



MAERKI BAUMANN & CO. AG

PRIVATBANK

# The Swiss Economy and the Challenges of 2020

Market Comment, January 2020

**It is true that the various factors relevant to Switzerland's economic momentum are not all pointing in the same direction right now. But an improvement in Swiss economic growth in 2020 would not come as a surprise to us, particularly in the event of a further de-escalation of the US–China trade conflict. Special factors such as international sporting events, which count as “services imports” for Switzerland, will have an additional positive impact in 2020. Swiss consumer spending has improved, and the leading indicators of industrial activity point to a stabilization, just as they do in other countries. The Swiss traditions of innovation, efficiency and quality can be expected to remain in demand around the world, which should also compensate for a temporary strengthening of the franc against a backdrop of political tensions in the Middle East. Both the Swiss economy and Swiss equity indices are well diversified, and this degree of balance can provide internationally oriented investors with an advantage during any intermittent phases of volatility.**

A comparison between 2018 and 2019 shows that economic growth in Switzerland has slowed, just as it has in other countries. This slowdown has been caused by a number of factors that are likely to improve somewhat in 2020.

One reason was the decline in foreign demand in 2019, above all from the Eurozone. While the lower EUR/CHF exchange rate was no help in this respect, the interventions of the Swiss National Bank resulted in a noticeable stabilization of currency fluctuations. Foreign demand also suffered for geopolitical reasons, with the trade conflict between the US and China weighing on global trade generally. If global trade tensions ease further, the Swiss economy will benefit. There are grounds for optimism here in the latest manufacturing indicators for China and the Eurozone, which are no longer pointing sharply downwards. We are also expecting manufacturing activity in Switzerland to find a level at which it can stabilize. A number of leading indicators suggest precisely this, even though the data are likely to remain volatile in the short

term. As various international sporting organizations are headquartered in Switzerland, both the European Football Championship and the summer Olympic Games will impact positively Swiss economic growth in 2020. Licensing revenues are classified as service imports, and therefore boost gross domestic product. In 2018, for example, the Football World Cup and the winter Olympic Games together increased Swiss gross domestic product to the tune of some 0.5%. A similarly positive effect for Switzerland can be expected for 2020.

**“The Swiss traditions of innovation, flexibility and efficiency are key advantages at a time when all sectors are subject to structural change.”**

Gérard Piasko, Chief Investment Officer

But in addition to these special factors, various other sectors should support Swiss growth in 2020. For example, we saw in 2019 how the exports of pharma products and sophisticated medical instruments made key contributions to economic growth. This suggests that these fairly complex products are less price-sensitive than many people feared. Changes in global demographics, i.e. the increasing proportion of senior citizens in the global population, are driving up global demand for export products of this kind. As long as Swiss companies continue to honour the age-old Swiss traditions of innovation, efficiency and quality, these factors are likely to give Switzerland a key structural advantage over other countries in the medium to long term. Consumer spending remains another positive of the Swiss economy. Key factors here include relatively high household incomes compared to other countries, and strong consumer spending since 2017.

Switzerland's economy and its companies will obviously face considerable challenges in 2020 and beyond. The particular significance of the Eurozone – and especially

Germany – as a key trade partner should not be underestimated. Structural changes, both in the political world and in a number of industries (such as the automotive sector), will be closely watched from Switzerland. It is a traditional mantra that long-term structural changes must be answered with flexible adjustments, and this is true for all countries and all sectors – i.e. not just the automotive industry, for instance, but also banking.

As China and the US together account for around a third of all Swiss exports, the development of trading relations (especially between these two countries) will be of particular significance not just for Europe as a whole, but also – as already stressed above – for Switzerland. In the Eurozone and in Switzerland, both manufacturing and investment activity can be expected to pick up once calm returns to Sino-US trade relations. Thus Germany and Switzerland are sitting in the same boat, so to speak.

The historically strong Swiss franc has once again been flexing its muscles in light of the latest geopolitical tensions in the Middle East between Iran and the US. The key question here is whether this will prevent Switzerland from delivering solid economic and earnings growth. Past

experience shows that while export momentum could suffer to a certain extent in the short term, Switzerland’s competitiveness and efficiency should continue to generate robust economic activity – just as we have witnessed in previous phases of franc strength – unless a global recession were to set in.

In summary, 2020 will be an interesting year for both Switzerland and Europe as a whole. Despite the various challenges, we should be approaching not just the new year, but also the new decade, with optimism and vigour. Continuous innovation, careful execution and flexibility are once again becoming important. The balanced nature of the Swiss equity market and the Swiss economy are beneficial at the moment in an international comparison.

Gérard Piasko

Gérard Piasko is CIO and head of the investment committee of private bank Maerki Baumann & Co. AG. Before he was for many years CIO of Julius Baer, Sal. Oppenheim and Deutsche Bank.



### Modular investments with Maerki Baumann

The topics of the current market comment concern following focus modules:

 Equities Switzerland	 Equities USA	 Bonds CHF	 Global Balanced
 Small & Mid Caps Switzerland	 Equities Emerging Markets	 Bonds EUR	 Commodities
 Equities Eurozone	 Equities Global	 Bonds USD	
 Equities Germany		 Bonds Emerging Markets	

Please contact your client advisor for further information or visit our website.  
[www.maerki-baumann.ch/modular-investments](http://www.maerki-baumann.ch/modular-investments)

**IMPORTANT LEGAL INFORMATION:** This publication is intended for information and marketing purposes only, and is not geared to the conclusion of a contract. It only contains the market and investment commentaries of Maerki Baumann & Co. AG and an assessment of selected financial instruments. Consequently, this publication does not constitute investment advice or a specific individual investment recommendation, and is not an offer for the purchase or sale of investment instruments. The future performance of investments cannot be inferred from past price performance. In other words, the value of investments may increase but may also decrease, and the investor may be required to make additional payments for certain products. In certain circumstances, figures may refer to reporting periods of less than five years, which could reduce their validity. Predictions for the future are always non-binding assumptions. Figures presented in foreign currencies are also subject to exchange rate fluctuations, which can affect their performance. The information in this publication is in no way to be understood as an assurance

of future performance. Maerki Baumann & Co. AG does not provide legal or tax advice. In addition, Maerki Baumann & Co. AG accepts no liability whatsoever for the content of this document; in particular, it does not accept any liability for losses of any kind, whether direct, indirect or incidental, which may be incurred as a result of using the information contained in this document and/or arising from the risks inherent in the financial markets.

Editorial deadline: 10 January 2020

Maerki Baumann & Co. AG  
 Dreikönigstrasse 6, CH-8002 Zurich  
 T +41 44 286 25 25, [info@maerki-baumann.ch](mailto:info@maerki-baumann.ch)  
[www.maerki-baumann.ch](http://www.maerki-baumann.ch)