

# The Real Risk Investors Are Missing in 2025

Why market calm may be masking deeper cracks—and what to do about it.

🕒 By Nico Tschanz, Head of Wealth Management at Dexbridge Capital

## Euphoria Returns, But at What Cost?

Markets have recently rediscovered their bullish spirit. A thaw in U.S.–China trade tensions – capped by a 90-day tariff truce – has unleashed renewed optimism in risk assets. Equities surged in early May, with the S&P 500 jumping over 3% in a single day to its highest level since March, and the Nasdaq gaining more than 4%. Volatility fell sharply: the VIX, often called the "fear gauge", a real-time index representing the market's expectation of volatility, dropped back below 20 after spiking as high as 60 during the April sell-off. Rate cut hopes are alive again, with many traders now expecting the Federal Reserve to act as early as September. In short, the mood has turned decisively risk-on. And yet, as comforting as this sounds, we believe this is exactly the time to dig deeper.

At Dexbridge Capital, we think the real risk in 2025 isn't visible in the headlines—it's brewing quietly underneath.

## 1. Market Divergence: Narrow Leadership Beneath the Rally

Index performance has improved—but only because a small group of large tech stocks have come roaring back. If you look at the S&P 500 without its top 7 names, performance was essentially flat earlier this year. That means many portfolios may be exposed to an illusion of diversification while actually depending heavily on a few mega-cap winners.

Meanwhile, broader equity segments—especially small caps—are still lagging behind. The S&P SmallCap 600 was down more than 13% year-to-date by end-April. This kind of narrow leadership can't be ignored. If the market's current darlings stumble, passive strategies could suffer outsized drawdowns. We're encouraging clients to revisit their allocations, rebalance where needed, and avoid the trap of hidden concentration.

## 2. The Illusion of Loose Financial Conditions

From a distance, it looks like financial conditions are improving. Volatility is down, credit spreads have tightened, and major financial indices suggest a looser environment than a year ago. But speaking to business owners or reviewing the latest bank lending data, a different picture emerges: loans are harder to secure, and smaller firms in particular are feeling the squeeze.

We're calling this the "two-speed economy." On one side, large corporations and markets are seeing optimism. On the other, regional lenders and SMEs are struggling with tighter credit and reduced flexibility. If you're only watching the top-line indicators, you might be missing the pressure building underneath. This silent squeeze could hit real estate portfolios, small-cap equities, and highly-leveraged sectors.

### 3. Capital Fragmentation: A Quiet Rewiring of Global Investment Flows

While U.S. trade tensions have eased, markets may be drawing the wrong conclusion. The long arc of global trade is not bending back toward the open, frictionless flows of the past. Instead, we're entering a new era where tariffs—even if moderated—are structurally higher, regulatory barriers are more entrenched, and investment flows are increasingly politicized.

This shift is not limited to the U.S. and China. The U.S. is ramping up scrutiny on outbound investments in key technologies and tightening its stance on capital flows with multiple jurisdictions, including the EU and parts of the Global South. Simultaneously, other nations are adopting their own versions of protectionist financial policies. The result: a global investment environment that's more fragmented, less transparent, and ultimately more expensive to navigate.

Foreign direct investment into China has declined meaningfully, and new regulatory roadblocks are discouraging global firms from deploying capital into sensitive or strategic sectors. At the same time, companies are accelerating their "China+1" strategies—repositioning supply chains into Southeast Asia and India. On the other side of the map, the GCC has emerged as a stable and increasingly important node in this fragmented system. The UAE and Saudi Arabia, in particular, are leveraging their geopolitical neutrality and infrastructure spending to attract capital across East and West.

#### Why does this matter for investors?

Traditional global diversification models may no longer offer the same cushion. In a world of decoupled capital flows and rising trade friction, regional cycles could diverge sharply. Recession risk—especially in economies reliant on global trade—is likely underpriced. At the same time, the disconnect between buoyant equity valuations and tighter credit conditions on the ground suggests that market optimism may be skating on thin ice.

Now more than ever, investors need to reassess how global their portfolios really are—and whether those exposures are still aligned with how capital moves in today's world. Capital is moving along new regional lines, and global portfolios must evolve to reflect that.

#### What We're Doing at Dexbridge Capital

We're helping clients stay ahead of the curve by focusing on resilience, generating income in portfolios and providing clarity. Now is not the time to chase the rally blindly. It's the time to double-check your safety net and ask the hard questions: Is your portfolio built for what's next—or what just passed?

Don't let headline optimism blind you to the evolving risks. At Dexbridge Capital we found the solution.

Be in touch.

Warm Regards,

Nico

