INVESTMENT COMMENT

April 2025

- **Summary View**

  Don’t panic, sit tight. We are not changing our asset allocation at this moment given that the recent policy announcements do not all make sense (yet) and they keep changing.

  America is after all a country built on and open for business. As Winston Churchill put it: “you can always count on the Americans to do the right thing – after they’ve tried everything else.”

- **U.S. tariffs on Switzerland**

  The way the U.S. calculates the tariff penalties is bare of any economic sense. The goal seems to be to combat the U.S. trade deficit and to bring manufacturing back to the U.S.

  The metrics of this crude calculation is to divide the total U.S. trade deficit with a given country by its total imports from that country. Then apply a reciprocal tariff that is half of that amount.

  Applied to Switzerland, you divide the total trade deficit on goods ($38.5bn) by the total of imported goods ($63.4bn), which equals 61%. Divided by 2, the applicable tariff rate would be 31% on Swiss goods. But fortunately thanks to Microsoft, Netflix and many other U.S. services companies, the U.S. has a trade surplus on services with Switzerland. This brings the total trade deficit on goods AND services down to $17.2 billion, which would reduce the “applicable” U.S. tariff on Swiss goods by more than half.

- **How Switzerland handles tariffs**

  Last year, Switzerland decided to unilaterally abolish all tariffs on imports of industrial goods and services with the exception of agricultural produce. Hence the only area President Trump would have a claim to combat tariffs would be on agricultural products.

  It would also be difficult to move production to the U.S. for goods that are unique to Switzerland such as Swiss watches, Swiss army knives or Swiss chocolate. Tariffs on raw materials that need to be imported from Switzerland to manufacture the final product in the U.S. would also render the economics less viable.

  As Switzerland is committed to free trade and an open, rule-based global economy, it should not counter senseless measures with reciprocal tariffs. Instead, it should try to negotiate and at the same time try to remain competitive with its prices despite the tariff-induced price increases. Measures taken could include re-engineering production, lowering corporate taxes, eliminating unnecessary regulations and bureaucracy, reducing pension plan expansions, and – horribile dictu – introducing a digital tax on U.S. technology services. With the exception of the last option, all measures would also help strengthen the competitiveness of the Swiss economy..