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ECONOMIC RESEARCH – MARCH 2026

INVESTMENT INSIGHT SWITZERLAND

- ✓ Headwinds for the Swiss economy amid the oil shock
- ✓ Leading indicators are largely lagging
- ✓ Inflation likely to reverse course
- ✓ New dilemma for the SNB ahead of its March meeting

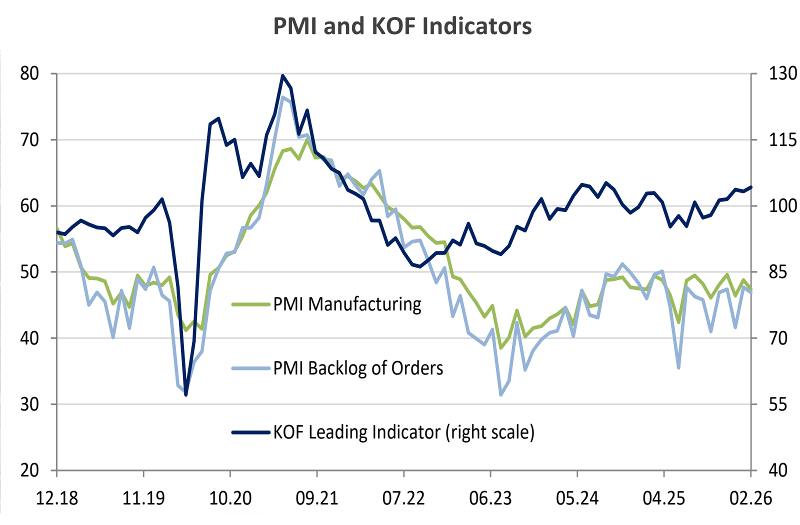
NEW UNEXPECTED RISKS FOR SWISS ASSETS

Economic fragility and shifting currency dynamics

Prior to the Middle Eastern escalation, the Swiss economy was already in a state of precariousness, having barely escaped a technical recession. Unlike the 2022 crisis, the current environment sees the franc losing its traditional safe-haven status to the dollar, directly exposing domestic markets to rising energy costs without the historical exchange-rate shield.

Sectoral contraction and lagging indicators

Despite optimistic projections from the KOF and PMI indices, recent hard data paints a more somber picture of the Swiss landscape. Retail sales have dipped by 1.1%, and consumer confidence has plummeted to –30.4. These figures suggest that leading indicators are lagging behind the reality of the current energy shock. As industrial production and construction begin to show signs of contraction, it is likely that broader economic sentiment will continue to trend downward as the immediate impact of the geopolitical crisis is fully digested by the markets.



Sources : Bloomberg, BBGI Group

Impact of global slowdown on export demand

Switzerland's high exposure to international trade makes it particularly vulnerable to the anticipated slowdown in global growth. The energy shock poses a significant threat to major oil-dependent economies such as Japan, India, and China, as well as the broader European market. As international demand cools in the first half of the year, Swiss exports, a vital component of national GDP, are expected to face severe headwinds. This external pressure, combined with rising domestic uncertainty, creates a dual-threat scenario for Swiss manufacturers and trade partners.

Domestic demand and rising financing costs

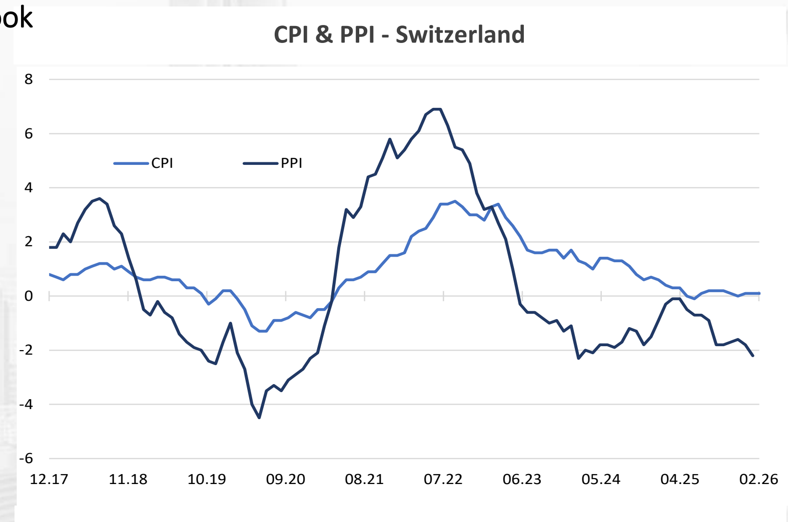
The internal pillars of the Swiss economy are facing renewed pressure from shifting interest rate expectations. We anticipate a significant decline in domestic demand as households adopt more cautious spending behaviors in response to the crisis. Simultaneously, the construction sector is threatened by rising financing costs. A prolonged conflict in the Middle East could trigger a rapid adjustment in interest rates to combat inflation, further dampening investment and consumption at a time when the economy is least prepared to absorb higher borrowing costs.

Reversal of disinflationary trends

The period of "imported deflation" fueled by a strong franc and falling raw material prices is likely coming to an end. While February's CPI remained stable at +0.1%, the 100% spike in crude oil prices is expected to permeate through the value chain, affecting everything from logistics to retail prices. The SNB's original 2026 inflation forecast of +0.2% now appears obsolete. We expect a significant upward revision in inflation projections as the energy shock reverses the downward pressure on prices seen earlier in the year.

The SNB's monetary dilemma and March 19 outlook

The Swiss National Bank is now overtaken by events that have shifted the narrative from deflationary risks to an inflationary resurgence. For the upcoming meeting on March 19, 2026, we expect the SNB to maintain a "wait-and-see" approach, keeping key interest rates at zero to avoid a premature reaction. However, the bank will likely signal that the door is open for rate hikes in the future if energy prices remain elevated. This cautious stance aims to balance the need for economic support with the imperative of anchoring long-term inflation expectations.



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