

ECONOMIC RESEARCH – February 2025

INVESTMENT INSIGHT

SWITZERLAND



- ✓ Swiss exports slide at the start of year
- ✓ Leading indicators for services still very positive
- ✓ Inflation falls further in January to +0.4% year-on-year
- ✓ SNB to cut rates by a further 0.25% in March

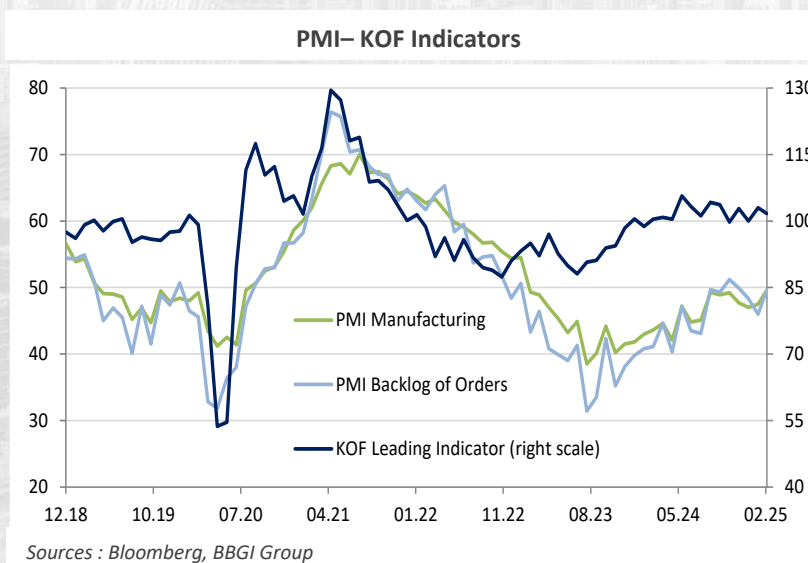
ATTRACTIVE OUTLOOK FOR SWISS SMALL CAPS

A mixed start to the year

Swiss exports experienced a decline in January, falling by -3.9% in real terms, despite a sharp rise in December. This slide highlights the ongoing struggle against weak global demand and the uncertainties associated with potential new trade tariffs from the US, which could indirectly impact Swiss trade. While the depreciation of the franc against the dollar failed to offset these external pressures, a positive note came from the Swiss watchmaking industry, which saw exports rise by +4.1%. A -1.9% drop in imports suggests a narrowing of the trade surplus, indicating that foreign trade will likely not be a significant contributor to GDP growth at the start of the year.

Services vs. manufacturing

Leading economic indicators paint a clear picture of a two-speed economy. The manufacturing sector continues to struggle, with the Purchasing Managers' Index (PMI) remaining below 50, at 47.5, indicating contraction. Conversely, the services sector shows remarkable resilience, with its PMI soaring to 57.2 in January—the highest level since June 2022. This robust performance in services, supported by a gradual improvement in consumer confidence since the SNB's interest rate cut, is a key driver of domestic economic growth. However, the KOF indicator's "flirting" with the 100 mark for six months suggests that this momentum remains fragile.



A deflationary trajectory

Swiss inflation is on a clear and steady downward path, reaching just +0.4% year-on-year in January, with a monthly decline of -0.1%. This places it at the very bottom of the SNB's target range and below the current key rate of 0.5%. This trend confirms previous forecasts of a steady deceleration since the CPI peaked in June 2022. Core inflation, while slightly more resilient at +0.9%, follows a similar trajectory. Furthermore, imported and producer prices are in outright deflation, a positive sign for corporate margins and an indication that the franc's weakness against the dollar has not yet translated into price increases.

SNB's prudent approach

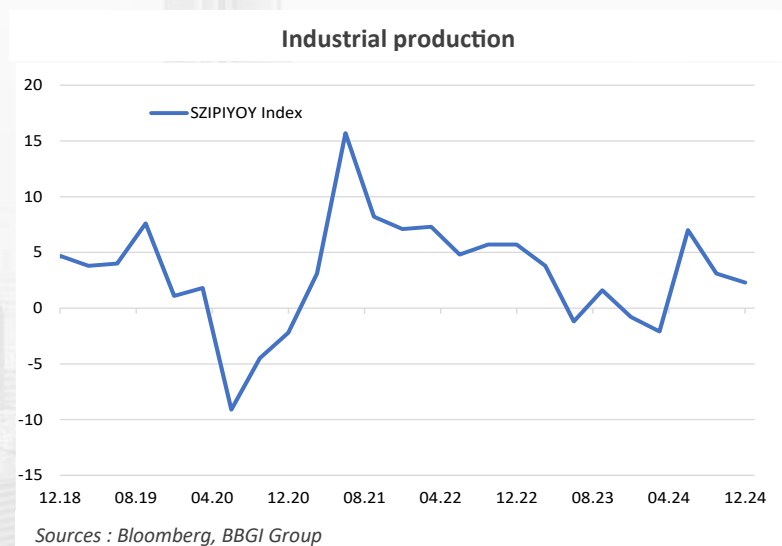
The Swiss National Bank (SNB) has successfully kept inflation under control without severely impacting the economy. The latest inflation data provides a strong validation of its accommodative policy. The SNB's prior interest rate cut is already contributing to improved consumer confidence and is expected to continue supporting domestic consumption. The central bank is now faced with heightened international uncertainty, particularly concerning US trade policy, which could trigger a flight to safety and a renewed demand for the Swiss franc. The SNB will need to act to counter this potential appreciation.

Anticipating a March rate cut

Given the sustained decline in inflation, the SNB has a clear mandate and ample room to implement another rate cut. The ongoing risks of a slowdown, exacerbated by external factors, and the need to boost domestic confidence and influence the franc's value against other currencies, make a further reduction a strong possibility. We anticipate that the SNB will lower its key rate by another 0.25% in March, bringing it to 0.25%. This move would also address other factors poised to lower prices further, such as expected drops in electricity prices and a reduction in the reference rate for rents.

A return to negative rates?

The current volatile international environment could lead to a significant reallocation of assets towards less risky investments, driving demand for the Swiss franc. To counteract this, the SNB might be forced to consider more drastic measures. In an environment of growing uncertainty and a continued deflationary trend, it is not out of the question to imagine that key interest rates could once again turn negative. The SNB's goal is to maintain price stability and support the economy, and its next actions will be crucial in navigating the complex interplay of domestic resilience and external headwinds.



This communication is being issued by BearBull Global Investments Group (DIFC) which is located on Unit 02 Level 7, Building 1 Currency House, Dubai International Financial Centre, PO Box 506612, Dubai, United Arab Emirates. A CAT3C regulated by the Dubai Financial Services Authority (DFSA). The information contained in this communication/document is intended for Professional investors only as defined by the DFSA rules which can be accessed from their website www.dfsa.ae and no other person should act upon it. The views expressed in this material are the views of BearBull Global Investments Group (DIFC). The information in the communication is not intended as financial advice and is only for the purpose of knowledge. The DFSA has no responsibility for reviewing or verifying of any information material or other document in connection with BearBull Global Investments Group (DIFC). If you do not understand the contents of this document, you should consult an authorized financial adviser. This document is confidential and intended exclusively for its recipient and may not be transmitted or reproduced, even in part, without our express written consent.