

DISRUPTIVE FORCES

Tariff shocks, technological revolution, China shocks – it seems as if the world, politically and economically, is being turned upside down. Yet major changes also create opportunities. At least, this is how the markets see it.

Prometheus and Pandora – these two figures from Greek mythology have shaped humanity since antiquity. Prometheus, whose name translates as “the one who thinks ahead”, gifted fire to humankind after stealing it from the gods. Fire symbolises progress, knowledge, civilisation and power, which the chief god Zeus had withheld from humans. Once unleashed by Prometheus, these forces could no longer be contained, and Zeus’s anger was correspondingly great. A series of divine punishments followed. One of these was the creation of the beautiful Pandora, the “all-giver”, who was sent into the world with a special box that she was not to open – otherwise all conceivable evils would escape into the world, along with all hope. Naturally, in her innocent curiosity, Pandora opened the box, but was at least able to close it again in such a way that hope remained.

Since antiquity, the stories of Prometheus and Pandora have been retold in countless variations. They represent the tension between disruptive developments on the one hand and the risks and side effects that inevitably accompany them on

the other. This is precisely what makes them particularly relevant again in our time, despite their somewhat archaic overtones.

Disruption is probably the guiding term that comes to mind when we look back on the year just ended. First, disruption in trade policy: the “tariff shock” in early April 2025 made it clear that the USA is serious about reshaping the global order towards mercantilism and greater national security. In our view, the underlying causes lie not least in the rise of China, and this is not simply a whim of a US president gone rogue. As such, this issue is likely to remain relevant even after a potential change in the US administration. Disruption is evident above all, however, in technology and artificial intelligence, which are now having tangible and far-reaching consequences for growth, labour markets and inflation. It seems that the political and economic world has been turned on its head. Foundations are shaking, and uncertainty is widespread.

Resilient markets, fragile foundations

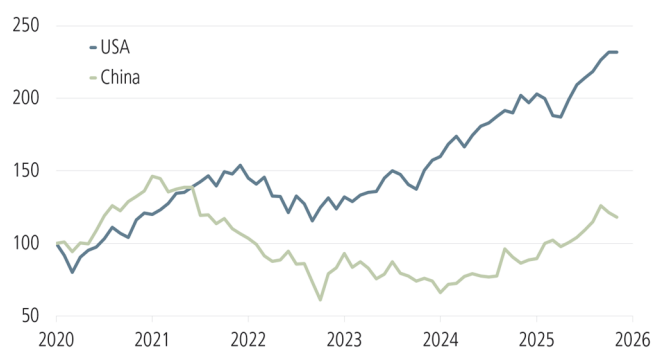
As early as three months ago, under the title “Times of extremes”, we examined the tension between spectacular progress and an apocalypse that was feared in some quarters. Even back then, we found that against this challenging backdrop, financial markets have thus far shown remarkable resilience. Still, the fragility of the underlying foundations became evident over the past year, for example in the market sell-off following the tariff



shock, the sharp depreciation of the US dollar, and the again accelerated surge in gold prices. Supported by robust economic data, falling interest rates and high expectations surrounding the transformative power of artificial intelligence, equities have performed well, driven primarily by large technology stocks. As a result, the US MSCI equity index ended 2025 up 17.8% in US dollar terms including dividends – however, calculated in euros, this amounted to only 3.8% and in Swiss francs 2.9%.

MSCI USA AND MSCI CHINA INDEX 2020-2025, IN USD

WIDENING DIVIDE



Source: Bloomberg, indexed, 2020=100.

The current technological revolution is being driven by the USA. US companies now account for up to 70% of global equity markets. The US equity market itself is composed of roughly one third technology companies, with a strong concentration in a small number of large firms. Since 2020, the US equity index has risen by around 130% (cumulative, total return) in US dollar terms – concerns about a technology bubble have arisen, although this may still be somewhat premature.

When compared with China, the other heavyweight of the global economy, a widening divide has become apparent, at least in equity markets, since the end of the Covid-19 pandemic. Since the beginning of 2020, the Chinese share market has only increased by just over 8% (cumulative); since the beginning of 2021, performance has actually been negative (see chart). The difference relative to the USA is striking, even though equity markets, of course, reflect only part of the economic reality.

A second China shock

Partly as a result of the disappointing performance of Chinese equities, China has somewhat fallen out of focus for market participants in recent years. Yet it is clear that, as the world's second-largest and second most populous economy, China plays a decisive role in shaping the course of the global economy. China's unparalleled rise since its opening under Deng Xiaoping in 1978 is one of the most significant trends of our time. A key milestone on its path to becoming a global power was the country's membership in the World Trade Organization in 2001. This paved the way for the so-called "China shock", which primarily affected the USA. According to analyses by economists David H. Autor, David Dorn and Gordon H. Hanson, the boom in Chinese imports after 2001 led to de-industrialisation and millions of lost jobs in formerly thriving industrial regions of the USA. This helped lay the groundwork for the rise of protectionist policies under the Trump administration in Washington.

Europe was long spared the shocks from China. The old continent was able to supply precision machinery, speciality chemicals, luxury goods and automobiles, thereby benefiting from the growth of the Middle Kingdom. In addition, a property boom following the 2008 financial crisis turned into a bonanza for a number of European companies. China adopted the methods of central planning to invest vast resources in expanding its infrastructure. This inevitably led to significant misallocations, distortions and excess capacity. For several years now, the country has been mired in a severe real estate crisis, which is certainly one of the causes of the disappointing equity market performance and the fading lustre of the Chinese economy.

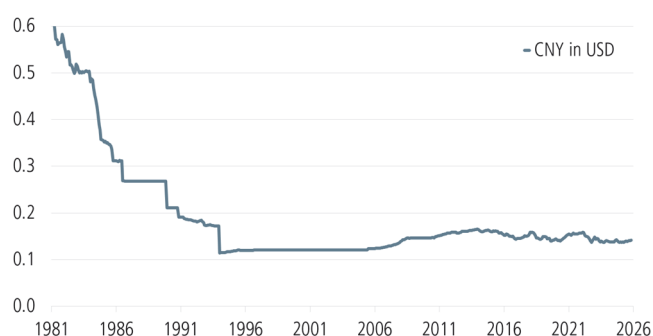
Recently, however, the term "second China shock" has been circulating. As Mark Dittli, editor of *The Market*, recently explained in a highly readable analysis, this shock primarily affects Europe. For some time now, a consequential reorientation has been underway in Beijing. The foundations for this were already laid in 2015 in the strategic paper *Made in China 2025*. The focus of the new



industrial policy is no longer on infrastructure and real estate, but on so-called key technologies such as e-mobility, robotics, railway technology, biotechnology and IT. Since 2020 at the latest, massive financial resources have been directed towards these industries. The result: China is flooding global markets with products it previously had to import. The global impact is disruptive, and this time it is being felt in Europe as well, as exemplified by the German automotive industry.

EXCHANGE RATE RENMINBI – US DOLLAR SINCE 1981

NOT FREE



Source: Bloomberg. The chart is taken from the paper *Dealing with America* by Ivan Adamovich and Konrad Hummler, 2025, p.31.

Where China enters a market, massive overcapacity emerges and profits disappear. On the one hand, this is due to the sheer size of the Chinese economy and population. On the other, the Chinese model continues to rely on cheap labour, cheap energy, and a cheap currency. In a free market, Chinese wages and the currency would have had to rise sharply over decades given the country's enormous growth. Yet the Chinese government ensures that the renminbi does not appreciate (see chart). Unsurprisingly, it is widely accused of massive currency manipulation. The result: advantages in foreign trade, even at the expense of international purchasing power for the Chinese population. Even if, as we do, one considers this development misguided, there is no sign that these distortions and imbalances will dissipate in the foreseeable future. Policymakers, companies and investors must therefore learn to manage them.

Change also brings opportunities

How should investors approach China? In the global economy, the Middle Kingdom is a giant, yet in the financial markets it remains a dwarf. The Chinese yuan is still not convertible, liquidity is generally highly restricted, Chinese bonds and equities still belong into emerging market indices, and demography and aging society are a time bomb. The security of property rights is, at best, uncertain: It can happen that the Communist Party intervenes abruptly and without warning in private property or companies, as occurred with Alibaba in 2020.

Against this backdrop, we have so far refrained from direct investments in Chinese assets. We focus on companies from relatively legally secure countries that themselves have varying degrees of exposure to China. These companies can best understand and manage the opportunities and risks of their business. Nevertheless, vigilance is essential. With a potential second China shock in mind, it is particularly important to monitor overcapacity and disruptive developments in specific sectors and among exposed companies, including in Europe. Existing assumptions may need to be reconsidered.

The new year will therefore present no shortage of challenges. Disruptive forces are at work in China, in the USA, in technology. Added to this is the nonchalance with which debt levels are still being increased across the board, with Switzerland as one of the few exceptions. The question arises whether the next disruption may be lurking in the government bond markets, even though few people appear truly concerned at present. Vigilance is required here as well.

More broadly, major changes always bring opportunities. Prometheus and Pandora are the twins of disruption: on the one hand, significant prospects for progress; on the other, great risk of all manner of negative consequences. They are linked by hope – and on the financial markets, this appears to be prevailing. That is the good news at the beginning of 2026.

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A THUNDERCLAP OF THE EXTRAORDINARY KIND

These are, without question, bewildering times. Everything seems to be in motion. Great powers strike at the weaker as if international law were a quaint relic of the past. Russia assails Ukraine; the USA targets Venezuela. The justifications offered are facile at best. In Europe, individual citizens are subjected to sanctions because of expressions of opinion. Without a complaint, without a court, without legal remedies, without diplomatic protection from their home country. As if the very notion of individual rights had been abolished. The USA makes gestures of leaving Europe entirely, as though the post-war order had never existed, as if it had not been a most remarkable success. NATO wavers, the European Union threatens to implode. Meanwhile, autocrats across the globe rub their hands in anticipation. In Indonesia, islanders may sue the cement giant Holcim, as though there were a direct causal link between cement production and alleged damage in the Pacific. Yet the users of concrete roads and buildings remain entirely unscathed, as if they had no part in all of this. The equity markets, the traditional barometer of economic wellbeing, reach new heights here and there. Meanwhile, the ultimate measure of uncertainty, the price of gold, has surged to levels hitherto unimagined.

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Truly a Valley of Chaos (Dürrenmatt)! Hardly anything seems certain anymore; everything threatens to be crushed between clumsy hands. Yet pause for a moment. In one corner of the world, clarity was established in 2025. Unmistakably. Where? In good old Switzerland, that much maligned, oft declared dead, ideal haven for the administration of private

wealth. On the final weekend of November, the Swiss people were called upon to vote on a citizens' initiative of considerable audacity. Under the guise of climate protection, the proposers aimed to partially expropriate the small cohort of individuals holding fortunes exceeding 50 million Swiss francs. The plan was to impose, on them and only them, an inheritance tax of 50%. The measure was to take retroactive effect from the very date of the vote.

Planned expropriation, then, much as Russia might one day enact in the Baltics, or the USA in Greenland. The text of the initiative was seductive, populist in the proper sense. For more than 99% of the population would not have been directly affected by the proposed tax. Only one of Switzerland's government parties, the Social Democrats, endorsed the abstruse scheme of the Young Socialists. And the people said no. Far more decisively than any forecaster had predicted. Nearly 80% rejected it.

The response of the Swiss electorate was as pragmatic as it was principled. Pragmatic, because the proposed inheritance tax would have simply driven the wealthy minority out of the country, to the detriment of all. Principled, because the Swiss are determined to uphold the guarantee of property. They sensed that such a special tax targeting the ultra-rich would have been only the beginning. Ultimately, average citizens, in one form or another, would also have faced expropriation, or so the fear went.

The vote was a thunderclap of the extraordinary kind. Namely, from below. No command from an autocrat, no ruling from some lofty court, no diktat from a distant, bureaucratic commission. Rather, it was a true “bottom-up liberation,” a venting of pressure against all overreach, the kind of corrective force that only direct democracy can provide. And it is precisely for this reason that direct democracy remains the best guarantor for a financial centre where property is meant to remain property.

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KH, 31.12.2025

