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STAGFLATION IN THE EU AND USA – A DANGEROUS STANDSTILL

Economic momentum weakened noticeably in both the USA and Europe during Q1 2025. In the US, real GDP shrank by −0.3% (annualized), which was surprising given still-strong consumer spending. The decline was mainly due to reduced government spending, significant inventory drawdowns, and a negative trade balance driven by imports.

The EU's GDP still managed to grow slightly – around +0.3% quarter-over-quarter. But signs of economic fatigue are mounting: consumption remains muted, investments are being delayed, and geopolitical uncertainty – especially US tariff threats – is increasingly weighing on corporate confidence.

Both economies are thus on the brink of stagnation: a phase with barely any growth impulses, even as parts of consumer spending remain resilient.

Inflation Despite Weak Growth

While growth is slowing, inflation remains surprisingly high:

- In the US, inflation exceeded 3% in Q1, as measured by the PCE deflator and the broader GDP deflator.
- In the Eurozone, inflation held around 2.5%, above the ECB's target. Energy prices are falling, but service-sector inflation remains persistent.

In the US especially, political decisions are amplifying inflationary pressure. The new import tariffs on goods from China, Mexico, and Europe (announced in spring 2025, some as high as 25%) are pushing up both import prices and domestic inflation. Simultaneously, uncertainty about trade policy is dampening companies' willingness to invest.

This results in a textbook stagflation scenario: sluggish growth coupled with high inflation – a particularly difficult environment for central banks.

Limited Monetary Policy Options

Against this inflation backdrop, central banks in both the US and Europe have limited room for maneuver:

- In the US, the key rate remains above 5%, with 10-year Treasury yields at 4.25–4.50%.
- In Germany, 10-year Bunds yield about 2.0% – still high by pre-pandemic standards.

Though rate cuts would be welcome from a growth perspective, elevated inflation leaves little scope. In the US, high public debt – over 120% of GDP – further limits monetary flexibility. Lowering rates could make it harder for the government to sell new bonds, as investors might shy away.

The ECB is also hesitant to lower rates, despite having already slightly eased its stance. The euro remains weak against the dollar, reinforcing imported inflation.

Consequences of Stagflation

The consequences of this scenario – weak growth, high inflation, and restrictive policy – are significant:

Consumer Demand

- Real wages stagnate or fall, reducing purchasing power.
- Households face rising prices and flat incomes – especially in services, rents, and imported goods.
- Larger purchases are delayed, and spending shifts toward cheaper alternatives.

Corporate Profits

- Input costs (wages, energy, components) are rising, but firms can't always pass them on.
- Cyclical sectors like industry, construction, and retail are hit hardest. Margins come under pressure, investment is scaled back.
- Cost pressures and falling margins are now visible in services as well.

Financial Markets

- Equity markets remain volatile: valuations are still high, but macro uncertainty and interest rate levels cause pullbacks.
- Cyclical and growth stocks are particularly sensitive if quarterly targets are missed.
- Bond markets in USD and EUR offer higher nominal yields again, but real returns remain low due to stubborn inflation.

Spring 2025 presents a challenging environment for both the US and Europe. Traditional economic tools – like cutting rates to boost demand – are ineffective when inflation is structurally elevated. Both regions are now navigating stagnant growth with persistent inflation.

Still, there are some bright spots:

- Consumer spending remains resilient so far.
- Labor markets are stable.
- Companies are adjusting through cost control and efficiency investments.

For investors, this means diversification is more critical than ever. Defensive sectors and real assets like real estate may become more attractive. Hopes for quick rate cuts should be tempered – central banks remain caught between inflation control and supporting growth.

JAPAN – AN EQUITY MARKET WITH POTENTIAL

For decades, Japan was viewed as economically stagnant. Following the burst of its asset bubble in the early 1990s, the country struggled with deflation, slow growth, and an overvalued yen. But structural conditions have changed dramatically, offering attractive opportunities for equity investors today.

A key factor is low inflation: From 1998 to 2022, Japan's average inflation rate was under 1% annually—far below Western levels. Since 2023, inflation has risen moderately (currently around 2–2.5%), but still trails that of Europe or the US.

The yen has also weakened significantly: In 2012, one US dollar bought about 80 yen; by mid-2025, it exceeds 155 yen—a historic low. This has substantially improved Japanese companies' global competitiveness. The weak yen now acts as an "export engine," with notable effects:

- Export giants like Toyota, Sony, and Fanuc enjoy higher margins with unchanged domestic production costs.
- Japan's trade balance turned positive in 2024, and its current account surplus remains structurally strong.
- Industrial innovation—particularly in semiconductors, robotics, engineering, and precision components—further strengthens its edge.

This mix of a weak currency, price stability, and technological prowess provides a solid foundation for rising corporate profits—and supports equity markets.

Is an Aging Society a Threat?

Japan is aging faster than any other developed country. Its birthrate remains below 1.4 per woman, immigration is low, and one-third of the population is over 65.

Still, the economy is surprisingly resilient, for several reasons:

- Senior employment is rising: Over 25% of those aged 65+ remain in the workforce—the highest rate globally.
- Automation and AI help offset labor shortages. Japan leads in industrial automation (e.g., Fanuc, Yaskawa, Keyence).
- Productivity gains are compensating for demographic decline. Japan prioritizes efficiency over population growth.

This structural resilience also shows in capital markets:

- Companies emphasize cash flow, margins, and shareholder returns.
- Japan's corporate governance code pushes firms to boost equity value.
- Foreign investors (e.g., Warren Buffett) are recognizing Japan's deep value potential.

High Public Debt Is Not a Risk in Japan

Japan's public debt is often cited as a risk. True, it exceeds 260% of GDP—the highest among industrial nations. But this figure is misleading:

- Over 90% of government bonds are held domestically.

- The current account surplus has been positive for decades—Japan doesn't rely on foreign capital.
- Interest rates are extremely low: 10-year JGBs yield just 1% in 2025.

These debts are supported by a domestic savings culture and institutional ownership. Only inflation or capital flight would pose real threats—neither is currently evident.

Conclusion: The Investment Case for Japan

The structural case for Japanese equities is stronger than it has been in decades:

Factor	Impact
Weak yen	Boosts exports and corporate earnings
Low inflation	Maintains purchasing power and interest rate outlook
Tech leadership	Ensures global competitiveness
Aging society	Drives innovation and efficiency
Market reforms	Increase transparency and shareholder value
Domestically held debt	Limits external risk exposure

Valuations are attractive: The TOPIX P/E is under 15, dividend yields exceed 2%, and many large caps yield over 3%. Share buybacks have doubled in five years. Japan today offers what many Western markets lack: structural stability, tech strength, and fiscal control.

SWISS POLICY RATE AT ZERO – WHAT DOES IT MEAN?

After several rate cuts, the Swiss National Bank (SNB) reduced its policy rate to 0.00% in June 2025. This marks a significant shift in monetary policy and has far-reaching consequences for companies, households, industry, and financial markets. In this article, we analyze the economic implications of this historic move and explain why a zero interest rate presents both opportunities and challenges.

Consequences of Zero Interest Policy

Perhaps the most direct effect of a zero-interest environment concerns borrowing costs. For companies financing in Swiss francs, interest expenses drop significantly. For capital-intensive businesses or firms with high investment needs—such as in mechanical engineering or telecommunications—this means notable relief on the profit and loss account.

With lower capital costs, incentives increase for investments in new technologies, infrastructure, and equipment. This supports productivity gains and long-term growth. Companies with solid credit ratings benefit most, as refinancing costs approach zero. The combination of stable revenues and falling financing costs boosts profit margins—creating a virtuous cycle for many Swiss enterprises.

Households also benefit from the SNB's zero policy rate. The key transmission mechanism is mortgage rates: interest on new or renewed mortgages drops to historically low levels. Today, buyers or refinancers of a home often pay less than 1% effective annual interest.

Lower housing costs leave households with more disposable income—money that can be consumed or saved. This increase in purchasing power boosts retail, gastronomy, and the service sector, contributing to the recovery of domestic demand. Meanwhile, rising demand for real estate is likely to influence medium-term price development.

With businesses investing more and households spending more freely, the domestic economy experiences a strong boost. The construction sector benefits from robust housing demand, while consumer-facing industries generate additional revenue.

Switzerland's global competitiveness also improves slightly. Despite high labor costs, reduced capital costs and a favorable exchange rate improve the cost structure of many export-oriented firms. This allows more competitive pricing abroad and helps preserve industrial jobs.

Weaker Swiss Franc

A zero interest rate generally makes the Swiss franc less attractive to international investors. In a global environment where European countries and the US still offer rates of 2% and 4.5% respectively, the franc loses appeal. However, the impact should not be overstated. With inflation at 0% in Switzerland, low interest rates do not deter investors seeking currency stability.

For export-oriented Swiss companies—such as those in pharmaceuticals, machinery, watches, or food—this is a welcome development. Their products become more affordable globally, boosting sales and competitiveness. Many of these firms have long struggled with the strong franc.

Impact on the Equity Market

The policy rate is also a reference for discounting future cash flows—a key part of company valuation. When rates fall, the present value of future earnings rises. This explains why rate cuts often coincide with rising stock prices—particularly for companies with stable, long-term cash flows.

Those benefiting most are companies with primarily domestic earnings. Examples include:

- **Swisscom:** As a state-affiliated telecom provider with steady revenues in a saturated market, Swisscom offers a classic valuation profile that thrives in a low-rate environment.
- **Sunrise:** Sunrise also earns most of its revenues in Switzerland and enjoys stable cash flows. Falling rates increase its attractiveness to long-term investors.
- **Real estate companies:** Firms like PSP Swiss Property and Swiss Prime Site also benefit. Their long-term leased portfolios provide predictable income streams, the net present value of which rises in a zero-rate setting. At the same time, portfolio expansion becomes cheaper.

For investors, this means: Swiss equities with stable business models and domestic focus become more attractive. The hunt for returns increasingly shifts from bonds to dividend-paying stocks.

The SNB's move to zero sends a strong policy signal. It supports investment, boosts consumption, improves export competitiveness, and lifts valuations across many companies.

Nonetheless, caution is warranted: A prolonged zero-interest environment may distort incentives—e.g., in real estate or corporate debt markets. It also reduces the SNB's future policy flexibility in crises. Yet, for now, the positive effects outweigh the risks—for both businesses and consumers.

Switzerland is once again entering uncharted monetary territory—well-equipped, but with an uncertain path ahead. The coming months will reveal whether the anticipated economic impulses translate into broad-based growth.

SWISS REAL ESTATE INVESTMENTS AS AN ALTERNATIVE TO FIXED INCOME

For decades, Swiss real estate has been considered a reliable and stable asset class. Over the past 30 years, it has delivered consistently positive value growth – independent of global financial cycles, currency fluctuations, or geopolitical uncertainty. Several structural factors suggest that this stability is likely to continue:

Limited Supply

Switzerland is a small country with limited usable land. Only around 7% of the land is zoned for construction; the rest is agricultural or protected. Since the revised Spatial Planning Act (RPG) and various cantonal development plans, it has become politically and legally extremely difficult to create new building zones. This means the supply of buildable land remains scarce, making land a valuable resource. This scarcity supports stable or rising prices even during periods of economic uncertainty.

Steady Immigration and Economic Momentum

Net immigration to Switzerland has remained steady at over 50,000 people per year. This has created sustained strong demand for housing, particularly in urban centers like Zurich, Geneva, Lausanne, Basel, and Zug. At the same time, solid economic growth drives demand in the office and commercial segments. The combination of limited supply and growing demand creates a structural imbalance, supporting prices and driving further rental and capital growth over the long term.

Low Vacancy Rates

Residential vacancy rates are below 1.2% nationwide – and under 0.5% in cities. This scarcity enhances rental security and stabilizes rental yields. Commercial properties have also recovered since the pandemic, especially in peripheral areas and for ESG-compliant assets. The low volatility of the rental market makes real estate a predictable and low-risk income generator.

Private and institutional investors have two accessible ways to benefit from the stability of the Swiss property market without purchasing real estate directly:

Real Estate Funds

Swiss real estate funds are regulated vehicles (typically securitized collective investment schemes) that invest directly in residential and commercial properties. They are listed on the SIX Swiss Exchange and often specialize in certain property types or regions. Well-known examples include: SwiCAD, UBS Sima, Credit Suisse Real Estate Fund LivingPlus, Helvetica Swiss Commercial.

Advantages:

- Broad diversification across numerous properties
- Professional management
- Low volatility
- Liquidity through exchange trading
- Distributions typically tax-advantaged

Listed Property Companies (REIT-like Structures)

Alternatively, investors can buy shares in listed real estate companies structured as corporations. These firms own and operate large real estate portfolios. Examples include: PSP Swiss Property, Allreal, Mobimo, Intershop, Hiag, Plazza.

Advantages:

- Regular dividend yields between 2.5% and 4%
- Capital gains through NAV increases
- Higher liquidity and price momentum than funds
- Transparency due to stock exchange regulation

Both structures – real estate funds and property stocks – offer access to an inflation-protected, real asset-based investment with stable income and low volatility.

Over the past 18 months (as of mid-2025), both real estate funds and property stocks have delivered double-digit returns – well above their historical averages. Reasons include:

- Repricing following the interest rate hikes of 2022/2023
- Stabilization of the yield curve in 2024
- Low vacancy and strong rental income
- Rising institutional interest in stable real assets

At the same time, Swiss property investments exhibit very low volatility: The standard deviation of monthly returns is sometimes below 5%, compared to 12–20% for equity indices. This makes real estate a portfolio stabilizer, ideal for long-term investors.

Comparing Swiss real estate investments to fixed income highlights their appeal:

- Ten-year federal bonds yield around 0.4% nominal (mid-2025)
- The duration risk of CHF bonds is high amid low return potential
- Corporate bonds carry credit risk often underestimated by investors

In contrast, real estate funds and stocks offer:

- Yields between 2.5% and 4.5%, depending on vehicle and segment
- Tangible asset characteristics with built-in inflation protection
- Regular, often tax-optimized distributions
- No currency risk, as all revenues are in Swiss francs

Thus, real estate investments are not only an alternative but a superior choice for risk-averse investors seeking stability, predictable income, and capital preservation.

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