Bearbull Global Investments Group Limited
Al Fattan Currency House – Tower 1 – Unit 702
Dubai International Financial Centre (DIFC) - Dubai - UAE
www.bearbull.ae +971 4 2722719

ECONOMIC RESEARCH – February 2025

INVESTMENT INSIGHT SWITZERLAND

- ✓ Swiss growth slows despite resilient household consumption
- ✓ Q1 GDP growth limited to +0.2%

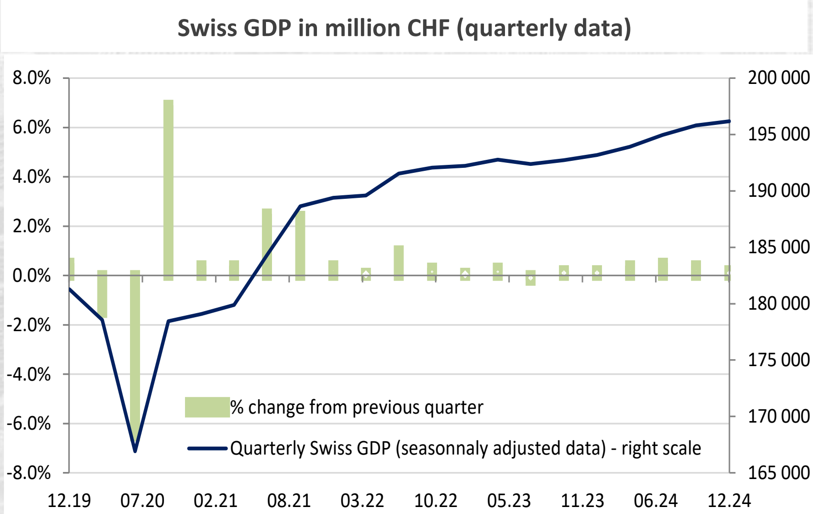
ATTRACTIVE OUTLOOK FOR SWISS SMALL CAPS

Slowing growth and resilient consumption

Switzerland's economic momentum slowed in 2024, with seasonally adjusted GDP growth at +0.9%, down from +1.2% in 2023. This deceleration was primarily due to a negative contribution from foreign trade, which was impacted by a decline in transit trade. Despite this, domestic consumption remained a key driver of growth, demonstrating above-average momentum and resilience. The final quarter of 2024 showed a slight improvement, with GDP growing by +0.5%, hinting at some stabilization.

Vulnerable to European weakness

The Swiss economy continues to face significant pressure from weak economic conditions in Europe, particularly in its primary trading partner, Germany, which experienced a -0.4% contraction in its fourth-quarter GDP. This external sluggishness is dampening demand for Swiss exports. However, Switzerland's domestic economy has shown remarkable resilience, largely supported by robust household consumption and a stable labor market. The nation's ability to withstand these external pressures is a testament to the strength of its internal economic foundations.



Sources : Bloomberg, BBGI Group

SNB's rate cut and its effects

The Swiss National Bank's (SNB) decision to cut its key interest rate by 0.5% in December was a crucial step to support the economy. This policy move is expected to further bolster household consumption and investment in the coming months by making financing more affordable. While the rate cut has not yet impacted the Euro/Swiss Franc exchange rate, which has remained stable, it has contributed to a decline in the US Dollar/Swiss Franc rate. This weakening of the franc against the dollar is a positive development for Swiss exports, making them more competitive internationally.

Mixed sectoral contributions

At the end of 2024, the recovery in Swiss exports was driven primarily by the chemicals/pharmaceuticals sector (+2.7%) and the energy sector (+2.6%). Meanwhile, the services sector, including hotels, transport, and retail, also contributed positively to growth. Looking ahead, the manufacturing sector is expected to remain weak, while domestic demand will continue to provide a crucial buffer. The overall outlook for 2025 is for a modest growth of around +1.3%, with the risk of recession estimated at less than 20%.

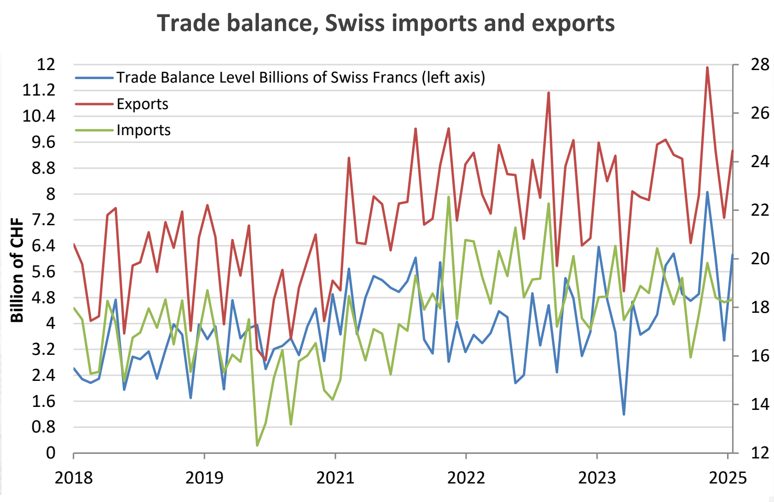
The trump factor

The new US administration under Donald Trump poses a new layer of uncertainty for global trade. The potential for increased pressure on major trading partners through tariffs could disrupt international commerce and create a less favorable environment for Swiss exports.

While the franc's recent weakness against the dollar offers a potential boost, it may not be enough to fully offset a global trade downturn. A stabilization of the exchange rate against the euro is also necessary to fully support a revival of exports to the European Union, which remains contingent on a recovery in the Eurozone's own growth.

Domestic demand as the anchor

The Swiss economy is likely to navigate the current challenging global landscape by relying primarily on the strength of its domestic demand. The SNB's accommodative monetary policy, coupled with a solid job market, will ensure that consumption and investment remain resilient. The challenge for 2025 will be to manage the weakness in external demand, which will likely continue to weigh on the export-dependent manufacturing sector. The SNB's vigilance over inflation, which is currently at a low +0.4%, provides room for further policy maneuvering should economic conditions warrant it. Our outlook for 2025 is for limited growth of +1%, with the economy's fate tied to its ability to leverage internal strengths while navigating external trade complexities.



Sources : Bloomberg, BBGI Group