

ECONOMIC RESEARCH – NOVEMBER 2025

INVESTMENT INSIGHT

SWITZERLAND



- ✓ The franc remains temporarily boosted by chaos
- ✓ Avoiding the trap of negative bond yields
- ✓ Duel between industrial recession and monetary infusion

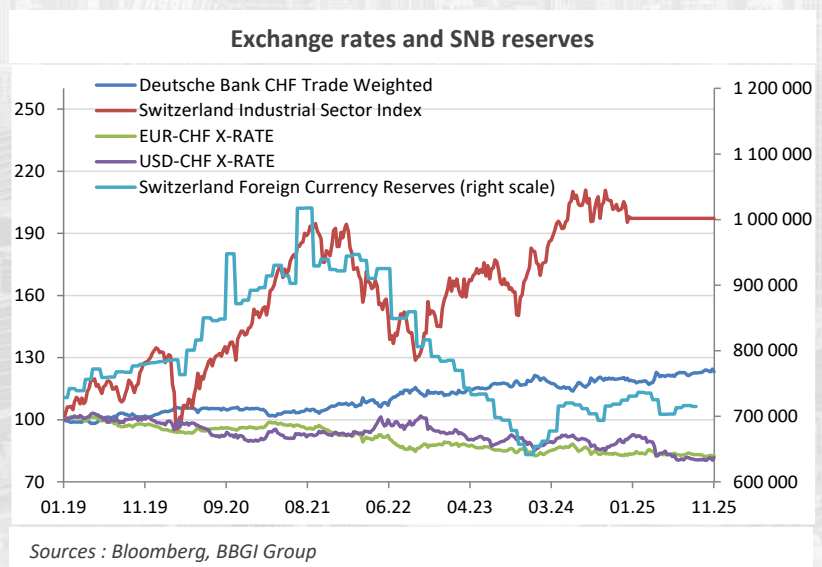
RETURN OF NEGATIVE INTEREST RATES

Swiss Franc paradox: Geopolitical safe haven

Despite a domestic GDP contraction of -0.5% and zero interest rates, the Swiss Franc remains in high demand, driven by global risk-off sentiment and flight to safety. Its status as a global sanctuary is underpinned by exemplary fiscal discipline (40% public debt) and political stability, differentiating it from highly indebted peers. This strength, amplified by strategic disengagement from the US Dollar, necessitates decisive intervention by the SNB to counter further appreciation.

Decisive monetary action to counter appreciation

The sustained upward pressure on the Franc, fueled by international chaos, demands a sharp monetary policy response. A significant reduction in key interest rates into deep negative territory is essential to dampen investor enthusiasm and provide vital relief to Swiss exporters and the beleaguered tourism sector. We maintain that the SNB will be compelled to act aggressively at its December 11th meeting. Our forecast hinges on a 50 basis point cut—an action necessary to achieve a sufficient psychological shock and signal commitment to economic stabilization. This decisive move is necessary to weaken the currency, with our target for the USD/CHF exchange rate weakening to 0.85.



Swiss bond market: The risk of negative nominal yields

With the materialization of the Q3 recession and official deflationary anchoring, our outlook for Swiss government bonds has been revised. While 10-year Swiss government bond yields currently sit marginally above 0%, the near-certainty of the SNB quickly cutting its key rates to -0.5% threatens to drive nominal rates negative. At this juncture, the potential for further gains is highly asymmetrical, and investment at these levels will guarantee nominal capital erosion at maturity. Consequently, we firmly advise maintaining an underweight position in Swiss bonds, as the risk/return ratio is highly unfavorable, offering zero yield while guaranteeing capital destruction.

Equity market dynamics: Monetary support vs. fundamental risk

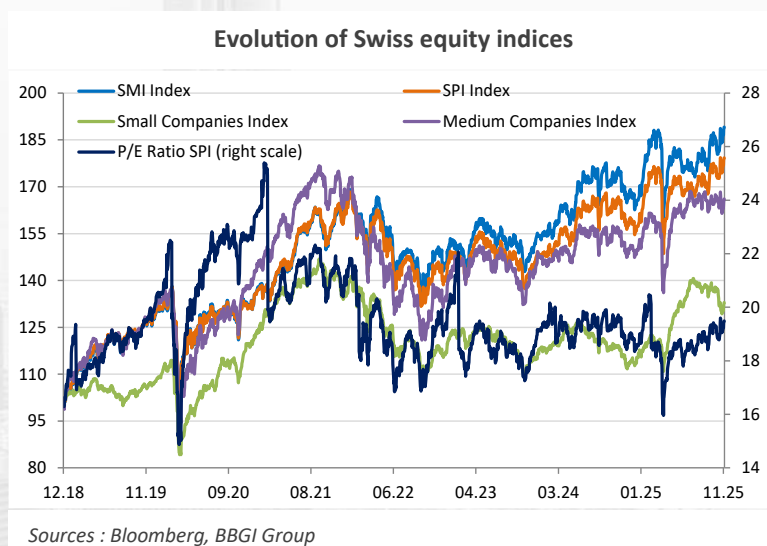
The Swiss equity market is undergoing a fundamental redefinition of risk, exacerbated by the penalizing strong Franc and ongoing trade tariffs. Paradoxically, the main support for equities is not robust earnings growth but the deterioration of economic conditions, which forces the SNB's hand toward dovish policy. The growing prospect of aggressive rate cuts in December sustains investor interest, as low interest rates make equities—particularly those with strong dividend profiles—an attractive alternative to near-zero-yielding bonds.

Sectoral vulnerability and downward earnings revisions

Despite monetary tailwinds, investors must acknowledge underlying fundamental risks. US trade policy, even with reduced tariffs, remains a major threat, particularly to the machinery and electrical equipment (MEM) sector, which faces severe margin erosion and shrinking order books. This vulnerability has led to sharp downward revisions in consensus earnings growth forecasts for 2026 (+6%), contrasting sharply with the SMI's high Price-Earnings (PE) ratio of 18.5x. This divergence suggests the market is pricing in either unrealistic future earnings or relying solely on monetary policy support.

Strategic equity positioning: Focusing on domestic safe havens

In this high-valuation, low-growth environment, we recommend a strategic shift toward domestic market segments as safe havens. The return to low interest rates significantly enhances the attractiveness of the listed real estate sector, which benefits from reduced financing costs and an appealing risk premium relative to fixed income. Similarly, focusing on defensive sectors characterized by recurring revenues and stable local basic consumption provides necessary insulation from export-driven shocks and geopolitical volatility, offering a more resilient investment profile.



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