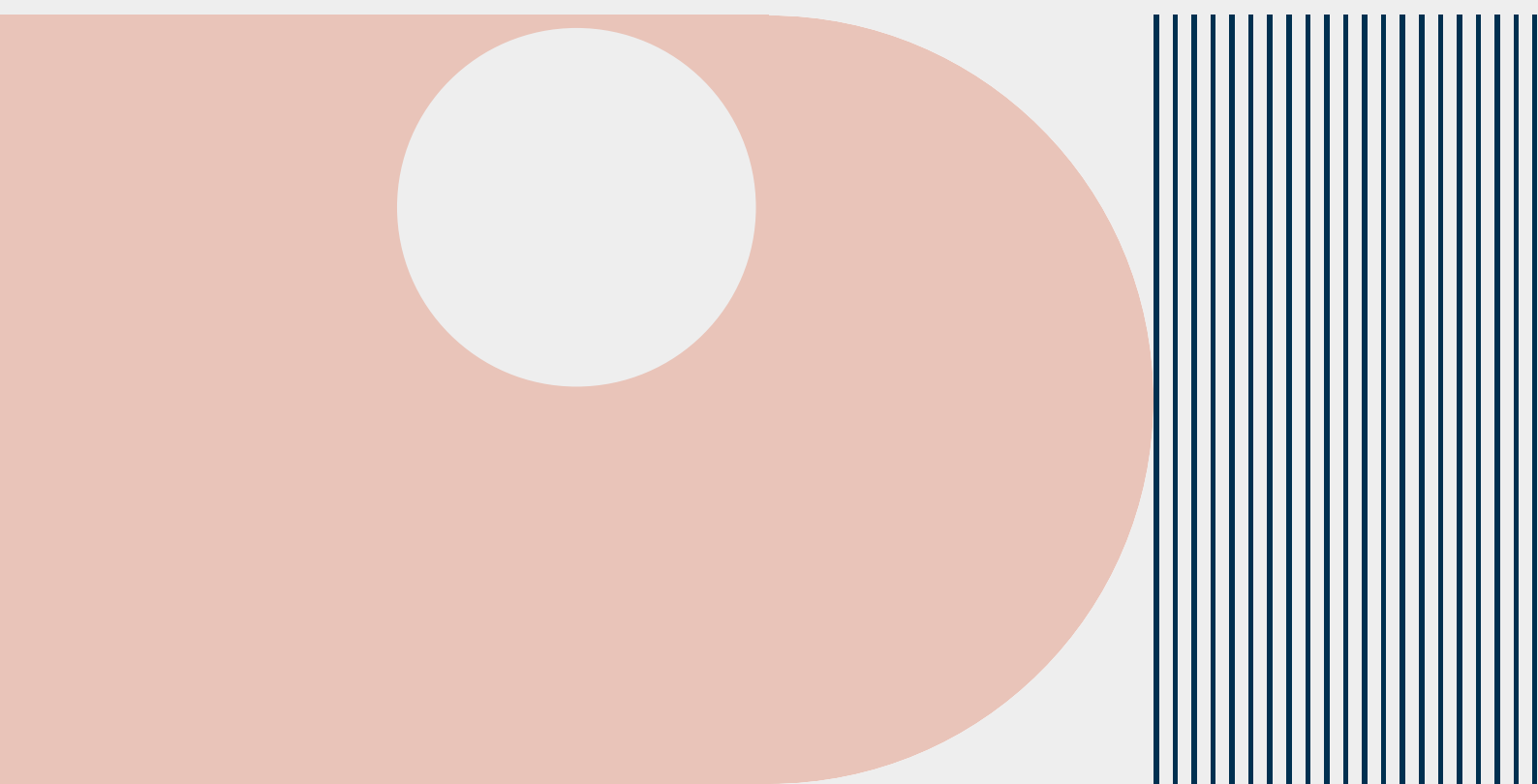




INVESTMENT OUTLOOK

OCTOBER 2025



FROM POLICY UNCERTAINTY TO HARD REALITY

The third quarter marked a shift from speculation to adaptation as a new economic and geopolitical order began to take shape. US trading partners not only faced unsettling policy pronouncements and high uncertainty but also substantial new tariffs. Meanwhile, the economic impact spread from sentiment-driven indicators to hard data.

Tariff deadlines passed, and the Trump administration has imposed a complex, far-reaching and often revised tariff regime that varies by country and sector. Steel, aluminium, and copper are currently subject to a 50 percent tariff, while auto imports face a 25 percent rate. Country-specific tariffs range from 15 percent for the EU, Japan, and South Korea, to 20 percent for China, 25 percent for India, and up to 39 percent for Switzerland and 40 percent for Brazil.

It's worth pointing out that, due to delays and some specific exemptions, the actual tariffs collected differ from these headline figures. According to the *Peterson Institute for International Economics*, effective tariffs reached approximately 10 percent of total US import value by the end of July—more than a fourfold increase since the start of 2025. Consumer goods and imports from China bear the highest tariff shares relative to import value.

Legal challenges to the tariffs have reached the US Supreme Court, which is scheduled to hear the case in November, with a decision expected by June 2026. But regardless of that outcome, we believe the impact of the tariffs will be profound and lasting. The Trump administration's unilateral actions may have already prompted companies to de-risk by reducing their dependence on the US market. Moreover, since corporate planning horizons extend beyond the rapid cadence of US policy shifts, long-term adjustments to business and investment strategies are already underway—even if the current tariffs are eventually removed. In our view, global trade flows have been permanently altered.

These shifts in trade will also be reflected in capital flows. As China's export revenues increasingly come in non-USD currencies, its foreign investments will diversify away from USD assets. The countries receiving increased capital inflows and cheaper imports should experience deflationary pressures and lower interest rates. With China no longer exporting deflation to the

US but to Europe and other partners instead, the US should face structurally higher inflation and interest rates. This argues for a continuing downtrend for the dollar, while non-USD assets and currencies stand to benefit.

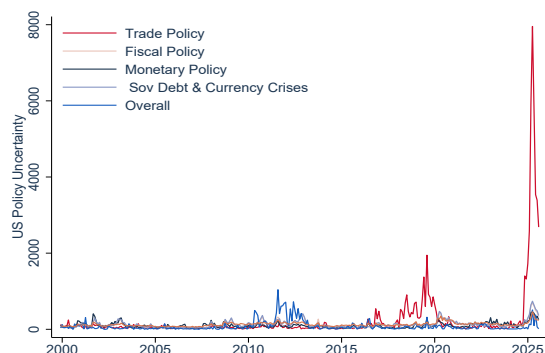
The dollar also faces downside pressure due to eroding trust in US institutions—especially if attacks on the US central bank's independence persist alongside the federal government's loose fiscal stance. The ongoing price surge for gold appears to reflect these concerns. Moreover, the American political/economic system has exhibited some troubling developments lately: weakening rule of law, disruptions to checks and balances, arbitrary state interventions in private enterprises and a political climate that fosters rent-seeking by large corporations. All together, these trends threaten the long-term competitiveness and productivity of the US economy.

Nevertheless, the US stock market has maintained its upward trajectory, supported by resilient earnings despite a weakening US economy and stretched valuations. We remain invested in equities for now but continue to underweight US exposure relative to the global benchmark, and we maintain our position in gold.

1.1 NORTH AMERICA

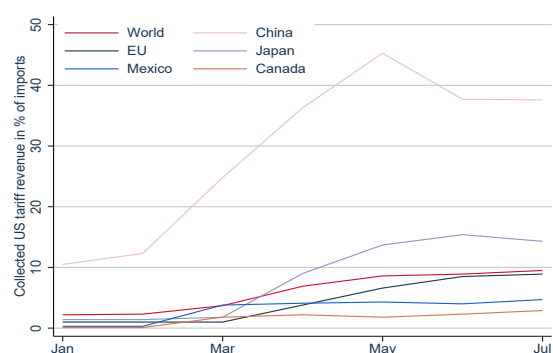
- After a weak Q1, when GDP contracted due to a surge in net imports driven by frontloaded purchases ahead of the anticipated tariffs, growth revived in Q2 as imports retreated, in turn boosting GDP. However, beneath this tariff-induced volatility, the underlying fundamentals appeared less robust, as evidenced by slowing investment and moderate consumption growth.
- Initially, the Trump administration's radical economic agenda generated uncertainty without materially affecting real activity. Volatility was mostly confined to capital markets and soft indicators such as sentiment surveys. By Q3, however, as the tariffs took hold, trade-policy uncertainty began to ease, while early signs of stagflationary effects emerged in hard economic data.
- [According to the Peterson Institute for International Economics](#), effective tariff revenues as a share of US imports rose from 2.2 percent in January to 9.5 percent in July. Imports from China were most affected, with collected tariffs accounting for 37.6 percent of import value. By product category, consumer goods faced the highest tariff burden (15 percent of import value), followed by industrial intermediates (9.8 percent) and capital goods (6.4 percent). As of July, tariff revenues collected since January amounted to USD 122 billion, covering only 6.5 percent of the projected US fiscal deficit.
- At the same time, the labour market showed signs of softening. Significant downward revisions to May and June's payrolls—among the largest revisions outside 2020—were followed by an unexpected slowdown in job growth in August.
- Meanwhile, consumer price inflation, which had remained sticky in the final phase of post-pandemic disinflation, edged higher in Q3, remaining clearly above the level consistent with price stability. Year-over-year CPI inflation reached 2.9 percent in August, driven by persistent core price pressures and a rebound in energy prices.
- At its September meeting, the Federal Open Market Committee faced an intensifying stagflationary trade-off. While acknowledging both the upside risk to inflation and downside risk to employment, it opted to prioritise the latter. The meeting was held against a backdrop of rising political pressure, which fuelled concerns that the Fed's independence might be at risk. The Committee implemented a 25-basis point rate cut to a target range of 4.00 to 4.25 percent, a move interpreted by markets as a “hawkish” cut. The FOMC's current projections suggest a gradual decline in the fed funds rate toward a neutral level of 3 percent by 2027.

Trade policy uncertainty eased...



Source: LSEG, MFO

...as tariffs began to bite



Source: PIIE, MFO

1.2 EUROPE

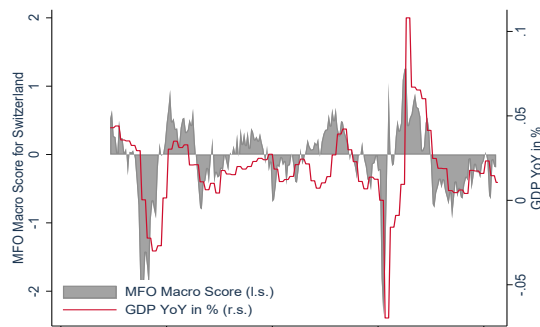
- Trade policy-induced volatility was also evident in the EU's second-quarter GDP data, but with effects opposite to those seen in the US. After frontloading boosted exports in the first quarter, exports contracted in the second quarter as foreign demand softened following higher US tariffs and inventory build-ups. As a result, quarterly GDP growth slowed from 0.6 percent to 0.1 percent, with annual growth at 1.5 percent.
- Beneath this volatility, underlying momentum remained stable, supporting a fragile recovery in Europe. Business activity accelerated toward the end of the third quarter, mainly due to a rebound in services, while manufacturing showed tentative improvement, too, albeit from a low base. These gains were largely driven by stronger domestic demand, as export orders declined in both sectors.
- The labour market remained robust, with unemployment falling to 6.2 percent in July—a record low for the monetary union. Combined with slowing but still positive real wage growth, this supports the outlook for domestic consumption. Monetary conditions also remain loose, keeping refinancing costs low for businesses and households.
- Nevertheless, downside risks persist. While trade policy uncertainty has receded from its peak, it remains elevated and could continue to weigh on investment and consumer spending. The German economy remains subdued, so far providing few positive impulses for the Eurozone, with the impact of Germany's big infrastructure and defence package likely only materialising from 2026 onward. Germany's ongoing "China Shock" in the automotive sector is expected to persist, while Chinese exports, redirected to Europe, may trigger further competitive pressures. Additionally, shifts in trade flows are accompanied by changes in capital flows, which should strengthen the euro, further challenging the Eurozone's competitiveness.
- Switzerland's modest recovery has faced significant headwinds since the tariff shock on August 1. The *KOF research institute* expects high US tariffs to dampen growth by 0.3 to 0.6 percentage points versus previous forecasts of 1.4 percent for 2025 and 1.5 percent for 2026, assuming the 39 percent tariff rate remains in place. A recession, however, is not anticipated, unless the pharmaceutical sector were to face similar tariffs. Support currently comes from domestic consumption and the SNB's accommodative monetary policy, with the key rate cut to zero in June. A recovery in the Eurozone and a stronger euro would also provide support.

Eurozone: Manufacturing Still Weak



Source: LSEG, MFO

Swiss Economic Headwinds

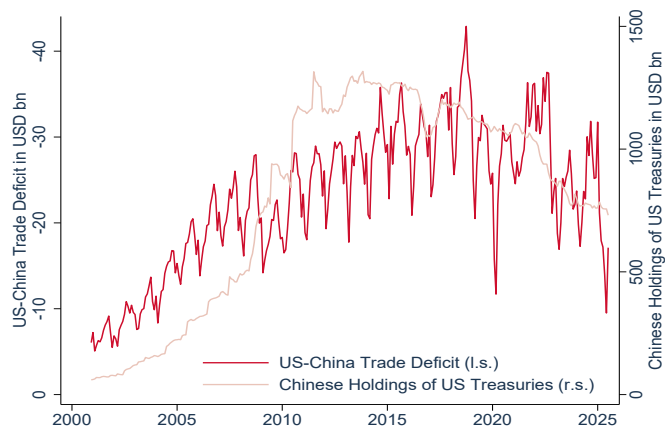


Source: LSEG, MFO

1.3 ASIA AND EMERGING ECONOMIES

- Q3 saw a recovery in composite business sentiment across Asian and EM economies after soaring trade-policy uncertainty sparked a slump in Q2. The recovery was mostly driven by stronger services activity that continued to expand, whereas developments in the manufacturing sector were more uneven across regions, with activity levels generally remaining sluggish.
- US tariffs are now a reality and, in some cases, have risen to very substantial levels. Chinese exports to the US are the most strongly affected, with collected tariffs accounting for almost 38 percent of export value in July, followed by Japan at about 14 percent and South Korea facing a tariff burden of roughly 12 percent of its export value to the US.
- Even if US trade policy were to reverse, the tariffs imposed this year will have lasting consequences. First, the tariffs were announced and revised at a pace that ignored the planning horizons of most companies, forcing them to make strategic decisions and realign their long-term investment plans. Second, the Trump administration's unilateral approach to trade relations has raised questions about its reliability in a rules-based trading system. These are compelling incentives for firms to actively de-risk from the US market and pursuing greater diversification in their export destinations.
- Accordingly, trade flows are undergoing a structural rerouting, mirrored by shifts in capital flows. Therefore, China no longer exports deflation to the US but increasingly to other trading partners and to its domestic market. This shift should contribute to structurally higher inflation and interest rates in the US while exerting disinflationary pressure on Europe, Asia, and other regions.
- Beyond tariff dynamics and the erosion of the rules-based trade order, technological change is reshaping global trade. As highlighted in the [WTO's World Trade Report 2025](#), artificial intelligence could boost global trade by nearly 40 percent by 2040—provided countries adopt the right mix of trade, investment and related complementary policies.
- [As noted by MERICS](#), China's deepening economic ties with regional powers—including India, Russia, and others—are shaped by a mix of competition, cooperation and geopolitical tension, sometimes erupting into outright regional conflicts. These relationships are complex and fluid, and do not necessarily signal the emergence of a new, coherent, China-centric bloc. Instead, they point toward a dynamic, multipolar global order with shifting alliances and diverse trade strategies.

Trade & Treasury Demand: China's Pullback

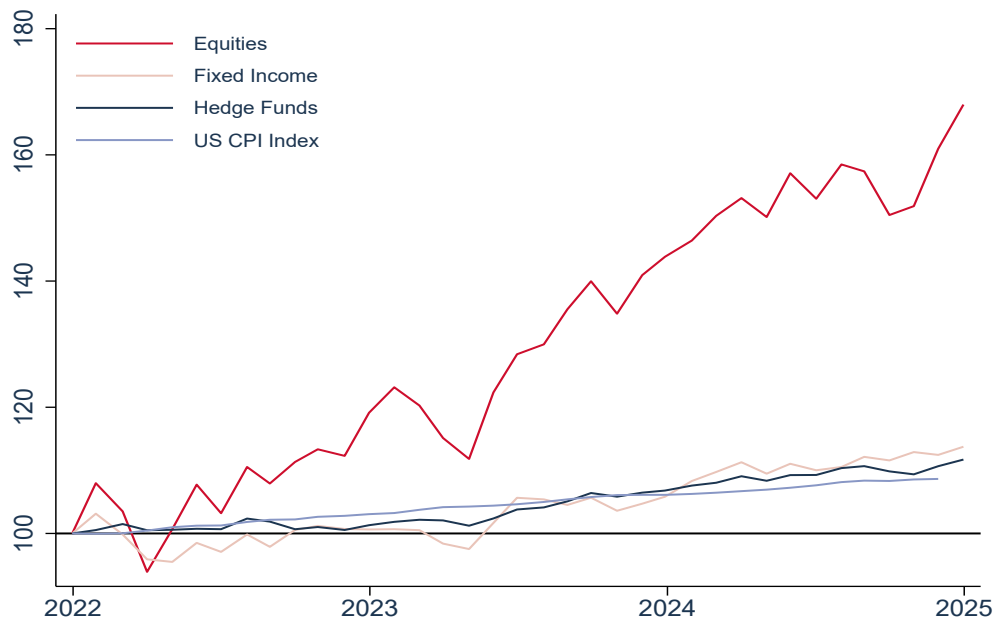


China's demand for US Treasuries is waning, while the US-China trade deficit is shrinking. These shifts are two sides of the same coin: trade balances and capital flows mirror each other. Fewer US imports from China mean fewer dollars flowing back into US assets.

Source: Bloomberg, MFO

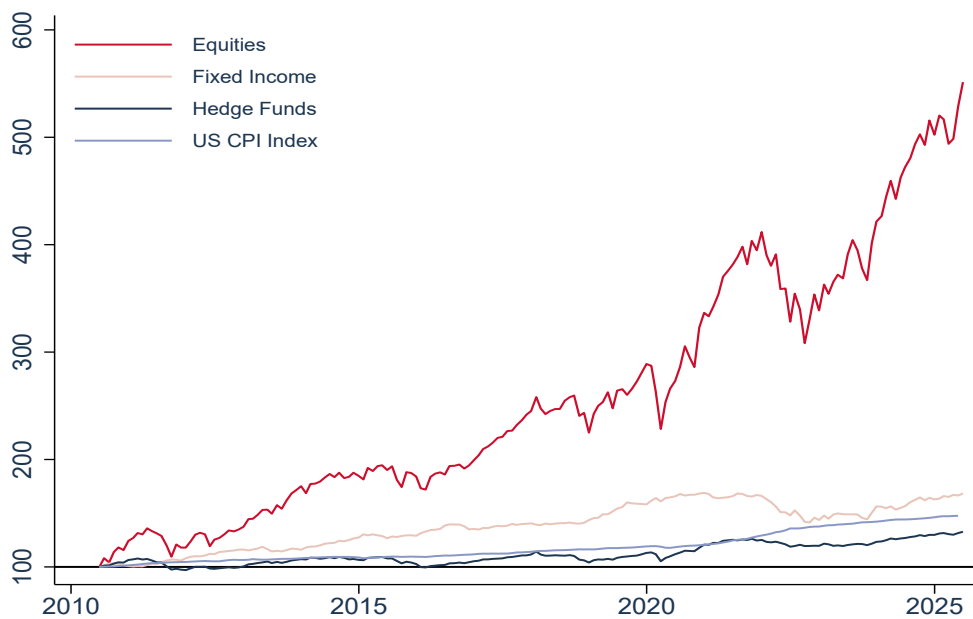
2. FINANCIAL MARKETS

Medium-term market developments



Source: LSEG, MFO

Long-term market developments



Source: LSEG, MFO

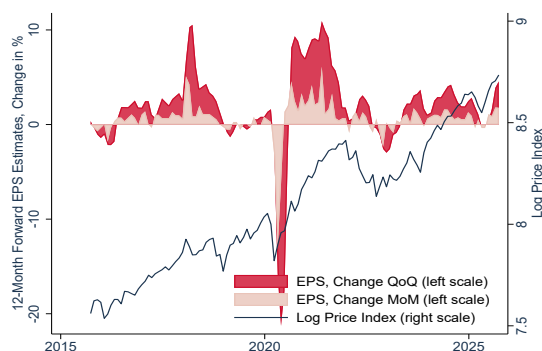
2.1 EQUITIES

- The third quarter can be seen as a testament to market resilience. Despite trade tensions, sticky inflation and eroding confidence in some sectors, equities surged to fresh highs, calming recession fears while underscoring the importance of disciplined portfolio management.
- The quarter was defined by volatility as Trump's "reciprocal" tariffs were announced, postponed and often revised, keeping markets uneasy about input costs, corporate margins and supply chains. July in particular saw heightened uncertainty, with shifting tariff deadlines fuelling sharp swings in sentiment. Yet, as the quarter unfolded, two forces proved decisive: resilient corporate earnings and rising expectations that the Federal Reserve would begin easing. These drivers helped investors look past trade noise, enabling equities to post solid returns for the quarter.
- The *MSCI World Index* rose 7.3 percent in USD terms, while the *S&P 500 Index* gained 8.1 percent. Again, Asian equities outperformed, with the *MSCI AC Asia Pacific Index* up 9.4 percent in USD terms and the *Nikkei 225 Index* gaining 11.7 percent in JPY. In Europe, the *MSCI Europe Index* rose 3.6 percent in EUR, while the *Swiss Performance Index* returned 1.3 percent in CHF.
- Resilient and stronger-than-expected

corporate earnings have been a key factor supporting the equity market's ongoing strength. The estimated year-over-year earnings growth rate for the *S&P 500 Index* is 7.9 percent, up from 7.2 percent at the start of the quarter according to *FactSet* – an unusual upward revision, since analysts typically lower forecasts as a quarter progresses. While this pace is below the previous multi-quarter streak of double-digit growth, making it the slowest growth since Q1 2024, it would still mark the Index's ninth consecutive quarter of positive year-over-year earnings growth, underscoring continued corporate strength.

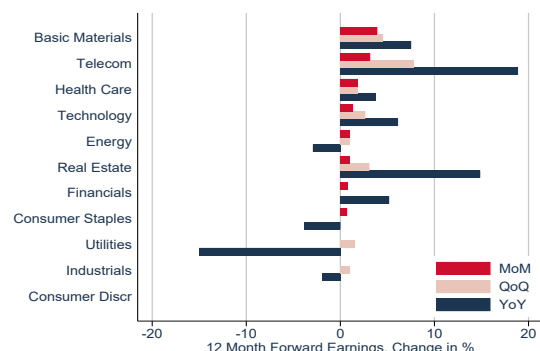
- Eight of eleven sectors are expected to show year-over-year earnings growth, led by Information Technology, Utilities, Materials, and Financials. Energy, Consumer Staples, and Consumer Discretionary are projected to decline.
- Additionally, during the quarter, market sentiment turned on expectations of Federal Reserve rate cuts, driven by a sharp labour market slowdown in August and the dovish tone from Chair Jerome Powell at Jackson Hole. The rate cut delivered in September further boosted the equity market outlook. We maintained our neutral allocation to equities throughout the quarter, given the positive market momentum, while macro risks and high valuations spoke for caution.

Expected US earnings accelerate...



Source: LSEG, MFO

...but vary across sectors

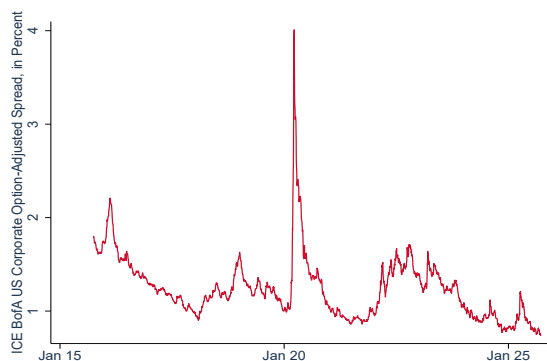


Source: LSEG, MFO

2.2 FIXED INCOME

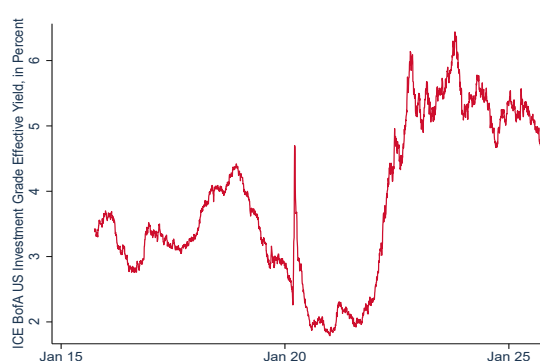
- The global investment-grade bond market, as measured by the *Bloomberg Global Aggregate Bond Index USD Hedged*, delivered positive returns of 1.2 percent in the third quarter, despite initially high volatility and mixed currency market developments.
- The quarter began with the prospect of an agreement in the trade talks between the EU and the US on US import tariffs of 15 percent on most products, which improved sentiment towards credit and caused corporate bond risk premiums to fall to last year's lows, whereas government bond yields rose slightly in both currency areas.
- During August, market dynamics turned more uneven across maturities and currencies. The spotlight was on the weak US labour report, where sharp downward revisions to earlier data revealed that job creation had slowed to its weakest pace since 2020. Against this backdrop, Powell used his Jackson Hole address to signal that the Fed was open to lowering rates as soon as September, triggering a rally in US Treasuries. In the Eurozone, the ECB maintained a wait-and-see approach, refraining from policy changes. In France, Prime Minister François Bayrou lost a vote of confidence in support of his austerity measures, which unsettled investors and weighed on overall market sentiment, causing spreads on French government bonds to widen.
- In September, the Fed cut its key rate for the first time this year, while signalling two more reductions of a similar size at its remaining meetings in the fourth quarter. Credit risk premiums for investment-grade bonds fell to a new decade low, closing at 0.8 percent. High-yield spreads also approached their lowest levels in ten years, ending at 2.7 percent, according to *ICE BofA indices*.
- In contrast, the European Central Bank seemed to approach the end of its easing cycle. It left its main interest rate unchanged at 2.0 percent, in the middle of what it considers the "neutral range." ECB President Christine Lagarde surprised observers with a restrictive tone, dampening speculation of additional monetary easing. This suggests that the interest rate differential between the USD and EUR areas is likely to narrow from its current wide levels over the coming months.
- Overall, we retain a neutral stance on fixed income. Current yield levels offer a buffer against inflation surprises and renewed market volatility. Credit risk premiums are historically narrow, but the Fed's incipient easing cycle could keep them low for the time being, which in our view also makes duration attractive.

Credit spreads at decade lows...



Source: FRED, MFO

...yet yields remain attractive



Source: FRED, MFO

2.3 ALTERNATIVES

HEDGE FUNDS, PRIVATE MARKETS AND COMMODITIES

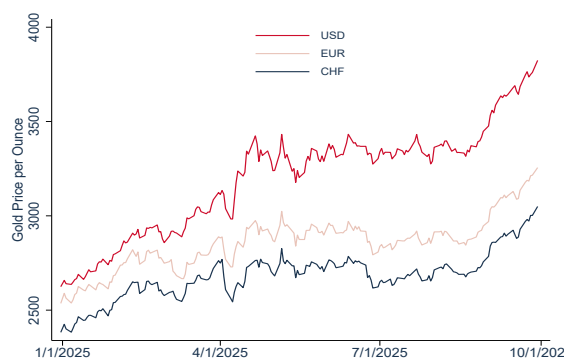
- Hedge funds extended their first-half gains into Q3, with all strategies generating positive returns. Equity long/short and global macro were the top-performing strategies. Equity long/short profited from strong earnings, continued decline in equity volatility as well as falling interest rates. Global macro funds continued to profit from a weaker US dollar as well as interest-rate trading. Trading in the short end of the interest rate curve did especially well as a slowing labour market in the US opened the path for the US Federal Reserve to lower interest rates.
- Gold was range-bound in the first half of the quarter but started to re-accelerate in mid-August due to a combination of macroeconomic, political and technical factors. Expectations of falling US interest rates, growing concern about the Fed's independence and persistent demand from global central banks led to a new price record for the yellow metal, topping USD 3850 per ounce for the first time in history. The price-rise in the third quarter was almost uniform across the major currencies, with gold gaining roughly 17 percent in USD, CHF, and EUR terms.
- In the first eight months of 2025, sponsor

M&A activity gained momentum compared to 2024, with deal value rising 28 percent in the US and 44 percent in Europe, while deal count slowed 20 percent in both regions. These trends suggest a rebound, particularly in new investments, add-ons and selective portfolio realisations. By mid-2025, European PE fundraising remains balanced across countries, with middle-market funds enjoying a strong recovery and reaching 75 percent of 2024's total. In North America, fundraising remains subdued and flat, although faster closings than in 2023 and 2024 indicate improving conditions for PE globally. (*PitchBook, Preqin, LSEG*)

CURRENCIES

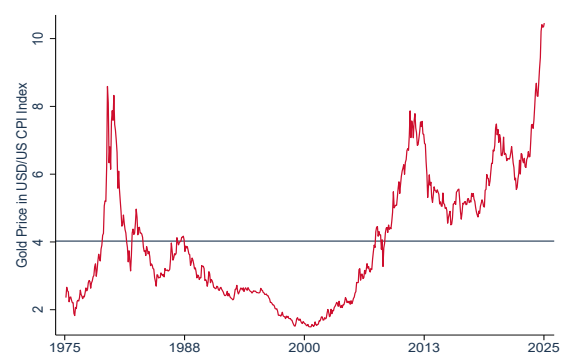
- As measured by the *DXI Index*, USD found a bottom in Q3 following a strong and broad-based depreciation trend during the first half of the year. Compared to EUR and CHF, USD looks largely at fair value based on current relative inflation dynamics. However, it remains expensive and thus prone to further weakness versus CNY and JPY.
- Given our expectations for a lasting redirection of trade and capital flows leading to increasing demand for currencies other than USD, we see the current pause in the greenback's depreciation as a temporary consolidation, not as an end of this trend.

Gold marches on



Source: LSEG, MFO

...topping its peak from the 70s



Source: LSEG, MFO

3. INVESTMENT VIEWS

- After upgrading equities from underweight to neutral in June thanks to positive market momentum, we maintained our neutral stance throughout Q3, supported by resilient earnings growth, favourable market trends and the prospect of a more accommodative monetary policy in the US. We maintain our neutral stance for now but given current high valuations and muted return expectations over the intermediate term (three to five years), the risk of market corrections appears elevated. Moreover, the macroeconomic backdrop remains challenging, showing clear signs of weakness. We also note that the structural recalibration of the economic and trade environment may warrant higher risk premiums.
- We maintain our neutral stance on fixed income, as current yield levels remain attractive and provide a buffer against negative surprises. The expectation of further rate cuts by the US Federal Reserve supports long-duration USD bonds and helps keep credit risk premiums compressed. However, the US government's deteriorating fiscal outlook—combined with stagflationary policies, political pressure on the Fed and clearly stated intentions to weaken the dollar—create a structurally risky environment. Additionally, the expected rerouting of global capital flows, driven by the recalibration of trade relationships and supply chains, could contribute to sustained dollar depreciation and upward pressure on US yields.
- These factors provide a supportive environment for gold. However, at its currently elevated price, much of the recent negative economic news may already be priced in. In real terms, gold is trading at a record high—surpassing its late-1970s peak, which, we remind readers, was followed by a steep two-decade-long decline. While joining the rally may be tempting, it could prove to be a highly procyclical and costly decision.
- We maintain our hedge fund allocation in line with our strategy. Their tactical flexibility is valuable in a rapidly shifting market environment, and uncorrelated strategies in particular offer meaningful diversification—especially as risk assets with elevated valuations appear increasingly vulnerable.

Overview

	Equities				Fixed income		Alternatives			Liquidity
	North-America	Europe	Asia-Pacific	Emerging Markets	Duration	Credit	Hedge Funds	Commodities	Precious Metals	
Macro	↓	→	→	→	↑	→	→	→	↑	→
Market	↑	↑	↑	↑	→	↑	↑	→	↑	→
Valuation	↓	→	↓	→	→	↓			↓	→
Sentiment	→	→	→	→	→	↓	→	→	→	→
Aggregate	↓	→	→	→	→	↓	→	→	↑	→

Source: MFO

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Published by

Marcuard Family Office Ltd.

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MFO Investment Outlook is published quarterly.
The next issue will be published in January 2026.