HOUSE VIEW

Outlook 2025: Switzerland

December 2024

3 Things to know

1.
We see 1.4% GDP growth and 0.0% policy rate in 2025.

2.
Swiss government bond yields may turn negative again.

3.
Limited Swiss franc gains; neutral on SMI with 6% upside.

MACROECONOMIC VIEW

Swiss economy faces a challenging year in 2025. We expect **Swiss real GDP (adjusted for sport events) to grow by 1.4% in 2025, up from 1.1% in 2024 but still below trend** (1.7%). We expect domestic demand to provide a positive impulse. By contrast, ongoing weakness in some key trading partners, high trade policy uncertainty and the strength of the Swiss franc are likely to weigh on manufacturers.

Risks to our growth outlook are tilted to the downside. As an export-oriented economy, Switzerland will suffer from trade tensions via both a reduction in goods exports and a decline in consumer and business morale. Along with the threat of US trade tariffs, Swiss industry could be hit by prolonged strength in the Swiss franc.

We expect headline inflation to stay within the Swiss National Bank's (SNB) definition of price stability (i.e., between 0% and 2%), averaging 0.7% in 2025 after 1.1% this year. Given weak inflation and external headwinds, **we expect the SNB to cut its policy rate by 25bps at each of its policy meetings until September 2025, bringing the policy rate to 0.0%**. Risks are tilted towards more cuts and, therefore, **negative rates cannot be ruled out**.

INVESTMENT IMPLICATIONS

Swiss government bond yields may turn negative again. We expect a third consecutive year of outperformance from Swiss government bonds in 2025 which could see 10-year yields dip into negative territory in the first half of the year, before rebounding to 0.25% by December 2025 on higher global yields. Because the 10-year Swiss yield is already trading close to zero, the expected total return from carry will be limited, with yield movements likely to have a greater impact on performance. **For this reason, we remain neutral Swiss government bonds in our asset class stance.**

Swiss franc to retain safe-haven status. While its safe-haven status provides demand support for the franc, its low yield, the risk of official FX intervention and the economy's vulnerability to US protectionism represent potential headwinds. In the current environment, we expect the franc is set to depreciate to 0.90 against the USD but to strengthen to 0.91 against the euro over the course of 2025.

Neutral on SMI with 6% upside. Our December 2025 index target for the SMI of 12350 implies 6% upside from here, however we see better returns elsewhere (particularly in the US and Japan). Given the high weighting of healthcare and consumer staples' stocks, it is no surprise that the SMI performance closely tracks that of defensives more broadly. This relationship highlights the attraction of Swiss stocks as a relative safe haven in more difficult times. Hence, **we rate Switzerland as neutral in our base case scenario** but would expect to see it outperform materially if global macro and market trends surprise to the downside in 2025.