Weekly Analysis

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LOWER SWISS FRANC BOOSTS SMI OUTLOOK

Resilient economy in early 2024. Inflation under control. Monetary easing imminent. Yield and inflation differentials unfavorable to the franc. Low potential for bond markets. Better outlook for SMI.

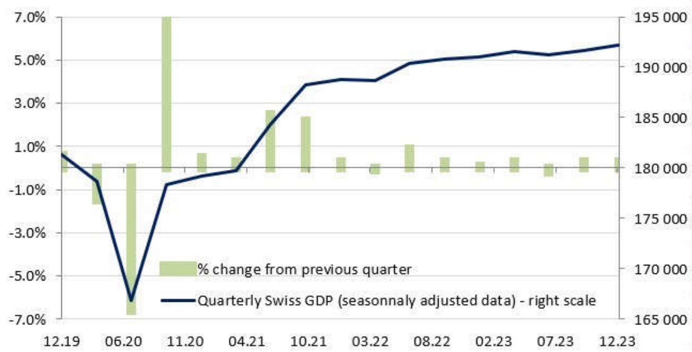
Key points

- Swiss economy surprisingly resilient
- Swiss exports penalized by strong franc
- Leading indicators remain uninspiring
- Swiss inflation is now close to +1%
- SNB may lower rates in Q2 2024
- Weak franc is now likely
- Bearish recovery for Swiss bond yields
- Lower Swiss franc boosts outlook for Swiss equities

Swiss economy surprisingly resilient

The Swiss economy has once again surprised forecasters with its resilience, while the economic momentum of its main trading partners clearly stalled at the end of the year. The +0.3% GDP growth announced by SECO for the 4th quarter of 2023 showed that the +0.3% rebound in economic activity in the 3rd quarter could still be sustained at the end of the year. The Swiss economy was thus able to maintain its growth momentum, even though the manufacturing sector seemed to be suffering logically from the strength of the Swiss franc. Economic momentum in our country had stalled, both because of the difficulties encountered by our main economic partners in Europe and because of the restrictive monetary policy pursued by the SNB, but its resilience at the end of the year far exceeded the +0.1% increase expected by forecasters. Over 2023 as a whole, Swiss GDP therefore grew by +1.3%, well above consensus expectations of +0.7%, but close to our latest forecasts. Switzerland will therefore have experienced only one quarter of negative growth in 2023. That said, Swiss momentum remains moderate, suffering from weak global demand exacerbated by an excessively strong Swiss franc, which is weighing on the ailing manufacturing sector. Fortunately, the service sector seems to be able to compensate for the weakness of the manufacturing segment, which should enable GDP to grow again in early 2024.

Over the last few months, it was mainly the chemical and pharmaceutical industrial sector that held back GDP growth, with a -2.3% contraction in value creation. Manufacturing declined slightly by -0.1%, while the other industrial branches returned to some growth after two negative quarters, and increased electricity production led to a +4.3% rise in the energy sector. The service sector once again plays a key role in the Swiss economy's resilience. Among the most buoyant segments were foreign tourism and the rise in value added in the hotel and catering sector (+3.5%), which was significantly higher than that of transport (+0.4%), business services (+0.3%) and health and social services (+1.4%). Public spending was up by an above-average +0.7%, while exports of services (+0.7%) and goods (+0.5%) also recorded notable increases. Final domestic demand fell by -0.3%, mainly due to a -2.5% drop in capital goods and construction investment. Rising interest rates and financing costs are expected to are likely to have a greater impact on households and businesses, which remain cautious about the outlook for 2024 and are translating their uncertainty and lack of confidence into more controlled spending.



Sources: Bloomberg, BBGI Group SA