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PRIVATBANK

How is the Swiss economy doing?

Market Comment, July 2021



This year, Switzerland – much like other countries – has staged a noticeable economic recovery. But while countries such as the United States owe this mainly to government cash hand-outs, the Swiss economy is managing to recover under its own steam. As a result, the country’s government debt remains moderate, even by international standards. In addition, Switzerland still has lower inflation than other countries. Swiss equities remain attractive.

Following the Swiss economy’s 3% contraction last year – a distinctly better figure than for either the Eurozone or the US – the question now is how it will fare this year. While the US economy can be expected to outperform the Swiss economy until the end of the year, this is more or less thanks to the US government’s repeated massive stimulus packages. As we know, cash hand-outs have given another big boost to consumer spending this year.

However, the flip side of this policy is that the US is heading for a budget deficit of around 15% of GDP in 2021, while Switzerland’s budget deficit should come in around the 3% mark. The greater attention being paid to the ideas of “Modern Monetary Theory” (MMT; for more on this see our last Market Comment) is leading to a huge increase in US government debt. This probably also has something to do with the Biden administration’s leftward policy shift.

The US also has distinctly greater inflationary pressures than the Eurozone or Switzerland. This is because capacity utilisation in the US economy is at a much more advanced stage. There is therefore a risk of greater wage pressure in the US than in the Eurozone and Switzerland. At around 0.5% to 0.75% for 2021, Swiss inflation is therefore likely to see a much lower increase than in the US or in the Eurozone.

Switzerland’s labour market was much more stable last year than those of the US or other European countries. Thanks to the gradual easing of coronavirus restrictions

and a strong export economy, Swiss unemployment in 2021 is expected to be low compared with other countries. This year, the manufacturing sector – i.e. the production side of the Swiss economy – will benefit from a combination of rising demand in the US and orders from Chinese customers which have already recovered, pushing exports to China to a new record high this spring. Along with buoyant Chinese and US demand, we also expect the stronger Eurozone economy to boost Swiss exports.

“Thanks to their lower volatility, Swiss equities are a core component of any global portfolio.”

G rard Piasko, Chief Investment Officer

In general, the Swiss economy could see some shift in growth momentum from the manufacturing sector to the service sector over the coming months – albeit subject to developments on the coronavirus front. The cautious opening of the hospitality and hotel sector/tourism should increasingly support the domestic service sectors. Warmer summertime temperatures, pent-up demand after the long months of the coronavirus pandemic and hopefully further progress in vaccinating the population should fuel further growth in consumer spending, which is important for Switzerland’s economic performance. The Swiss National Bank (SNB) will support growth with its expansionary monetary policy. Although significantly less foreign exchange intervention has been necessary this year than in 2020, the SNB will continue to prevent the Swiss franc from strengthening excessively over the coming months so as not to jeopardise the positive level of export activity.

The improvement in the fundamentals has not gone unnoticed on the stock market: Swiss equities have been performing well since the beginning of the year and need

not shy away from comparison with other indices.

Conclusion: Given the strengthening economy and steadily rising corporate earnings, the future outlook for Swiss blue chips as well as small-/mid-caps remains attractive, which is why we are keeping Swiss equities overweighted by international comparison. Moreover, as Swiss equities are less volatile than those of other countries, they remain a core component of a global portfolio.

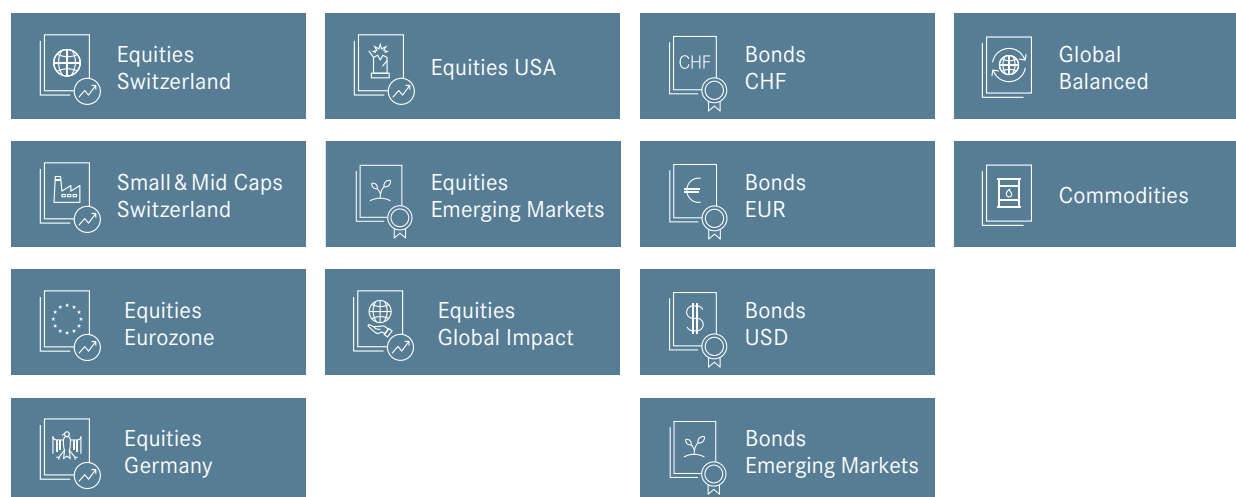
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The topics of the current market comment concern following focus modules:



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