

INVESTMENT INSIGHT

SWITZERLAND



- ✓ **A short-term “game changer” for the franc**
- ✓ **No attractive opportunities for bonds**
- ✓ **Extreme volatility in real estate fund indices**
- ✓ **The situation remains complex for Swiss stocks**

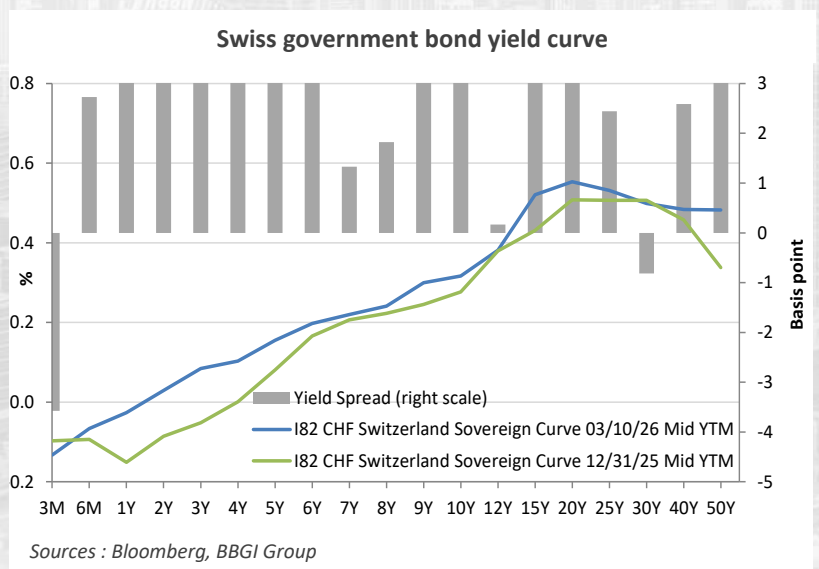
WILL THE FRANCO FALL THIS SUMMER?

Peace Accord Deflates Safe-Haven Franc Premium

The formal signing of the U.S.-Iran peace memorandum has reversed defensive capital flows, leaving the Swiss franc weaker than its pre-conflict benchmarks. This de-escalation has dried up safe-haven demand as regional shipping bottlenecks dissolve. SNB President Martin Schlegel signaled that a moderate inflation rebound to +0.6% is entirely acceptable within their 0% to 2% target range, confirming that policymakers will not rush to alter their accommodative stance. The central bank’s focus has decisively shifted away from fighting aggressive disinflation.

Yield Divergences Fuel Sustained Currency Outflows

With domestic price pressures comfortably contained, the SNB is firmly maintaining its benchmark policy rate at 0%, carving out a highly accommodative stance relative to its global peers. Conversely, heavyweights like the Federal Reserve and the European Central Bank are locked into restrictive regimes, maintaining significantly higher interest rates to curb their own persistent core inflation. This starkly widening yield differential provides a powerful incentive for institutional asset managers to aggressively dump the franc. Capital is rotating rapidly into higher-yielding foreign currency tranches.



Sovereign Bond Yields Grounded Near Zero

The central bank's unwavering commitment to its 0% interest rate floor is heavily flattening local fixed-income performance, leaving the 10-year Swiss government bond yield languishing at a meager 0.4%. Because this baseline return trails annual inflation expectations, investors are facing guaranteed negative real returns and a complete absence of rate-driven capital gains. However, downstream price adjustments are projected to eventually push the 10-year yield up toward 0.8% by the close of 2026. Gross returns for premium high-quality portfolios rely strictly on nominal coupon carry between 0.5% and 1.5%.

Extreme Valuations Trigger Real Estate Nervousness

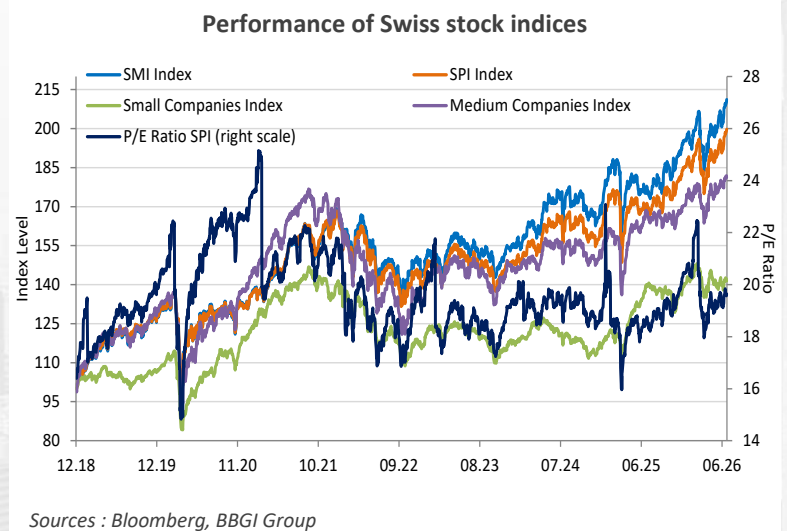
Swiss-listed real estate funds are experiencing an intense bout of micro-volatility, as 30-day price fluctuations spiked dramatically from 8% to 12.5% in less than a quarter. A strong technical rebound has driven the average fund premium back up to an incredibly bloated 37%, deep into historically overvalued territory. Market analysts warn that this specific segment is exceptionally fragile and highly sensitive to any sudden adjustments in long-term borrowing costs. A minor macro shift pushing yields into the 0.8% to 1.0% bracket could spark an immediate 10% to 15% valuation correction.

SMI Multinationals Insulated from European Drag

The broader Swiss equity index (SPI) faces a complex landscape as domestic full-year growth forecasts are downgraded to a minor 0.9%, disproportionately impacting highly vulnerable small- and mid-cap listings. Furthermore, the aggressive monetary tightening maintained by the ECB is actively choking the economic recovery of key Eurozone trading partners, dealing a major blow to mid-tier industrial exporters. To navigate this uneven terrain, asset allocations should break heavily toward the blue-chip Swiss Market Index (SMI), where large multinational conglomerates boast global diversified revenue streams. Defensive sectors like healthcare remain fundamentally superior to cyclical manufacturing.

Oil Retrenchment Restores High-Dividend Appeal

The successful implementation of the diplomatic shipping accord has immediately defused global upstream energy bottlenecks, dragging benchmark Brent crude oil back below \$78 per barrel. While any technical breach of this truce over the next 60 days would instantly reignite commodity price spikes, the current oil retrenchment has successfully taken the edge off near-term global inflation panic. In this environment of lower energy prices and flat sovereign yields, high-dividend Swiss stocks have rapidly re-established their core investment appeal. They offer a vital cash-flow alternative to domestic fixed-income assets that yield almost nothing.



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