

ECONOMIC RESEARCH – JUNE 2025

INVESTMENT INSIGHT

SWITZERLAND



- ✓ Long-term yields approach zero again
- ✓ Growing risks for Swiss equities

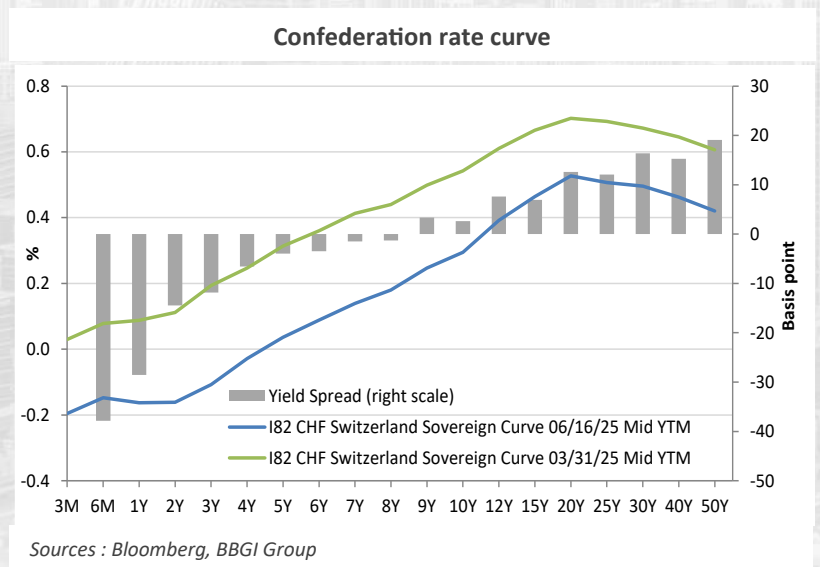
THE SNB COULD ALREADY GO NEGATIVE IN JUNE

Long-term yields approach zero again

Swiss government long-term yields are once again approaching zero. Our previous expectation for a policy rate cut to 0.25% has been surpassed, with a potential cut to 0% now being considered by the SNB for its upcoming meeting, which will push long-term yields lower. This move is a clear signal from the central bank's concern over persistent deflationary pressures.

Monetary policy and yield curve dynamics

Following the end of the SNB's yield curve control in March 2024 and subsequent rate hikes, the Swiss ten-year government bond yield had risen to 1.6% in March 2025 before a slight retreat. The central bank's shift towards an even more accommodative stance, evidenced by a planned reduction in tapering, is a key driver. This policy, aimed at combating deflationary pressures, will likely bring long-term yields closer to zero, despite the current positive yield curve. Unlike other major economies, the Swiss yield curve has avoided inversion, but future rate cuts could lead to a flattening of the curve.



Investment outlook for Swiss franc bonds

The low-yield environment offers minimal incentive for investing in Swiss franc-denominated bonds. The SNB's potential move to zero or negative rates will likely have a significant impact, pushing yields down further. We maintain our cautious recommendation against exposure to ten-year government bonds, as the potential for capital gains is minimal and does not justify the associated duration risk. This environment continues to make Swiss bonds unattractive for foreign investors seeking higher returns.

Swiss equities rebound, valuations rise

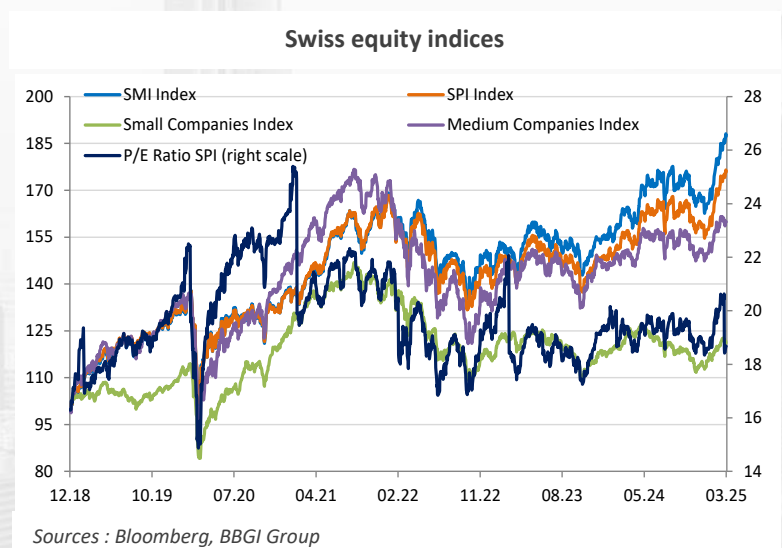
After a temporary dip, Swiss equity indices have rebounded to near-record highs for the year. This recovery has been supported by persistently low interest rates and a monetary policy expected to become even more accommodating. Mid-caps have shown particular strength, with a 9% year-to-date increase, although their generous valuation at a forward P/E of 20x suggests they may benefit from a rotation out of large caps.

Growing risks for Swiss equities

Despite the positive market performance, significant risks loom. The valuation levels are high, with the SPI's P/E ratio at 17x and mid-caps at 20x. Global economic uncertainties stemming from U.S. trade policies and geopolitical tensions could disrupt market sentiment. While a weaker franc resulting from an SNB rate cut could benefit exporters, a broader downturn in global trade would likely penalize Swiss equities, making the current outlook increasingly complex.

Cautious stance on equities recommended

Given the high valuations and rising external risks, we recommend a cautious approach and a temporary reduction in exposure to Swiss equities. The market's recent recovery has largely priced in the benefits of a low-interest-rate environment, leaving it vulnerable to negative shocks. Maintaining a conservative position will allow investors to navigate the unpredictable economic landscape more effectively.



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