Quarterly Investment Letter

Q2 2025

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WEALTH-MANAGEMENT

Review – Rollercoaster Markets in the 2nd Quarter

After witnessing one of the fastest bear markets in history, in which the S&P 500 index fell by 21% in just seven weeks, we saw a complete recovery in less than three months. On June 30, the S&P 500 hit a new all-time high.

As mentioned in our January investment letter, we expected a period of higher volatility for the first half of the current year. In fact, the volatility index VIX, which measures implied volatility on the S&P 500 index, hit a high of 60 on April 7, only to gradually fall back to normal levels of 15–20 by mid-June.

It was a market roller coaster of historic proportions, which made asset management interesting but challenging. However, our main focus has not changed, and we remain slightly underweight in U.S. equities in favor of gold and European stocks.

Weakening US Dollar and the U.S. Debt burden

Since the start of the year, the dollar has fallen 14% versus both the Euro and the Swiss franc, and 9% versus the Japanese yen, despite increasing interest rate differentials that would typically favor a stronger greenback.

The U.S. debt burden, now above 120% of GDP in connection with a current budget deficit expected to be around 7% of U.S. output, is weighing heavily on the currency. Many prognosticators, such as Morgan Stanley and JPMorgan, are forecasting a further 10% drop in the dollar by year-end or within the next 12 months.

Another factor that may weigh on the dollar is the ongoing dispute between the White House and the Federal Reserve chairman. Monetary policies driven by politics rather than economics have never turned out well. The independence of the central bank is paramount to a country's long-term economic stability.

Equity and Fixed Income

European equities outperformed their U.S. counterparts over the last 6 months both in local and USD terms. We could argue that this big move was supported by cheaper valuations, the big infrastructure and defense spending spree but it could as well be a revert to the mean after U.S. markets massively outperformed Europe in the previous years. The strong EUR certainly is a headwind for future earnings of European corporations as it reduces their relative competitiveness versus U.S. peers.

Fixed Income markets performed well since the beginning of the year, however, investors get nervous about very long-dated US bonds as they may be affected by all the policies discussed above.

Commodities and Currencies

Over the past six months, gold surged sharply before entering a period of consolidation, a dynamic shaped by a complex blend of macroeconomic forces, central bank behavior, and geopolitical flare-ups (Middle East, Eastern Europe).

Energy prices (oil and gas) currently suffer from ample global supply in combination with slowing GDP growth globally. The price of oil jumped only briefly when Israel attacked Iran. The possibility of Iranian countermeasures, e.g. the closing of the Strait of Hormuz in the Persian Gulf, has evaporated quickly.

Market Data

in US Dollars as per June 30, 2025

Equities		YTD%
World		+10.1
USA 500		+6.2
USA 500 Equal Weighted		+4.8
Europe 50		+26.2
Swiss 30		+20.7
Asia 50		+20.7
Japan		+12.6
Bonds		**YTD%**
Global Aggregate (unhedged)		+7.3
U.S. Aggregate		+4.0
Pan Euro Aggregate (EUR)		+0.7
Global High Yield		+6.8
Interest Rates		**in %**
U.S. 3 months		4.3
U.S. 10 years		4.2
Euroland 3 months		2.0
Euroland 10 years		2.6
Passive Global Portfolios		**YTD%**
25% Eq. / 75% Bonds		+8.0
40% Eq. / 60% Bonds		+8.4
50% Eq. / 50% Bonds		+8.7
75% Eq. / 25% Bonds		+9.4
Commodities		**YTD%**
BB Commodity Index		+3.3
Gold oz		+25.9
WTI Crude Oil		-5.7
Copper		+23.3
Currencies		**YTD%**
EUR in USD	1.1787	+13.8
CHF in USD	1.2609	+14.4
GBP in USD	1.3732	+9.7
JPY in USD	144.03	+9.1
Economies		
GDP Growth Estimate		**2025%**
USA		1.5
Euroland		1.0
Global		2.6
Inflation		**12M%**
USA		2.4
Euroland		1.9
Switzerland		-0.1

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Portfolio Updates and Themes

In hindsight we were a bit too defensive, selling equities after 'Liberation Day'. After reassessing the situation, we added to our equity exposure again, mainly in Europe where we see the benefits for both equities and the currencies. Overall, we remain neutral equities for the time being.

We continue to see opportunities in our longer-terms stories such as India, Japan and the GRID sector that performed well this year with all the AI-driven-infrastructure spending programs.

Outlook 3rd quarter and beyond

In our opinion, there are several reasons to remain cautious. Our focus remains on non-US investments until there is more clarity on tariffs, the final passing of the tax bill currently being discussed in Congress, and the potential for renewed military conflict in the Middle East.

Although the exact outcome remains unclear, the US attack on Iran's nuclear program has been well-received in by financial markets. The current Russian offensive in Ukraine this summer is also a concern. After all, this war is happening on the doorstep of the European Union, and Russia is showing no signs of engaging in serious discussions to end it.

In addition to these macro concerns, we would like to point out that the University of Michigan's consumer sentiment indicator has shown one of the sharpest drops in its 79-year history. It is only now beginning to recover from rock-bottom levels. In the past, such levels have reliably foreshadowed recessions.

Bank of America's chief investment strategist, Michael Hartnett, points to a high level of investor greed. Levels are now similar to those in November 2024, shortly before one of the most rapid bear markets on record occurred. Hartnett also reports that positioning in defensive stocks, such as healthcare, consumer staples, and utilities, is at its lowest since 2000, shortly before the Nasdaq bubble burst.

On June 12, famous bond fund manager Jeff Gundlach of DoubleLine said, "The untenable debt burden in America is heading for a reckoning." He recommends foreign currencies and gold as a hedge against a falling dollar.

We are also entering the traditionally slow summer months of July and August, when liquidity is lower than usual and surprises tend to have a greater impact on prices.

We wish all of our readers a beautiful summer time. As always, please don't hesitate to contact us with any questions you may have.

Ameliora Wealth Management Ltd.

Investment Office