

Month Overview

The escalation of tensions in the Middle East into a military conflict between Israel and Iran, along with the involvement of the United States through targeted airstrikes, has certainly had some short-term effects on financial markets but has not triggered any panic. Oil prices have increased, but only moderately, despite the involvement of a major oil producer and the proximity of the conflict to the Strait of Hormuz, a strategic passage for international trade. It appears that investors, rather than seeing this as a major conflict with potentially disastrous implications, have viewed it as another geopolitical tension that is likely to lead to some form of resolution between the parties involved, as none of them seem prepared to engage in a prolonged conflict. Sometimes it almost feels as if nothing can really worry investors anymore. Apart from European markets, equity markets were on the rise, particularly in the US, which is gradually catching up after lagging European markets that had performed strongly earlier in the year. Meanwhile, the dollar pursued its decline.

Economic Environment

In the current environment, two developments may be emerging as leading indicators: the Swiss National Bank's decision to lower its policy rate to zero and the gradual, global rise in unemployment, which remains historically low.

After inflation surged in the post-COVID period, central banks were compelled to raise policy rates, leading many to declare the era of zero or negative interest rates definitively over. However, the Swiss National Bank ("SNB") has now challenged this narrative, cutting its policy rate for the sixth time and bringing it back to zero. The SNB cited the appreciation of the Swiss franc and a decline in headline inflation, which fell to -0.10% in June, though core inflation remains positive, as key drivers of its decision. Interest rates remain a primary tool for central banks to influence consumption and investment, and the SNB is no exception. Its move, despite lingering uncertainty around the potential impact of new U.S. import tariffs, suggests the SNB is anticipating weaker growth and prefers to act proactively rather than reactively, even as the Swiss economy recorded stronger-than-expected year-on-year growth of 2.0% in Q1, compared to forecasts of 1.5%. While Switzerland's economic situation is idiosyncratic, the SNB's rate cut may be an early signal of shifting dynamics. However, it does not necessarily indicate that a return to negative rates across markets is imminent.

Another factor that may have influenced the SNB's decision is the continued rise in the unemployment rate, even though the central bank does not operate under the dual mandate of the Federal Reserve. Over the past year, Switzerland's unemployment rate has increased by one percentage point, bringing it to just below 3.0%. In the euro area, while the European Central Bank (ECB) has maintained a remarkably stable unemployment rate around 6.2%, Germany, one of the zone's pivotal economies, has seen its rate creep up to 6.3%.

Although this remains low by historical standards, it is near to the highest level in the past decade. The ECB recently lowered its rate by another 25 basis points, citing weak growth with limited upward momentum. Meanwhile, the Federal Reserve maintained its "wait-and-see" stance at its June meeting, holding rates steady as it monitors the potential impact of new import tariffs. The U.S. unemployment rate has stabilized recently after rising for several months.

While central banks do not appear overly concerned about rising unemployment at this stage, they are certainly monitoring it closely, recognizing the importance of sustaining consumption and investment. When unemployment begins to rise, it becomes increasingly difficult to stimulate demand for goods and financial products, challenging the effectiveness of monetary policy transmission. In this context, cutting rate might also help support the labor market.

Equity

Despite facing similar global challenges, U.S. equity markets outperformed their European counterparts in June. The S&P 500 and Nasdaq Composite both closed at record highs, with gains of 5.1% and 6.6% for the month, respectively, driven by easing trade tensions, positive corporate earnings and resilience of the US economy. Emerging markets also performed well, though gains were more modest than in the U.S.

Fixed Income

As the Swiss National Bank and the ECB cut their short-term rates amid concerns over weakening growth momentum, medium and long-term rates rose by several basis points, pushing their entire yield curves upward. In contrast, the U.S. dollar yield curve shifted downward as the Federal Reserve maintained a steady policy stance. This divergence in monetary policy is likely to drive future shifts across global bond markets and influence capital flows between regions.

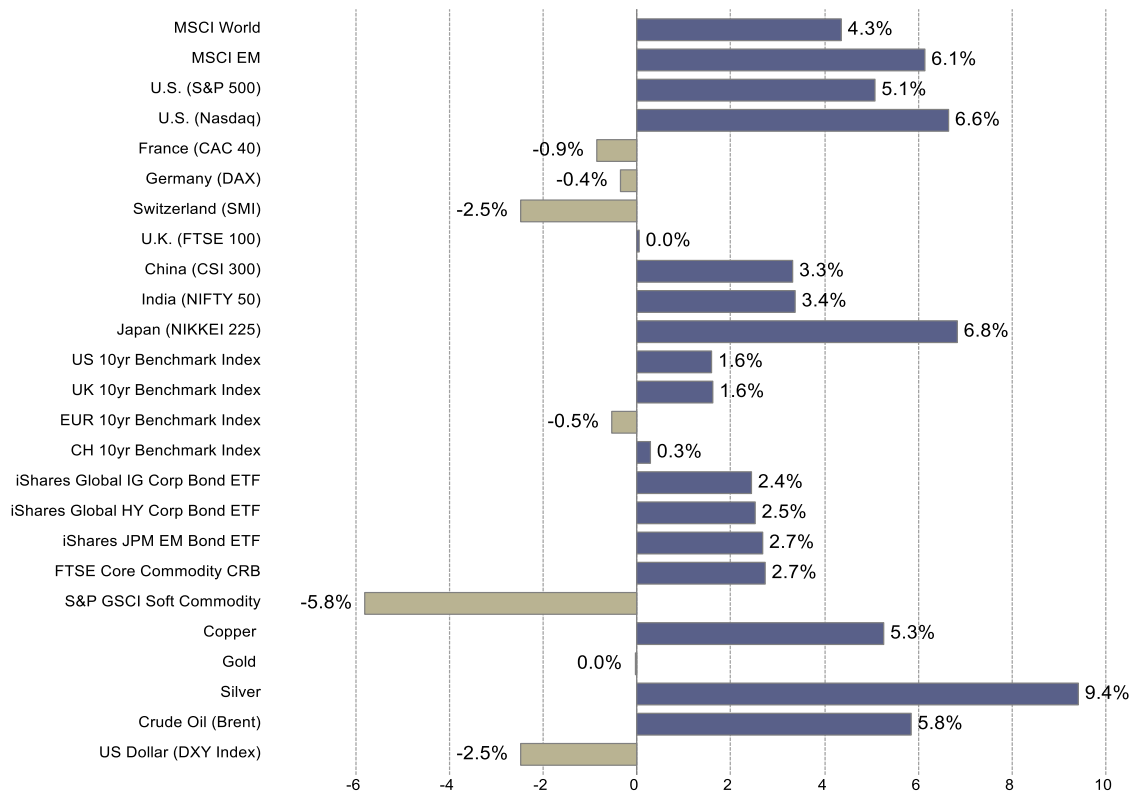
Commodity

Silver rallied substantially in June as an attractive alternative to gold, which remained flat amid policy uncertainty. A weaker dollar and strong industrial demand further supported silver's advance. Meanwhile, Brent crude rose from \$63.9 to \$78.9 per barrel amid Middle East tensions and temporary supply disruptions, before easing as the conflict de-escalated to end the month at \$67.6 per barrel.

Currency

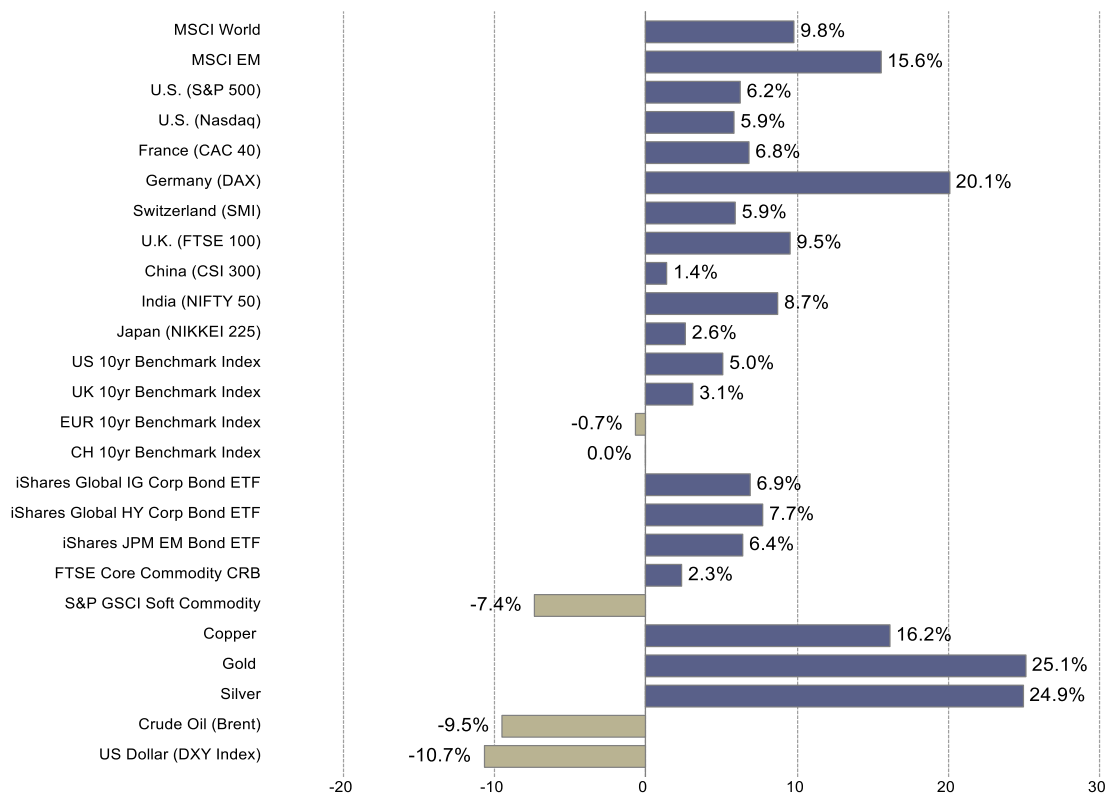
The U.S. Dollar Index (DXY) posted a significant retreat, declining by 2.5% during the month despite the unchanged Fed funds rate, and reached new three-year lows. The greenback has given up about 10.0% since the start of the year. The Euro-Swiss franc exchange rate remained relatively stable, as the rate differential between the two currencies was largely unchanged.

June 2025 Performance



Source: LSEG Datastream, Anarosa Asset Management AG

Year-To-Date Performance (until 30.06.2025)



Source: LSEG Datastream, Anarosa Asset Management AG

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