QUARTERLY REPORT:

ECONOMY AND MARKETS

Q1 2025 - BANCA DEL SEMPIONE

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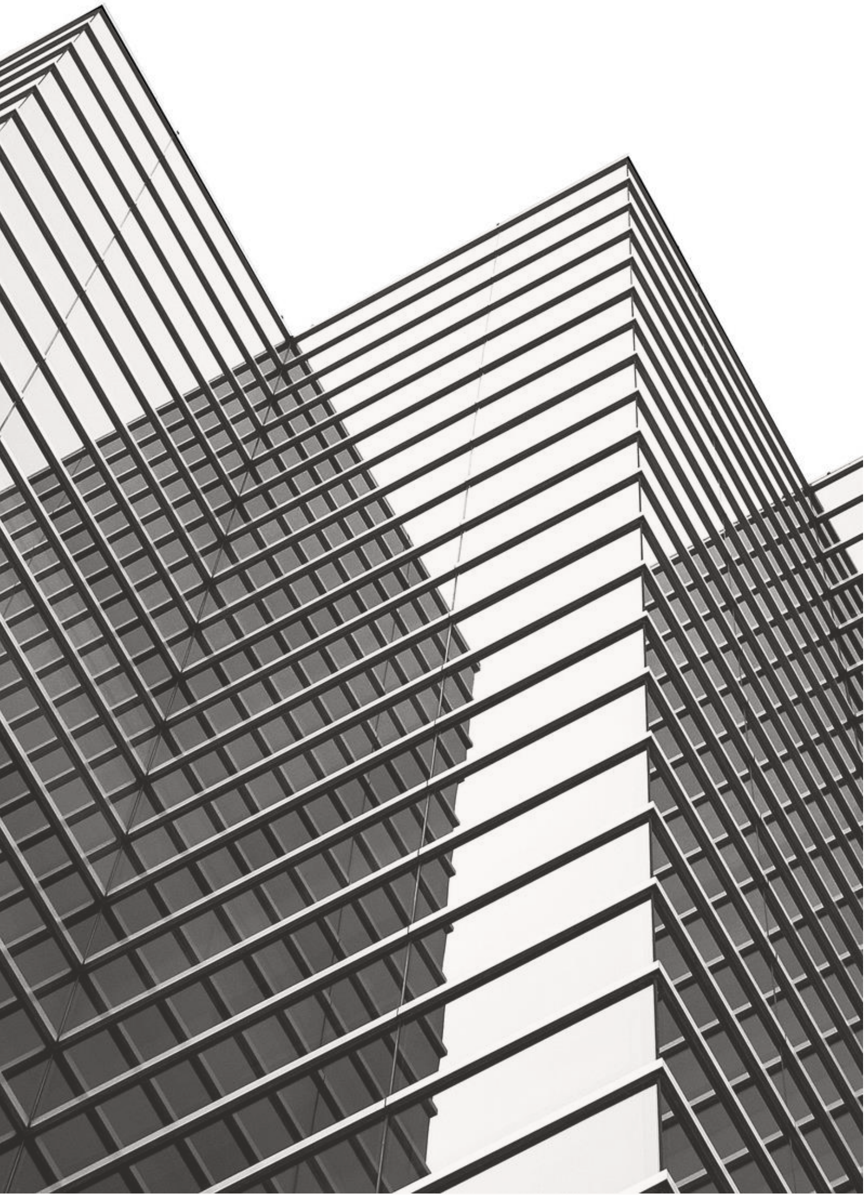

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MESSAGE – FINANCE AND MARKET DIVISION

There has been intense volatility and loads of surprises in the financial markets at the beginning of this year. On the stock markets, the significant rise in European and Chinese indices, alongside a marked correction in U.S. equities, has certainly come as a surprise especially given the context of the start of Trump's second presidential term.

Investors are trying to translate the continuous statements of the American President into consequences for companies and consumers, thus seeking a balance in market prices that, due to frequent and sometimes contradictory communication, is difficult to achieve. The tariff policy and the need to reduce the growth of the American deficit and debt could also lead to stagflation phenomena. However, it will be necessary to distinguish between announcements and concrete measures to understand the exact scope of the initiatives implemented and their respective consequences.

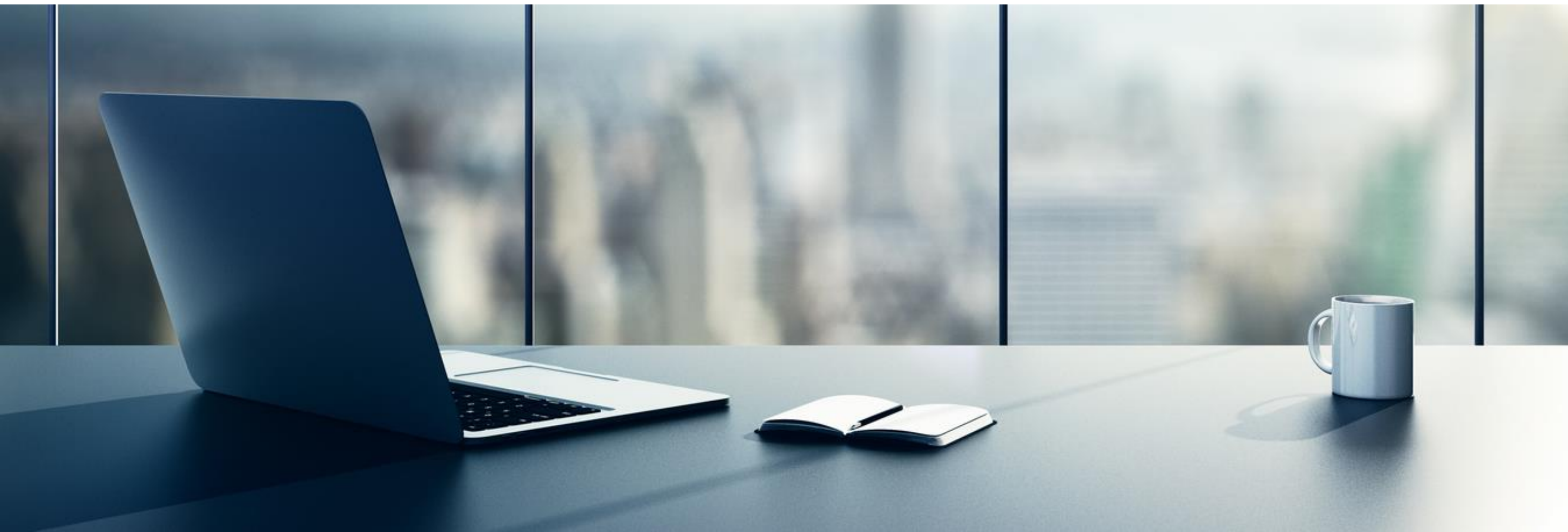
Even on the interest rate front, we have witnessed unusual movements, typical of phases in which the market is frantically searching for a point of equilibrium. In this case, the trend still appears to be one of further easing in the cost of money, accompanied by a yield curve that is gradually returning to a more standard upward slope. The increase in long-term rates on the European curve has been rather noticeable—though largely contained—following the German government’s announcement of higher public spending measures.

Navigating geopolitical issues is by no means easy: we are facing a potential shift in the global balance of power that will inevitably affect the financial markets over time, to varying degrees. At the same time, global growth—while potentially slowed by new protectionist policies—is expected to consolidate just below 3%.

In our equity strategy, we have partially benefited from movements aimed at relatively rewarding markets and companies that were penalized until just a few months ago. We believe this trend may partly continue, and that markets could further close the valuation gaps between different geographical areas and sectors. Our fixed income strategy remains active through our funds, with a medium-to-long portfolio duration and a preference for government bonds, which we believe have been excessively penalized compared to corporate debt.

PIETRO SCIBONA

DEPUTY GENERAL MANAGER
HEAD OF THE FINANCE AND MARKETS DIVISION



MACROECONOMY

Global economic scenario

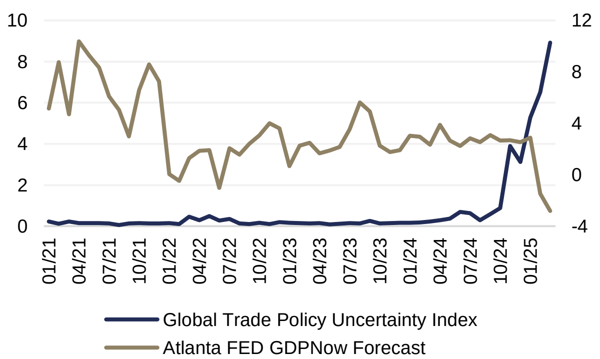
The last three months have marked a turning point in the economic landscape of the past two years, with **growing uncertainty** among economists regarding global growth prospects.

Trump's inauguration in the United States in January was initially met with forecasts strongly oriented towards U.S. economic and technological supremacy, supported by tax cuts, fiscal spending, and deregulation in favor of private companies. However, the administration initially focused on two key issues: reducing **public spending**, with Elon Musk at the helm of the Department of Government Efficiency (DOGE), and narrowing the trade deficit through the introduction of **tariffs**, first targeting Canada and Mexico, and later extended to Europe, China, and specific sectors.

With significant media emphasis, *Trump* and his allies suggested they were willing to endure periods of economic hardship in order to shift growth from the public sector to domestic private industry, passing the cost of this change onto foreign countries through import tariffs. This rhetoric raised concerns in the markets: the **Federal Reserve** (FED) of **Atlanta's quarterly** GDP estimates (GDPNow) collapsed from about +2% to -1.8%, while **consumer** spending showed signs of significant weakening. Inflationary pressures, on the other hand, remain above the Federal Reserve's targets, worsened by uncertainty surrounding tariffs, whose impact is currently considered "transitory." As a result, the FED opted not to change interest rates in the recently concluded quarter.

Comparison between GDP expectations and tariff uncertainty

% US Quarterly GDP on the left; Index points on the right; 01.21 – 03.25



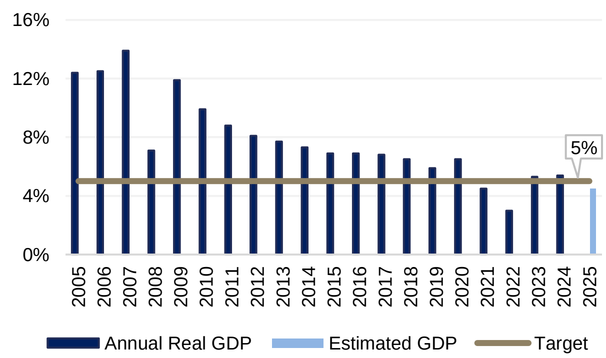
Source: Bloomberg

On the European front, there has been an improvement in economic prospects, as evidenced by the recovery of manufacturing indices (PMIs) and the fiscal stimulus measures promoted among the bloc's nations. In particular, **Germany** announced an ambitious fiscal spending plan exceeding €1 trillion, marking the end of the strict budgetary discipline followed for over a decade. The goal is to support new infrastructure investments and expand the defense budget. The newly elected German coalition, led by CDU (Christian Democratic Union) leader **Friedrich Merz**, has made a significant shift in efforts to revive the economy, which continues to suffer from the declining automotive sector. Amid stable inflation and growth that still requires support from monetary policy, the **European Central Bank (ECB)** continued its rate-cutting path, reducing the deposit rate from 3% to 2.5%.

During the quarter, the performance of the **Chinese economy** regained attention. The ruling Communist Party announced a series of significant fiscal measures to stimulate consumption and revive the economy, still affected by the real estate crisis that began at the end of 2021. Additionally, the presentation of the **Deepseek** artificial intelligence model, which offers performance comparable to Western models but developed with fewer resources, reaffirmed China's technological competitiveness. The impact of tariffs on China's GDP growth target, set at 5% for 2025, remains uncertain.

Evolution and forecasts of annual GDP in China

% real GDP growth year on year; 2005-2025



Source: Bloomberg

MACROECONOMY

Focus: geopolitical context and Switzerland

Geopolitical context

The impact of Donald Trump leading the **United States** is causing significant turbulence, with the newly elected president immediately following through on his campaign promises. First, he announced a series of substantial *tariffs*, initially targeted at neighboring countries and later extended globally, triggering strong reactions from the affected nations. The intensification of anti-globalization narratives, with reciprocal tariffs in response to the US President's measures, is fueling concerns over a slowdown in global growth. Another notable aspect of his first two months involves anti-immigration measures, with deportations that have captured media attention and created tensions with countries such as Colombia. Additionally, an internal divide has emerged between representatives of the *MAGA* (Make America Great Again) movement, who favor substantial cuts in public spending, and opponents who are determined to maintain the current balance within the US public system.

The initial impact of **Trump's** political decisions has disappointed part of the American electorate, as evidenced by the decline in his popularity in the polls, due to the worsening economic outlook, massive public sector job cuts, and the drop in stock markets.

At the international level, his imperialist rhetoric has raised concerns among allied countries. In a geopolitical context already marked by numerous conflicts, which has brought the defense sector back into focus, the **United States** has decided to withdraw from its historic commitment to providing protection to European countries and NATO allies through its “nuclear umbrella.” **Europe** reacted promptly by initiating the study of substantial defense spending plans, with the goal of raising it to 3% of each country's GDP.

Trump’s plan to bring an end to the conflicts that have dominated media coverage has proven more difficult than expected. His intention to definitively end the war between **Russia** and **Ukraine** through a negotiated ceasefire in March has yet to yield positive results. In the **Middle East**, meanwhile, Hamas’s failure to release hostages led Israel to resume its assault on Gaza, breaking the ceasefire agreement that had been reached in mid-January, shortly before Trump took office.

Switzerland

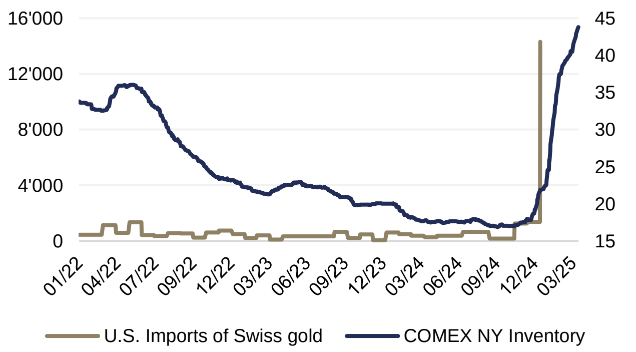
The Swiss economy ended the previous year with **growth** slightly below the average of the past 25 years, recording a 1.5% increase in GDP in 2024. According to the Swiss National Bank (SNB), this scenario could repeat itself in the current year, as Swiss economists forecast GDP growth between 1% and 1.5%, still uncertain about the impact of U.S. tariffs and the global economic cycle. Nevertheless, optimism stemming from European fiscal stimulus plans has offset concerns over tariffs, bringing the PMI to 48.9 in March, slightly below expansion territory (50).

With the aim of further stimulating growth and preventing a return to declining inflation, the **SNB** decided to implement another rate cut, lowering the benchmark rate to 0.25%. The institution stated that the current monetary policy is considered appropriate, while leaving open the possibility of using foreign exchange market tools to manage the Swiss franc’s performance.

Finally, in support of Swiss exports, strong demand for **physical gold** from the United States has emerged, allowing for a significant increase in deliveries between the end of last year and the beginning of the new year. The phenomenon of front-running—anticipating the effect of tariffs by purchasing higher volumes in advance—has driven COMEX (the New York commodities exchange) to accumulate stockpiles in order to meet a higher volume of physical gold deliveries.

Gold imports from Switzerland to the USA

Million troy ounces on the left; Kg on the right; 01.22 – 03.25



Source: Bloomberg

FINANCE

Equity market

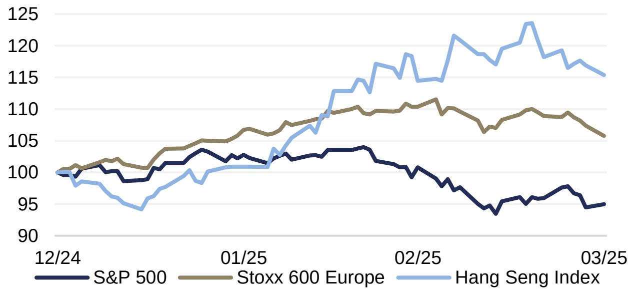
Indices	Price	Quarterly Performance	YTD Performance
MSCI World	3'628.64	-2.43%	-2.43%
SMI	12'598.12	8.60%	8.60%
STOXX Europe 50	5'248.39	7.79%	7.79%
FTSE MIB	38'051.99	11.31%	11.31%
DAX	22'163.49	11.32%	11.32%
S&P 500	5'611.85	-5.00%	-5.00%
NASDAQ 100	19'278.45	-9.05%	-9.05%
Nikkei 225	35'617.56	-10.72%	-10.72%
Hang Seng	23'119.58	15.36%	15.36%

Source: Bloomberg

In the first quarter of 2025, markets experienced a notable return of volatility, with negative performances and declines, particularly in U.S. indices, not seen since the summer of 2024. The main factors influencing market sentiment were **Trump's** aggressive trade policies and the weaker-than-expected condition of American consumers. In an economy heavily driven by consumption and under an administration focused on reducing public spending, early warning signs have emerged, raising concerns about a possible recession in the United States.

In analyzing the performance of U.S. indices, beyond the aforementioned uncertainties, it is also worth noting that markets started the year from relatively high valuation levels, especially in the tech sector and among the so-called "**Magnificent 7**." The first wave of volatility was triggered by **DeepSeek**, a Chinese startup operating in the field of artificial intelligence, which launched its own large language model (LLM). What caused the most disruption were the reported development costs, amounting to just a fraction of those incurred by U.S. competitors, and the model's performance, despite lacking access to Nvidia's most advanced GPUs. This sparked fears that the U.S. dominance in AI, previously considered unchallenged, may no longer be as solid, directly impacting the performance of stocks most exposed to the sector. As a result, the first quarter ended in negative territory for both the S&P 500 and the Nasdaq 100, an outcome not seen since as far back as September 2023.

Comparison of U.S., European, and Chinese Indices
Rebased to 100; 01.25 – 03.25



Source: Bloomberg

Turning to the Old Continent, after months of underperformance, European equities recorded a partial rebound relative to their U.S. counterparts.

While elevated valuations and public spending cuts weighed on U.S. indices, in **Europe**, renewed German fiscal spending—approved after the elections—combined with more moderate valuations, gave a significant boost to the markets, further supported by capital outflows from the U.S. The best-performing sectors were, once again, financials—boosted by expectations of higher medium-term rates—and defense, which rallied strongly following major investment announcements by European countries aiming to offset reduced U.S. support.

Switzerland also posted a solid first quarter, with the index driven by strong performances from the three largest-cap stocks: **Nestlé, Roche, and Novartis**. The rally was mainly fueled by increased investor focus on defensive sectors and the search for dividend income, an important characteristic of Swiss companies.

Further confirming the major rotation observed during the quarter, **China,** long viewed as an underdog, and at times even deemed uninvestable, returned to delivering strong returns. Driving the indices were both technological innovation and still-attractive valuations, as well as new government stimulus measures more directly targeted at boosting consumption. As a result, the Hang Seng closed the quarter with a double-digit gain.

FINANCE

Bond market

Government yields (in % p.a.)	2 years	5 years	10 years
Switzerland	0.11	0.31	0.54
Italy	2.30	2.88	3.87
Germany	2.05	2.34	2.74
United States	3.88	3.95	4.21

Source: Bloomberg

The year began with high **volatility** in the bond market, in line with previous quarters. If throughout the 2022-2024 period the market struggled unsuccessfully to gain a clear and stable outlook on **inflation** and interest rate trends, the arrival of the new U.S. administration, particularly active in pursuing reforms, certainly has not helped clarify the situation. The policies promoted by Donald Trump appear ambivalent: on one hand, highly inflationary due to protectionist measures and tax cuts; on the other hand, potentially recessionary, given concerns about economic growth and reductions in public spending. In the early weeks of the year, the prevailing sentiment leaned toward an "*expansionary Trump*" scenario, leading to a rise in bond yields. However, by the end of January, expectations of an economic slowdown began to gain traction. As a result, the U.S. 10-year Treasury yield ended the quarter at 4.20%, down significantly from 4.57% at the beginning of the year and from the peak of 4.80% reached in mid-January.

The situation in **Europe** was different and, in some ways, moved in the opposite direction. The turning point came when the new German government announced its decision to abandon the balanced budget rule, unveiling a €1 trillion deficit-spending plan over the next 10 years, aimed at defense and infrastructure investments. Beyond the numbers which are expected to bring **Germany**'s deficit close to 3% this event marks a major shift in mindset for the EU's largest economy, which seems increasingly determined to take on a leadership role. The German 10-year Bund saw rising yields, driven by expectations of increased bond supply and stronger economic growth. Yields upturned slightly in the **UK**, where markets remain cautious about trusting the Labour government's pledges on fiscal discipline.

Evolution of the 10-Year Bund Yield

% Yield to maturity; 03.24 – 03.25

Source: Bloomberg

Central Banks are facing the current situation of high uncertainty with a predominantly *wait-and-see* approach. The **FED** has paused its rate-cutting cycle, with the intention of gradually resuming it in the second half of the year. The **ECB**, on the other hand, continues to lower rates, but the debate is still open on the final level to be reached, which some experts believe should not deviate too much from current levels. The only Central Bank to decisively return to a zero-interest-rate policy is the **SNB**, which has set its reference rate at 0.25%, taking advantage of domestic price stability. In contrast, the Bank of Japan (**BOJ**), after decades of stagnation, is seeing the return of inflation, currently being countered with moderate rate hikes, which could continue in the coming months.

The **Bloomberg Global Aggregate** Index, euro-hedged version, ended the quarter slightly positive, with a return of +0.80%. Positive performance was also seen for credit indices, despite a widening of spreads in the final phase of the quarter. Credit spreads continue to benefit from moderate economic growth and low default rates, but remain vulnerable to the rising uncertainty arising from looming U.S. tariffs and a potential global economic slowdown. The most concerning scenario for credit markets is one of possible stagflation, where spread widening – triggered by a lack of economic growth – could not be fully offset by a decline in risk-free rates due to persistent inflationary pressures in the economy.

FINANCE

Currency and commodities market

Currencies	Price	Quarterly Performance	Yearly Performance
EUR/CHF	0.9564	1.69%	1.69%
USD/CHF	0.8843	-2.15%	-2.15%
EUR/USD	1.0816	3.93%	3.93%
GBP/USD	1.2918	2.93%	2.93%
USD/JPY	149.96	-4.39%	-4.39%

Source: Bloomberg

Currencies

Currency markets have shown a sharp correction of the **US Dollar**, mainly influenced by the narrowing of the interest rate differential with eurozone countries. The latter have been supported by substantial spending plans proposed by Germany, which have improved growth prospects for the entire bloc. Since the beginning of the year, both developed and emerging market currencies have regained ground against the USD, leading the **Dollar Index** to record a significant decline of -4%, wiping out the gains recorded at the end of 2024.

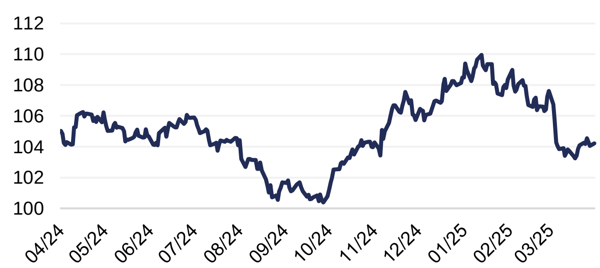
Despite divergences in interest rate policies between the **ECB** and the **FED** – with the former continuing with rate cuts and the latter remaining on hold – a FED intervention is increasingly seen as necessary to counter weaker growth, impacted by responses to Trump's tariffs and a decline in consumer spending.

Meanwhile, the **Swiss Franc** has resisted the sharp decline of the dollar, although only to a limited extent due to the SNB's orientation toward a further cut in reference rates.

The **Japanese Yen**, on the other hand, is strengthening again, supported by its Central Bank inclined to raise rates to 0.50%, and is once again assuming the role of a safe-haven asset in times of market volatility.

Performance of the dollar index over the quarter

Rebased to 100, 04.24 – 03.25



Source: Bloomberg

Commodities	Price	Quarterly Performance	Yearly Performance
Commodity Index	106.40	7.62%	7.62%
WTI Oil	71.48	0.69%	0.69%
Brent Oil	74.74	0.47%	0.47%
Gold	3'123.57	19.84%	19.84%
Silver	34.09	17.74%	17.74%

Source: Bloomberg

Commodities

The new year saw a strong rebound in the commodities sector, with a mixed but generally upward trend in the main commodities, resulting in a +7.6% increase in the benchmark index.

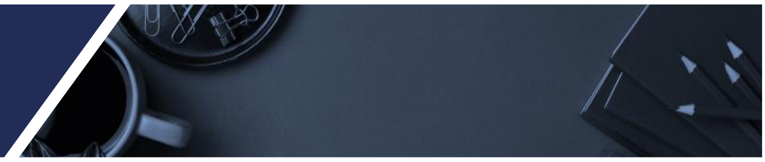
Among the major contributors to the index were **gold and precious metals**, which experienced a nearly +20% price increase in USD over the past quarter. The main reasons include: declining real yields in the US, expectations of a trade war, geopolitical tensions, growing recession fears, and strong demand for these metals from central banks, governments, and trading markets.

Oil prices, on the other hand, moved sideways during the quarter. On one side, Trump's calls, including the famous "*drill baby drill*", aimed to boost production, although oil companies have struggled to follow through; on the other side, ongoing conflicts in the Middle East and Eastern Europe have maintained geopolitical fears, which continue to impact oil prices.

Industrial metals saw significant appreciation, particularly copper, which recorded a +20% price increase. This increase was mainly driven by excess in demand caused by front-running – that is, the intensive purchasing of materials ahead of the tariffs implementation by the Trump administration.

Food commodities experienced particularly marked volatility: driven by fears of new tariffs, prices rose by 8% through February, only to decline in the second half of the quarter. A striking case was the price of eggs in the United States, which, according to the national index, saw an extraordinary +310% increase between February 2024 and 2025!

Did you know that...



...despite their name, rare earth elements are not actually as scarce as the term might suggest

In the first quarter of 2025, a new kind of "gold" seems to be driving the global economy. In a context marked by geopolitical tensions and strategic rivalries, the importance of rare earth elements has reignited the interest of governments and investors.

What are rare earths, and why are they so important?

Rare earths are 17 chemical elements on the periodic table known for their strong magnetic and conductive properties. Despite their complex names (such as Yttrium, Promethium, Thulium, etc.), they are now essential in several industries: from electronics and technology to aerospace, defense, and renewable energy.

To give some concrete examples, rare earths are found in many everyday objects such as smartphones, tablets, and LED screens, where elements like Europium or Terbium are used for their luminescent properties. In the medical field, Gadolinium is used to improve the quality of Magnetic Resonance Imaging (MRI), while Erbium, thanks to its optical properties, is employed in surgical lasers. These are just a few examples of the many applications of rare earths, which are also used in defense radar systems, oil cracking catalysts, photovoltaic panels, and electric vehicle batteries.

The strategic importance of these elements lies in their versatility and their crucial role in the energy transition and technological innovation. For this reason, securing their supply and control has become a top priority for major governments around the world.

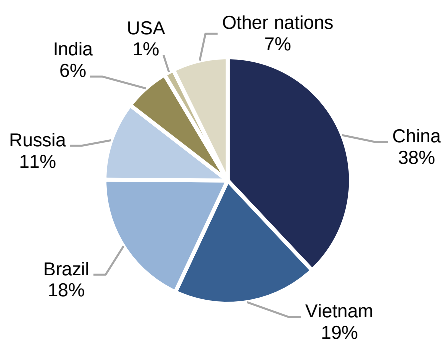
Where are the largest rare earth deposits found, and are they really that scarce?

According to the **US Geological Survey**, despite their name, rare earth elements are not actually that rare: they make up about 0.02% of the Earth's crust. However, their distribution is scattered and diffuse, as they are found in low concentrations and often mixed with other minerals, making extraction particularly expensive and complex.

Currently, only a small portion of rare earths, around 120 million tons, is economically extractable, meaning it's present in concentrations high enough to justify commercial mining. The main producer of rare earths is China, which holds about 38% of global reserves and accounts for over 70% of total production. Other countries with significant reserves include Vietnam and India. The challenging availability of these resources, combined with their crucial role in the modern economy, is drawing attention from many nations. A notable example is former President Trump's interest in striking a deal with Kyiv to access Ukraine's still unexplored rare earth reserves, as a form of compensation for wartime financial support.

Rare Earth Reserves share by country

% of Estimated Reserves on National Soil, 2025



Source: US Geological Survey

KEY TAKEAWAYS

1 – TOTAL GLOBAL RARE EARTH RESERVES IN TONNES 2023:

120'000'000

2 – CHINESE RARE EARTH MINING PRODUCTION IN TONNES 2023:

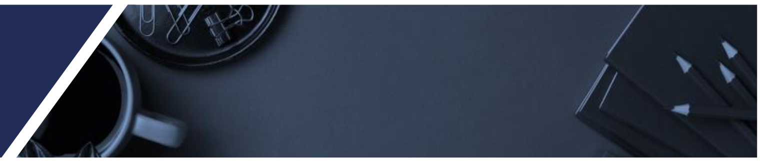
240'000

3 – NUMBER OF RARE EARTH ELEMENTS IN THE PERIODIC TABLE

17

Source: McKinsey, Cloudscene

Expert Talk
Jacopo Pavan



«In a context of growing instability in global alliances, is European rearmament an adequate response to the new challenges facing the European Union?»

Interview with ***Jacopo Pavan****, Asset Manager:*

What new geopolitical paradigms is the European Union currently facing?

The recent shift in the United States' foreign policy approach, characterized by trade tensions and a redefinition of defense commitments, has called into question the stability of the transatlantic alliance. The traditional pillars of the European Union, built on low-cost energy security, strong institutions, and strategic alliances, appear more vulnerable than ever. In this context, the "*do something*" recently voiced by Draghi in Brussels seems to echo a new "*whatever it takes*".

Germany's massive spending plan of €1 trillion, aimed at infrastructure and defense investments, marks a real turning point for the country and for the economy of the bloc, already hit by tariffs and an unprecedented identity crisis. Berlin's new strategy, focusing on defense to compensate for its lost leadership in the automotive sector, could provide fresh stimulus and promote growth in a stagnant European economy.

However, the risks associated with institutional and governmental "*modus operandi*" should not be underestimated. Cooperation among member states will be crucial for the bloc to improve competitiveness and defend its political and economic position. As Draghi pointed out, if only Germany re-arms, it will also be necessary to question the values and principles on which the Union was founded. Nevertheless, the recent commitments made by various European leaders on this front represent an important first step toward stronger collaboration among individual states.

The EU has the necessary resources and expertise to implement these changes?

The challenges the EU must face in the defense sector are multiple and complex. Currently, about 50% of land defense systems entered service before 1990, while lower percentages are observed for naval (40%) and air (35%) systems. Moreover, European defense has a very fragmented value chain: European armed forces manage 179 different types of defense systems compared to 33 in the USA, creating issues of interoperability and maintenance.

Additionally, the conflict in Ukraine has both exacerbated the need to reinforce more traditional defense systems, such as artillery, and highlighted the importance of developing modern technologies. Investments in research and development are essential to attract the talents and expertise needed to develop advanced drones, enhance cybersecurity, intelligence, and ballistic countermeasures.

To address these challenges, close cooperation among governments is essential. The issuance of common debt represents a key tool to overcome the issues of under-investment and to make Europe competitive in the defense sector. Currently, with the exception of Germany, individual Eurozone countries do not have the capacity to increase their levels of debt, making common debt the only viable path to implement these changes.

> *…The "do something" recently stated by Draghi in Brussels seems to echo a new "whatever it takes"…*

JACOPO PAVAN

Asset manager

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