

ECONOMIC RESEARCH – JUNE 2026

INVESTMENT INSIGHT

SWITZERLAND



- ✓ **A slowdown that will extend into Q3**
- ✓ **Surprisingly strong signals from leading indicators**
- ✓ **Upward revisions to inflation expectations**
- ✓ **Status quo at the SNB at least through September**

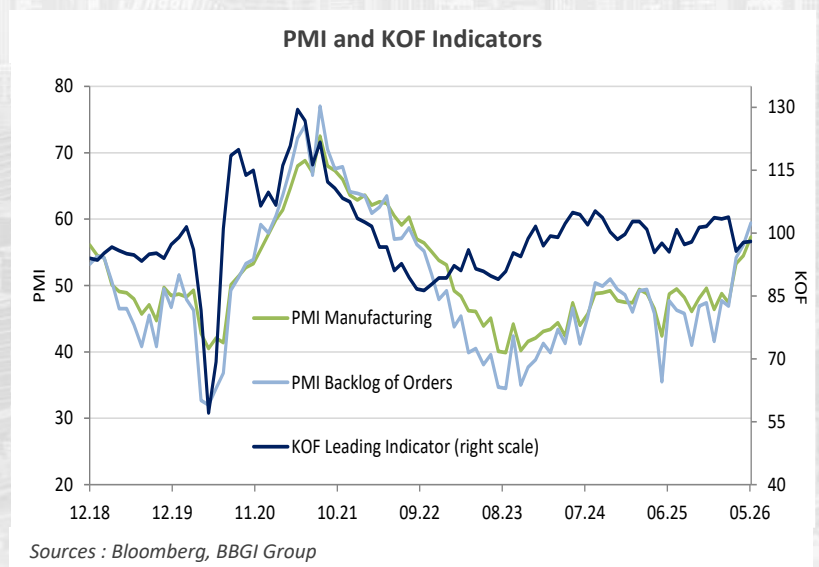
WILL THE FRANC FALL THIS SUMMER?

Extended Q3 Slowdown Tied to Eurozone Sluggishness

The ongoing oil shock has pinned real GDP growth forecasts at a stagnant +0.2% through Q2 and Q3. Because Switzerland depends heavily on neighbors like Germany, which are hitting energy import walls, external demand for capital goods is cooling rapidly. While pharmaceuticals hold firm, cyclical segments like watchmaking and mechanical engineering (MEM) face drying up order books. This external stagnation is compounded by a local construction sector burdened by rising financing costs.

Manufacturing PMI Surges on U.S. Tariff Lifeline

In a striking break from a three-year contraction below the 50-point mark, the Swiss manufacturing PMI made a historic turnaround, climbing to 53.3 in March and hitting a multi-year high of 57.3 in May. This industrial acceleration is powered by a massive new orders index spike to 59.4, as exporters aggressively leverage fading U.S. customs duty relief to bypass a stagnant European market. However, this factory floor optimism is tempered by the KOF leading indicator, which flags severe delivery delays and soaring upstream energy costs. Furthermore, a cautious hiring index of 49.9 indicates that corporate margins remain too tight to trigger large-scale employment expansion.



Precautionary Savings Freeze Domestic Retail Demand

Despite the industrial production rebound, Swiss household spending is vulnerable to a contraction as global geopolitical uncertainty erodes domestic sentiment. Consumer confidence has collapsed to levels matching the severe August 2025 tariff shock, driving families to prioritize precautionary savings over discretionary retail and leisure activities. While absolute purchasing power losses remain insulated compared to neighboring states, an uptick in unemployment to 3.1% and fading wage growth prospects are reinforcing a highly defensive consumer stance. This domestic freeze effectively cuts off a primary internal growth engine for the summer.

Swiss Inflation Remains Globally Insulated at +0.6%

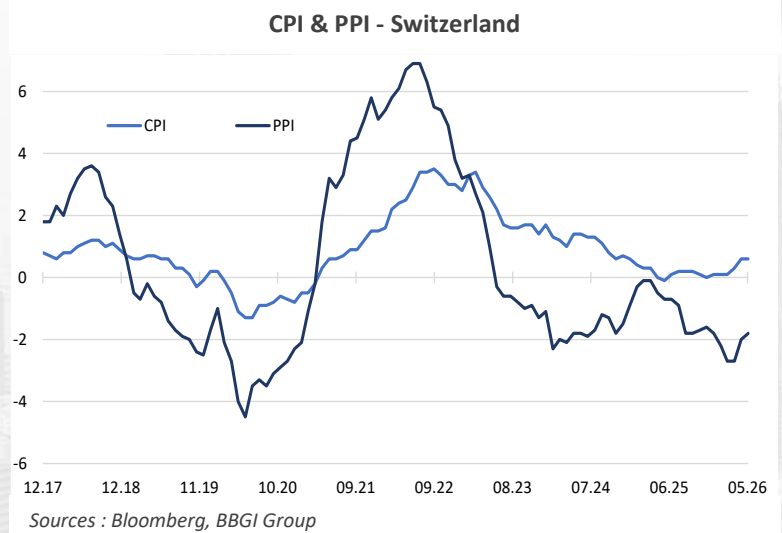
While the Middle East conflict stoked intense global stagflation fears, Switzerland continues to stand out as a remarkable deflationary oasis with headline CPI printing at a modest +0.6% year-over-year. This print came in below the consensus forecast of +0.8%, even as domestic energy and transport costs climbed by +2%. More importantly, core inflation remains entirely anchored at a flat +0.3%, proving that cost pressures are not migrating into the wider economy. Authorities have safely locked in full-year 2026 inflation expectations at +0.6%, a fraction of the Eurozone's painful +3.2% headline rebound.

Franc Weakening Looming After U.S.-Iran De-escalation

The traditional safe-haven premium of the Swiss franc has largely neutralized, with the currency holding steady or slightly softening against the euro and shedding -0.55% against the U.S. dollar. This uncharacteristic exchange rate stability has provided immediate pricing relief for premium industrial exporters trying to capture global market share. Looking ahead, the signing of a key diplomatic memorandum of understanding between the U.S. and Iran is expected to ease Gulf shipping bottlenecks. This geopolitical detente will likely sap safe-haven flows, causing the franc to weaken further and raising the risk of imported inflation.

SNB Trapped in Rate Status Quo

The Swiss National Bank maintained its highly accommodative policy rate at 0% during its June 18 meeting and is widely expected to extend this absolute pause through September 24. By refusing to follow global tightening cycles, the central bank aims to nurture a fragile domestic recovery while relying on direct foreign exchange interventions to combat any sudden, erratic spikes in the franc. With long-term inflation expectations tracking well below target thresholds, policymakers see no valid reason to alter credit conditions. This defensive stance aims to shield local businesses from global macro shocks.



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