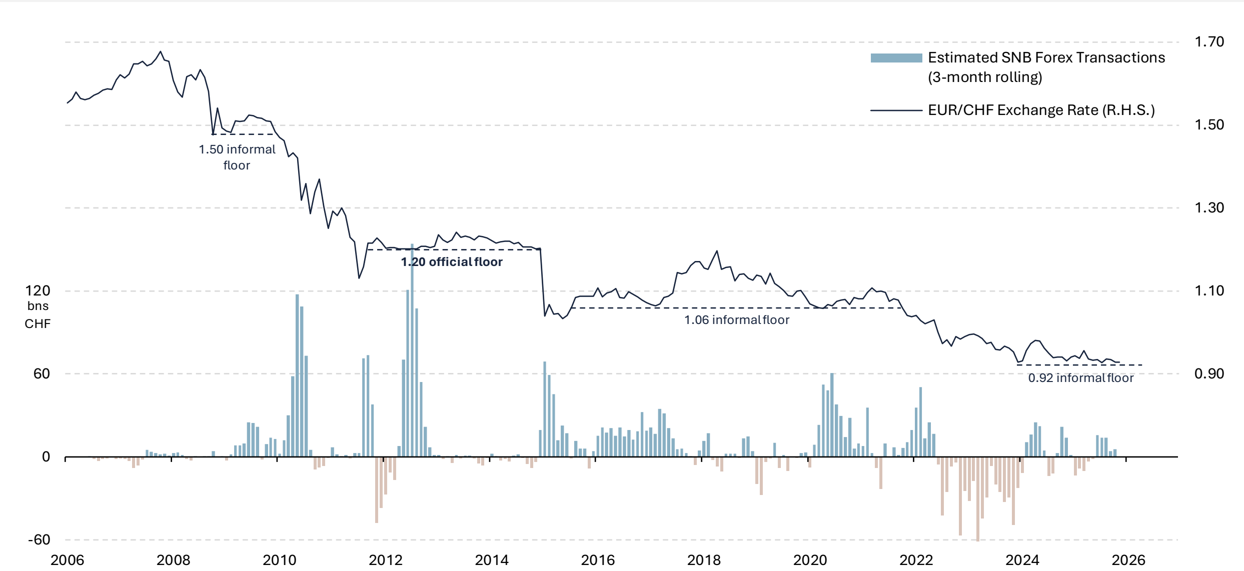
The flexiweekly that reaches new heights - published on 3 November 2025

"WHAT IF THE SNB WENT DOWN TO A LOWER FLOOR?"

- Thanks to its commercial competitiveness, the Swiss economy is bending but not breaking
- With inflation having disappeared, the SNB was able to lower its key interest rates to zero
- Public debt is so low that long-term rates are also trending towards zero
- Everything is contributing to the appreciation of the Swiss franc versus the dollar and the euro

CHART OF THE WEEK: "Something just fell on the slats of your floor"

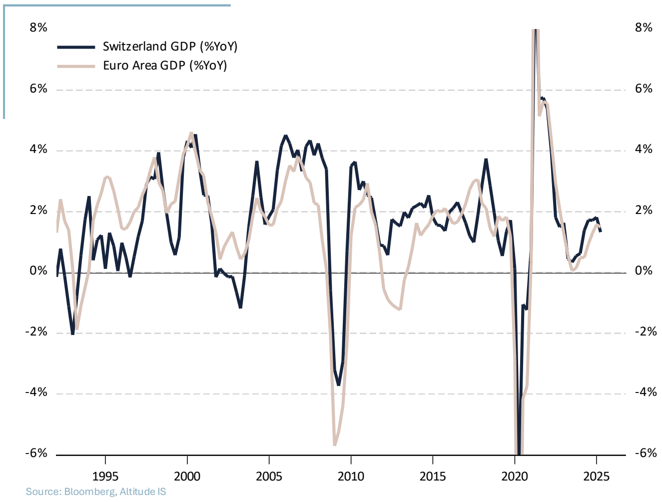


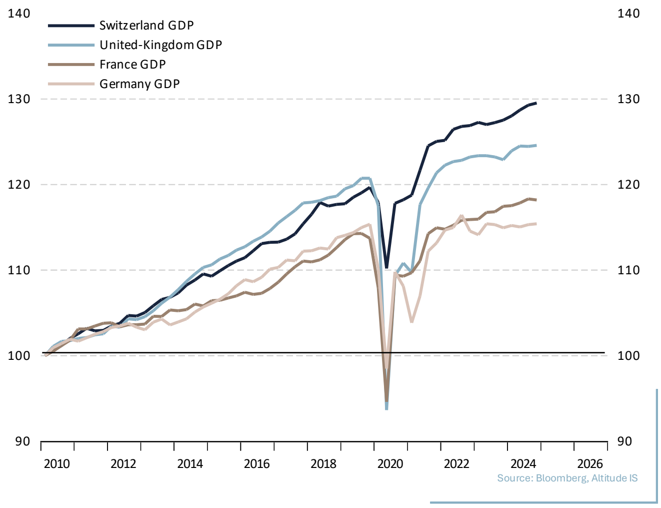
Source: Bloomberg, Altitude IS

FINANCIAL MARKETS ANALYSIS

The Swiss economy generally grows at a pace comparable to that of its European neighbours (see Fig. 2), **but it stands out for its greater ability to weather crises and recessions, as illustrated by the pandemic** (see Fig. 3). This should stand it in good stead as it closes out 2025 and begins 2026, as the outlook darkens. A fortnight ago, the Swiss federal government lowered its forecasts, anticipating growth of 1.3% in 2025 and 0.9% in 2026, which is well below the long-term average of 1.7% but in line with our econometric models. These projections come amid high uncertainty in global trade. After a strong start in the first quarter, activity slowed significantly between April and June. The weakness in industry was simply offset by strong momentum in services. The slowdown comes as companies brought forward their shipments in the spring to avoid the introduction of US tariffs. They were right to do so, as on 1 August 2025 Washington announced a 39% surcharge on most Swiss products, a tax significantly higher than the 15% applied to Eurozone countries. While some segments have been spared, such as finance, consulting, IT, software and digital content, others, such as healthcare, have been hit hard, with a rate of 100%. However, in practice, many classes of pharmaceutical products benefit from exemptions, differentiated tariff regimes or technical thresholds. The healthcare sector should therefore not be as badly affected as it could have been.

Fig. 2 & 3 – Economic growth in Switzerland and Europe





The consequences of trade tensions are evident in recent statistics. In August, Swiss exports to the United States fell by 22% compared to last year. The shock has hit the watchmaking, precision instrument, mechanical engineering and agri-food sectors, such as cheese, particularly hard. This US tariff disadvantage is compounded by weak demand from China. In the watchmaking sector, for example, the Swatch Group has reported a 30% drop in its wholesale business in China and a 15% drop in its retail network. According to the research institute at the Swiss Federal Institute of Technology in Zurich, **the current shockwave could reduce Swiss GDP growth by between 0.3% and 0.6%.** The end of the year will be sluggish, and the subsequent improvement will be slow and dependent on the external environment.

Despite recent difficulties and thanks to the strong competitiveness of Swiss companies, half of all Swiss francs are earned abroad. Proof of this is that **Switzerland is one of the few Western countries to have a trade surplus with China** (see Fig. 4).

The Swiss authorities and business community are continuing negotiations with Washington to obtain customs duty relief, while preparing domestic measures to cushion the economic shock. If a bilateral agreement were to be reached in the near future or if trade tensions were to ease, the economic growth outlook would gradually improve. In the meantime, the Swiss economy remains below its potential, hampered by the relative high cost of its exports, the pause in investment and cautious household consumption.

Fig. 4 – Trade balance with China

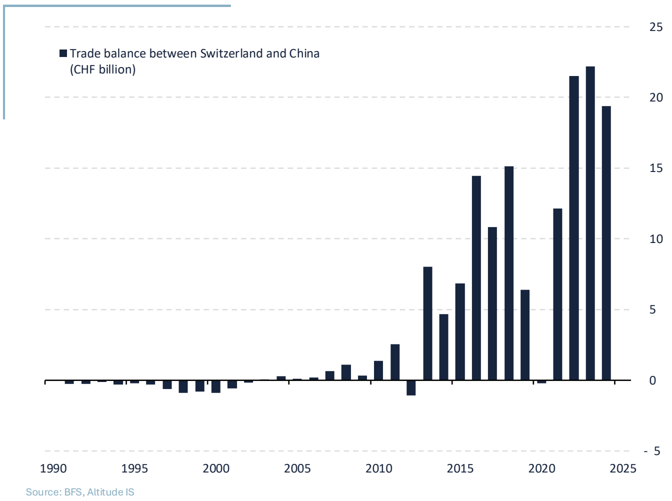
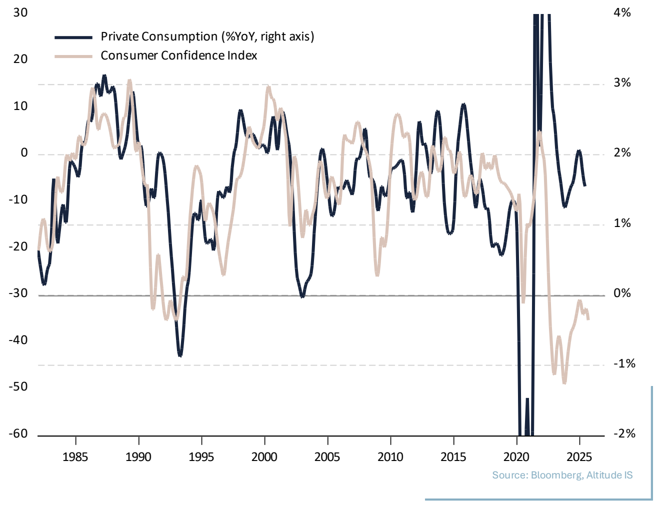


Fig. 5 – Household consumption and confidence



To boost growth, consumers would need to gradually regain confidence in the future. Since 2023 and the global inflation shock, their morale has been low (see Fig. 5). However, at that time, annual price growth was "only" 3.5% in Switzerland, while neighbouring countries recorded double or triple that rate. Better still, prices have not risen at all in the last 18 months. Despite this stagnation, households continue to anticipate a period of high inflation (see Fig. 6). It is likely that the surge in health insurance premiums and electricity bills has recently misled them. Their return to reason should support private consumption, which will serve as a natural buffer to the current economic slowdown.

Fig. 6 – Inflation and price expectations

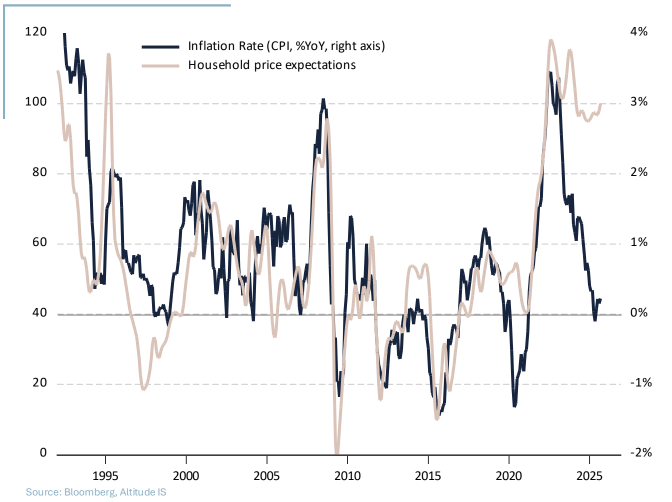
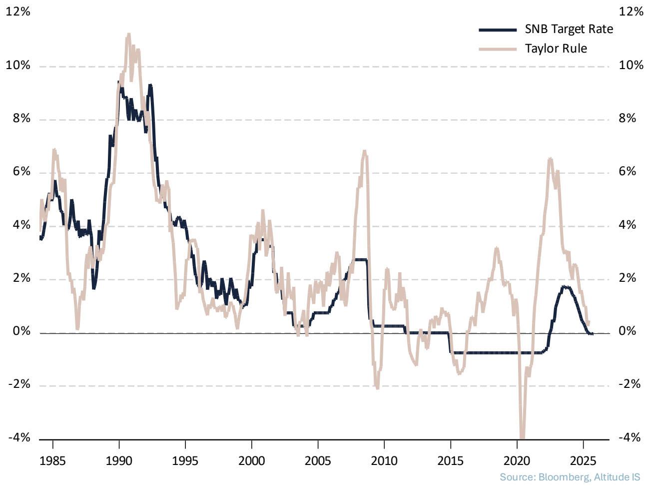
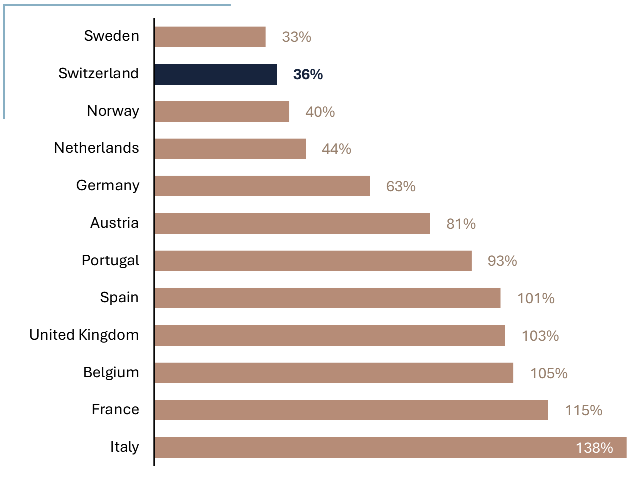


Fig. 7 – SNB key interest rate



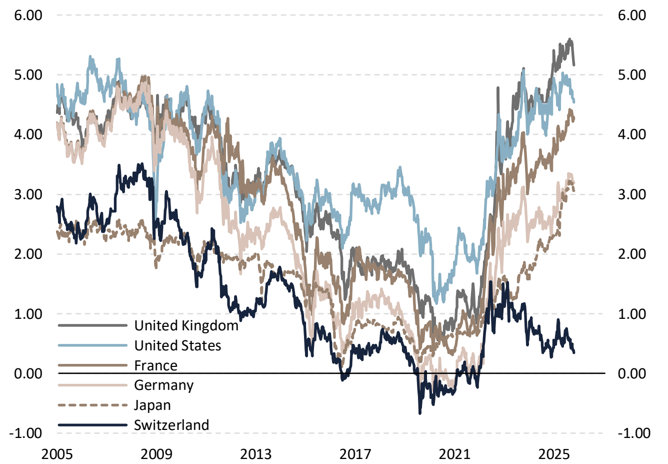
Over the next few years, Swiss businesses and households will continue to benefit from low, very low, extremely low... even negative interest rates. There are two main reasons for this. Firstly, inflation is low enough for the Swiss National Bank (SNB) to seek to support employment growth. Given the current and prospective parameters (see Fig. 7), its President, Martin Schlegel, will be able to keep key interest rates at zero for several quarters. However, as long as he can, he will avoid taking them into negative territory so as not to generate adverse economic effects. Now that the country has been removed from the US grey list of currency manipulators, he will prefer to intervene in the foreign exchange market rather than apply a negative interest rate policy (NIRP).

Fig. 8 – Public debt ratio (% of GDP)



Source: Eurostat, Altitude IS

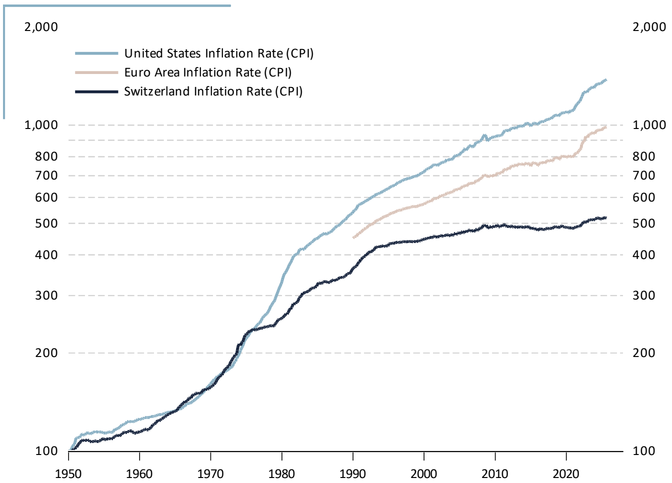
Fig. 9 – Change in 30-year rates



Source: Bloomberg, Altitude IS

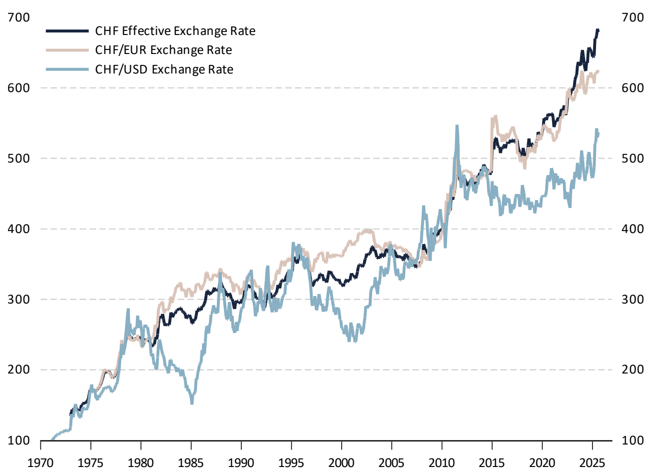
<u>Secondly, public debt is low enough that long-term interest rates do not include a risk premium</u> linked to potential default, as is the case for many European countries and the United States. In Switzerland, the constitutional debt brake mechanism has helped restore balance to public finances. Since its implementation in 2003, public debt has fallen from 51% to 36% of GDP, whereas it often exceeds 90% in the rest of Europe (see Fig. 8) and 120% across the Atlantic. This spectacular financial recovery has reduced interest charges to less than 1% of public expenditure and resulting in strengthened investor confidence. As a result, not only will medium- and long-term bond yields remain very low, uncorrelated with other developed countries (see Fig. 9), but <u>they could eventually return to negative territory</u> if investor demand for these safe assets were to strengthen.

Fig. 10 – Price index



Source: Bloomberg, Altitude IS

Fig. 11 – Appreciation of the Swiss franc

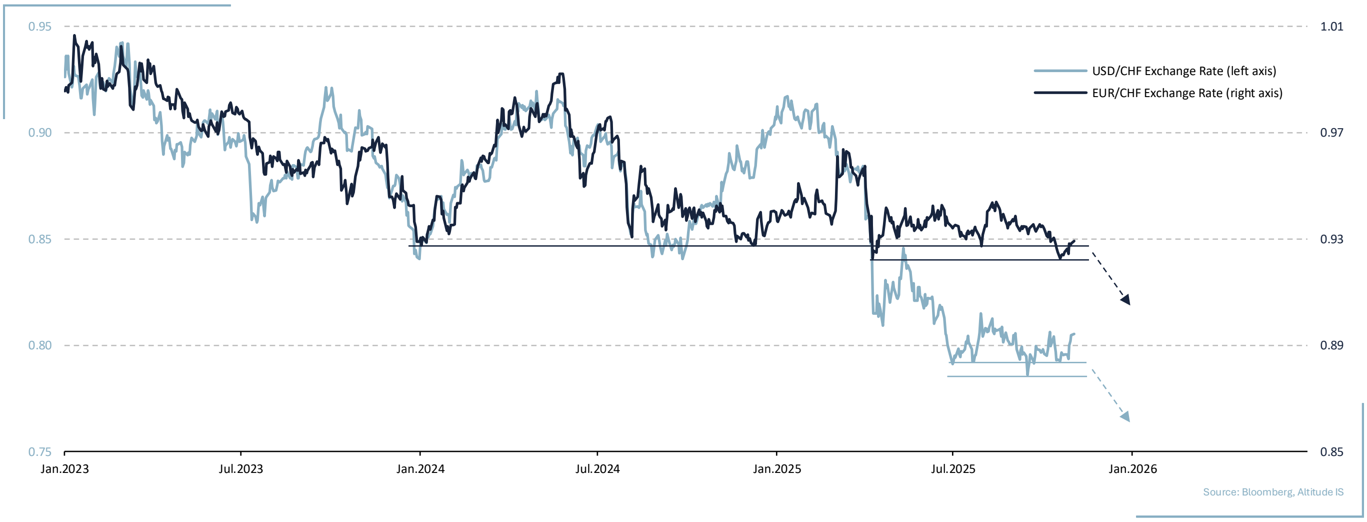


Source: Bloomberg, Altitude IS

Capital flows into Switzerland will contribute to the appreciation of the Swiss **franc.** To fully understand the structural upward trend of the Swiss currency, it is necessary to examine the evolution of prices for goods and services on both sides of the border and the means to offset differences. For decades, Switzerland has experienced very low price inflation (see Fig. 10). This has enabled it to maintain the purchasing power of its currency. Proof of this, if any were needed, is that there is no other country in the world where 10-centime coins minted in 1879 are still legal tender. This inflationary situation seems all the more advantageous when compared internationally. It is the corollary to the structural appreciation of the Swiss franc against most other currencies, particularly the dollar and the euro (see Fig. 11).

The last two decades have shown that the SNB's objective is not to prevent the franc from appreciating, but to slow down its appreciation in order to give companies time to adapt and remain competitive. Once again, after spending nearly two years selling billions of Swiss francs (and buying the equivalent in dollars and euros, see Chart of the Week), the SNB may feel that it is time to slow down its interventions in the foreign exchange market. In view of the latest comments from the Governing Board, this would be entirely consistent. In its September press release, it stated that the economic situation was not a cause for concern, that companies were expecting solid growth, and that there were no signs of a sustained negative trend in inflation. If all goes well, it will no longer be necessary to prevent the franc from appreciating.

Fig. 12 – Swiss franc exchange rate against the euro and the dollar



The SNB could "drop down a notch", allowing the euro-Swiss franc exchange rate to break through the informal floor it has long defended at 0.92. At the same time, this would mean that the dollar could trade below the 0.78 franc threshold (see Fig. 12). If this happens, new floors will need to be determined.

Conclusion:

If their risk profile allows it, international investors who hold Swiss bonds and equities, particularly for their defensive qualities, will also seek to take advantage of the franc's appreciation. This will allow them to kill two birds with one stone.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
Equities							
World (MSCI)	1 006.2	61.58	0.5%	2.3%	21.6%	18.0%	22.8%
USA (S&P 500)	6 840	61.46	0.7%	2.3%	17.5%	25.0%	26.3%
USA (Dow Jones)	47 563	64.88	0.8%	2.6%	13.3%	15.0%	16.2%
USA (Nasdaq)	23 725	63.91	2.3%	4.7%	23.5%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	596.6	56.45	-0.3%	2.4%	21.7%	10.2%	19.5%
UK (FTSE 100)	9 717	70.11	0.7%	4.1%	22.5%	9.6%	7.7%
Switzerland (SMI)	12 235	39.11	-2.7%	1.0%	8.8%	7.5%	7.1%
Japan (Nikkei)	52 411	75.52	6.3%	16.6%	33.8%	21.3%	31.0%
Emerging (MSCI)	1 402	61.63	0.9%	4.2%	33.6%	8.0%	10.2%
Brasil (IBOVESPA)	149 540	73.44	2.3%	2.3%	24.3%	-10.4%	22.3%
Mexico (IPC)	62 769	58.50	2.7%	-0.1%	30.5%	-11.0%	22.4%
India (SENSEX)	83 918	57.65	-0.2%	4.7%	8.8%	9.6%	20.5%
China (CSI)	4 653	53.82	-0.4%	0.2%	20.9%	18.2%	-9.1%
Com. Services (MSCI World)	160.8	53.42	0.3%	1.2%	30.1%	31.9%	38.1%
Cons. Discretionary (MSCI World)	464.9	56.93	1.1%	0.9%	11.4%	20.7%	29.5%
Cons. Staples (MSCI World)	284.2	33.95	-3.1%	-1.2%	6.6%	4.7%	3.2%
Energy (MSCI World)	260.2	54.88	0.2%	0.3%	11.9%	2.9%	6.0%
Financials (MSCI World)	213.3	47.32	-0.4%	-1.3%	21.6%	25.1%	16.4%
Health Care (MSCI World)	370.6	50.79	-1.5%	2.9%	7.9%	1.5%	4.1%
Industrials (MSCI World)	466.0	57.46	-0.1%	1.5%	25.6%	12.8%	22.6%
Info. Tech. (MSCI World)	1 008.7	68.47	3.2%	7.3%	32.0%	31.9%	51.5%
Materials (MSCI World)	365.1	43.82	-1.6%	-1.9%	22.0%	-7.6%	12.9%
Real Estate (MSCI World)	991	36.79	-3.4%	-2.5%	4.1%	-0.4%	5.3%
Utilities (MSCI World)	196.1	53.92	-1.3%	3.0%	25.5%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.43%	43.64	-0.5%	-0.3%	7.6%	-1.7%	5.7%
USA (Sovereign)	3.91%	49.45	-0.5%	0.6%	6.0%	0.6%	4.1%
Euro Area (Sovereign)	2.78%	57.73	0.1%	0.9%	1.2%	1.9%	7.1%
Germany (Sovereign)	2.40%	53.63	0.0%	0.7%	-0.4%	0.6%	5.6%
UK (Sovereign)	4.37%	73.82	0.2%	2.5%	5.8%	-3.0%	5.6%
Switzerland (Sovereign)	0.34%	61.67	0.1%	0.5%	1.7%	5.4%	7.9%
Japan (Sovereign)	1.44%	52.76	0.1%	0.3%	-2.4%	-2.1%	0.9%
Emerging (Sovereign)	6.01%	75.12	-0.1%	2.1%	12.1%	7.0%	11.0%
USA (IG Corp.)	4.82%	45.30	-1.0%	0.1%	7.3%	2.1%	8.5%
Euro Area (IG Corp.)	3.01%	63.96	0.0%	0.5%	3.5%	4.7%	8.2%
Emerging (IG Corp.)	6.08%	59.35	-0.1%	0.3%	7.5%	7.0%	6.7%
USA (HY Corp.)	6.78%	54.95	-0.3%	0.0%	7.4%	8.2%	13.4%
Euro Area (HY Corp.)	5.35%	62.16	0.1%	0.0%	4.7%	8.2%	12.1%
Emerging (HY Corp.)	7.46%	75.09	0.1%	2.5%	12.0%	14.9%	13.1%
World (Convertibles)	548.0	59.58	0.2%	2.8%	24.4%	9.4%	12.3%
USA (Convertibles)	726.4	58.52	0.3%	3.2%	21.4%	10.1%	14.6%
Euro Area (Convertibles)	289.6	53.58	-0.2%	0.6%	24.4%	14.7%	7.3%
Switzerland (Convertibles)	278.2	60.75	-0.2%	1.5%	15.6%	-10.5%	5.8%
Japan (Convertibles)	256.7	62.19	1.0%	2.9%	13.2%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 770	90.59	n.a.	2.3%	9.9%	11.1%	7.8%
Macro	1 424	79.59	n.a.	3.3%	6.1%	7.4%	1.6%
Equity Long Only	2 419	83.50	n.a.	1.1%	9.4%	12.0%	15.9%
Equity Long/Short	1 908	90.35	n.a.	2.7%	13.8%	14.0%	7.7%
Event Driven	1 870	88.97	n.a.	1.9%	8.4%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 813	96.40	n.a.	1.5%	9.8%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 774	86.52	n.a.	1.2%	6.6%	9.8%	7.8%
Credit	1 691	98.69	n.a.	0.8%	6.0%	8.5%	8.1%
Credit Long/Short	1 711	100.00	n.a.	0.7%	5.1%	10.0%	11.2%
Commodity	1 972	94.06	n.a.	2.7%	10.2%	14.7%	7.3%
Commodity Trading Advisors	1 370	62.32	n.a.	4.8%	2.1%	7.9%	-3.6%
Volatility							
VIX	17.44	49.61	6.5%	7.1%	0.5%	39.4%	-42.5%
VSTOXX	17.81	52.01	8.1%	6.8%	4.8%	25.3%	-35.0%
Commodities							
Commodities (CRB)	540.3	n.a.	0.8%	-1.0%	0.7%	5.1%	-8.0%
Gold (Troy Ounce)	4 017	n.a.	0.9%	3.4%	53.1%	27.2%	13.1%
Silver (Troy Ounce)	49.00	n.a.	4.6%	2.1%	69.5%	21.5%	-0.7%
Oil (WTI, Barrel)	60.98	n.a.	-2.1%	-2.2%	-15.0%	0.1%	-10.7%
Oil (Brent, Barrel)	65.21	n.a.	-1.9%	-4.0%	-12.0%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	99.75	64.60	1.0%	2.1%	-8.1%	7.1%	-2.1%
EUR	1.1536	37.11	-0.9%	-1.8%	11.4%	-6.2%	3.1%
JPY	154.21	33.12	-0.9%	-4.4%	1.9%	-10.3%	-7.0%
GBP	1.3142	29.29	-1.5%	-2.5%	5.0%	-1.7%	5.4%
AUD	0.6552	51.33	-0.1%	-0.8%	5.9%	-9.2%	0.0%
CAD	1.4014	41.07	-0.2%	-0.4%	2.6%	-7.9%	2.3%
CHF	0.8052	39.11	-1.2%	-1.2%	12.7%	-7.3%	9.9%
CNY	7.1159	53.94	-0.1%	0.1%	2.6%	-2.7%	-2.8%
MXN	18.543	42.89	-0.8%	-0.8%	12.3%	-18.5%	14.9%
EM (Emerging Index)	1 841.1	48.54	0.1%	-0.1%	6.6%	-0.7%	4.8%
XBT	107 611	n.a.	-3.4%	-12.2%	14.8%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions — Total Return by asset class (Negative \ Positive Performance)

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