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ECONOMIC RESEARCH – SEPTEMBER 2025

INVESTMENT INSIGHT SWITZERLAND

- ✓ CPI and PPI indices settle into deflation
- ✓ The SNB must act by lowering its rates by 50 basis points
- ✓ The franc benefits from a unique context

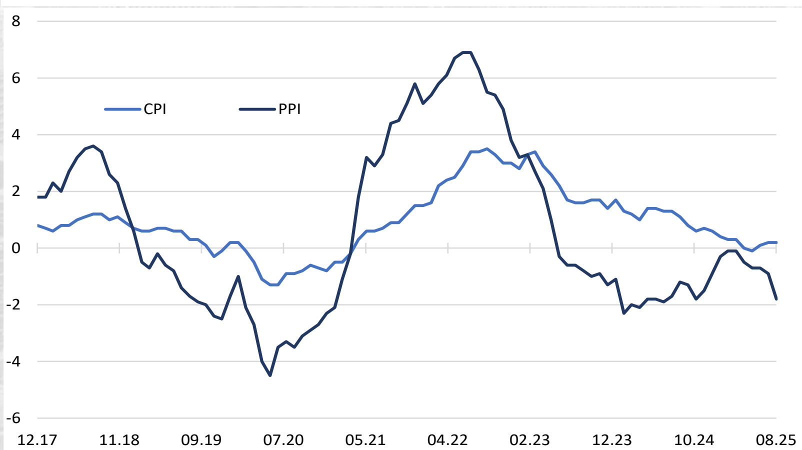
SERIOUS THREATS LOOM OVER SWISS STOCKS

Leading indicators show a mixed picture

The latest leading indicators for Q3 present a very mixed economic outlook. The manufacturing sector continues to face significant difficulties, with the industrial PMI remaining in contraction territory for the sixth consecutive month. In contrast, the services sector remains a critical pillar of support for the economy.

Widespread disinflation and deflationary risks

Price trends in Switzerland are highlighting a state of widespread deflation. The annual Consumer Price Index (CPI) remained just above zero in August, while the monthly CPI showed a further decline, continuing to signal a risk of outright deflation. This trend is confirmed in the production chain, where the Producer and Import Price Index (PPI) has also entered a period of clear deflation, falling by over a percentage point on a yearly basis. This widespread price weakness puts the Swiss economy at a critical juncture, as it navigates both external pressures and internal disinflationary forces.



Sources : Bloomberg, BBGI Group

A closer look at deflationary drivers

A deeper analysis of the PPI reveals two distinct dynamics. The import price index is experiencing a more pronounced decline, a direct consequence of the strengthening Swiss franc, which makes imported goods cheaper. However, the producer price index for domestically manufactured goods is falling at a less aggressive pace, as domestic producers continue to face higher labor costs.

The SNB's growing policy challenge

The Swiss National Bank (SNB) is caught in a strategic vice, pressured by three converging forces: the threat of U.S. tariffs and general global uncertainty, the franc's status as a safe haven, and the looming risk of deflation. The SNB's prior rate cut to 0% was an initial step, but the challenge now is to take more decisive action to credibly combat these pressures simultaneously and support the economy.

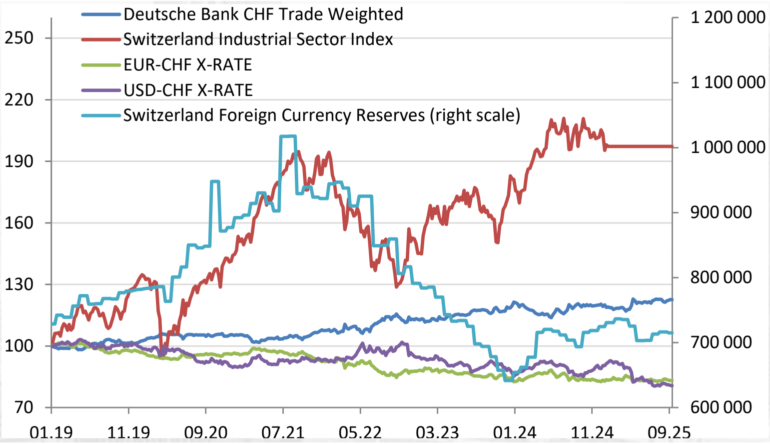
The Swiss Franc's unique safe-haven status

The strength of the Swiss franc is driven by a massive "flight to quality," fueled by an increasingly uncertain international environment. Switzerland's exemplary fiscal discipline, with public debt at only around 40% of GDP, and its long-standing political stability make it a unique haven for both private investors and state actors seeking to diversify away from traditional currencies like the dollar.

An urgent call for decisive monetary action

Faced with these significant challenges, the SNB must act decisively to prevent further unwanted franc appreciation and stem deflationary risks. We believe that a more significant cut in the key interest rate would be necessary to truly divert investor capital from the franc and send a clear signal of the institution's commitment to weakening its currency. A move to a more aggressive negative rate, perhaps as low as -0.5%, could be the appropriate action to shift market perception and support the economy. This proactive stance would not only address the immediate risk of deflation but also serve as a crucial buffer against future external shocks.

Exchange rates and SNB reserves



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