WEEKLY ANALYSIS

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RETURN OF NEGATIVE INTEREST RATES IN SWITZERLAND

Sharp decline in GDP in Q3. Risks of a technical recession in H2 2025. Leading indicators still pessimistic. Deflation sets in. Return of negative rates in Switzerland. Unattractive yields. Mixed outlook for equities.

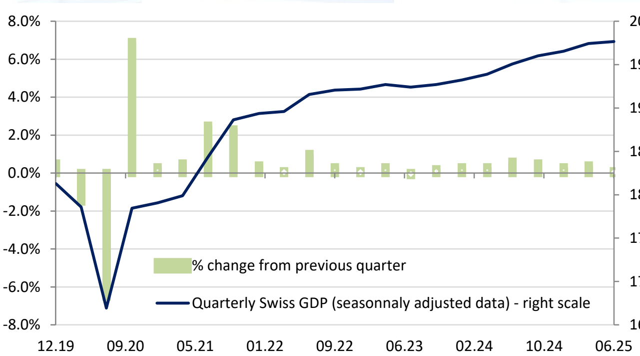
Key points

- Sudden but expected slowdown in the Swiss economy
- Switzerland falls behind a resilient Europe
- Technical recession or recovery in Q4?
- Leading indicators confirm the trend
- CPI and PPI indices sink into deflation
- A rate cut of -0.5% is now imperative
- The franc remains temporarily boosted by chaos
- Avoiding the trap of negative bond yields
- Duel between industrial recession and monetary infusion

Sudden but expected slowdown in the Swiss economy in Q3

The publication on November 17th of the flash estimate of GDP by the State Secretariat for Economic Affairs (SECO) sent shockwaves through the markets. With a contraction of -0.5 in Q3 2025, the Swiss economy has abruptly defied the consensus scenario of a soft landing, but is in line with our cautious forecasts. Beyond the simple figures, this quarterly report highlights the growing vulnerability of our export model to geopolitical uncertainties and marks a clear break with the momentum seen at the beginning of the year. A detailed analysis of the components of this result points to a weakened sector as the cause of this contraction. The manufacturing industry, and more specifically the chemical and pharmaceutical sector, a key player in Swiss exports, has been hit hard by the increase in uncertainty and constraints linked to US tariffs. Although these tariffs have recently been renegotiated downward, the immediate impact on value creation in Q3 was devastating. This political decision across the Atlantic acted as a violent exogenous shock, transforming what was only a cyclical slowdown into a real contraction. For the first time in a long time, industry not only ceased to drive growth, it actively penalized it. What is worrying today is the absence of internal drivers, which in the past acted as a buffer. The service sector grew at below its historical average, while widespread uncertainty and the global economic slowdown weighed on business and household sentiment, preventing services from offsetting the industrial collapse. The transition from Q2 to Q3 illustrates a complex dynamic combining continuity and disruption. The continuity lies in the overall economic environment of stagnation observed in Q2, when GDP grew by only +0.1%, already signaling a slowdown in global demand and increased caution in the services sector. This underlying trend has continued and been confirmed. However, the shift from anemic growth to a technical recession is not the result of a linear deterioration, but rather a political accident. Whereas Q2 still benefited from inertia in order books and relative commercial stability, Q3 was hit hard by the reality of US protectionism. This extreme volatility shows that Switzerland's dependence on the United States has become a double-edged sword. While SECO forecasts were still recently predicting resilient annual growth, the reality on the ground has forced a pragmatic revision. The Swiss economy, although robust, is now navigating waters where foreign administrative decisions can, in the space of a summer, tip GDP from green to red. The publication of the final results on November 28th will allow for a more refined analysis of the extent of the damage to domestic demand.

Swiss GDP in million CHF (quaterly data)



Source: Bloomberg, BBGI Group SA