

Swiss Economics

Swiss financial analysts are concerned about geopolitics

Financial Market Survey Switzerland | 22/02/2023, 08:54, UTC

Sentiment among Swiss financial analysts is continuing to improve. Their pessimistic expectations of recent months have not materialised as yet.

However, the geopolitical situation remains a source of concern to analysts – and is influencing client interest in ESG investments.

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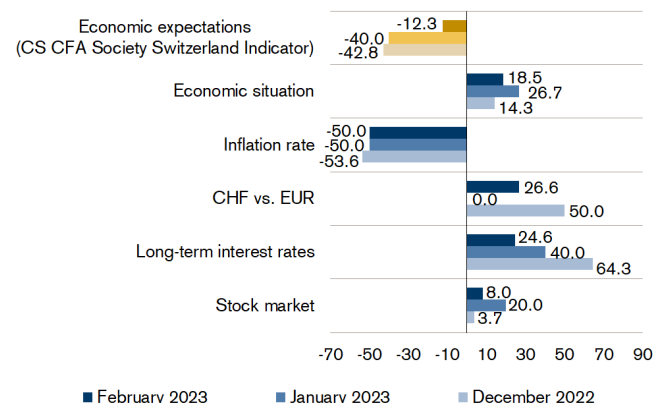
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Sentiment indicator continues to recover

The CS CFA Society Switzerland indicator improved considerably in February, climbing by 27.7 points. But given its poor level by historical standards, at –12.3 points it is still below the growth threshold (see figure 1). As many as one-fifth of analysts now believe that the Swiss economy has already bottomed out. The corresponding figure for the US is only 15%, while more than half of respondents expect economic momentum in the US to deteriorate further.

Figure 1: Indicators for Switzerland

Net percentage of responses: a positive value signals a rise, while a negative reading indicates a fall



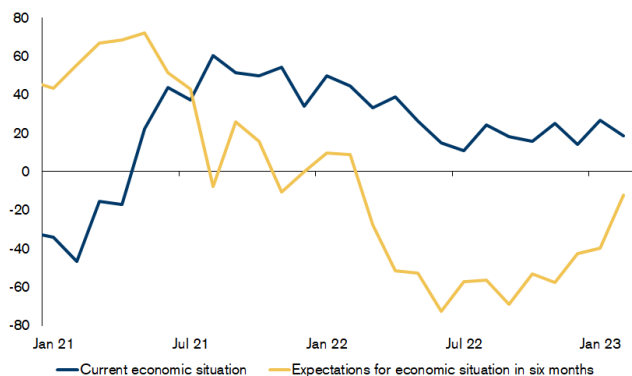
Source: CFA Society Switzerland, Credit Suisse

A conspicuous discrepancy remains between analysts' economic expectations and their assessment of the current economic situation. While the majority of survey participants have been forecasting an economic slowdown for almost a year now, their assessment of the actual economic situation remains astonishingly robust (see figure 2). This is consistent with other indicators such as consumer sentiment, which have been at a low for months, while hard economic data are painting a less pessimistic picture.

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Figure 2: The recession that wasn't

Assessment of the economic situation and economic expectations (net percentage): a positive value signals a rise, while a negative reading indicates a fall



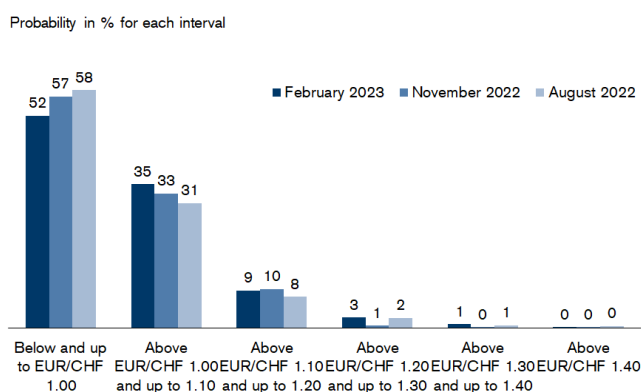
Source: CFA Society Switzerland, Credit Suisse

Falling inflation, rising key rates

Short-term inflation expectations remain unchanged versus the prior month. Two-thirds of respondents expect inflation to fall over the coming six months. This trend is even more pronounced in the Eurozone and the US in light of significantly higher inflation rates in these regions (see table). That said, when it comes to short-term interest rate expectations the signs are still pointing upwards. Compared to January, the proportion of analysts expecting further policy rate hikes from the Swiss National Bank, the European Central Bank and the US Federal Reserve has actually risen again. In contrast, expectations for long-term interest rates have been falling continuously since peaking in July 2022. Just 40% of the analysts surveyed think that long-term interest rates in Switzerland and the US will be higher than their current levels in six months' time.

Figure 3: Where do you currently see the fair value of EUR/CHF?

Share of responses in %



Source: CFA Society Switzerland, Credit Suisse

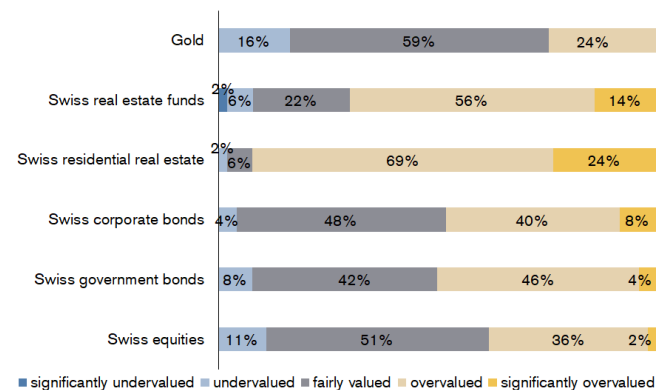
EUR/CHF: Fair value estimates remain below parity

Since last summer, the majority of the financial analysts surveyed have seen the fair value of the EUR/CHF exchange rate – i.e. the fundamental value that determines the ex-

change rate over the long term – at below parity. While upward pressure has subsided slightly since reaching a peak, estimates are largely unchanged this quarter (see figure 3). In line with their fair value estimates, the analysts expect the actual EUR/CHF exchange rate to decline over the next six months. The respondents also see the CHF appreciating against the USD (see table).

Figure 4: How do you rate the valuation level of the following asset classes?

Share of responses in %



Source: CFA Society Switzerland, Credit Suisse

Swiss bonds moving closer to fair value

The pronounced recovery on the equity market in recent weeks is affecting the valuation level of Swiss stocks, according to the analysts. At currently 38% (see figure 4), the share of respondents who consider Swiss equities too expensive is somewhat higher than in the last quarter (31%). Nonetheless, equities and gold remain the only asset classes that the respondents deem fairly valued overall. Meanwhile, Swiss sovereign and corporate bonds are less overvalued thanks to the rise in interest rates. For the first time in a long period, equal proportions of analysts consider corporate bonds to be overvalued or fairly valued. In contrast, Swiss residential real estate and real estate funds remain clearly overvalued, according to the respondents. Both asset classes now have an even greater tendency to be overvalued due to the price risks stemming from higher interest rates.

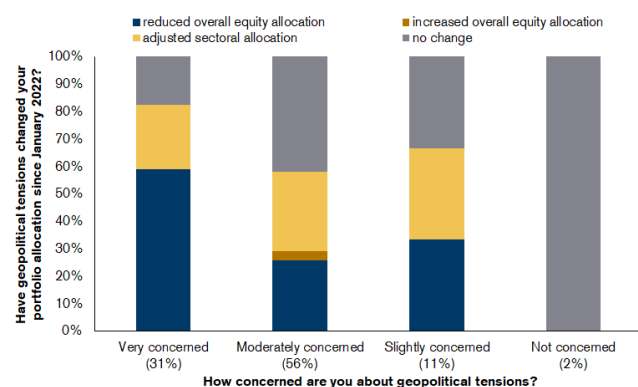
Geopolitical developments: widespread concerns prevail

As the anniversary of the war in Ukraine approaches, we asked a number of special questions on the topic of geopolitics. Nearly all of the participating financial analysts are concerned about geopolitical tensions, which prompted two-thirds of the respondents to make adjustments to their portfolios last year. Most adjustments were made when the war broke out and involved either a reduction in the equity allocation or shifts between sectors. The extent of the adjustments corresponded to the level of analysts' concerns (see figure 5). However, only a small percentage of respondents continued to make adjustments in the last three months.

It is also interesting to note that one-third of the participating financial analysts are reporting a drop in client demand for ESG investments due to geopolitical tensions. This is probably partly attributable to the fact that defence or traditional energy stocks (which are often excluded from ESG investments) have come back into the spotlight with the war. That said, the majority of participants report that geopolitical tensions have not influenced client interest in ESG investments.

Figure 5: Special topic of geopolitical developments

Share of responses in %



Source: CFA Society Switzerland, Credit Suisse

The CFA Society Switzerland and Credit Suisse have been conducting the Financial Market Survey Switzerland (a monthly survey of financial analysts) since January 2017. Detailed results of the survey conducted between 9 and 16 February 2023, involving the participation of 66 analysts from the Swiss financial sector, are published here.

(20/02/2023)

Financial Market Survey Switzerland by Credit Suisse and CFA Society Switzerland: February 2023 results

| Current economic situation | good | +/- | normal | +/- | poor | +/- | balance | +/- |
|--|-------------------|-------|------------------|-------|-------------------|-------|----------------|-------|
| Switzerland | 23.1 | -6.9 | 72.3 | 5.6 | 4.6 | 1.3 | 18.5 | -8.2 |
| Eurozone | 4.6 | 1.3 | 55.4 | -11.3 | 40.0 | 10.0 | -35.4 | -8.7 |
| USA | 21.9 | 15.2 | 65.6 | -14.4 | 12.5 | -0.8 | 9.4 | 16.0 |
| China | 12.9 | 2.6 | 56.5 | 18.6 | 30.6 | -21.1 | -17.7 | 23.7 |
| Economic expectations | improve | | no change | | worsen | | balance | |
| Switzerland (CS CFA Society Switzerland Indicator) | 20.0 | 6.7 | 47.7 | 14.4 | 32.3 | -21.0 | -12.3 | 27.7 |
| Eurozone | 22.7 | 9.4 | 36.4 | 3.1 | 40.9 | -12.4 | -18.2 | 21.8 |
| USA | 15.4 | 2.1 | 30.8 | 0.8 | 53.8 | -2.9 | -38.4 | 5.0 |
| China | 57.8 | -0.8 | 28.1 | 0.5 | 14.1 | 0.3 | 43.7 | -1.1 |
| Inflation rate | increase | | no change | | decrease | | balance | |
| Switzerland | 13.6 | -3.1 | 22.7 | 6.0 | 63.6 | -3.1 | -50.0 | 0.0 |
| Eurozone | 13.6 | 0.3 | 10.6 | -2.7 | 75.8 | 2.5 | -62.2 | -2.2 |
| USA | 9.1 | -0.9 | 16.7 | 3.4 | 74.2 | -2.5 | -65.1 | 1.6 |
| Other economic indicators for Switzerland | increase | | no change | | decrease | | balance | |
| Export momentum (situation) | 5.6 | -2.4 | 70.4 | -9.6 | 24.1 | 12.1 | -18.5 | -14.5 |
| Export momentum (expectations) | 19.3 | 11.3 | 50.9 | 6.9 | 29.8 | -18.2 | -10.5 | 29.5 |
| Unemployment rate | 28.1 | -16.7 | 67.2 | 15.5 | 4.7 | 1.3 | 23.4 | -18.0 |
| Short-term interest rates | increase | | no change | | decrease | | balance | |
| Switzerland | 83.1 | 3.1 | 15.4 | -4.6 | 1.5 | 1.5 | 81.6 | 1.6 |
| Eurozone | 89.2 | 5.9 | 9.2 | -7.5 | 1.5 | 1.5 | 87.7 | 4.4 |
| USA | 89.2 | 9.2 | 6.2 | -7.1 | 4.6 | -2.1 | 84.6 | 11.3 |
| Short-term interest rate spread | increase | | no change | | decrease | | balance | |
| Eurozone – Switzerland | 62.5 | 7.3 | 29.7 | -11.7 | 7.8 | 4.4 | 54.7 | 2.9 |
| Long-term interest rates | increase | | no change | | decrease | | balance | |
| Switzerland | 40.0 | -13.3 | 44.6 | 11.3 | 15.4 | 2.1 | 24.6 | -15.4 |
| Germany | 47.7 | -9.0 | 33.8 | 7.1 | 18.5 | 1.8 | 29.2 | -10.8 |
| USA | 38.5 | -14.8 | 36.9 | 13.6 | 24.6 | 1.3 | 13.9 | -16.1 |
| Long-term interest rate spread | increase | | no change | | decrease | | balance | |
| Germany – Switzerland | 39.7 | -3.2 | 49.2 | -7.9 | 11.1 | 11.1 | 28.6 | -14.3 |
| Share price | increase | | no change | | decrease | | balance | |
| SMI (Switzerland) | 40.3 | -13.0 | 27.4 | 14.1 | 32.3 | -1.0 | 8.0 | -12.0 |
| EuroStoxx 50 (Eurozone) | 35.9 | -7.4 | 28.1 | 4.8 | 35.9 | 2.6 | 0.0 | -10.0 |
| S&P (USA) | 36.5 | -13.5 | 25.4 | 12.1 | 38.1 | 1.4 | -1.6 | -14.9 |
| Swiss franc exchange rate versus | appreciate | | no change | | depreciate | | balance | |
| EUR | 43.8 | 17.1 | 39.1 | -7.6 | 17.2 | -9.5 | 26.6 | 26.6 |
| USD | 46.9 | 10.2 | 35.9 | -10.8 | 17.2 | 0.5 | 29.7 | 9.7 |
| Commodities | increase | | no change | | decrease | | balance | |
| Oil (North Sea Brent) | 37.1 | 23.3 | 35.5 | -16.2 | 27.4 | -7.1 | 9.7 | 30.4 |
| Gold (per ounce) | 36.1 | 4.0 | 36.1 | -10.3 | 27.9 | 6.5 | 8.2 | -2.5 |

Note: 66 analysts took part in the Financial Market Survey Switzerland for February from 9 to 16 February 2023. Analysts were asked about their expectations for the next six months. The numbers displayed are percentages. The balances represent the difference between the positive and negative shares of responses.

Source: CFA Society Switzerland, Credit Suisse

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