

ECONOMIC RESEARCH – MARCH 2026

INVESTMENT INSIGHT

SWITZERLAND



- ✓ **The franc remains buoyed by geopolitical risks**
- ✓ **Inflation risks are turning the fixed-income market upside down**
- ✓ **Risks of a correction in real estate and equities**

NEW UNEXPECTED RISKS FOR SWISS ASSETS

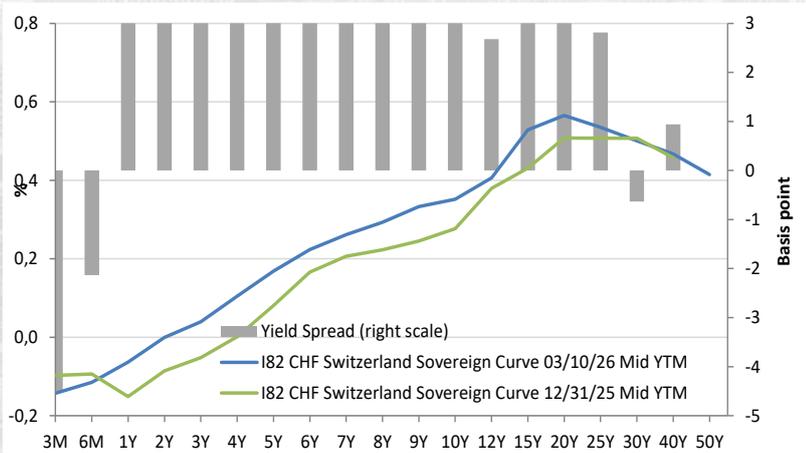
The Swiss franc as a geopolitical safe haven

The Swiss franc's renewed strength highlights a paradox where safe-haven demand outweighs negative interest rate differentials and domestic recession risks. Buoyed by exemplary fiscal discipline, with public debt at only 40% of GDP, Switzerland remains a global outlier compared to more heavily leveraged nations. Given the country's unparalleled political stability and the severe threat the Middle East conflict poses to global supply chains, a significant weakening of the currency appears unlikely in the near term.

Reversal of inflationary trends in fixed income

The dramatic shift in the Middle Eastern geopolitical landscape has fundamentally altered the risk profile for Swiss bonds. While previous expectations centered on an accommodative SNB and potential negative rates to combat deflation, the risk of a sharp inflationary reversal is now substantial. This materializing external shock is expected to trigger a rapid readjustment of market expectations, making a cautious stance on fixed-income assets essential as yields face upward pressure from previously stagnant levels. The suddenness of this transition means that portfolios heavily weighted in long-duration assets are particularly exposed to price volatility. Investors must now account for a landscape where the deflationary "safety net" has effectively vanished.

Swiss government bond yield curve



Sources : Bloomberg, BBGI Group

Projected yield adjustments for government bonds

We anticipate that the current energy crisis and shifting inflation expectations will push 10-year Swiss government bond yields from their current 0.2% toward a range of 0.8% to 1%. This transition represents a significant departure from the environment of the last few months where bonds offered virtually no yield. Consequently, we maintain a firm recommendation to remain underweight in Swiss bonds, as the guaranteed erosion of nominal capital becomes an increasingly probable outcome for investors holding long-term debt. Such a rapid ascent in yields would mark the end of the ultra-low rate era that has characterized the Swiss market recently.

Valuation risks in securitized real estate

Securitized real estate, which previously thrived on low interest rates as an institutional alternative, now faces a period of high vulnerability. Current investment fund premiums are nearing the historic highs seen before the 2022 correction, creating a fragile environment. If long-term interest rates ascend toward the 1% threshold, the combination of excessive valuations and rapid profit-taking could trigger a sharp correction of 10% to 15% in real estate indices, mirroring the volatility observed during past geopolitical shocks. This potential de-rating would be especially painful for funds that lack the liquidity to manage a sudden wave of redemptions.

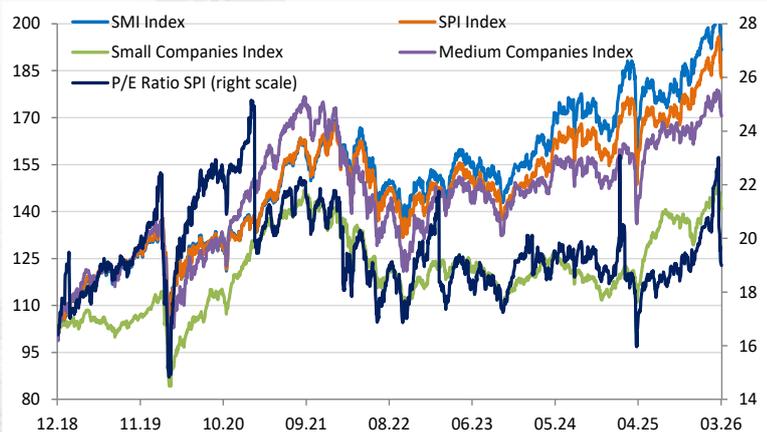
Equity market exposure and growth headwinds

The Swiss equity market is currently navigating a convergence of deteriorating fundamentals, including aggressive U.S. trade policies and a cooling global economy. The previous consensus, which relied on the SNB's accommodative support through 2026, has been dismantled by the escalating conflict in the Middle East. These developments exacerbate existing risks to corporate profit growth, making our earlier recommendation to underweight Swiss equities even more critical as the market prepares to digest the impact of sustained high energy costs. The interplay between high input prices and slowing export demand creates a significant squeeze on corporate margins across the SMI.

Anticipated correction for the SMI

In light of the worsening political and economic environment, a gradual reassessment of equity risks is inevitable. Institutional investors are likely to reduce their exposure to Swiss stocks in favor of more liquid or defensive positions, leading to widespread profit-taking. Given these pressures and the breakdown of the previous positive market scenario, we consider a decline below the 12,500-point threshold for the Swiss Market Index (SMI) to be a highly likely outcome in the coming days. This technical breach would likely trigger further automated sell-offs as key support levels are compromised. Furthermore, the lack of immediate monetary intervention suggests that the floor for equities may be lower than previously estimated.

Performance of Swiss stock indices



Sources : Bloomberg, BBGI Group

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