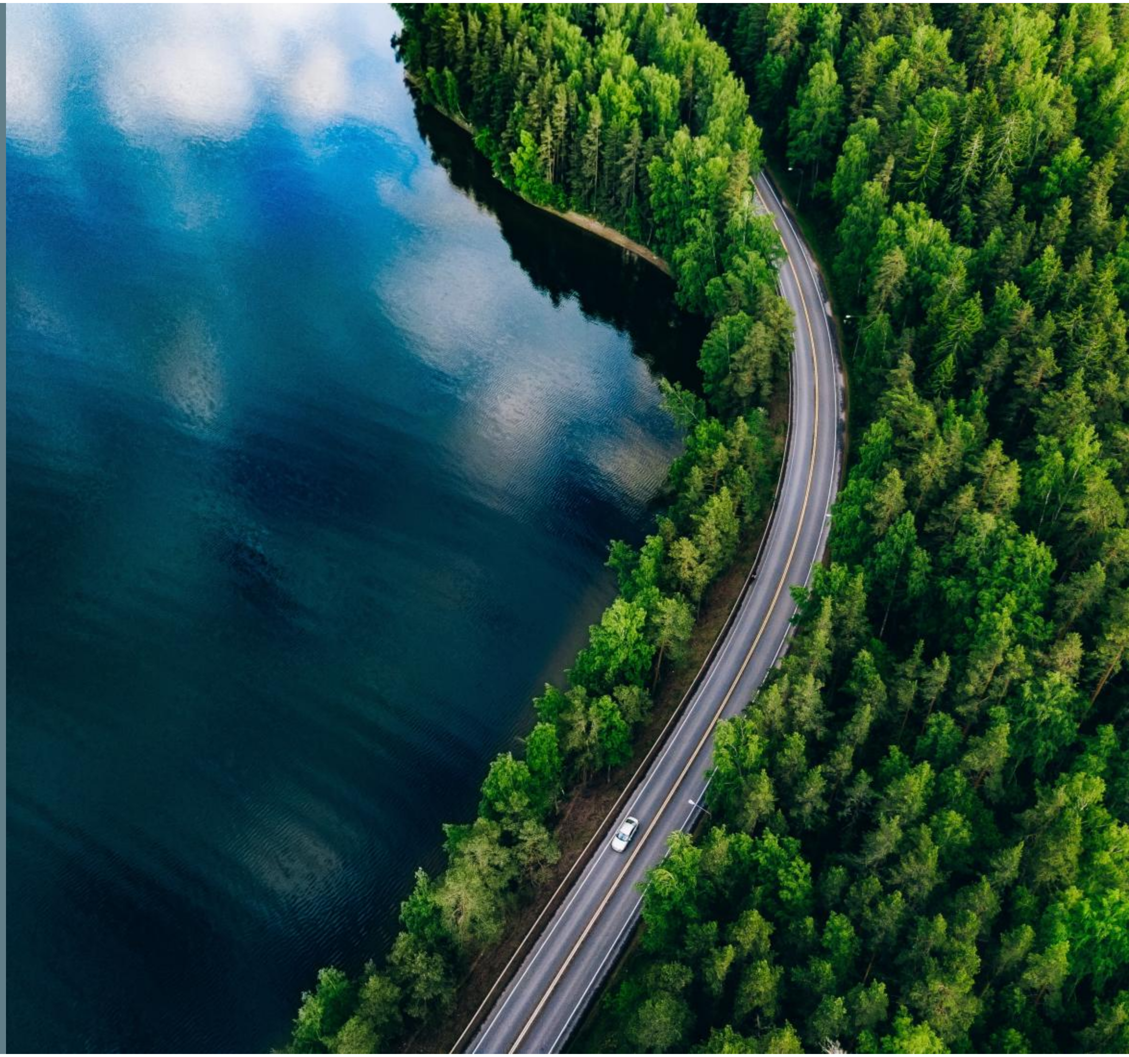
TELOMERE | Capital

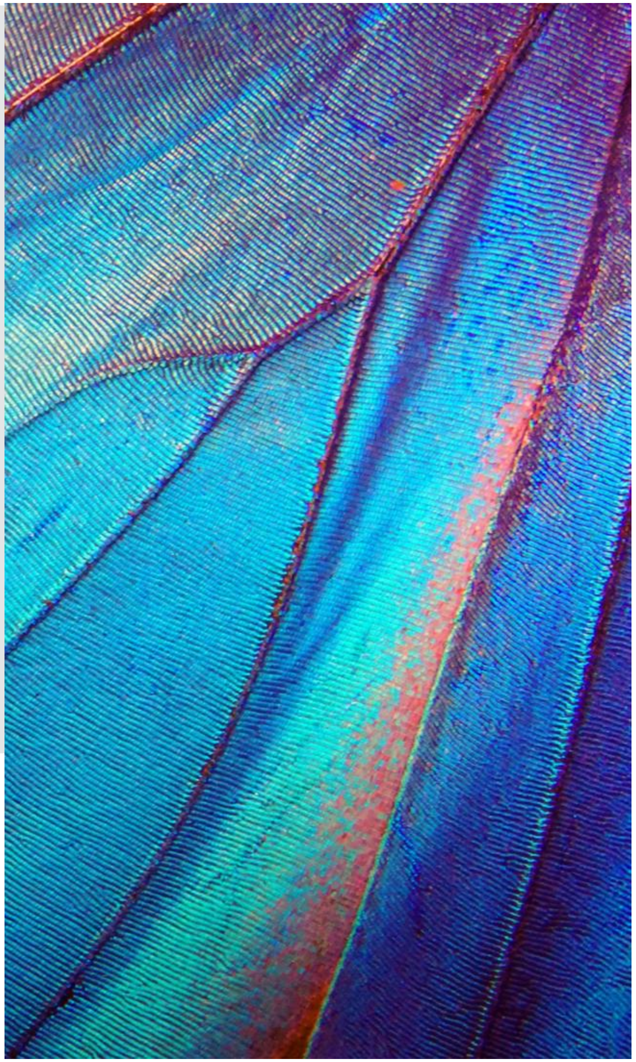
Market **Update**

Tariff Train Delayed; Next Departure: July

June 2025



Editorial



May was defined by a pivotal de-escalation in trade tensions, most notably the 90-day tariff pause agreed between the US and China, and the landmark UK-US trade deal. Both developments triggered a surge in equity markets and restored investor confidence. However, underlying issues such as persistent inflation and slower growth have kept the US Federal Reserve in a "wait and see" mode, with rate cuts on hold while policymakers consider conflicting economic data.

While stagflation is not our base case, the risk has increased, with the FED openly acknowledging the complex challenge of balancing inflation and growth. Supply-side pressures resulting from ongoing uncertainty surrounding trade policy, coupled with stubborn inflation and modest GDP growth, have increased the pressure on monetary authorities and market participants.

Finally, we are witnessing a structural evolution in market leadership. While the "Magnificent 7" tech giants continue to dominate the headlines, a new generation of sector leaders spanning fuel, aerospace, agriculture, nuclear power and precious metals is emerging as a resilient force in an era defined by resource security and inflationary pressures.

We hope you enjoy reading and find these updates helpful for the month ahead.

Joan Bürgy
Investment Specialist

Jérôme Tobler, CIIA
Partner & Senior Financial Advisor

Global **Markets**

Global	Last	YTD	MTD
MSCI World	3,863.5	5.2%	6.0%
MSCI ACWI	879.5	5.5%	5.8%
MSCI Emerging Markets	1,157.3	8.9%	4.3%

United States			
Dow Jones Industrial	42,270.1	0.1%	4.2%
S&P 500	5,911.7	1.1%	6.3%
NASDAQ 100	21,341.0	1.9%	9.1%
Russell 2000	2,066.3	-6.9%	5.3%

Europe			
Euro STOXX 600	548.7	10.7%	5.1%
Euro STOXX 50	5,366.6	12.3%	5.4%
DAX	23,997.5	20.5%	6.7%
CAC 40	7,751.9	7.7%	3.9%
FTSE 100	8,772.4	9.4%	3.8%
Swiss Market Index (SMI)	12,227.1	8.6%	1.3%

Sectors (US)		
Communication Services	5.3%	10.0%
Consumer Discretionary	-6.4%	9.3%
Consumer Staples	8.7%	1.9%
Energy	-3.7%	1.2%
Financials	5.7%	5.2%
Health Care	-3.0%	-5.6%
Industrials	9.3%	10.0%
Materials	4.3%	2.3%
Real Estate	4.3%	0.8%
Technology	-1.6%	10.9%
Utilities	8.1%	3.2%

Commodities & Metals	Last	YTD	MTD
Gold (XAU)	3,289.3	25.3%	0.0%
Silver (XAG)	33.0	14.1%	1.1%
Copper	467.8	16.2%	2.6%

Currencies (USD)			
EUR	1.13	9.6%	0.2%
CHF	0.82	9.4%	0.4%
JPY	144.0	9.1%	-0.7%
BTC	104,598	11.6%	10.6%

Fixed Income			
US Treasury	2,348	2.5%	-1.0%
EUR Treasury	248	0.7%	0.1%
Global Aggregate	488	5.3%	-0.4%
US Corporate	3,364	2.3%	0.0%
Global EM USD	1,285	3.0%	0.7%
Global High Yield	1,735	4.4%	1.6%

Interest Rates (US)		Last month	End 2024
3 Months	4.33%	4.29%	4.31%
12 Months	4.10%	3.85%	4.14%
5 Year	3.96%	3.73%	4.38%
10 Year	4.40%	4.16%	4.57%

Price / Earnings Ratios		End 2024	End 2023
S&P 500	25.09	26.51	22.92
Euro STOXX 50	16.05	14.24	12.63
Swiss Market Index (SMI)	18.26	18.42	18.41

Data at close of 30/05/2025

Macroeconomic **Indicators**

Central Banks Targets Rates	Last	Q1 2025	Q4 2024	Q3 2024
United States	4.50%	4.50%	4.50%	5.00%
Eurozone	2.15%	2.65%	3.15%	3.65%
Switzerland	0.25%	0.25%	0.50%	1.00%
Canada	2.75%	2.75%	3.25%	4.25%
Japan	0.50%	0.50%	0.25%	0.25%
China (3M SHIBOR)	1.64%	1.92%	1.69%	1.84%
India	5.50%	6.25%	6.50%	6.50%

Inflation (CPI - YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	2.30%	2.40%	2.90%	2.40%
Eurozone	1.90%	2.20%	2.40%	1.70%
Switzerland	-0.10%	0.30%	0.60%	0.80%
Canada	1.70%	2.30%	1.80%	1.60%
Japan	3.60%	3.60%	3.60%	2.50%
China	-0.10%	-0.10%	0.10%	0.40%
India	3.16%	3.34%	5.22%	5.49%

Unemployment	Last	Q1 2025	Q4 2024	Q3 2024
United States	4.20%	4.20%	4.10%	4.10%
Eurozone	6.20%	6.30%	6.20%	6.30%
Switzerland	2.90%	2.80%	2.60%	2.60%
Canada	7.00%	6.70%	6.70%	6.60%
Japan	2.50%	2.50%	2.50%	2.40%
China	5.10%	5.20%	5.10%	5.10%

Gross Domestic Product (YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	2.10%	2.10%	2.50%	2.70%
Eurozone	1.40%	1.40%	1.40%	1.30%
Switzerland	2.00%	2.00%	1.60%	2.00%
Canada	1.70%	1.70%	2.20%	2.20%
Japan	5.10%	5.10%	4.20%	3.20%
China	5.40%	5.40%	5.40%	4.60%
India (Real GDP)	7.38%	7.38%	6.40%	5.60%

Producer Price Index (PPI - YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	0.40%	0.80%	2.80%	-0.80%
European Union	-0.40%	0.30%	0.40%	-1.50%
Switzerland	-0.50%	-0.10%	-0.90%	-1.30%
Canada	1.96%	4.46%	4.06%	-1.10%
Japan	3.20%	4.30%	4.00%	3.10%
China	-3.30%	-2.50%	-2.30%	-2.80%
India	0.85%	2.05%	2.57%	1.91%

Purchasing Managers' Index	Last	Q1 2025	Q4 2024	Q3 2024
United States	48.5	49	49.2	47.5
Eurozone	49.4	48.6	45.1	45
Switzerland	42.1	48.9	47	48.9
Canada	46.1	46.3	52.2	50.4
Japan	49.4	48.4	49.6	49.7
China	49.5	50.5	50.1	49.8
India	57.6	58.1	56.4	56.5

Core Inflation (Core CPI - YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	2.80%	2.80%	3.20%	3.30%
Eurozone	2.30%	2.40%	2.70%	2.70%
Switzerland	0.50%	0.90%	0.70%	1.00%
Canada	2.60%	2.40%	2.10%	2.40%
Japan	1.60%	1.60%	1.60%	1.70%

Consumer Spending (PCE - YoY)	Last	Q1 2025	Q4 2024	Q3 2024
United States	2.52%	2.67%	2.86%	2.66%

Data as of 11/06/2025
N/A: Not yet reported or Public Holiday

May **Macro News**

- Trade policy remained the dominant theme throughout May 2025, though the month was characterized by gradual de-escalation rather than escalation. The most significant breakthrough came on May 12 when the United States and China agreed to a 90-day pause on tariffs, which triggered a substantial market rally especially in the US and Europe.

- The UK became the first major economy to secure a comprehensive trade deal with the United States, which included tariff reductions on automobiles and elimination of steel and aluminum tariffs. This agreement served as a template for potential future deals with other trading partners and helped restore confidence in diplomatic solutions to trade disputes.

- The Court of International Trade ruled that most of the US “reciprocal” and fentanyl-related tariffs were illegal, but the ruling was quickly put on hold by an Appeal Court. Meanwhile, the Republican budget bill, which included tax reforms, passed the House and headed to the Senate.

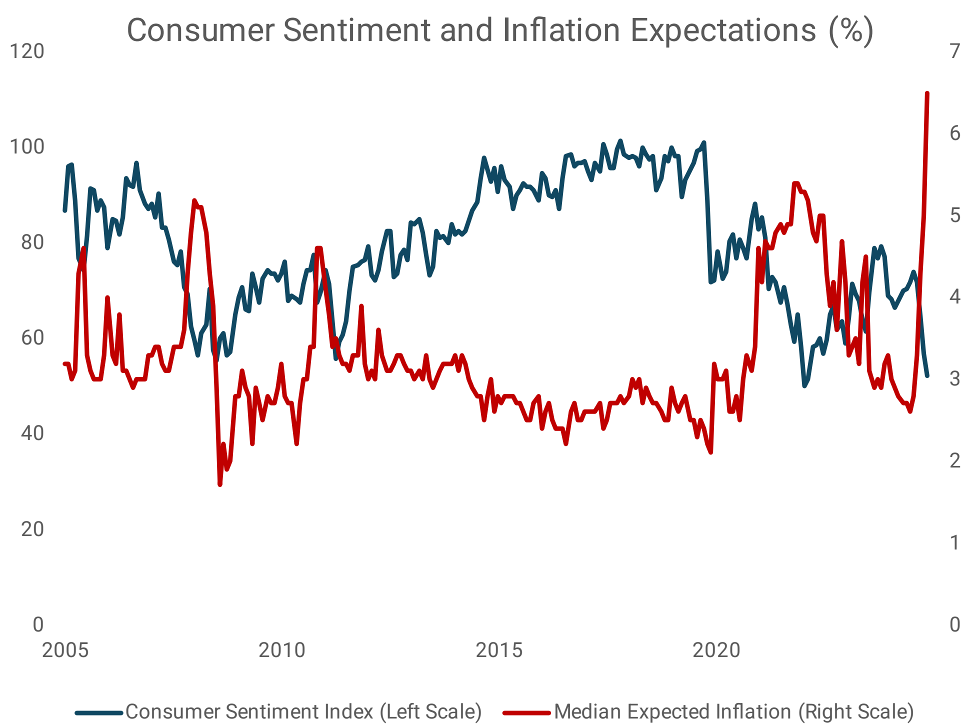
- The FED held rates steady at 4.25% - 4.50%, citing mixed signals: solid labor markets but softer GDP growth and persistent inflation. The US central bank remains cautious, waiting for clearer signs before considering rate cuts.

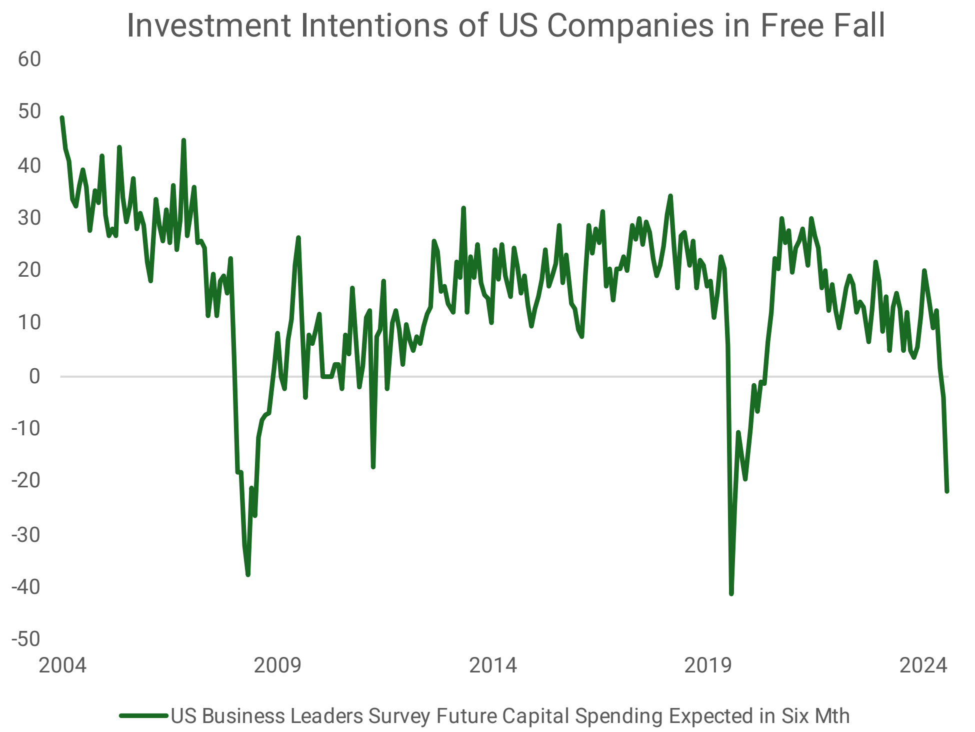
Stagflation: **Unlikely But Possible**

The United States faces mounting economic headwinds that have elevated the probability of stagflation – a rare economic condition combining stagnant growth, rising inflation, and increasing unemployment.

While stagflation remains a tail risk rather than our base case scenario, multiple factors have elevated its probability beyond historical norms. The Federal Reserve has explicitly acknowledged these concerns, with Chairman Jerome Powell noting that "the risks of higher unemployment and higher inflation appear to have risen".

Trade policy uncertainty, particularly regarding tariffs, has created supply-side pressures that could drive inflation higher while simultaneously dampening economic growth. Unlike typical recessions where the Federal Reserve can cut interest rates to stimulate growth, stagflation creates a policy dilemma where fighting inflation requires tighter monetary policy that could worsen economic stagnation.





Source: Bloomberg

Moody's **Downgrade**

The United States faces an unprecedented fiscal challenge as Moody's recent downgrade to Aa1 makes it the first time in history that no major credit rating agency assigns the US a top-tier rating.

The scale of US fiscal challenges has reached alarming proportions. Interest payments on the national debt have become a significant fiscal burden, consuming an increasing share of federal revenues. This creates a self-reinforcing cycle where higher debt levels lead to increased interest costs, which in turn contribute to larger deficits and further debt accumulation.

Moody's downgrade on May 16 completed an unprecedented erosion of US creditworthiness across all three major rating agencies. The agency cited sustained rises in government debt and interest payments, projecting federal deficits could widen to nearly 9% of GDP by 2035. This assessment reflects concerns that current fiscal policies lack effective, bipartisan measures to address long-term debt sustainability.

S&P initiated the trend in 2011 following contentious debt ceiling negotiations, Fitch followed in August 2023 citing expected fiscal deterioration, and Moody's action represents the final major agency acknowledgment of increased credit risk. Notably, all agencies maintain stable outlooks, suggesting no immediate default risk, but the collective assessment indicates structural fiscal challenges requiring policy intervention.

Initial market reactions to the Moody's downgrade were relatively muted, with Treasury yields rising modestly before retracing much of the increase. While immediate default risk remains negligible given the dollar's reserve status and the government's ability to issue debt in its own currency, the downgrades signal legitimate concerns about long-term fiscal sustainability.

Agency	Year	Prev. Rating	New Rating	Key Reasons Cited
S&P Global	2011	AAA	**AA+**	Political uncertainty over the debt ceiling and fiscal policy, and rising debt
Fitch Ratings	2023	AAA	**AA+**	Erosion of governance, fiscal deterioration, rising government debt
Moody's	2025	Aaa	**Aa1**	Persistent deficits, rising debt and interest costs, lack of fiscal plan

A new index: **FAANG 2.0**

Rising geopolitical tensions and supply chain vulnerabilities have elevated the strategic importance of resource security.

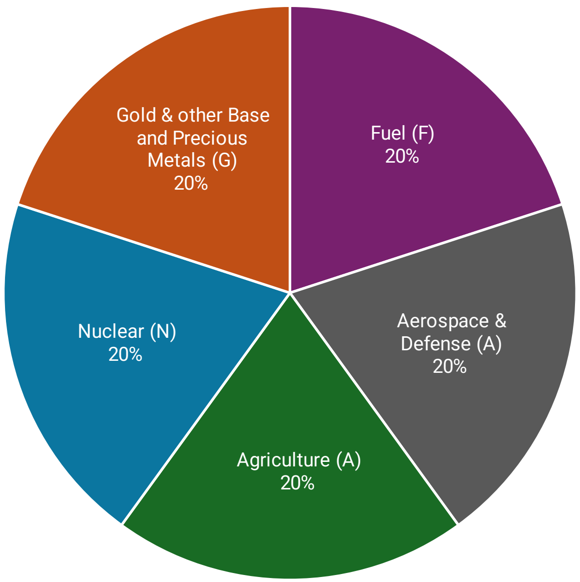
For nearly two decades, a select group of technology companies dominated the US stock market as the primary beneficiaries of unprecedented growth: Facebook (now Meta), Apple, Amazon, Netflix, and Google (now Alphabet). Known collectively under the acronym "FAANG," these companies later evolved into the “Magnificent 7" with the strategic addition of Microsoft, NVIDIA, and Tesla, while Netflix was relegated from the core group. This elite cohort now commands more than 30% of the S&P 500's total market capitalization, significantly elevating the index's overall valuation metrics and creating unprecedented concentration risk.

But now, with the different structural changes in the global economy, including deglobalization, resource nationalism, and the prioritization of supply chain security over efficiency, a new generation of FAANG is rapidly gaining traction, the companies in Fuel (F), Aerospace & Defense (A), Agriculture (A), Nuclear (N), and Gold & other Base and Precious Metals (G).

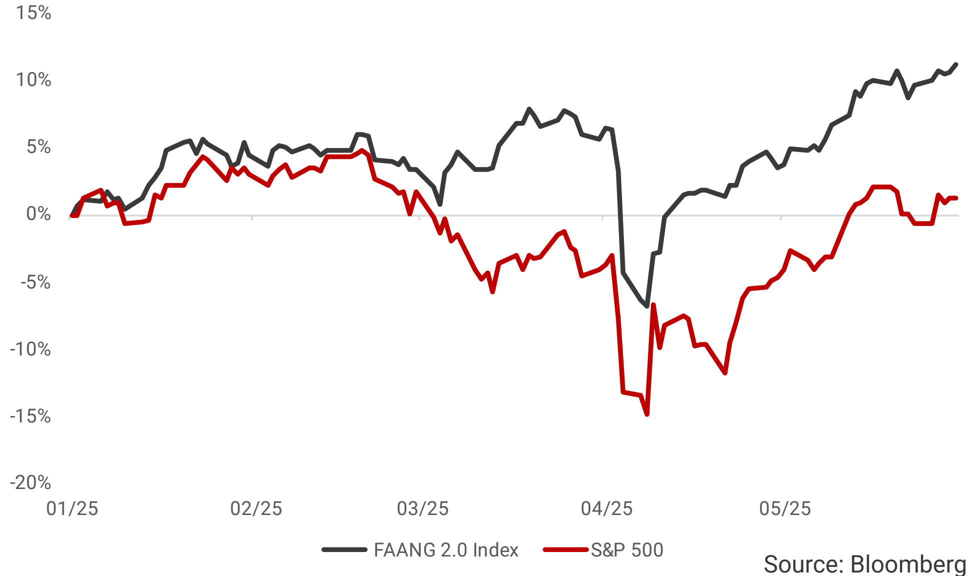
The current economic environment presents mounting stagflation risks, characterized by persistent inflation alongside slowing growth . FAANG 2.0 sectors typically possess significant pricing power, enabling them to pass rising input costs to consumers while preserving margins . This characteristic makes them particularly valuable during inflationary periods when traditional growth stocks may struggle.

This equal-weighted framework, encompassing 51 constituents with an average market capitalization of $72 billion, has demonstrated remarkable resilience and outperformance .

Equal Weighted Approach



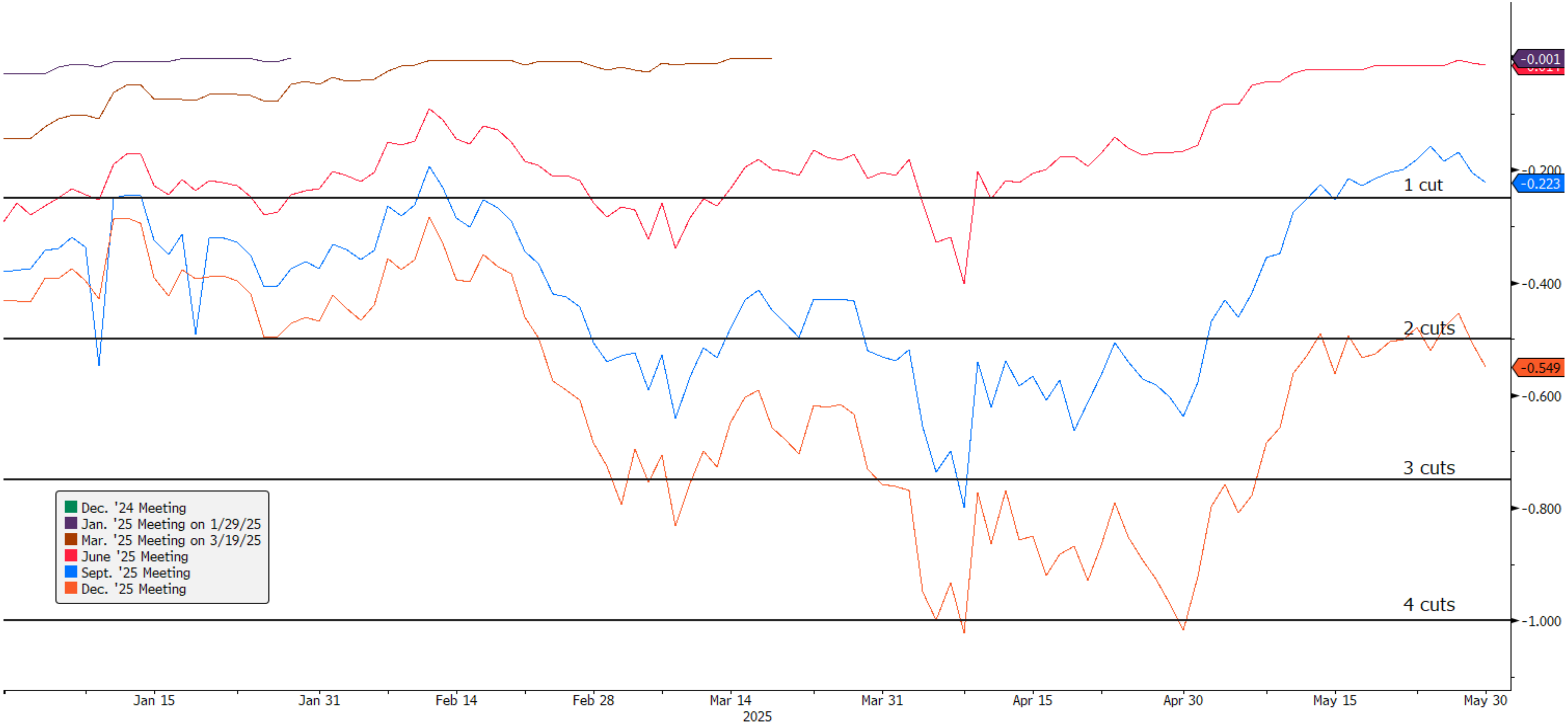
Year to Date Relative Performance



Source: Bloomberg

Short Term Rates **Expectations**

The FED decided in May to hold interest rates at their current levels, members indicated they would remain in a wait-and-see mode, holding off on rate cuts due to reaccelerating inflation and policy uncertainty, but are expected to consider easing later in the year if growth continues to slow.



Key **Investment Themes**

- Uncertainty over trades policies and the volatility spikes that can accompany disappointing market releases on top of high valuations reinforce our conviction that **diversification is a core strategy** - particularly important as geopolitical uncertainties persist, whether in the Red Sea, the Middle East, Ukraine or Taiwan.

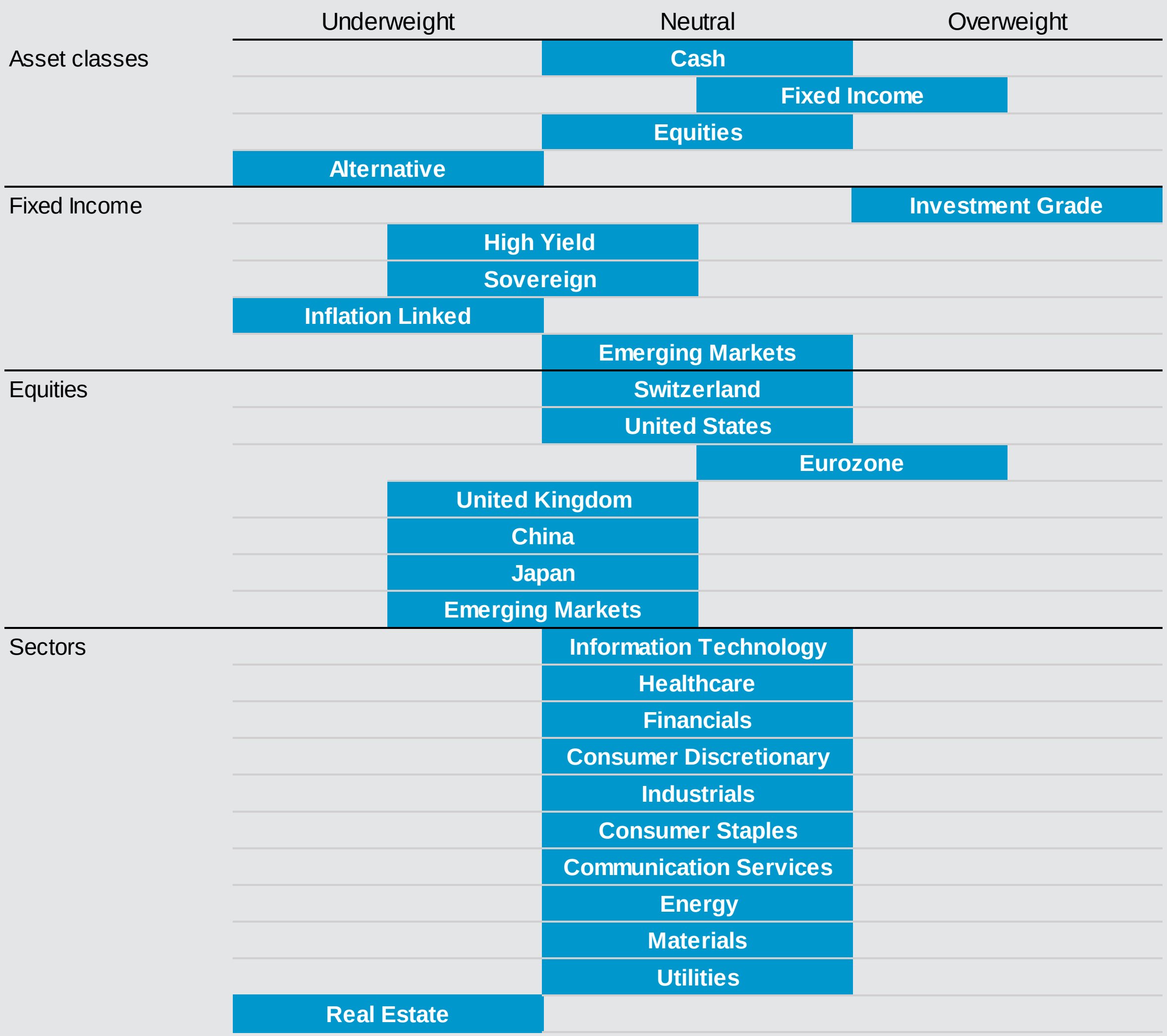
- The inflation target could well become the floor in this new economic cycle, with core inflation expected to remain above the 2% target by the end of 2025 but its trajectory is highly uncertain as it could be revived by the ongoing tariff war.

- Our recommendation is to focus on **quality stocks** with solid balance sheets and a long-term vision.

- On the **fixed-income** side, corporate bonds are facing higher interest costs overall, and potentially refinancing difficulties in the high-yield segment. Our preference at this stage of the cycle is **for higher-rated companies** rather than high yielding issuers. Note that we recently increased the duration of our selection.

- In the current interest-rate environment and within the broader policy dynamics of central banks in developed markets, our approach remains focused on carry strategies via bonds. We therefore maintain an **underweight in the alternative class**, capitalizing on the stability and predictable returns offered by bond instruments. However, we remain attentive to the opportunities offered by alternative investments, with their potential for returns uncorrelated with traditional markets.

Asset **Allocation**



Fixed-income allocation

Our selection focuses on the highest-quality issuers offering attractive risk-adjusted returns.

Equities

The different scenarios lead us to a more neutral approach to equities, where sector and regional diversification is more important than ever. We return to a more neutral stance on the United States following the turbulence caused by the new administration and increase our allocation to Europe.

Alternative investments

In the current interest rate environment, our approach remains focused on carry strategies through bonds. We thus maintain an underweight allocation to alternative investments, capitalizing on the stability and predictable returns offered by bond instruments. Nevertheless, we remain attentive to opportunities offered by alternative assets, given their potential for returns uncorrelated with traditional markets.

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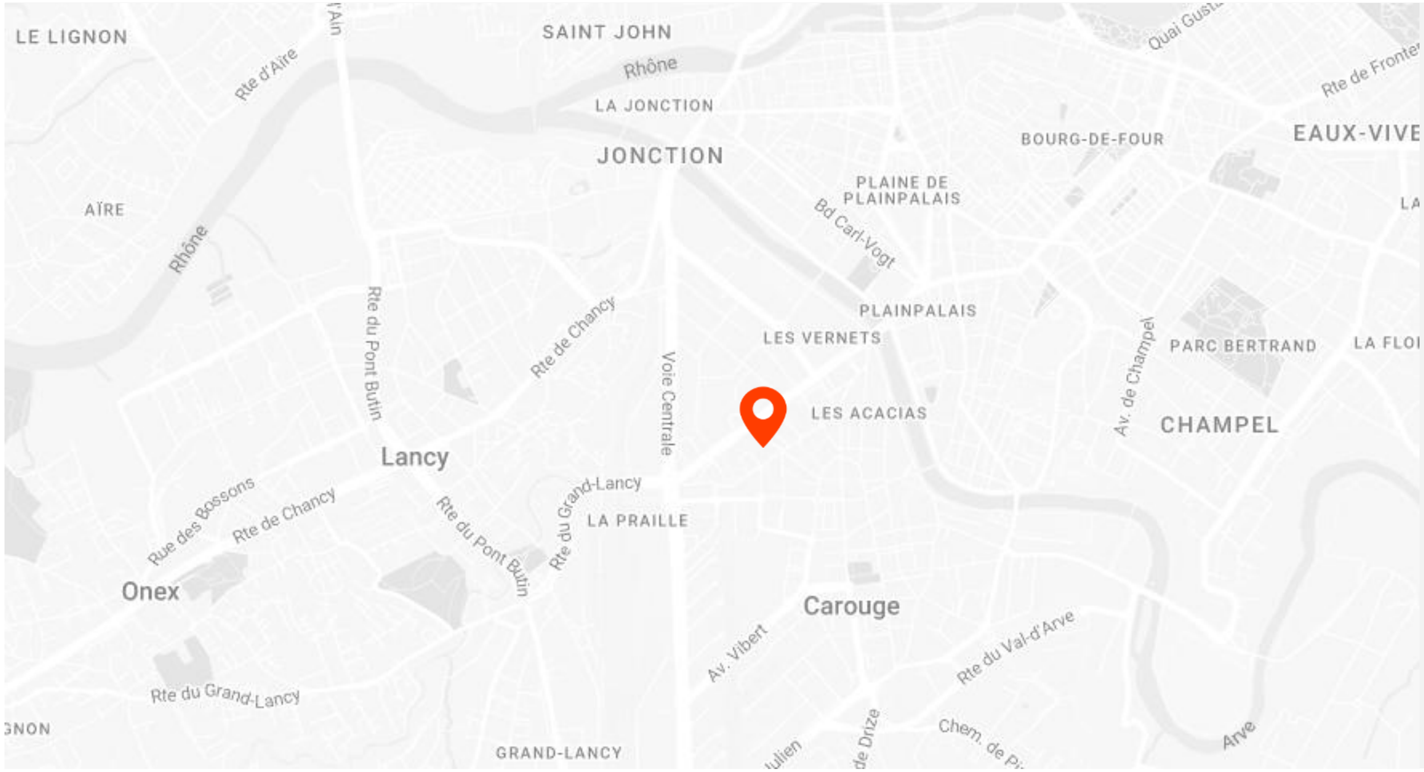
A DIFFERENT APPROACH TO WEALTH MANAGEMENT



Wealth Management
Family Office
Wealth Planning

Route des Acacias 54
1227 Carouge

Geneva, Switzerland
+41 22 318 58 80

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