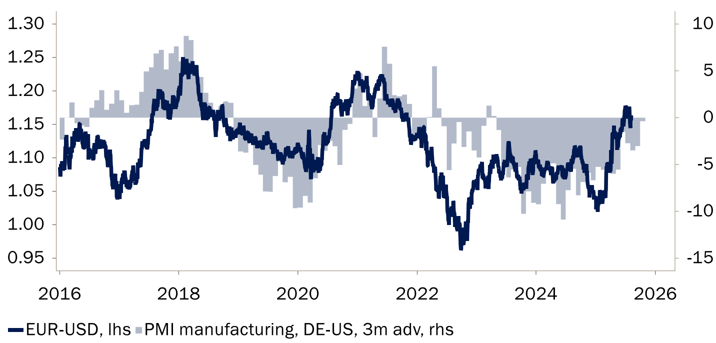
VXY G7, FX option-implied volatiliy index



Source: Bloomberg, Bank J. Safra Sarasin, 07.08.2025

Exhibit 8: Euro support likely to improve again from here

EUR-USD vs relative PMIs



Source: Macrobond, Bank J. Safra Sarasin, 07.08.2025

The Swiss franc could be close to a trough as we expect the 39% tariff rate to fall once a trade deal is agreed with the US

The Swiss franc dipped following the announcement of a broad-based 39% US tariff on Swiss exports to the US, which came into effect on Thursday after the Swiss delegation to Washington failed to secure a deal. Yet we do not expect US tariffs to turn into a major headwind for the Swiss franc, going forward. The US-EU and US-Japan trade deals should provide some orientation on where tariffs on Swiss products could eventually settle. We would expect a reduction to a 15-20% rate to provide relief to the Swiss franc. Nonetheless, the more important driver should be how global growth develops over the coming months. More broadly, we expect falling global growth momentum to support the Swiss franc. The currency should also benefit from a further contraction of Swiss policy rate differentials, given that the SNB is likely done cutting.

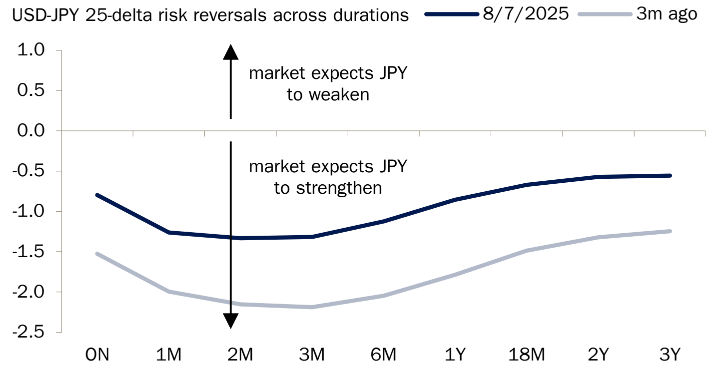
The outlook for the pound remains clouded and the yen's pace of appreciation will likely be flatter than we expected earlier this year

In the UK, the possibility of a 'debt doom loop' is a growing concern. With PM Starmer's government's fiscal goals missed, tax increases seem inevitable. This is set to weigh on growth, which is already suffering from historically high consumer savings rates and depressed business investment. Hence the risk remains that the BoE will need to cut more than markets currently expect, which should push the pound lower in the medium term. While we expect the pound to underperform most G10 currencies, it should continue to grind higher against the dollar. In Japan, the July Upper House elections have strengthened populist forces such as the Sanseito party, complicating the Ishiba administration's fiscal and monetary tightening agenda considerably. This means that the BoJ is quite unlikely to deliver more than one rate hike until the end of this year. As a result, risk reversals now indicate a flatter pace of yen appreciation over the coming quarters (Exhibit 9).

Gold likely to continue on its upward trend on the back of geopolitical uncertainties, lower yields and a weaker dollar

Lastly, we note that gold has held up well over the past weeks and we expect the upward trend to remain intact towards the end of the year, given that geopolitical uncertainties remain elevated. While inflows into gold ETFs stalled in mid-July, they experienced a strong pickup in late July, in particular in North America. Lower yields and the prospect for further dollar depreciation should equally support gold. We also note that net speculative positioning still does not look stretched at this point (Exhibit 10).

Exhibit 9: Markets have turned less bullish on the yen



Source: Bloomberg, Bank J. Safra Sarasin, 07.08.2025

Exhibit 10: Net speculative gold longs are not particularly stretched

Source: Macrobond, Bank J. Safra Sarasin, 07.08.2025

Equities

The equity rebound since early-April has been remarkable, led by US tech

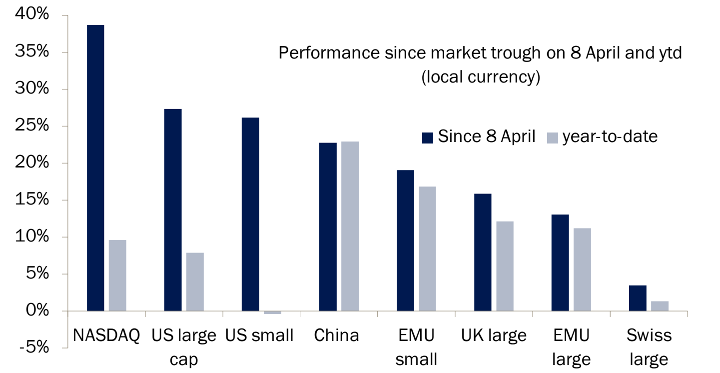
The equity market has gone through a remarkable rebound over the past four months. Led by US tech, US equities have rebounded by 27%. Chinese, euro area and UK equities followed with double-digit returns, while Swiss equities have delivered a mere 3% price return since early April (Exhibit 11).

Swiss equities have trailed the recovery following years of underperformance

The underperformance of Swiss equities was an extension of the weakness that the market had displayed over previous quarters. Several factors account for that. Structurally, key headwinds were the underperformance in global health care, idiosyncratic challenges for Nestlé and the strong Swiss franc. While Swiss companies have learnt to live with a nominally strengthening currency over past decades, the past three years have been exceptional as the real effective exchange rate has hovered above its long-term trend

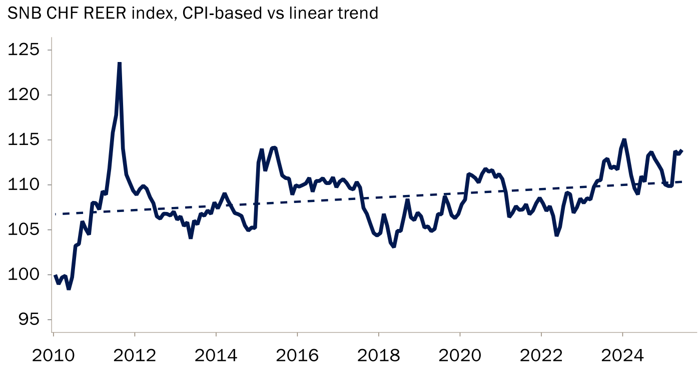
(Exhibit 12). In fact, this indicates a deterioration of competitiveness and partly accounts for the sluggish performance of Swiss companies.

Exhibit 11: US tech has led the market rebound since early-April



Source: LSEG, Bank J. Safra Sarasin, 07.08.2025

Exhibit 12: The Swiss franc is expensive, even in real terms



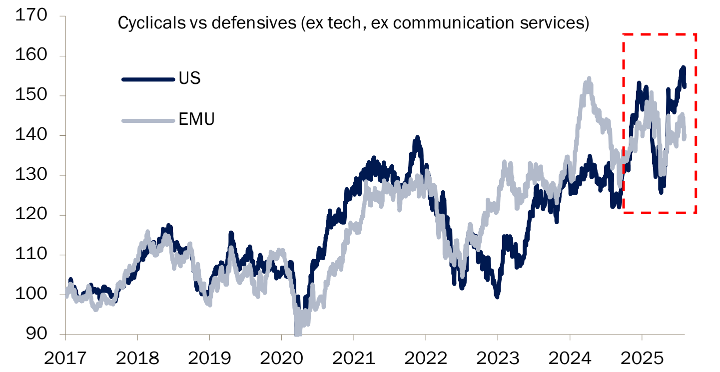
Source: LSEG, Bank J. Safra Sarasin, 07.08.2025

Tactical support for the Swiss market may be strengthening, which leaves us neutral on the market despite tariff risks

What's added to those structural headwinds more recently is the global tactical performance picture. At the global level, the equity market recovery since April has been clearly pro-cyclical, with global cyclicals touching new all-time highs relative to global defensives. This has weighed on the relative performance of the defensive Swiss market, even though the cyclical rebound in Europe has been less pronounced than in the US (Exhibit 13). Looking ahead, the defensive underperformance should reverse somewhat in the coming months, as recent US macro data have failed to support the strong run-up in cyclicals (Exhibit 14). US macro data softness goes beyond disappointing ISM readings for July. It also shows up in weak labour market data, in the US housing market and in the gradual decline in US household consumption over recent months.

Fading cyclical strength should bode well for Swiss equities on a relative basis. Hence, we remain neutral on the Swiss equity market in our regional allocation, despite the potential negative impact of the 39% US tariff rate. More than that, if a trade deal at a significantly lower tariff rate were to be signed, upside risks for Swiss equities may materialise.

Exhibit 13: Cyclicals have led the rebound since early-April



Source: LSEG, Bank J. Safra Sarasin, 07.08.2025

Exhibit 14: Soft US macro data implies weaker cyclical performance

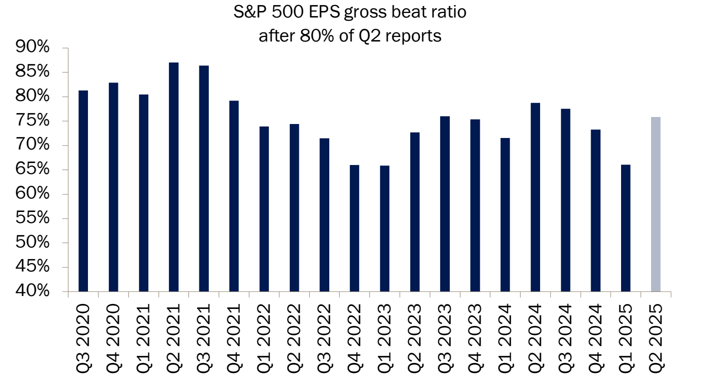
Source: LSEG, Bank J. Safra Sarasin, 07.08.2025

Q2 reporting has been strong in the US, with close to 80% of companies beating consensus expectations

Another factor which has been supportive for global equities lately is the Q2 reporting season in the US. After 80% of companies have reported their results, more than 75% have beaten consensus expectations (Exhibit 15). Earnings growth is tracking at 16% yoy vs 4%

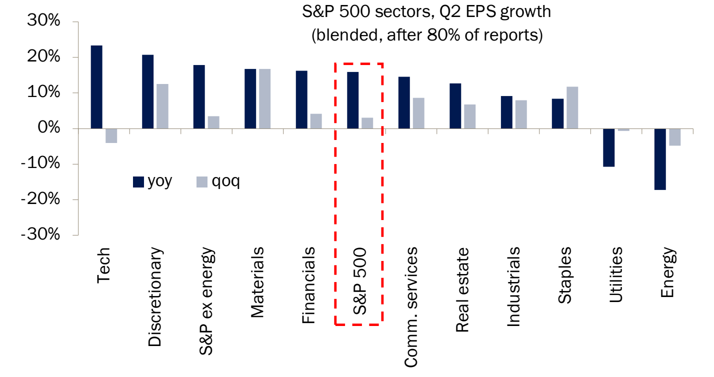
expected by consensus at the beginning of the season. Tech has once again been the key driver of earnings growth, yet the data have been strong across most sectors (Exhibit 16).

Exhibit 15: Earnings beats show no signs of weakness in Q2 reporting



Source: LSEG, Bank J. Safra Sarasin, 07.08.2025

Exhibit 16: EPS growth at 16% yoy above consensus expectations

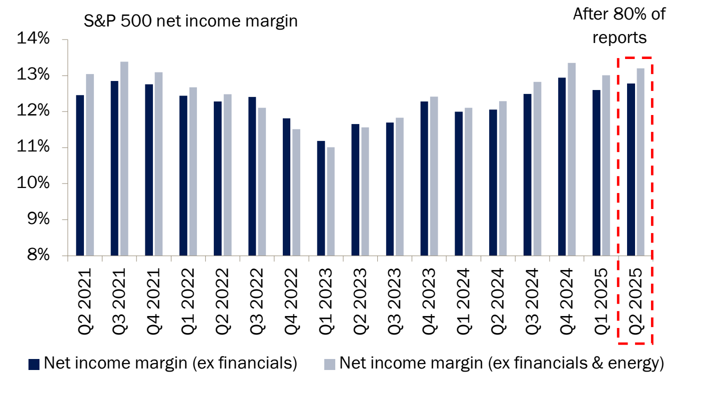


Source: LSEG, Bank J. Safra Sarasin, 07.08.2025

Tariffs are not visible in Q2 margins, as they have been fully offset by a weaker US dollar

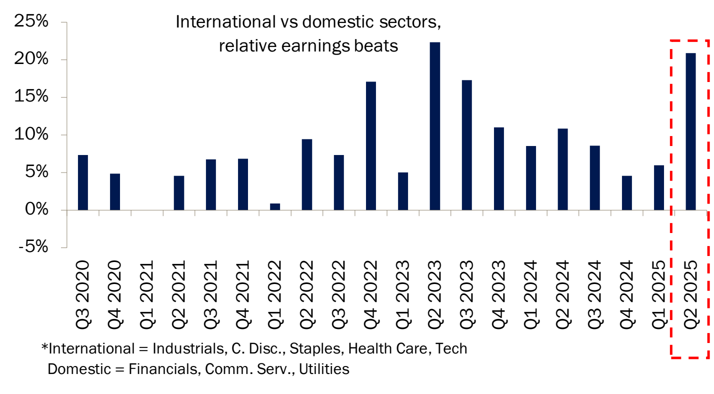
Remarkably, no tariff impact is visible in Q2 margins (Exhibit 17). One key reason why tariff effects are not visible in the bottom line, is the H1 weakness in the US dollar. The ~10% USD (DXY) depreciation in the first half of 2025 showed its full impact on US earnings in the second quarter and more than offset the tariff impact. It has also driven a wedge between more domestically-focused sectors and those with a higher share of foreign sales. Earnings beats of internationally-oriented sectors are the highest relative to domestically-oriented sectors since Q2 2023 (Exhibit 18).

Exhibit 17: Margins show no tariff drag



Source: LSEG, Bank J. Safra Sarasin, 07.08.2025

Exhibit 18: Exporters doing better than domestically-focused names

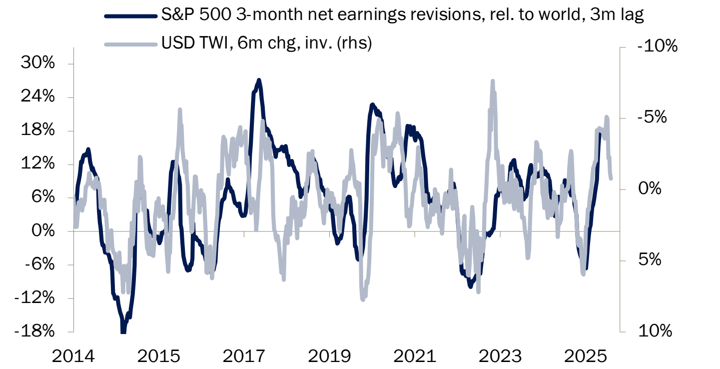


Source: LSEG, Bank J. Safra Sarasin, 07.08.2025

The US dollar has been a key driver of earnings and performance in H1

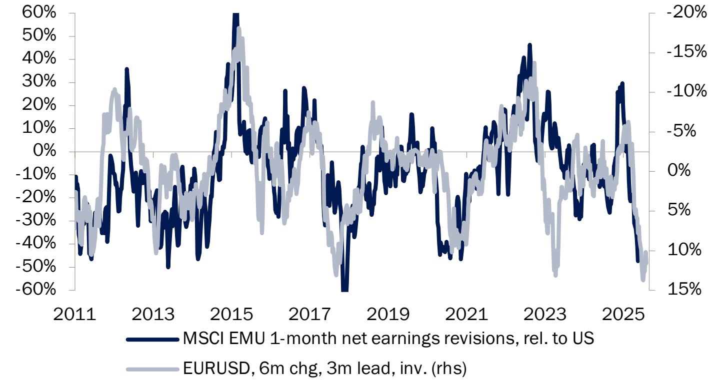
The FX impact can not only be seen in reported earnings but also in consensus expectations. While relative US earnings revisions turned sharply negative at the beginning of the year, they have recovered strongly over recent weeks. We had highlighted this before. Relative revisions tend to correlate quite closely (and inversely) with the currency and tend to react with a 3-month lag. US-dollar moves since the beginning of Q3 suggest that the pace of US EPS upgrades should slow somewhat in coming weeks, while the rest of the world should see improving earnings momentum (Exhibit 19). The FX-earnings correlation is particularly strong vs the euro area, which has been on the other end of this trade. The strength in the euro vs the US dollar has derailed the initial euro area outperformance in mid-March. Since then, US equities have led once again vs their euro area peers, and relative earnings revisions followed (Exhibit 20).

Exhibit 19: The weak US dollar has driven the US earnings recovery...



Source: LSEG, Bank J. Safra Sarasin, 07.08.2025

Exhibit 20: ...as the strong euro weighed on euro area earnings



Source: LSEG, Bank J. Safra Sarasin, 07.08.2025

We expect support for euro area equities to rise once again as FX headwinds fade and fiscal tailwinds increase over coming months

As the euro has stabilised against the US dollar and the German fiscal stimulus is likely to start affecting growth towards the end of this year, euro area equities are once again well positioned to outperform vs US equities from a tactical point of view.

J. Safra Sarasin
Cross-Asset Weekly
08 August 2025

Exhibit 21: JSS Forecast overview

Breakdown per Asset Class

Equities Countries / Regions	
USA	→
Eurozone	↑
Switzerland	→
United Kingdom	→
Japan	→
Emerging Markets	→
China	→

Equity Sectors	
Energy	→
Materials	→
Industrials	→
Consumer Discretionary	→
Consumer Staples	↑
Health Care	↑
Banks	→
Insurance	→
Information Technology	→
Communication Services	→
Real Estate	→
Utilities	↑

Fixed Income Performance	
US Treasuries	→
German Bunds	→
UK Gilts	→
Swiss Eidgenossen	→
IG Credit	→
HY Credit	→
EM USD Government Bonds	→

↑ **Overweight** → **Neutral** ↓ **Underweight**

Asset class views (overweight, neutral, underweight) express a tactical recommendation with a 3-month horizon. Tactical views might diverge from year-end stock index targets, which are based on our long-term economic and interest rate forecasts.

Stock Index Price Targets

	06.08.	4Q25	2Q26	4Q26
S&P 500	6'345	6'300	6'750	7'200
MSCI UK	2'608	2'800	2'850	2'900
DJ Euro Stoxx 50	5'263	5'600	5'700	5'800
DAX	23'924	26'000	26'500	27'000
SMI	11'755	12'500	12'750	13'000
MSCI Japan	1'795	1'800	1'900	2'000
MSCI EM	1'244	1'300	1'350	1'400
MSCI China	81	83	86	88

Key Policy Rates in %

	06.08.	4Q25	2Q26	4Q26
US Fed Funds	4.50	4.00	3.75	3.50
EUR Depo Rate	2.00	1.75	1.75	1.75
SNB Target Rate	0.00	0.00	0.00	0.00
BoE Base Rate	4.25	3.75	3.50	3.50
BOJ Policy Balance Rate	0.50	0.75	0.75	1.00

Bond Yields (10yr Benchmark)

	06.08.	4Q25	2Q26	4Q26
USA	4.22	4.20	4.25	4.25
Germany	2.60	2.45	2.45	2.45
Switzerland	0.31	0.45	0.45	0.45
United Kingdom	4.52	4.35	4.35	4.30
Japan	1.50	1.50	1.55	1.60

FX Forecasts

	06.08.	4Q25	2Q26	4Q26
EUR-CHF	0.94	0.92	0.92	0.91
EUR-USD	1.16	1.20	1.22	1.24
EUR-GBP	0.87	0.87	0.89	0.90
GBP-USD	1.34	1.38	1.38	1.38
USD-JPY	147	140	138	135
USD-CHF	0.81	0.77	0.75	0.73
USD-CNY	7.19	7.10	7.00	6.90
Gold, USD per ounce	3'378	3'600	3'700	3'800

Macro Forecasts

		2024	2025	2026
US	GDP	2.8	1.7	1.4
	CPI	3.0	2.7	2.5
Euroland	GDP	1.0	1.1	1.2
	CPI	2.4	2.1	2.0
Switzerland	GDP	1.4	1.4	1.5
	CPI	1.1	0.3	0.9
UK	GDP	1.1	0.9	1.0
	CPI	2.5	3.3	2.4
Japan	GDP	0.2	0.9	0.9
	CPI	2.7	3.2	1.8
China	GDP	5.0	4.8	4.0
	CPI	0.2	-0.2	0.4

Economic Calendar

Week of 11/08 – 15/08/2025

Country	Time	Item	Date	Unit	Consensus Forecast	Prev.
Monday, 11.08.2025						
Tuesday, 12.08.2025						
UK	08:00	Employment Change 3M/3M	Jun	3m/3m	--	134k
EU	11:00	ZEW Survey Expectations	Aug	Index	--	36.10
US	12:00	NFIB	Jul	Index	99.00	98.60
	14:30	CPI Ex Food and Energy MoM	Jul	mom	0.30%	0.20%
	14:30	CPI Ex Food and Energy YoY	Jul	yoy	3.00%	2.90%
Wednesday, 13.08.2025						
US	13:00	MBA Mortgage Applications	Aug8	wow	--	3.10%
Thursday, 14.08.2025						
UK	08:00	GDP QoQ	2Q	qoq	--	0.70%
	08:00	GDP YoY	2Q	yoy	--	1.30%
US	14:00	PPI Ex Food and Energy MoM	Jul	mom	0.20%	0.00%
	14:30	PPI Ex Food and Energy YoY	Jul	yoy	--	2.60%
	14:30	Initial Jobless Claims	Aug9	1’000	--	--
Friday, 15.08.2025						
US	14:30	Empire Manufacturing	Aug	Index	0.00	5.50
	14:30	Retail Sales Control Group	Jul	mom	0.50%	0.50%
	16:00	U. of Mich. 5-10 Yr Inflation	Aug	%	--	3.40%

Source: Bloomberg, J. Safra Sarasin as of 07.08.2025

Market Performance

Global Markets in Local Currencies

Government Bonds	Current value	Δ 1W (bp)	Δ YTD (bp)	TR YTD in %
Swiss Eidgenosse 10 year (%)	0.29	1	-4	1.0
German Bund 10 year (%)	2.63	-5	26	0.1
UK Gilt 10 year (%)	4.55	2	-6	3.8
US Treasury 10 year (%)	4.25	3	-29	5.8
French OAT - Bund, spread (bp)	67	0	-16	
Italian BTP - Bund, spread (bp)	79	-4	-36	

Stock Markets	Level	P/E ratio	1W TR in %	TR YTD in %
SMI - Switzerland	11’850	17.3	-0.7	5.3
DAX - Germany	24’193	17.0	0.5	21.5
MSCI Italy	1’332	12.8	1.1	22.2
IBEX - Spain	14’691	13.0	2.0	30.5
DJ Euro Stoxx 50 - Eurozone	5’332	15.9	0.3	11.9
MSCI UK	2’589	13.8	0.0	13.8
S&P 500 - USA	6’340	23.9	0.0	8.6
Nasdaq 100 - USA	23’390	29.8	0.7	11.8
MSCI Emerging Markets	1’260	14.0	1.4	19.6

Forex - Crossrates	Level	3M implied volatility	1W in %	YTD in %
USD-CHF	0.81	8.3	0.4	-10.6
EUR-CHF	0.94	5.2	0.9	0.0
GBP-CHF	1.08	7.1	1.6	-4.4
EUR-USD	1.16	7.9	0.5	11.9
GBP-USD	1.34	7.5	1.1	7.0
USD-JPY	147.3	10.0	0.0	-6.1
EUR-GBP	0.87	5.4	-0.6	4.6
EUR-SEK	11.17	6.0	-0.2	-2.7
EUR-NOK	11.93	7.2	0.9	1.2

Commodities	Level	3M realised volatility	1W in %	YTD in %
Bloomberg Commodity Index	101	10.5	-2.2	2.1
Brent crude oil - USD / barrel	68	25.9	-6.8	-8.4
Gold bullion - USD / Troy ounce	3’391	13.7	3.1	30.1

Source: J. Safra Sarasin, Bloomberg as of 07.08.2025

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