

# WEEKLY ANALYSIS

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## SWISS INFLATION FALLS INTO LINE: A KEY FACTOR IN THE RISE OF FINANCIAL ASSETS

Good economic growth in Q1 (+0.5%). Inflation (+1.9%) in sharp decline and already below SNB target. End of rate hike cycle in sight. Opportunities in bond markets. Bullish revival for equities.

### Key points



- Swiss economy surprises on the upside with +0.5% GDP growth in Q1
- Domestic demand and exports underpin GDP
- Leading indicators still very uncertain
- Inflation falls below SNB target
- Status quo now a possibility for the SNB
- Spread trends unfavorable to the franc
- New opportunities for the bond segment
- Renewed uptrend in equities

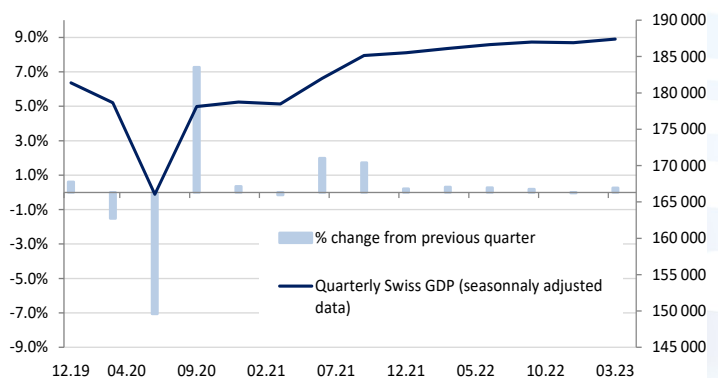
### Swiss economy surprises on the upside with +0.5% GDP growth in Q1

The Swiss economy has got off to a rather surprising start in 2023, finally picking up fairly sharply after a last quarter of 2022 in which GDP stagnated (0%). The GDP for the 1st quarter of 2023 recently published by the *State Secretariat for Economic Affairs* showed growth of +0.5%, after adjustment for sporting events, which quite clearly exceeds the forecast of only +0.1% growth estimated by economists. The Swiss economy had been penalized by a fall in exports, and is already recovering in Q1 thanks to a return of exports at the start of the year, which contributed significantly to this good result. Final domestic demand, up +0.9%, underpinned GDP, thanks in particular to strong private consumption, up +0.6%. A slowdown in growth in 2023 was widely expected, but for the time being Switzerland still seems to be better able to withstand the effects of the more restrictive monetary policies pursued in most of its major economic partner countries. Taking into account the evolution of global inflation parameters, the development of restrictive monetary policies and the rise in financing costs in Switzerland and abroad, this GDP growth is still rather satisfactory. The Swiss economy is therefore still growing, and stands out from the more negative overall trend in Europe. In our country, the economy seems to

be far more resilient to the turbulence of all kinds that began in 2022, and which has taken time to affect European economies more strongly. The European Union's GDP contraction of -0.1% in Q1 thus follows an identical drop at the end of 2022, suggesting that the EU has entered a recession over the past six months, in contrast to Switzerland's resilience.

The upturn at the start of the year in Switzerland was set against a backdrop of quarterly GDP growth sequences close to zero, but still insufficient to maintain annual growth close to the historical average. However, this performance exceeded economists' expectations. As far as we are concerned, our forecasts for annual Swiss GDP growth were +0.7% in 2023 at the start of the year, and the results of this 1st quarter confirm our estimates, which remain unchanged for the time being. We will look below at the main components influencing GDP growth in recent months, and at the detailed outlook for the coming quarters to 2023. We believe that, while the outlook for the year will continue to be affected by a still uncertain international economic environment, a more favourable environment in terms of inflation, interest rates and monetary policies should strengthen the likelihood of an economic recovery in the second half of the year.

Swiss economic performance (GDP) in million CHF



Sources: Bloomberg, BBGI Group SA