

ECONOMIC RESEARCH – NOVEMBER 2025

INVESTMENT INSIGHT

SWITZERLAND



- ✓ **Technical recession or recovery in Q4?**
- ✓ **Leading indicators confirm the trend**
- ✓ **CPI and PPI indices sink into deflation**
- ✓ **A rate cut of -0.5% is now imperative**

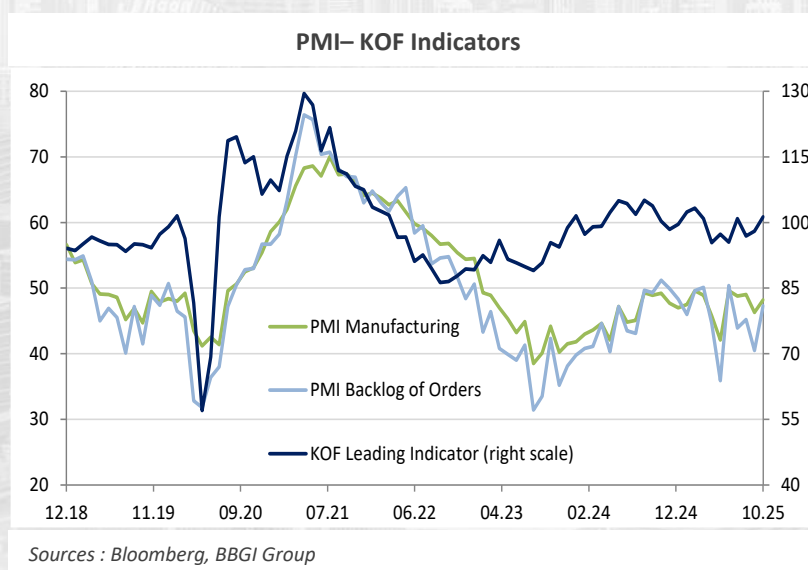
RETURN OF NEGATIVE INTEREST RATES

Q4 growth projection: Inventory correction and stabilization

The reduced US customs duties (from 39% to 15%) is expected to be a significant catalyst for Swiss exports, unblocking delayed logistical flows and enabling the shipment of inventoried goods. This necessary inventory correction should allow GDP to rebound and potentially avoid a prolonged technical recession, though sectors reliant on global capital expenditure, like machinery, will continue to face headwinds. Our forecast anticipates an anemic Q4 growth rate, likely stabilizing between -0.1% and +0.3%.

Domestic demand risk: Precautionary savings surge

While Q4 traditionally benefits from seasonal household consumption (linked to the holiday period), current sentiment indicators suggest this may not materialize sufficiently. The industrial slump has significantly undermined consumer confidence. Although inflation remains contained, the looming possibility of employment deterioration could encourage households to prioritize precautionary savings, leading to a reduction in non-essential spending. Retail and winter tourism—dependent on the crucial December period—will face cautious domestic consumers and reduced purchasing power among European visitors due to the strength of the Swiss Franc.



Leading indicators: A mixed and fragile picture

Recent economic indicators present a non-uniform picture, confirming a persistently sluggish trend rather than a sharp outright collapse. The manufacturing Purchasing Managers' Index (PMI) showed a modest recovery (from 46.3 to 48.2 in October), yet remains firmly in contraction territory, pressured by ongoing trade frictions and fragile order books. Furthermore, the contagion has spread to the services sector, with the services PMI plunging from 51.3 to 47.8, indicating contraction driven by client companies adopting a wait-and-see approach. Although the KOF barometer rebounded above 100, suggesting the nadir may be passed, consumer confidence retreated significantly to -36.9, reflecting deep-seated pessimism, particularly regarding job security.

Consumer and producer prices: Deepening deflationary trend

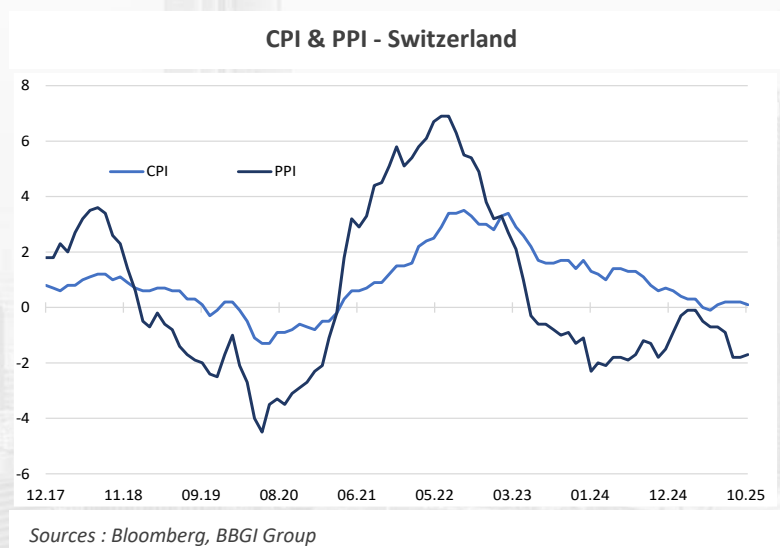
The disinflationary environment is rapidly accelerating across the value chain. October's annual Consumer Price Index (CPI) settled at a negligible +0.1%, while the core index (excluding volatile food and energy) continued its decline to +0.5% year-on-year, placing prices well below the Swiss National Bank's (SNB) target range (0-2%). This critical situation—a perfect storm of external tariff shock and a strong franc—accentuates downward price pressure. The Producer and Import Price Index (PPI) demonstrates even more acute deflation, registering a decline of -1.7% over twelve months.

Imported deflation via the strong Franc

Analysis of the PPI components confirm the major, detrimental impact of the exchange rate. Import prices plummeted by -3.5% year-on-year. The sustained strength of the Swiss Franc effectively "imports" deflation by making all foreign goods (energy, raw materials, consumer goods) significantly cheaper in local currency terms. This effect is substantially more pronounced than the smaller decline in domestic producer prices, signaling that Swiss manufacturers, despite rigid domestic labor costs, are being forced to compress margins to liquidate inventory amid soft domestic and foreign demand.

Monetary policy imperative: Urgent 50 BPS rate cut

The SNB is now in an untenable position, facing a triple threat: a proven GDP contraction (-0.5% in Q3), deepening deflationary risks, and a persistently strong franc fueled by global risk aversion. The policy of maintaining the status quo at 0% since June is deemed insufficient to counter the violent external shock. Given the severity of the economic deterioration, a decisive return to negative rates is now considered the only viable option to prevent a deflationary spiral. We assert that a cosmetic 25 basis point reduction would be ineffective, and radical action—specifically, an aggressive 50 basis point cut in key interest rates at the December meeting—is imperative to divert speculative capital, weaken the franc, and provide a necessary psychological shock to economic agents.



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