Weekly Analysis

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OUTLOOK FOR SWISS EQUITIES REMAINS POSITIVE

No recession in Switzerland. Worrying leading indicators. Falling exports. Inflation stumbles over the 1% threshold. Rate cuts in line with our expectations. Limited weakness of the franc. Long-term rate target achieved. Positive outlook for the SMI.

Key points

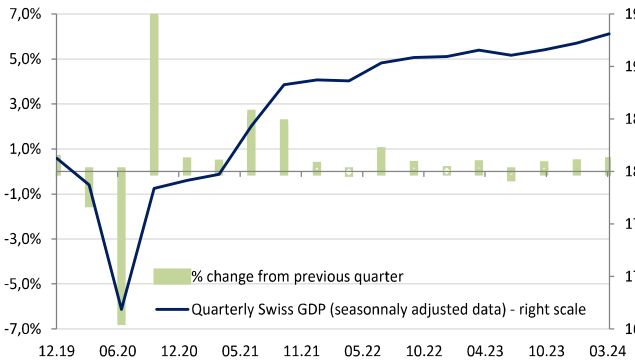
- The Swiss economy is moving at a slow pace
- Swiss exports plunge again
- Leading indicators more worrying
- Inflation currently stalling at +1%
- SNB cuts rates according to our schedule
- One should probably not bet on a too weak franc
- Target rate achieved for Confederation long rates
- Outlook for Swiss equities remains positive

The Swiss economy is moving at a slow pace

The Swiss GDP growth figures for the 1st quarter have just been published, showing once again the resilience of our national economy in a still very hesitant international environment. At the start of the year, the Swiss economy once again grew by around +0.6%/year, demonstrating the astonishing regularity of the country's dynamic. At the end of the year, three-month growth had already reached +0.3%, so the slowdown in the USA and virtual stagnation in Europe did not really penalize our economy's performance at the start of the year. It's true that the GDP growth announced by SECO is in line with a below-average growth trend, but it has been on the order of +0.3%/quarter for the past two years, with the exception of the temporary halt in June 2023, when it fell by -0.3%. The Swiss economy has thus been able to maintain its pace of growth, even though the manufacturing sector seemed to be suffering logically from the strength of the franc. The restrictive monetary policy pursued by the SNB had largely benefited the franc at the end of 2023, certainly making it more difficult for certain sectors to adapt to this factor, even though domestic and international demand seemed to be slowing down. Swiss GDP had grown by +1.3% in 2023, but the Q1 result suggests that 2024 will undoubtedly be more difficult. Since Q2 2020, at the height of the Covid crisis, Switzerland has remained on an upward trend, recording only one quarterly decline in June 2023. That said, Swiss momentum remains penalized by declining global demand and an excessively strong Swiss franc until early 2024. The manufacturing sector is still very much affected, but recently seems to be recovering a little and benefiting from Q1 developments on the exchange rate and interest rate fronts. The service sector still seems to be doing relatively better, as is household consumption.

In the manufacturing segment, value creation fell slightly in the 1st quarter (-0.2%), mainly under pressure from the chemicals and pharmaceuticals sector (-0.9%), which continued the slight downturn already seen in recent quarters. In the other industrial sectors, value added remained broadly stable. The construction sector recorded a slight improvement (+0.3%), thanks to higher sales in the building and civil engineering sector; the trend in construction investment was slightly less favorable (-0.2%). The energy sector (+2.1%) was the only industrial branch to record solid growth; energy exports also increased. Overall, value creation stagnated in the industrial sector, and the outlook for the 2nd quarter does not appear to show any reversal of this trend. For its part, the service sector fared better and strongly supported GDP growth in Q1, albeit with some heterogeneity between branches.

Swiss GDP in million CHF (quarterly data)



Sources: Bloomberg, BBGI Group SA