NPB CIO Outlook

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Quarterly Asset Allocation Views – Q2 2025 – New World (Dis)Order

Executive Summary

New World (Dis)Order

- When we chose the title "Wild Waters" for our 2025 outlook we did indeed expect a served (read: volatile) path for the year ahead. But even we feel overpowered by the speed and magnitude this volatility has hit financial markets.
- It would be oversimplistic to blame it all on the new US administration, but Trump & Co. have clearly served as accelerators for trends either already in place or having been visible on the horizon.
- Our equity forecast foresaw low double-digit returns for global equity markets for the full year. For now, with global equity markets roughly flat year-to-date, we hold on to that view. However, we need to stress again that the path to such a result will not be an easy one. We have positioned equity exposure accordingly somewhat less directional (e.g. low vola, value-tilt, long/short, etc.).
- Also, we reserve the right to downgrade equities tactically further, based on event risks (e.g. "Liberation Day", i.e. the day the US administration announces their global tariff plans) that could turn the mid-cycle slowdown into a full recession.
- In the fixed income space, we leave duration risk at neutral, but expect an increased credit risk, expressing the view by reducing high yield exposure to neutral.
- We leave our precious metal (Gold) position on tactical overweight for now. Alternative investments have been increased via forementioned equity long-short and/or equity market neutral positions.

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CIO Office Global Scenarios

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Geopolitical and macroeconomic assessment

		Base Case	Best Case	Worst Case
Economy	Growth	A mid-cycle slowdown seems to be underway, with US growth at higher risk given government-induced uncertainty.	US policies have less impact than feared and growth can be maintained. Europe takes advantage of a generational opportunity.	DOGE and immigration policy of the US administration throw the country (and the world) into recession. Europe fails to execute on fiscal spending hopes.
	Inflation	Initially, inflation ticks higher again due to continued and expanding global trade wars (read: tariffs). Second round effects remain to be uncertain.	Tariffs are more "bark than bite" keeping inflation in checkers at current levels.	Trade wars lead to higher inflation and lower growth, i.e. 1970s style stagflation returns.
Geopolitics	Trade Wars	Trade wars are a reality, segmentation (aka Deglobalization) continues.	Tariffs result being more of a negotiation tool than a real threat. Impacts turn out to be of short-term nature.	Trade wars fully escalate, fuelling the roots of segmentation further and leading to highest geopolitical tensions (kinetic interventions?).
	Middle East	Status Quo prevails with no further rise in tension but also no meaningful de-escalation.	Ceasefire is reinstated.	Contamination of conflicts into the Western world via strong political tensions in Turkey.
	Russian War	Limited ceasefire is agreed, leading to a slow but steady improvement of the situation.	Limited ceasefire is quickly turning into a full ceasefire and peace agreement. Our base case on steroids.	Early ceasefire agreements do not hold, conflict intensifies again, further complicated by NATO internal tension.
Bedrock Highlight: – Trade Wars (Geopolitics)		Persistent tariffs and reshoring shape a fragmented world; capital flows into regional winners and strategic supply chains.	Tensions managed through diplomacy; selective regional growth emerges amid stable, adaptive global trade dynamics.	Escalating economic conflict triggers protectionism, inflation, and volatility; global trade and capital flows sharply contract.
Probability		*High*	*Highly unlikely*	*Tail risk; low probability*

NPB Global Asset Allocations Views

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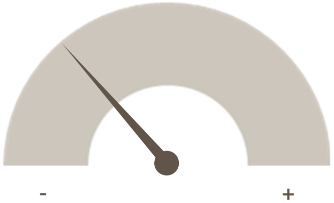
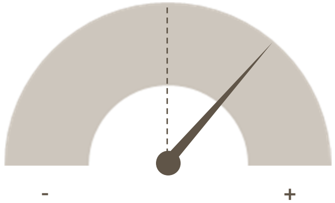
Cash & Money Market



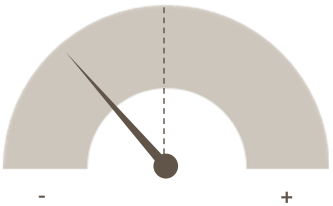
We keep cash at underweight, especially for CHF and EUR investors. USD-based investors can consider cash over bonds, given an elevated but flat yield curve.

Precious Metals



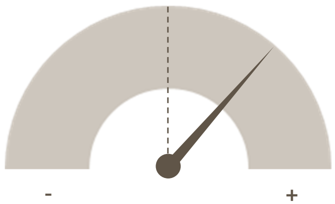
We moved our Gold allocation to a tactical overweight in February, expecting a blow-off top over the coming weeks to months. Silver can also be considered.

Fixed Income



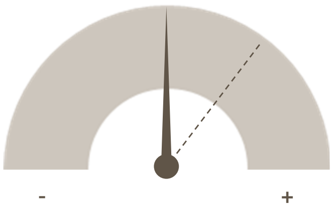
We moved our fixed income allocation to underweight intra-meeting (February), mainly to finance our tactical increase of the gold position. We have no strong view regarding duration, but downgrade credit (see next page).

Alternatives



We have replaced some of our beta equity exposure (S&P 500 long) with a less directional long/short approach and seek to further strengthen exposure to the hedge fund asset class into year end.

Equities



As mentioned in our 2025 outlook "Wild Waters" we expect increased volatility for the coming months. Hence, we moved our equity allocation intra-meeting (March) from overweight down. to neutral. Preference for value over growth, always with a quality tilt.

Current view — Previous view (if different)

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Equities	View	Commentary
United States	Underweight (previous view: Neutral)	Continued high valuations combined with a massive increase in economic uncertainty related to the newly installed administration leave us no choice other than to downgrade our US equity exposure to underweight.
Europe	Overweight (previous view: Neutral)	We give the Eurozone the (undeserved?) benefit of the doubt that they will be able to take advantage of a once-in-a-generation opportunity to build on the recent abolishment of the German "Schuldenbremse" and upgrade to overweight.
Switzerland	Overweight (previous view: Neutral)	In a world that is unlikely to abandon the path of increasing uncertainty/volatility any time soon, we like the structurally inherent defensive/value nature of Swiss equities and hence overweight this market.
UK	Neutral	Politically the country remains very challenged, and we prefer to continue to look at it from a neutrally weighted position until some clarity over direction emerges.
Japan	Overweight (previous view: strong overweight)	We downgrade the Japanese equity market to a simple overweight amid lacking price momentum. However, we continue to appreciate the non-expensiveness, coupled with corporate reform, which continues to manifest itself in the small/mid-cap value segment of the market.
Emerging Markets	Overweight	We keep our EM overweight conviction, not only due to on average still attractive valuations. A drop in the US Dollar in excess of five percent within a short timespan should work well in favour of EM equities.
China	Underweight	We appreciate that monetary and psychological (Jack Ma reinstalment) stimulus may help forming that much thought for bottom in China's economic downturn, but fear that there is still too much bad debt overhand from the real estate sector.
India	Overweight	The Indian equity market 'correction' may have run its course. If confirmed, we may further increase our overweight, at least on a tactical basis.
Middle East	Overweight	Apart from geopolitical challenges surrounding the wider region, we continue to see strong economic growth in the area. Our focus has recently turned to Saudi Arabia, where a generational investment opportunity could be building.

Underweight | Neutral | Overweight | ● Previous view (if different)

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Fixed Income	View	Commentary
Government		Inflation remains a Damocles' sword for global bond yields. In the US, intents by the Treasury to increase the duration profile could produce additional upside pressure on bond yields. In Europe, the same danger for higher yields looms from fiscal largess and/or the issuance of "war bonds".
Investment Grade		Spreads are too narrow for an overweight and balance sheets too strong for an underweight – we stay neutrally weighted.
High Yield		Given the dangers from a still looming maturity wall, the recent equity market volatility, political uncertainty and overall, still historic tightness of credit spreads, we think it is time to move our weighting from overweight to neutral.
Emerging Markets		Not unsimilar to emerging equity market, bond markets should start profiting from recent US Dollar weakness, which has the potential to turn into a structural downtrend.
Duration		Given the recent violent moves in US and German yields in opposite directions, it would be tempting to 'play' some tactical mean reversion. However, given the tug-of-war between growth and inflation (stagflation) going on, we refrain from picking a side right now.

Currencies	View	Commentary
Swiss Franc		On paper (i.e. PPP) the Helvetic currency is overvalued against just about any other currency. However, its unique "safe-haven" positioning warrants it an at least neutral rating given global economic and political uncertainty.
Euro		We keep the Euro at a neutral weighting for now, pending an upgrade to overweight. However, we want to see that the Eurozone government can capitalize on recent momentum gained via the German fiscal expansionary plans.
US Dollar		We move the US Dollar to a tactical underweight, given that recent repatriation trends away from the US market could continue or even accelerate.
British Pound		A lack of clear conviction in any direction, including the absence of an argument for a lower British Pound, has us move this currency back to Neutral.

Underweight | Neutral | Overweight | ● Previous view (if different)

NPB Global Tactical Views

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Alternatives	View	Commentary
Commodities*		Our longer-term conviction for commodities remains elevated given the ongoing global segmentation which should further fuel re-shoring, near-shoring and the connected hoarding of natural resources.
Hedge Funds		We move our exposure to the hedge fund realm to overweight as we increasingly seek less directionality for our equity exposure.
Private Equity		Our exposure to private equity is left at neutral, however, we would highlight the need for selectivity. Avoid large cap/mega-deal necessary PE exposure and focus on small- to mid cap managers, preferably with semi-liquid solutions.
Private Debt		We have grown very concerned regarding private debt, mainly due to the sheer size this shadow-banking sector has grown to. A widening in corporate credit spreads could quickly lead to not-so-good event in the private space. Avoid.
Infrastructure		Considering European (German) spending plans, we believe an overweight to this asset class is justified.

*Commodities ex precious metals

Underweight | Neutral | Overweight | ● Previous view (if different)

NPB Bedrock*

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Themes for the Long-Run

Demographics	>	Aging populations and lower birth rates in many regions will lead to shifts in labor markets and consumption patterns, likely favoring sectors like healthcare, pensions, and age-targeted goods and services. Implications on regional asset allocation should be considered.
Longevity	>	Longer lifespans are reshaping retirement planning and healthcare demands, driving growth in biotech, pharmaceuticals, and sectors focused on wellness, creating opportunities in preventative care and life extension technologies.
Climate	>	The transition to a low-carbon economy and increasing regulatory and societal pressure on climate action will shift capital towards sustainable technologies, renewable energy, and climate-resilient infrastructure.
Energy Transfer	>	Recent experiences have shown that the Energy Transition to most intermittent renewable energy carries its own challenges. This will likely lead to more capital allocated to alternative energy solutions such as nuclear and/or natural gas in the intermediate term.
Geopolitics	>	Geopolitical tensions and shifting alliances are likely to impact global trade and supply chains, encouraging investments in localized production, defense industries, and cybersecurity as nations prioritize resilience.
Technology	>	Rapid technological advancement, especially in AI, blockchain, and automation, will continue to disrupt traditional industries, necessitating long-term investments in innovation-driven sectors to capture outsized returns.

* The term **bedrock** originates from geology, where it refers to the solid layer of rock found beneath soil, sand, and other superficial materials on Earth's surface. Bedrock is considered the foundational layer that provides structural support for the land above it. In investing, **bedrock** refers to core trends that form the basis of long-term decision-making. Just like the geological bedrock underpins the land, these principles provide stability and guidance for navigating the financial landscape.

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