

Comment on the investment policy in the 2nd quarter of 2025

False start of the Trump administration

Investors interpreted Trump's election as «pro-business, pro-growth, pro-USA». As a result, the value of US companies increased significantly in December and January. This expectation has been disappointed within a few weeks. The added value was more than lost by the end of the quarter. With the tariffs presented on April 2, the president has destroyed capital and future opportunities in a way that we have hardly ever seen historically. The value of the companies has fallen by around 15% within a week. This corresponds to a capital destruction of around 15,000 billion dollars. It must fill a president with satisfaction to be able to bring about such changes in the world economy with just a few signatures.



What went wrong? His intention to bring industrial jobs back to the USA may honour him and certainly bring many votes. But the way to do this is neither theoretically nor empirically sound. He has obviously been badly advised. The fact that his cabinet consists of people who have little political and – even less – economic competence is now taking its toll. People who are characterized above all by loyalty and are used to not asking critical questions. This is the only way to explain why he is imposing punitive tariffs on the world, which are causing great damage, especially in the USA itself. At least that was the message from Wall Street that brought him to his senses on April 9, when he once again practically single-handedly (Besset) decided to cancel the exercise with the reciprocal tariffs, or to postpone it for 90 days. A state of affairs that has triggered euphoria on the stock markets. However, the 10% tariffs on all imported goods and the 25% tariffs on imported automobiles remain. The tariffs on steel and aluminium will also remain in force. Only China will be punished further. They now have to pay 145% tariffs. There are two sides to this message. Firstly, it confirms the government's conceptless approach and secondly, the benchmark for its policy, namely the stock and bond markets, has not completely disappeared from its field of vision. This is reassuring, as we can assume that he will not make such serious wrong decisions again. Nevertheless, these are still the highest tariffs since the Second World War and the reciprocal, prohibitive tariffs have only been postponed. It is worth outlining their potential effects.

Tariffs on foreign goods mean that the government effectively decides to increase taxes for its own consumers. The state then has higher tax revenues, but at the expense of the disposable income of voters and exporters. And it is certain that prices will rise. And not only because of the tariffs, but also because all other US prices are also rising. This is because the tariffs lead to a shortage of foreign supply. A real supply shock is taking place. It leads to an increased demand for American products. As a result, these prices are also rising. For the shareholders of the affected industries, they have the pleasant side effect that companies can increase their margins and profits. A phenomenon that we experienced in the Covid crisis, when the supply interruptions led to shortages. From a macroeconomic point of view, however, the loss of consumer purchasing power is leading to a decline in economic growth. Initial estimates assume that the figures would have to be reduced by at least 1.5% to 0.5% over a year after the introduction of all tariffs. Without the reciprocal premiums, the decline in US GDP is likely to be around half. The price increases are also likely to be much smaller. In addition, we classify the price increases as transitory. The price shock would only continue through second-round effects (wage increases) with decreasing swings. The rest of the world would also be damaged, with Canada, Mexico, Europe and China paying the highest price. They have significant ties with the United States, such as Canada and Mexico, or they have a large foreign trade sector, such as Europe, or they are subject to particularly high punitive tariffs, such as China, which was charged a rate of 125% on April 9. These exporters are confronted with price reductions because they cannot pass on the entire tariff to American consumers. In addition, they can sell fewer goods in the USA. This means production restrictions with short-time work, layoffs or even business closures. For Canada, these questions are existential. Whether Trump actually intends to overthrow the government with this brutal action and thus achieve a non-military annexation of the country must remain open. It would not be surprising, he announced this goal at the beginning of the year. A convincing contribution for his «MAGA supporters», who enthusiastically embraced the vision of an America from the «Gulf of Mexico» to the North Pole. Greenland «naturally» completes this picture. For Europe, the effects vary greatly depending on whether the companies have their own production facilities in the USA or not.

Germany is undoubtedly particularly affected, as it has a large export sector. The exit from the recession is likely to stay above zero this year. However, the possible slump in the American sales market would lead to supply surpluses in Europe and the rest of the world. Therefore, inflation rates will come under further pressure and allow the ECB to lower interest rates further. What could happen next? «Nobody knows». Nevertheless, an attempt has been made to at least structure the problems.

The government has lost an enormous amount of international trust. There is also little prospect that this government will find a reliable, rational style of politics. Because within the USA, Trump has a firm grip on the strings, both in terms of media and power. Any Republican who criticizes will be punished immediately. This also applies to the rest of the world. Woe betide a president of a battered country who dares to impose counter-tariffs. Punishment follows immediately. China knows how to report on this. Only when US citizens themselves realize that the president's grand narratives simply do not reflect their reality will a more critical assessment prevail. It is important to follow the opinion polls carefully. Only when the Republicans realize that their mandate could be lost in the midterm elections will their autocrat's solo run be stopped. Then Congress will take back the constitutional powers. But we are not there yet.

For the time being, we assume that – with the 90-day postponement – no actual trade war will break out. It is necessary for Europe to renounce the sanctions package if the negotiations do not lead to success. Otherwise, it will feel the consequences of *lèse-majesté*. Therefore, we assume that all import trading partners are now pleading (Trump video of 8.4.2025) in Washington and making proposals that «make America great». Truly not an easy task in view of the «prosperity» that the tariffs are supposed to bring to Americans, namely wealth, jobs and «A Golden Age» after «the world has treated America miserably for decades». Despite these conflicting assessments, we expect some deals to be solemnly announced. He desperately needs it, given the failures he has had so far. Whether they will then deliver what they promise is another question. A solution to the trade war with China instigated by the USA is also particularly urgent. The US tariffs of 125% and those of China with 84% have a prohibitive character. They would mean that trade would largely collapse. In the case of China, a large part of the \$440 billion exported volume in 2024 would collapse. This would correspond to a shocking slump in China's GDP of over 2%. This would put more than 14 million jobs at risk. The effects would also be unpleasant in the USA. An export volume of around 140 billion would be lost. This corresponds to around half a percent of GDP. In addition, there are the 10% tariffs on all imported goods (\$2.5 trillion ex China) to the USA. If we assume that 20% of the export volume is lost (\$0.5 trillion), then this corresponds to a global demand shortfall of around 0.7% with considerable deflationary potential. It's quite different in the USA. They would be confronted with a demand shock as imported goods were replaced by domestic products. With full substitution of the lost imported goods of around \$500 billion, this would correspond to additional demand of more than 1.5% of GDP. This would lead to significant price increases in the affected sectors, as domestic capacities can only be increased marginally in the short term. Such a demand shock would also be associated with significant increases in margins and profits.

At the macro level, this is offset by a significant drop in demand, as consumers have less purchasing power at their disposal and limit consumption accordingly. This effect is weighted more heavily in the forecasts, so that a net growth correction in the order of 0.5 to 0.75% must be expected. The correction will be all the greater the more of the reciprocal tariffs are to be reintroduced. Geopolitically drastic changes are also to be expected. In particular, Trump's contemptuous threat to no longer make himself available as Europe's protecting power and the announcement that he would start peace negotiations with Russia on his own have shaken up the allies.

For them, it was clear: Europe must emancipate itself from the USA and build its own security architecture. This applies to both conventional and nuclear deterrence. This realization has prompted Friedrich Merz of the CDU in particular to abandon the debt brake in the sense of «whatever it takes». The markets have received this message euphorically. This is likely to be a long road that is tantamount to a multi-year economic stimulus program. It will be important to keep all doors open for a rules-based, collaborative and global economy. This is not about communities of values, but about economic communities of prosperity. This includes free trade agreements without ideological blinkers. This also includes the Asian region. Europe must create space for itself in the struggle for hegemony between the US and China. It must no longer allow itself to be instrumentalized by the United States. A first test will take place immediately with the customs negotiations. This path towards sovereignty and global openness should offer great opportunities for Europe and enable the global economic order to find its way back to power, trust, cooperation and division of labour and thus to prosperity and peace. From an investment policy perspective, one can conclude that the Trump administration is engaging in state and private sector interventionism in a way that we have rarely seen. There is also a lack of comprehensible concepts. There is a lack of reliability and competence. In just a few weeks, mistakes have been made that have severely damaged the legal system, the international order, democracy and the global economic system. As a result, the US has also lost a lot of soft power.

It is also not foreseeable that this could change politically in the short term. Trump still has all the strings of power in his hands. Investors must therefore continue to expect great uncertainty and arbitrariness. In terms of investment policy, volatility is therefore likely to remain high. It could be dangerous if there were to be a conflict with the US Federal Reserve. Trump is pushing for lower interest rates in order to be able to lower the high mortgage interest rates. At the same time, tax cuts are being discussed, which could further increase the debt ratio and negatively influence the inflation expectations of market participants. It is also interesting to note that the temporary withdrawal of reciprocal tariffs has not helped to lower long-term interest rates. On the contrary, the prohibitive increase in tariffs on Chinese imports to 145% has even increased inflation expectations.

Since many medium-sized US companies use Chinese intermediate products for their products, a complete failure of entire shiploads could lead to supply chain disruptions, as we have impressively experienced during the pandemic. The consequences would be supply shortages and price shocks. Not surprisingly, the latest consumer surveys show that they expect significantly higher prices in the coming months. If the Trump administration even comes up with the idea of using the Fed to buy government bonds in order to reduce long-term interest rates, further confidence in the competence of this administration would be destroyed. The ideas of the chief economist, Stephen Miran, who is of the opinion that the debt of the USA was caused by unfair trade and therefore repayment cannot be in the interest of the US, should also be critically assessed. Among other things, he proposes replacing existing bonds with perpetual, non-interest-bearing securities. Such ideas have the potential to cause a flight from the dollar, with serious consequences for the entire financial system. Not surprisingly, the price of gold has risen by over 20% since Trump's election.

So far, it has been mainly the real sector of the global economy that has been damaged. The administration's open efforts to use America's power for its own advantage are unlikely to deter it from taking possession of natural resources or even land, or from wordlessly discharging «unjustified» debts. Trump, however, prefers levies without anything in return. Just hold out your cupped hand. Fees that have nothing to do with the costs are also an object of desire. It is likely to become more expensive soon for those who want to cross the Panama Canal. It will be difficult to make up for the loss of skill and trust that Trump has lost in a few weeks. How much loss of reputation can damage one's own business has been shown by his intimate Elon Musk, whose successful model for high tech, sustainability and lifestyle (TESLA) has become a symbol of abuse of power and ruthlessness for many, of which one is ashamed to ever have driven around. This could still be the case with some ideas to which Trump promised his full support during the election campaign. These are all perspectives that prompt us to position our investments in a less risky way. Equities are therefore to be underweighted again for the first time in many years. In addition, exposure to the dollar is to be further reduced. Particular attention will also be paid to the broad diversification of portfolios. However, we are convinced that the wealth-damaging ideas of this administration will not last. If US citizens realize that the path they have taken is doing them more harm than good, then the chances of retaining a majority in both chambers of parliament will dwindle in the run-up to the 2026 midterm elections. The prospect of losing their own mandate could soon prompt the Republicans to limit the autocratic power of the president and bring competences back to parliament. This could at least reduce the risk of wrong decisions by a small group of loyalists who adhere to abstruse ideas.

But we are not there yet. Therefore, caution is advised. So much for the great brushstrokes of a picture that no longer contains much of the glamour and glory of the MAGA movement.

You can receive the detailed documentation on the decision-making process from your advisor.

Best wishes, Prof. Josef Marbacher & CORUM Investment Committee



This publication is for your information only and does not constitute an offer, a solicitation of an offer or a public advertisement to buy or sell investment or other specific products. The content of this publication has been prepared by our employees and is based on sources of information which we believe to be reliable. However, we cannot give any assurance or guarantee that it is correct, complete or up-to-date. The circumstances and bases on which the information contained in this publication is based may change at any time. Information once published should therefore not be taken to mean that circumstances have not changed since publication or that the information is still up to date since publication. The information in this publication is not intended as a decision-making aid for economic, legal, tax or other advisory questions, nor should investment or other decisions be made solely on the basis of this information. Advice from a qualified professional is recommended. Investors should be aware that the value of investments can fall as well as rise. A positive performance in the past is therefore no guarantee of a positive performance in the future. In addition, investments in foreign currencies are subject to exchange rate fluctuations. We exclude any liability for losses or damages of any kind - whether direct, indirect or consequential - arising from the use of this publication. This publication is not intended for persons who are subject to a legal system that prohibits the distribution of this publication or makes it dependent on a license. Persons into whose possession this publication comes must therefore inform themselves about any restrictions and comply with them. The persons entrusted with the preparation of this report are free, within the framework of internal guidelines, to buy, hold and sell the securities mentioned in this report.