MAERKI BAUMANN & CO. AG

PRIVATBANK

The Swiss economy

Market Comment, January 2024

The Swiss economy is likely to perform at a respectable level relative to other global economies in 2024. Nevertheless, a loss of momentum compared to 2022 and 2023 cannot be ruled out owing to the impact of the economic slowdown in Germany on export growth. However, Switzerland's robust labour market should largely be able to offset the strong Swiss franc's negative effects on exports. What is more, the service industries, including tourism, should continue to perform healthily, contributing to a pleasing level of Swiss economic development overall. Following a valuation correction in 2023, Swiss equities could attract greater international demand once more over the coming quarters, not least due to the quality of the companies' balance sheets.

The Swiss economy already posted a marked recovery from the coronavirus pandemic back in 2022, recording year-on-year growth of in excess of 2.5%. In 2023, however, a weaker German economy put the brakes on the Swiss economy to a certain degree. While higher interest rates and the strong Swiss franc saw Swiss economic growth fall from its 2022 level to a figure of just shy 1%, a recession was clearly avoided. Private consumption grew further in 2023 and, like tourism, benefited from the public's desire to go out, travel and attend concerts in the aftermath of the coronavirus years. As was the case in 2023, the service sector is set to have a more positive impact on Swiss economic growth than the country's manufacturing industries. In terms of developments on the real estate market, higher interest rates will provide a reduced level of support relative to previous years. On the other side of the coin, however, the unabated high level of immigration will remain a positive factor for real estate.

With regard to inflation developments, considerable process has been observed in recent months. This is also true with respect to the so-called base effects, i.e. the higher base of many components of consumers price developments one year ago. However, the increase in both rental costs and electricity prices could lead to a (temporary) halt in improvements in this area. Nevertheless, inflation in Switzerland remains the lowest of all industrialised nations, a fact that is supporting demand for the Swiss franc. As is well known, the Swiss franc's continued strength against the euro is leading to lower import prices for goods sourced from the Eurozone and is continuing to keep inflation at a very low level by international standards.

> "Lower inflation and healthy finances by international standards make investments in Switzerland an attractive proposition at a global level."
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> Gérard Piasko, Chief Investment Officer

This gives the Swiss National Bank room for manoeuvre in its interest rate policy, as the battle against inflation is influenced by demand for Switzerland's national currency. It is likewise positive to note that wage pressure in Switzerland is slight relative to the Eurozone and the US, although unemployment has remained historically low. The very low unemployment rate, by both international and Swiss standards, is also ensuring that private consumption remains at a healthy level, boosting the economy in the process.

In terms of industrial production, Switzerland benefits from the fact that the relatively cyclically resilient pharmaceuticals sector accounts for a large share of activity. This is in stark contrast to the Eurozone, and Germany in particular. Pharmaceutical/chemical products make up approximately 47% of Swiss exports, with machinery and watches accounting for 13% and 9%, respectively. In geographical terms, around 52% of Swiss exports make their way to the European Union (with Germany being the biggest part), 22% to Asia and 18% to the US.

Switzerland is also better positioned than the Eurozone should energy prices increase once more. This is because Switzerland is less reliant on foreign energy supplies than its European neighbours, not least due to the still important role played by the country's hydropower sector and the lesser importance of natural gas in the national energy supply.

The healthy balance sheets of Swiss companies, as well the country's sound government finances and current account balance, are another important advantage for the domestic economy. In contrast to other European states, the US and China, Switzerland has in recent years even succeeded in reducing its national debt as a percentage of gross domestic product, thus serving as a role model to its international counterparts.

Swiss public limited companies also have a relatively low level of debt and, in most cases, are less cyclical than the firms listed on the equity markets of other countries. This could benefit the Swiss equity market in the event of a global economic slowdown.

In global terms, the Swiss equity market is therefore attractive overall and represents an interesting proposition over the long term.

Gérard Piasko

Gérard Piasko is Chief Investment Officer and head of the investment committee of private bank Maerki Baumann. Before he was for many years Chief Investment Officer of Julius Baer, Sal. Oppenheim and Deutsche Bank.

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