Capicura Partners – Outlook 2nd Quarter 2025

March 27, 2025

On a razor's edge

- ***US fiscal austerity vs. European expansion***
- ***USD devaluation – be careful what you wish for***
- ***Negative sentiment for US equities bodes well for short-term recovery***
- ***Swiss blue chips finally "kissed awake"***
- ***More defensive asset allocation***

USA: From fiscal fireworks to budgetary discipline

Since the 2008 financial crisis, the US government has increasingly relied on expansive fiscal policy – a strategy that was continued with the Covid aid packages in 2020. Despite the massive interest rate hikes in 2022, this policy prevented the US economy from falling into a recession. However, the new Trump administration is now taking a different course. Cutting costs instead of continuing to spend, with the Department of Government Efficiency (DOGE) coming into full action. With his "Rule of 3", Treasury Secretary Scott Bessent has announced a drastic reduction in the US fiscal deficit from 7% to 3% of GDP. However, this fiscal austerity also means a negative stimulus for the US economy and hence a slowdown in growth.

Resurrection of Europe: Billions for defense and infrastructure

While the USA is focusing on austerity measures, Europe is recognizing the need to protect itself. For decades, Europeans have neglected their defense spending – but with the war in Ukraine, a Russian aggressor on their doorstep and the realization that the US is no longer prepared to guarantee European security, this is now changing rapidly. At the latest EU summit, the 27 member states decided on a substantial defense package of up to EUR 800 billion. Germany is going even further. Under the new leadership of Friedrich Merz, a EUR 500 billion infrastructure program was launched, and additional military spending was agreed, which is partially exempt from the "debt brake". So, while Europe is rearming and investing, the US government is pursuing a kind of "detox program" for its national budget.

«Trade war 2.0»

New US trade tariffs and potential levies on holding USD reserves are intended to support the US national budget and devalue the USD (Fig. 1). The deliberate weakening of the Greenback (known as the "Mar-a-Lago Accord") is an attempt to stimulate US industry and its exports.

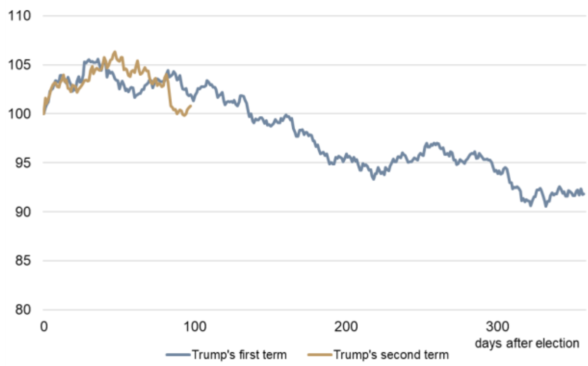

Fig. 1) USD-Index first and second term of Trumps
Data: Bloomberg / Chart: Capicura Partners

But while the weaker USD could bring economic benefits for the US, their import tariffs and retaliatory counter tariffs from trading partners are weighing on the global economy and spurs inflation. The result? A dangerous mix of rising inflation and a cooling economy – a typical stagflationary environment that is poison for the US equity market. The US indices have already begun pricing in these risks and are showing a negative performance YTD (Fig. 2). Although this is a welcome revaluation for a "priced to perfection" US equity market, it has led to a nervy start on Wall Street. At the same time, European markets are benefiting from massive inflows of money due to their newly found emancipation and more attractive valuations. As a result, we increased our Europe allocation by three percentage points in the middle of Q1 and reduced our US exposure accordingly.

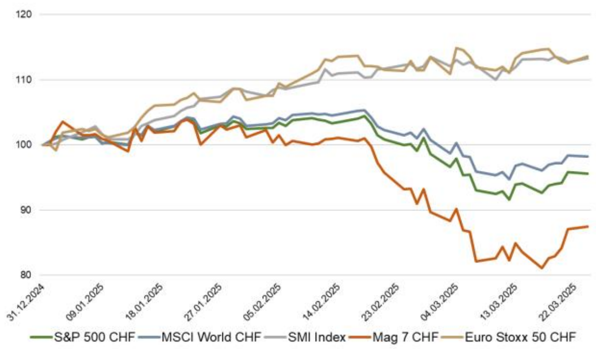

Fig. 2) YTD performance of various indices in CHF
Data: Bloomberg / Chart: Capicura Partners

Gold for uncertain times

Mounting global debt, the political will to weaken the USD and the threat of inflation returning are making gold more attractive than ever. As a safe haven asset in uncertain times, the price of gold has continued to soar, exceeding the USD 3'000 per ounce mark for the first time. The high physical demand, led by central banks and institutional investors, underlines the growing interest in gold as a store of value. Back in February, we tactically increased our gold positions in our balanced portfolios and now hold a substantial allocation of 7%, which should support the portfolio in turbulent times. A quiz question at this point: Looking at the S&P 500 Index vs. gold since end of 2001 – which of the two generated a higher annualized return?

Technical recovery or bear trap?

In the short-term, the US market could experience a technical rebound – not least because the current negative market sentiment is a classic contrarian indicator (Fig. 3), and April has historically been a strong month for the stock market

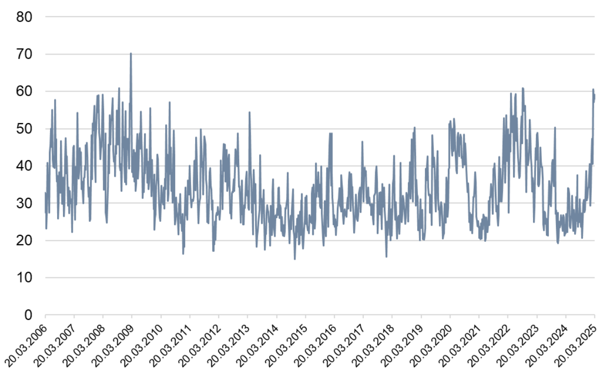

Fig. 3) AAII Bear Index (market sentiment)
Data: Bloomberg / Chart: Capicura Partners

If the future stock market price pattern is anything like Trump's first term in office, a recovery is also likely to set in over the coming months. But be aware: The high valuations set clear limits for further upside potential. We do not see phases of strength as a reason for euphoria, but rather an opportunity to tactically reduce equity exposure. After all, a brief upswing does not change the underlying risks. In view of the ongoing challenges, we already took precautions in February and implemented September put options on the S&P 500 Index in our discretionary mandates.

Swiss equities "kissed awake"

European equities remain attractive – driven by lower valuations and government investments in infrastructure and defense. The price gains since the beginning of the year are evidence of a certain over-excitement and hence, a short-term consolidation can be expected. Swiss blue chips have also come back into focus. After years of restraint and underperformance, this "sleeping beauty" was finally kissed awake in early 2025 due to its defensive character and high dividend yields. Of course, the European markets cannot completely decouple themselves from the US economy. If the probability of a US recession increases, this will also leave its mark on Europe. We feel well-positioned with a more defensive equity allocation – overweight in Europe and Switzerland, underweight in the USA.

Asset allocation for the 2nd quarter

To summarize, we are starting the second quarter more cautiously than at the beginning of the year. Namely with an increased alternative allocation by the addition of gold and a delta-adjusted equity weighting of 50% and with a more defensive equity selection.

Asset Allocation	
Cash	*6%*
Fixed Income	*22%*
Equities	*50%*
Alternative Investments	*22%*

Fig. 4) *Suggested asset allocation for a Balanced Portfolio in Q2 2025*