

Swiss Economics

Swiss analysts forecasting an end to the recovery

Financial Market Survey Switzerland | 25/08/2021, 07:53, UTC

Economic expectations in the monthly financial market survey were in sharp decline in August. Alongside the risks sparked by the Delta variant of Covid-19, this is partly due to a normalisation of economic growth.

Moreover, it is clear that the analysts are comparatively unconcerned about the effects on the Chinese stock market, the global equity markets and the Swiss Market Index.

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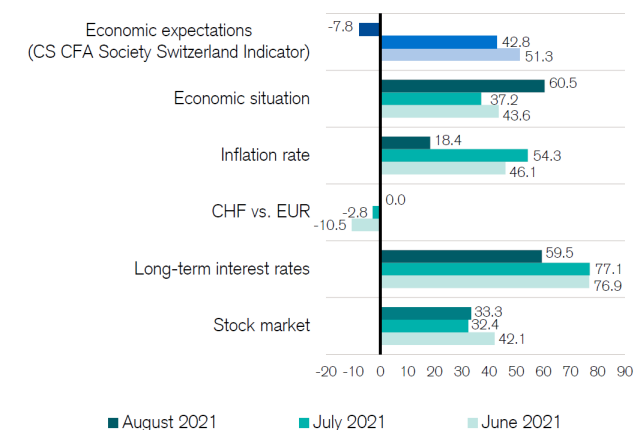
Sentiment indicator slides below the growth threshold

The CS CFA Society Switzerland indicator dropped abruptly into negative territory in August to a level of -7.8 (see figure 1). Compared to the previous month, this represented a spectacular collapse in the indicator of 50.6 points. The only times the sentiment gauge has fallen this sharply before were after the Swiss franc shock and at the start of the pandemic

last year. Nevertheless, the situations are in fact very different. While the balance of expectations among Swiss financial analysts is forecasting a deterioration in economic growth in Switzerland within the next six months, we should not forget that this comes after a remarkable upswing that had to come to an end sooner or later. Admittedly, the end is now forecast is more sudden and more pronounced than recent surveys suggested. This is probably due in part to the growing geopolitical uncertainty following the withdrawal of US troops from Afghanistan. That said, the main reason is likely to be the resurgence of the pandemic in the US and China, which will probably exacerbate – due to the closure of transportation and production facilities – what is already a strained situation in the supply chain.

Figure 1

Indicators for Switzerland (balances)



Source: CFA Society Switzerland, Credit Suisse

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Marked drop in exports according to analysts

Analysts' expectations regarding exports have also fallen precipitously (see table). This comes as little surprise, especially as the economic prospects of Switzerland's key trading partners – the eurozone, the US and China – have also plunged. Since March, export expectations for Switzerland have been on a sharper downtrend than in the early days of the pandemic. That said, the starting point was far worse at that time. As a result, to some extent the forecast of a sharp deterioration in the current environment points to little more than a normalisation process, similar to the economic expectations. This interpretation is supported by the fact that the analysts consider the current economic and export situation in Switzerland to be exceptionally good. However, when it comes to the labour market the optimism has waned somewhat. With the summer now drawing to a close, this is probably due in part to seasonal reasons. Half of the respondents believe that the rally on the labour market is over for now and expect the unemployment rate to stabilise around its current level over the next six months.

Fall in survey participants' inflation expectations

Given that the analysts surveyed do not expect the labour market to tighten any further and now expect economic growth to fall back, it is only logical that their inflation expectations are also in retreat. One-third of respondents have changed their mind since July and no longer anticipate a rise in the inflation rate in Switzerland. But there is no overall consensus among those surveyed with regard to the trend in inflation going forward: 40% expect the rate to rise, 40% believe it will hold steady and around 20% actually think the inflation rate will fall. The distribution of responses is similarly wide in relation to the eurozone and the US as well, which points to a high degree of uncertainty of inflation expectations. Conversely, there is a greater degree of consensus as far as interest rates are concerned. While the forecasts for short-term rates in Switzerland, the eurozone and the US have barely moved at all month-on-month, with almost 80% of respondents still not expecting the central banks to make a rate move, the consensus with regard to rising long-term rates has weakened since July. The number of analysts who do not anticipate any change in the next six months is significantly higher than in the prior month, while a rise in interest rates is still considered the most likely option, accounting for more than 60% of the responses.

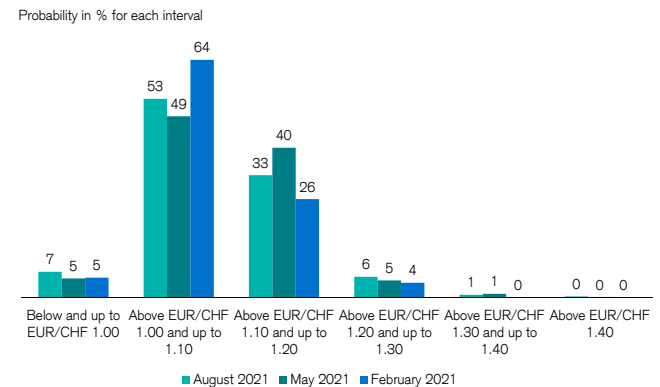
Analysts expect little change in CHF exchange rate

In terms of the CHF exchange rate against the EUR and USD, the analysts' responses show a slight tendency towards appreciation compared to the previous month, although this is within the range of the usual monthly fluctuations. Half of the respondents still expect the Swiss franc to trend sideways versus both currencies, while the remaining responses are more or less equally divided between forecasts of depreciation or appreciation. In our quarterly special poll on the fair value of EUR/CHF, the mass of distribution in the analysts' estimates has headed slightly downwards compared to the previous poll. According to the analysts, the likelihood of the fair value ranging from 1.00 to 1.10 is 53% (up from 49% in

May), while the probability of it exceeding 1.10 has declined. This result is not significantly different from the survey participants' average estimates in the last two years.

Figure 2

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



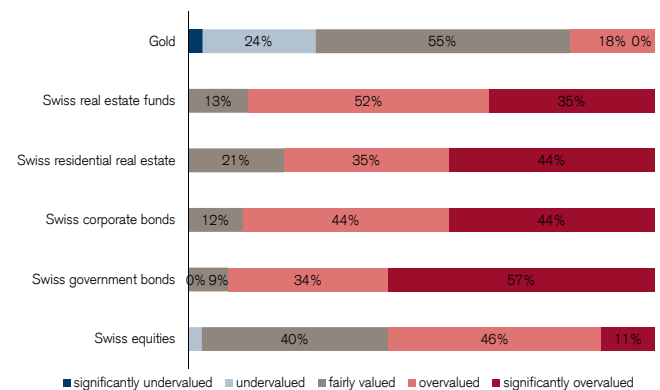
Source: CFA Society Switzerland, Credit Suisse

Gold is the only fairly valued asset class according to analysts

Conversely, our quarterly special poll on the valuation levels of Swiss asset classes shows a more pronounced change of opinion. According to the analysts, all asset classes except gold have moved further into overvaluation territory. Swiss equities are most affected by this trend as 53% of respondents thought they were fairly valued in May, compared to only 40% currently. Meanwhile, 46% (up from 41% in May) consider Swiss equities overvalued, while 11% (up from 0% in May) now think they are significantly overvalued. The share of analysts who consider Swiss government bonds overvalued is at a record high of 91%, while a substantial 88% think that corporate bonds are overvalued. In the opinion of the survey participants, real estate – both residential property and real estate funds – is also too expensive for their return potential. Hence gold is the only asset class deemed fairly valued by the majority of respondents in August (55%).

Figure 3

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



Source: CFA Society Switzerland, Credit Suisse

Analysts relatively unconcerned about regulatory interventions in China

Given the current regulatory crackdown on companies in China, we asked analysts about their views on Chinese equities, possible repercussions on the global stock markets and the general relationship between China and the US in an additional poll. While 94% of the respondents anticipate further regulatory interventions, only 15% expect to see a slump in the MSCI China. 40% do not foresee any change in the next six months, while 45% believe that the index has already bottomed out and is set to rise (see figure 4). As a result, the forecasts for the Chinese stock market are similar to those for Switzerland, the eurozone and the US (see table). For this reason, an overwhelming majority of 76% of the respondents have not adjusted their exposure to China. The survey participants do not expect the events in China to have any impact on the Swiss Market Index (SMI).

The analysts' views on future relations between China and the US are also interesting. While half of the survey participants expect relations to deteriorate further over the next half-year, only a fifth of the respondents see this having an adverse effect on the global equity markets. At the same time, 42% do not envisage any change at all in Sino-US relations.

Figure 4

Special questions on China



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 12 and 19 August 2021, involving the participation of 38 analysts from the Swiss financial sector, are published here.

(23/08/2021)

Financial Market Survey Switzerland by Credit Suisse and CFA Society Switzerland: August 2021 results

Current economic situation	good	+/-	normal	+/-	poor	+/-	balance	+/-
Switzerland	60.5	17.6	39.5	-11.9	0.0	-5.7	60.5	23.3
Eurozone	52.6	26.9	42.1	-23.6	5.3	-3.3	47.3	30.2
USA	71.1	5.4	26.3	-5.1	2.6	-0.3	68.5	5.7
China	32.4	-4.7	64.9	4.9	2.7	-0.2	29.7	-4.5
Economic expectations	improve		no change		worsen		balance	
Switzerland (CS CFA Society Switzerland Indicator)	21.1	-30.3	50.0	10.0	28.9	20.3	-7.8	-50.6
Eurozone	28.9	-25.4	39.5	8.1	31.6	17.3	-2.7	-42.7
USA	18.4	-15.9	47.4	7.4	34.2	8.5	-15.8	-24.4
China	15.8	-13.6	60.5	7.6	23.7	6.1	-7.9	-19.7
Inflation rate	increase		no change		decrease		balance	
Switzerland	39.5	-29.1	39.5	22.4	21.1	6.8	18.4	-35.9
Eurozone	44.7	-21.0	28.9	11.8	26.3	9.2	18.4	-30.2
USA	39.5	-9.1	15.8	-12.8	44.7	21.8	-5.2	-30.9
Other economic indicators for Switzerland	increase		no change		decrease		balance	
Export momentum (situation)	36.4	-0.3	60.6	0.6	3.0	-0.3	33.4	0.0
Export momentum (expectations)	18.2	-21.8	66.7	26.7	15.2	-4.8	3.0	-17.0
Unemployment rate	17.1	2.4	51.4	7.3	31.4	-9.8	-14.3	12.2
Short-term interest rates	increase		no change		decrease		balance	
Switzerland	21.6	1.6	78.4	-1.6	0.0	0.0	21.6	1.6
Eurozone	21.6	-1.3	78.4	1.3	0.0	0.0	21.6	-1.3
USA	27.0	-1.6	73.0	1.6	0.0	0.0	27.0	-1.6
Short-term interest rate spread	increase		no change		decrease		balance	
Eurozone – Switzerland	5.7	-3.7	91.4	0.8	2.9	2.9	2.8	-6.6
Long-term interest rates	increase		no change		decrease		balance	
Switzerland	62.2	-14.9	35.1	12.2	2.7	2.7	59.5	-17.6
Germany	64.9	-12.2	32.4	9.5	2.7	2.7	62.2	-14.9
USA	73.0	-15.6	24.3	12.9	2.7	2.7	70.3	-18.3
Long-term interest rate spread	increase		no change		decrease		balance	
Germany – Switzerland	25.7	0.7	71.4	-3.6	2.9	2.9	22.8	-2.2

Share price	increase		no change		decrease		balance	
SMI (Switzerland)	47.2	0.1	38.9	0.7	13.9	-0.8	33.3	0.9
EuroStoxx 50 (Eurozone)	51.4	-7.4	34.3	7.8	14.3	-0.4	37.1	-7.0
S&P (USA)	51.4	10.2	34.3	-3.9	14.3	-6.3	37.1	16.5
Swiss franc exchange rate versus	appreciate		no change		depreciate		balance	
EUR	25.0	2.1	50.0	-1.4	25.0	-0.7	0.0	2.8
USD	22.9	5.8	48.6	-2.8	28.6	-2.8	-5.7	8.6
Commodities	increase		no change		decrease		balance	
Oil (North Sea Brent)	15.2	-11.3	63.6	25.4	21.2	-14.1	-6.0	2.8
Gold (per ounce)	39.4	-2.5	42.4	-6.0	18.2	8.5	21.2	-11.0

Note: In August, 38 analysts took part in the Financial Market Survey Switzerland from 12 to 19 August 2021. 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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