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TRUMP AIMS TO WEAKEN THE DOLLAR – WHAT DOES IT MEAN FOR INVESTORS?

The U.S. dollar is considered the world's reserve currency – strong, stable, and broadly accepted internationally. Nevertheless, the Trump administration is actively pursuing a weaker dollar – with far-reaching consequences for investors.

Why does the U.S. government want to weaken the dollar?

A strong dollar has its benefits: it lowers import prices, stabilizes capital flows, and signals economic strength. However, it is increasingly becoming a disadvantage for the global competitiveness of American companies. Exports become more expensive, international revenues shrink upon conversion, and U.S. products lose their appeal against cheaper alternatives.

Moreover, the U.S. economy suffers from persistent trade deficits – particularly with Europe and Asia. In this context, a targeted devaluation of the U.S. dollar appears attractive as part of a broader industrial and export strategy.

- Official measures: The U.S. government cannot directly "set" the exchange rate, as it is largely determined by a free market. However, it uses a range of political and fiscal tools to indirectly weaken the currency:
- Interest rate policy in cooperation with the Federal Reserve: Although the Fed is formally independent, it remains under political scrutiny. Lower key interest rates and loose monetary policy tend to weaken the dollar. The Fed currently signals monetary easing for 2024/2025 – already putting pressure on the dollar. The Fed is yielding to presidential pressure and maintaining a low dollar, even at the cost of higher inflation.
- High government spending and deficits: Large government expenditures – through infrastructure programs, subsidies (IRA, CHIPS Act), or defense spending – are driving up fiscal deficits. Confidence in fiscal discipline declines, making foreign investors more cautious and putting long-term pressure on the dollar.
- Rhetorical influence: President Trump openly criticizes the "too strong dollar." Government officials also repeatedly emphasize the need for "fair exchange rates." Such signals influence markets and reduce trust in a sustainably strong U.S. currency.
- Direct market interventions: In theory, the U.S. Treasury – through the Federal Reserve Bank of New York – could intervene in the currency market and sell dollars directly. Such actions are rare and are not currently being pursued but may become relevant again in the case of a global recession or severe trade conflict. Switzerland cannot complain about such measures: for years, the Swiss National Bank has regularly sold Swiss francs to buy dollars and euros – with the goal of weakening the franc.
- Taxing U.S. treasury securities: A new idea from the Trump administration is to impose levies on U.S. government bonds. The rationale: foreign investors benefit from the dollar's stability when holding Treasuries, and therefore should participate in the economic costs incurred by the U.S. due to a strong dollar. This special tax on foreign holders is revolutionary and contradicts traditional logic: a country with both a current account and fiscal deficit depends on foreign capital. Such a tax would likely weaken the dollar significantly by reducing Treasury demand and could trigger a funding crisis. While unlikely to be implemented in the short term, the mere threat could have an effect – investors may act more cautiously and reduce U.S. bond holdings.

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Impact on the Swiss Franc

Since the U.S. government not only has a clear goal but also various effective tools for weakening the dollar, the dollar is expected to decline in the coming years. This will cause the euro and Swiss franc to rise in relative terms. We expect the Swiss franc to appreciate more than the euro, as fundamentals such as lower inflation and higher economic growth clearly support the franc. For investors, the Swiss franc is becoming a "safe haven." We are currently overweighting Swiss franc investments – both for international and Swiss clients.

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WHICH U.S. INDUSTRIES BENEFIT FROM THE NEW TARIFFS?

Since the Trump administration, U.S. trade policy has changed significantly. Tariffs have been imposed on steel, aluminum, machine parts, certain high-tech components, agricultural products, and luxury goods from Europe, China, and other regions. The goal is to boost domestic production, bring back jobs, and protect strategically important industries – particularly against competition from China.

While this policy also affects U.S. importers and consumers, some industry sectors are indeed gaining competitive advantages.

Steel and aluminum industry: Revival with tailwind

One of the most heavily protected sectors is the U.S. steel and aluminum industry – these products are subject to very high tariffs. This has initially led to rising prices in the domestic market – a disadvantage for manufacturing industries. At the same time, U.S. producers such as U.S. Steel, Nucor, and Alcoa have expanded their market shares. The substitution of imports by domestic production is particularly evident in this area. However, the industry remains vulnerable due to volatile global market prices and high energy costs. Despite the positive effect of tariffs, we therefore do not consider investments in this sector.

Machinery and manufacturing: Local players gain ground

Tariffs on foreign machinery and industrial equipment – especially from China, Germany, Italy, and Switzerland – give American machinery manufacturers a relative advantage. Companies like Caterpillar, John Deere, or smaller specialty machine builders now face less price pressure. This sector opens up opportunities for investors, as these products – unlike aluminum and steel – are not exposed to volatile commodity prices.

High-tech, semiconductors, and strategic technologies

A key focus of U.S. industrial policy lies in strengthening semiconductors, AI technologies, quantum computing, and critical infrastructure. While tariffs in these sectors are often selective, they form part of a broader strategy: the U.S. aims to maintain – and potentially expand – its technological leadership. The U.S. is blocking exports of high-tech components such as AI chips and imposing tariffs on high-tech imports. This push for high-tech creates opportunities for investors: investments in these areas remain attractive, even if the dollar weakens.

Agriculture and food processing

Although many parts of the agricultural sector suffer from retaliatory tariffs (e.g., soybeans), certain segments within the U.S. benefit from reduced European imports. Tariffs on cheese, wine, spirits, or premium agricultural goods from the EU provide competitive advantages for domestic producers. This sector is not interesting for investors, as there are few meaningful investment opportunities and agricultural prices are driven not only by tariffs but mainly by highly volatile global markets. However, companies that manufacture agricultural machinery or other farm-related products are more promising.

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Defense and security

The defense industry is not only protected by tariffs but above all by a shift in defense policy: the U.S. no longer wants to "defend Europe for free," but demands that Europeans spend comparably on their own defense. This demand is reasonable, as Europe saved significantly over the past 30 years while the U.S. guaranteed security. The resulting need to catch up will create strong demand for U.S. defense contractors. These firms are among the largest and most active globally, as the U.S. has always spent heavily on defense, while European defense firms faced weak demand. We also see strong investment opportunities in this area.

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WHICH EUROPEAN INDUSTRIES ARE HURT BY U.S. TARIFFS?

The recent protectionist measures by the United States, especially the introduction of new tariffs on imports from Europe and Switzerland, have caused significant turbulence in transatlantic economic relations. While Washington justifies these actions with the goal of protecting strategic industries and balancing trade deficits, export-oriented companies in China and Europe are coming under pressure.

Machinery and engineering: A core sector under pressure

Machinery is a key industry in Switzerland, Germany, Italy, and Austria. Swiss companies such as Georg Fischer, Bühler, or ABB export machinery and industrial equipment worth billions to the U.S. every year. New tariffs of up to 25% on certain machine components mean direct cost increases that must either be passed on to U.S. customers through price hikes or absorbed through reduced margins. For smaller and mid-sized machine manufacturers, this could be existentially threatening.

Precision and medical technology: A Swiss specialty targeted

Switzerland is renowned for its advanced precision industries – particularly in medical technology, instruments, and watches. Companies such as Straumann, Ypsomed, or niche surgical instrument manufacturers are facing increasing trade barriers. The U.S. has traditionally been a major sales market for these high-tech products. Additional import tariffs are weakening their competitiveness compared to U.S. manufacturers.

Food and agriculture: Luxury meets tariff walls

The food and beverage sector is also affected – especially high-end exports such as cheese, chocolate, or spirits. Swiss exporters like Emmi or Lindt & Sprüngli must either relocate production to lower-cost regions or accept a loss of market share in the U.S. Larger companies such as Nestlé, Danone, or Unilever are under less pressure because they already have substantial production capacity in the United States.

Automotive suppliers: Chain reaction from penalty tariffs

Although Switzerland does not host large automakers, its suppliers are deeply integrated into European value chains. If, for example, German cars are hit with higher tariffs, demand for high-quality Swiss components (e.g., sensors, transmission parts, or software modules) falls. Multinational companies with Swiss R&D centers (e.g., Bosch, ZF, or Autoneum) also experience indirect consequences from changing sales structures. The full brunt of automotive tariffs is being felt in Germany. German companies are suffering not only due to U.S. tariffs but also from extremely low prices from Chinese competitors, particularly in the electric vehicle (EV) sector. In Asia, German and European EVs stand no chance. There is a risk that European manufacturers may also lose their home EV markets. This competitive pressure, combined with U.S. industrial and tariff policy, poses serious challenges for a country where more than 25% of GDP is directly or indirectly linked to the automotive industry. As long as German automakers do not find strategic answers, Germany will remain in recession or at best see very weak growth.

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Chemicals and pharmaceuticals

So far, the chemical and pharmaceutical industries have not been directly affected. Nevertheless, they are closely monitoring the situation. If the trade conflict intensifies or non-tariff barriers arise (e.g., via the FDA), these sectors could come under pressure as well. Ultimately, there is only one way for international pharma firms: they must produce in the U.S. and move part of their R&D there. Roche and Novartis already manufacture extensively in the U.S. and will likely expand their footprint. Companies that cannot afford this will face increasing pressure.

Implications for investors

Investors should avoid European and Swiss companies that are directly affected by import tariffs. These companies are likely to experience below-average growth and weaker earnings in the coming years. Only those that adapt and shift part of their value chain to the U.S. have real potential.

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DEEPSEEK – A GAME CHANGER FOR THE U.S. TECH INDUSTRY?

The development of powerful artificial intelligence (AI) has triggered a dramatic shift in the global technology landscape in recent years. The U.S. was considered the leading nation in this field, not only developing the core AI algorithms but also producing the required chips. Many start-ups that have grown into billion-dollar companies through AI are U.S.-based. DeepSeek, a Chinese firm with remarkably strong AI capabilities, caused a stir by directly challenging the U.S.'s leadership position.

What is DeepSeek?

DeepSeek is a Chinese AI research company developing large language models (LLMs) – comparable to OpenAI's GPT or Anthropic's Claude. The company follows an open and transparent strategy, offering high-performance, freely accessible models (e.g., DeepSeek-V2) that can be used by international researchers, start-ups, and enterprises. DeepSeek's performance metrics are on par with those of American tech giants. This provides Asian and European AI developers with a low-cost alternative to the American monopoly. Notably, these capabilities appear to be achieved without the use of American chips – previously considered impossible.

Impact on the U.S. tech industry

U.S. firms – from tech giants to start-ups – are now forced to launch new products faster, invest more in infrastructure (GPU clusters, cloud solutions), and differentiate their models. The high profit expectations and lofty company valuations are being reduced by these additional costs. Companies now face higher expenses and significantly lower margins. The gold rush is cooling – AI is becoming a regular industry with fierce competition. This benefits users, but not necessarily the developers.

The U.S. sees AI as a strategically vital field in which it seeks to maintain technological leadership. China views it the same way, creating a geopolitical competition driven by both nations through various support and policy measures. It remains uncertain whether the U.S. or China will ultimately dominate the AI space. What is clear is that the AI industry will become less profitable and applications more affordable.

We continue to view AI as a crucial driver of economic progress and innovation across sectors. AI allows administrative processes to be streamlined – a major benefit for all companies. In our investments, however, we are increasingly favoring companies that benefit from AI applications rather than those developing chips or AI software, as the latter are now facing significant cost and pricing pressure from China.

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DEFENSE SPENDING – INVESTMENT OPPORTUNITIES FOR INVESTORS

The geopolitical shifts of recent years – especially Russia's war of aggression against Ukraine – have triggered a historic rethink in Europe's security and defense policy. Countries that had long shown restraint in military spending must now invest billions in their armed forces. This rearmament has major implications for the European defense and security industry.

Beyond that, however, new markets, technological innovation – and winners – are emerging. Not only Europe is benefiting – countries that maintained strong defense sectors over the past 30 years due to their geopolitical situation are now at an advantage. South Korea is one such example: because of the ongoing threat from North Korea, it has a strong defense industry that is now exporting significantly.

The same is true for Israel and Turkey – Israel in high-tech defense systems, Turkey in ammunition. The biggest winner, however, is the United States. Its defense sector leads in both advanced technology and "heavy hardware" such as tanks and artillery. In Europe, companies like Rheinmetall, Airbus, Dassault, Thales, BAE, Saab, and their suppliers stand to benefit.

Many investors who follow ESG criteria have historically considered defense industries ethically unacceptable and avoided investing in this area. In our view, this stance is misguided: ultimately, it deprives Western democracies of the means to defend themselves. No army can function without equipment, and no military can defend a country and its democratic values without the necessary tools. In this case, ethics argue in favor of investment.

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