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Swiss Economics

# Swiss analysts unperturbed by higher inflation

**Financial Market Survey Switzerland** | 30/06/2021, 07:55, UTC

**The financial analysts' economic expectations for the next six months seem to have passed their peak in June, but remain at a historically high level.**

**The analysts do not expect elevated inflation to persist; the majority are not currently protecting their portfolios against inflation any more than usual.**

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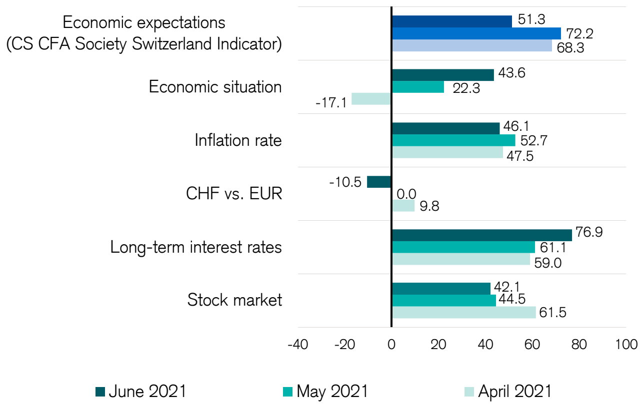
### Sentiment indicator points to a normalizing recovery

The assessment of the current economic situation in Switzerland has continued to improve, with almost 95% of the survey participants describing the economy as "good" or "normal" at present (see table). However, according to the financial analysts, the recovery could peak within the next six months. Only 60% of the respondents now expect the economic situation to improve further, compared to 72% in the prior month. Thus, at 51.3 points, the CS CFA Society Switzerland Indicator for June is considerably lower than the May reading of 72.2 points (see figure 1). However, the June level is still historically high and indicates continued positive prospects for the Swiss economy, with momentum merely returning to normal from its previous exceptional levels.

**Figure 1**
Indicators for Switzerland (balances)




Source: CFA Society Switzerland, Credit Suisse

### Limited upside pressure on CHF; falling unemployment

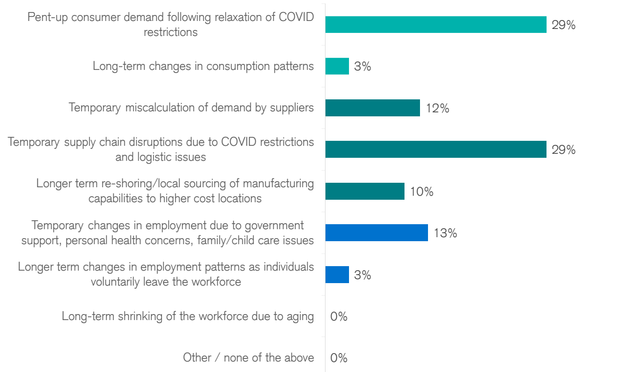
The analysts' expectations regarding the economic trend in other countries are similar to those for Switzerland. Overall, the survey results clearly point to a continued recovery for Switzerland's main trading partners, although for the first time, the number of optimistic responses has declined in June. As a result, expectations for Swiss export activity over the next six months have softened. As the current upswing in exports is the strongest and steepest ever recorded in the survey's history, it is likely that this decline is also a sign of normalization, rather than an outright downturn in momentum. In addition, the analysts see little upside pressure on CHF. A third of the respondents actually expect the franc to depreciate against EUR and USD, while around half of the analysts look for a sideways trend. The continued improvement on the labor market is also encouraging. For the second consecutive month, the financial analysts expect the unemployment rate to fall in Switzerland.

## Tapering debate could keep equity markets in check according to analysts

Although the global economy remains on a recovery path, in the analysts' opinion, rate hikes by the central banks are still a distant prospect for the time being. Short-term interest rates will remain unchanged in Switzerland and the Eurozone according to three-quarters of the respondents, while two-thirds forecast the same scenario for the US. This outlook was envisaged by a higher percentage of analysts last month, which suggests that the likelihood of rising short-term rates has increased somewhat lately. The situation for long-term interest rates is very different, with a clear majority of 80% expecting an upward trend in the next half-year. Moreover, as the last monetary policy meeting at the US Federal Reserve signaled that a tighter policy is approaching, a growing number of analysts are concerned that the debate about central banks tapering their bond purchases could weigh on the equity markets. Just slightly more than half of the survey participants expect the Swiss Market Index and the Euro Stoxx 50 Index to post further gains, while only 35% of the respondents forecast the same scenario for the S&P 500. That said, corrections are not particularly likely either according to the analysts, who instead see the markets trending sideways for a prolonged period.

**Figure 2**

What are the main drivers of the current inflation pressure in the US?



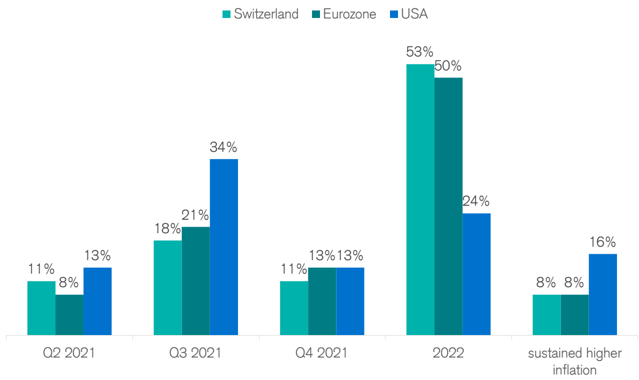

Source: CFA Society Switzerland, Credit Suisse

## Rising inflation largely attributable to temporary factors according to analysts

Besides base effects, temporary factors are mainly responsible for the current inflation pressure in the US according to the financial analysts (see figure 2). In our special poll on inflation, the reasons most commonly cited by the analysts are pent-up consumer demand as coronavirus restrictions ease and supply chain disruptions. These are followed by temporary changes to labor supply stemming from fiscal support measures, personal health concerns or a lack of child or family care. The first longer-term driver of inflation – the relocation of production facilities to countries with higher production costs ("glocalization") – takes fifth place out of the seven possible answers. As most of these factors are likely to become less influential in the months ahead, the majority of analysts expect inflation in the US to peak in the third quarter of 2021, as reflected by the responses to another special poll (see figure 3). According to the analysts, inflation in Switzerland and the euro area should take longer to reach this point, i.e. in the course of 2022. After all, the economic recovery in both regions also began later than in the US.

**Figure 3**

When do you expect inflation to peak?



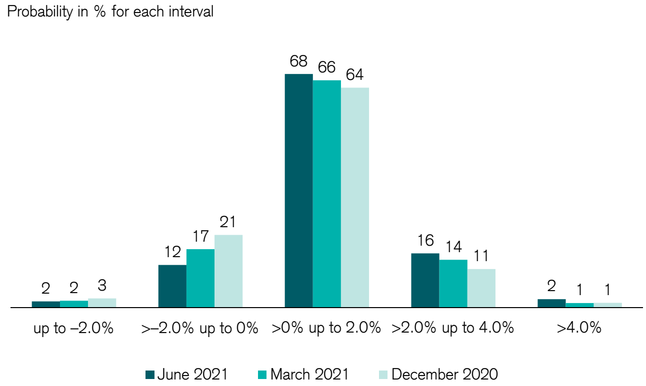

Source: CFA Society Switzerland, Credit Suisse

## Only a quarter of financial analysts are hedging their portfolios against inflation

Meanwhile, the analysts do not seem particularly worried about the prospect of a sustained uptick in inflation. Only 8% envisage this scenario in Switzerland and the Eurozone, while just 16% of the analysts see inflation remaining stubbornly higher in the US. Accordingly, three-quarters of the survey participants are not currently hedging their portfolios against inflation any more than usual. Amongst the 24% who are, the preferred hedging option is gold. This is consistent with the analysts' forecasts of a renewed surge in the price of gold since March after their price expectations steadily declined over a six-month period. Other assets used by the analysts to hedge their portfolios against inflation are commodities, real estate, inflation-linked bonds and value stocks.

**Figure 4**

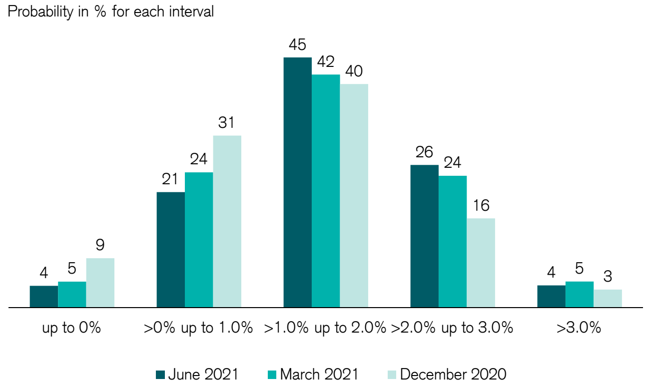
What is your forecast for Switzerland's annual rate of inflation five years from now?




Source: CFA Society Switzerland, Credit Suisse

**Figure 5**

What is your forecast for Switzerland's annual rate of economic growth in the next three to five years?




Source: CFA Society Switzerland, Credit Suisse

## Long-term inflation expectations for Switzerland remain in the SNB's target range

Moreover, according to our quarterly poll on Swiss long-term inflation forecasts, it is highly unlikely that inflation expectations will become unanchored in Switzerland. The analysts see a 68% likelihood of inflation in Switzerland remaining in the Swiss National Bank's target range on a five-year horizon, which represents an increase on the previous months' levels (see figure 4). The analysts' point forecasts average at an inflation rate of 1.37%. In addition, thanks to the recovery in recent months, the probability of lingering deflation has fallen from 27% in June 2020 to 14% in June 2021.

## Pandemic will not harm long-term GDP growth according to analysts

The analysts' long-term economic forecasts have increasingly stabilized since the height of the pandemic last year. While in March 2020, the respondents saw a 49% probability of GDP growth moving in a modest range of 0 to 1% over the next five years, the mass of distribution of the responses has continuously moved upwards since then. In the eyes of the analysts, the long-term damage to Swiss gross domestic product (GDP) stemming from the pandemic should be minimal, as they now see only a 25% likelihood of average GDP growth falling below 1% over the next five years (see figure 5). Instead, they consider a growth rate of 1 to 2% (45% probability) or even higher (30% probability) more realistic. At 1.86%, the analysts' average forecast is very close to the level of the previous quarter (1.83%).

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 17 and 24 June 2021, involving the participation of 39 analysts from the Swiss financial sector, are published here.

(28/06/2021)

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

| **Current economic situation** | **good** | **+/–** | **normal** | **+/–** | **poor** | **+/–** | **balance** | **+/–** |
|---|---|---|---|---|---|---|---|---|
| Switzerland | 48.7 | 18.1 | 46.2 | -14.9 | 5.1 | -3.2 | 43.6 | 21.3 |
| Eurozone | 25.6 | 8.9 | 64.1 | 3.0 | 10.3 | -11.9 | 15.3 | 20.8 |
| USA | 66.7 | 11.1 | 33.3 | -2.8 | 0.0 | -8.3 | 66.7 | 19.4 |
| China | 55.3 | 6.7 | 44.7 | -6.7 | 0.0 | 0.0 | 55.3 | 6.7 |
| **Economic expectations** | **improve** | | **no change** | | **worsen** | | **balance** | |
| Switzerland (CS CFA Society Switzerland Indicator) | 59.0 | -13.2 | 33.3 | 5.5 | 7.7 | 7.7 | 51.3 | -20.9 |
| Eurozone | 66.7 | -11.1 | 23.1 | 3.7 | 10.3 | 7.5 | 56.4 | -18.6 |
| USA | 51.3 | -1.5 | 38.5 | -3.2 | 10.3 | 4.7 | 41.0 | -6.2 |
| China | 34.2 | -8.7 | 52.6 | -1.7 | 13.2 | 10.3 | 21.0 | -19.0 |
| **Inflation rate** | **increase** | | **no change** | | **decrease** | | **balance** | |
| Switzerland | 53.8 | -4.5 | 38.5 | 2.4 | 7.7 | 2.1 | 46.1 | -6.6 |
| Eurozone | 61.5 | -5.2 | 30.8 | 3.0 | 7.7 | 2.1 | 53.8 | -7.3 |
| USA | 73.7 | 1.5 | 7.9 | -8.8 | 18.4 | 7.3 | 55.3 | -5.8 |
| **Other economic indicators for Switzerland** | **increase** | | **no change** | | **decrease** | | **balance** | |
| Export momentum (situation) | 39.4 | 24.2 | 51.5 | -24.3 | 9.1 | 0.0 | 30.3 | 24.2 |
| Export momentum (expectations) | 47.1 | -7.4 | 44.1 | 4.7 | 8.8 | 2.7 | 38.3 | -10.1 |
| Unemployment rate | 18.4 | -10.2 | 44.7 | 4.7 | 36.8 | 5.4 | -18.4 | -15.6 |
| **Short-term interest rates** | **increase** | | **no change** | | **decrease** | | **balance** | |
| Switzerland | 23.1 | 9.2 | 76.9 | -9.2 | 0.0 | 0.0 | 23.1 | 9.2 |
| Eurozone | 28.2 | 14.3 | 71.8 | -14.3 | 0.0 | 0.0 | 28.2 | 14.3 |
| USA | 34.2 | 12.0 | 65.8 | -12.0 | 0.0 | 0.0 | 34.2 | 12.0 |
| **Short-term interest rate spread** | **increase** | | **no change** | | **decrease** | | **balance** | |
| Eurozone – Switzerland | 10.8 | 2.2 | 86.5 | -2.1 | 2.7 | -0.2 | 8.1 | 2.4 |
| **Long-term interest rates** | **increase** | | **no change** | | **decrease** | | **balance** | |
| Switzerland | 79.5 | 12.8 | 17.9 | -9.9 | 2.6 | -3.0 | 76.9 | 15.8 |
| Germany | 82.1 | 12.7 | 15.4 | -12.4 | 2.6 | -0.2 | 79.5 | 12.9 |
| USA | 82.1 | 9.9 | 15.4 | -6.8 | 2.6 | -3.0 | 79.5 | 12.9 |
| **Long-term interest rate spread** | **increase** | | **no change** | | **decrease** | | **balance** | |
| Germany – Switzerland | 18.9 | 1.8 | 75.7 | 1.4 | 5.4 | -3.2 | 13.5 | 5.0 |
| **Share price** | **increase** | | **no change** | | **decrease** | | **balance** | |
| SMI (Switzerland) | 50.0 | -5.6 | 42.1 | 8.8 | 7.9 | -3.2 | 42.1 | -2.4 |
| EuroStoxx 50 (Eurozone) | 52.6 | -3.0 | 39.5 | 6.2 | 7.9 | -3.2 | 44.7 | 0.2 |
| S&P (USA) | 35.1 | -12.1 | 48.6 | 12.5 | 16.2 | -0.5 | 18.9 | -11.6 |
| **Swiss franc exchange rate versus** | **appreciate** | | **no change** | | **depreciate** | | **balance** | |
| EUR | 18.4 | -10.2 | 52.6 | 9.7 | 28.9 | 0.3 | -10.5 | -10.5 |
| USD | 26.3 | -10.8 | 42.1 | 5.0 | 31.6 | 5.9 | -5.3 | -16.7 |
| **Commodities** | **increase** | | **no change** | | **decrease** | | **balance** | |
| Oil (North Sea Brent) | 32.4 | -4.0 | 40.5 | -8.0 | 27.0 | 11.8 | 5.4 | -15.8 |
| Gold (per ounce) | 42.9 | -11.6 | 40.0 | 24.8 | 17.1 | -13.2 | 25.8 | 1.6 |

Note: 39 analysts took part in the Financial Market Survey Switzerland for June from 17 to 24 June 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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