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WEEKLY ANALYSIS

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SERIOUS THREATS LOOM OVER SWISS STOCKS

Growth is slowing as expected. Stagnation likely in Q3 and Q4. Leading indicators uncertain and mixed. Deflation setting in. The SNB must cut rates significantly. Swiss bonds are unattractive. Swiss equities under threat.

Key points

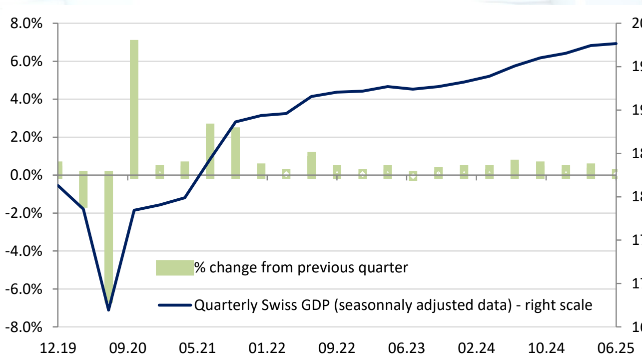
- Moderate growth in Q2 confirms expected slowdown
- High risk of stagnation in Q4 Leading indicators more nuanced and mixed
- CPI and PPI indices settle into deflation
- The SNB must act by lowering its rates by 50 basis points
- The franc benefits from a unique context
- Swiss bonds offer no prospects
- Serious threats weigh on Swiss equities

Moderate growth in Q2 confirms expected slowdown

After a surprisingly robust start to 2025 that defied most forecasts, the Swiss economy returned to a more modest economic reality in the second quarter. Real gross domestic product (GDP) growth stood at +0.3% quarter-on-quarter (QoQ), after seasonal adjustment. This figure, published by the State Secretariat for Economic Affairs (SECO), while avoiding a contraction, marks a drastic deceleration compared to the exceptional performance of +0.8% recorded in Q1 2025. This normalization was widely expected, as the strength of the first quarter was mainly attributable to unique and non-recurring factors. Indeed, Q1 growth had been artificially inflated by a spectacular increase in exports of chemicals and pharmaceuticals (+4.2% QoQ), a phenomenon largely explained by anticipation on the part of companies seeking to stay ahead of potential trade barriers, particularly in the US. A detailed analysis of the components of Q2 GDP reveals a much more nuanced picture and highlights a worrying underlying imbalance.

Private consumption, traditionally a pillar of Swiss economic stability, grew by only +0.2% over the quarter, half the historical average (around +0.4%) and well below the +0.5% growth seen in Q4 2024. This weakness reflects households' caution in the face of historically low confidence (-15 points) and the erosion of purchasing power by mandatory expenses such as health insurance premiums. Investment in capital goods also stagnated at +0.1%, far from the +0.4% recorded in Q1, reflecting the pessimism of industrial companies. Only investment in construction showed some resilience at +0.4%, logically supported by low interest rates and financing costs. Overall, domestic demand lost momentum. On an annual basis (YoY), Switzerland's GDP grew by +0.9%, a figure that represents a notable slowdown compared to the +2.0% growth recorded in Q1 2025 and compares to an average annual growth rate of +1.7% over the decade 2010-2019. This return to moderate growth, while not alarming, confirms that the economy is now operating at a slower pace, highly dependent on global economic conditions.

Swiss GDP in million CHF (quaterly data)



Source: Bloomberg, BBGI Group SA

In the second quarter of 2025, Switzerland's economic performance, although moderate with GDP growth of +0.3%, proved particularly resilient when compared to that of its main trading partners, particularly in Europe. However, it remains below the dynamism shown by the US economy, perfectly illustrating Switzerland's unique position, caught between a stagnating continent and a more robust America.