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Swiss Economics

Swiss economic situation considered “good” again

Financial Market Survey Switzerland | 26/05/2021, 07:51, UTC

For the first time in 14 months, analysts describe the economic situation in Switzerland as good. Looking ahead to the next six months they anticipate further improvements, also for the labor market.

At the same time, they expect long-term interest rates to rise. In view of the resulting return expectations, Swiss bonds, residential property and real estate funds look currently overvalued to the analysts.

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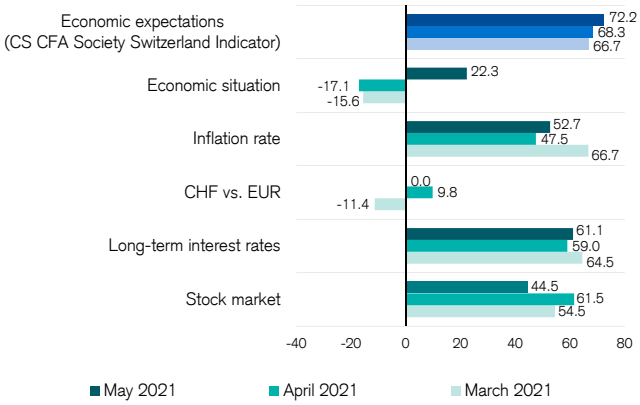
Sentiment indicator forecasts seamless recovery

The CS CFA Society Switzerland indicator has hit another record level in May. Following on from its previous high in the prior month, it climbed by a further 3.9 to 72.2 points (see figure 1) and is experiencing an uninterrupted upswing. Not a single survey respondent fears that the Swiss economic performance could deteriorate over the coming six months, due to mutations of the coronavirus or large-scale production bottlenecks for example . Analysts’ expectations, which have been improving steadily for months, have now been proved to be well-founded and are being reflected in the assessments of the current economic environment in Switzerland. Those had been stuck in negative territory for 14 months, but in May the majority of analysts described the economic situation as “normal” again for the first time since the pandemic began, with a third even labelling it as “good”. This produced a positive reading at the level of late summer 2019 (see table). The trend in the Eurozone is still lagging behind slightly, while the US and China are well ahead. Over the next six months, analysts see the signs across all regions pointing to an upswing though.

Figure 1

Indicators for Switzerland (balances)



Source: CFA Society Switzerland, Credit Suisse

Analysts continue to expect rising long-term rates

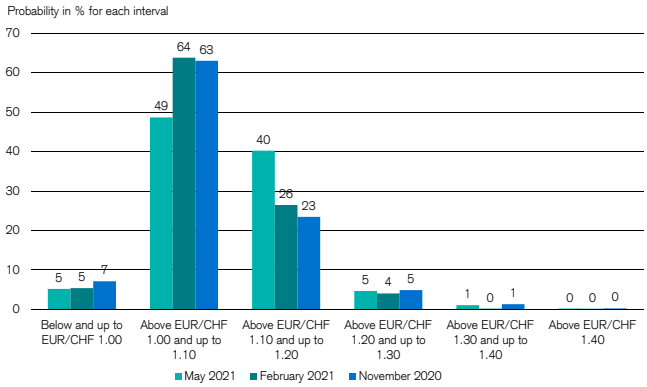
The survey reading for inflation expectations is currently subject to modest monthly fluctuations and is slightly above the prior month's level in May. However, the number of survey participants who expect an increase hit an interim high in March and has been stabilizing since then. This figure came in at 58% of respondents for Switzerland in May, 63% for the Eurozone and 72% for the US. Overall, the participants think it highly unlikely that the inflation rate will fall over the coming six months in any of the regions. Yet analysts do not expect the central banks to respond with any rate moves, as their forecasts for short-term interest rates continue to trend broadly sideways. In response to a special question, analysts think it more than 75% likely that the Swiss National Bank's key rate will remain at its current level of –0.75% until at least March 2022, the end of the forecast period. For the long end, where tapering – i.e. a winding down of central banks' bond purchases – would make a difference, around two-thirds of survey respondents still anticipate a rise in the course of the next six months.

Share price correction prompts a slight setback for equity market optimism

In line with the assessment of the current situation, the outlook for the labor market has also improved immensely in the eyes of the analysts. For the first time since September 2018, more survey participants expect the unemployment rate to fall than to rise. With regard to share price movements on the equity markets, analysts have become slightly more cautious after inflation concerns amongst investors led to heightened volatility and even a temporary correction during the survey period. The number of respondents who fear that share prices will stagnate or fall has increased since last month. Nonetheless, looking beyond the short term, half of the respondents expect the SMI, EuroStoxx 50 and S&P 500 to climb over the next six months.

Figure 2

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



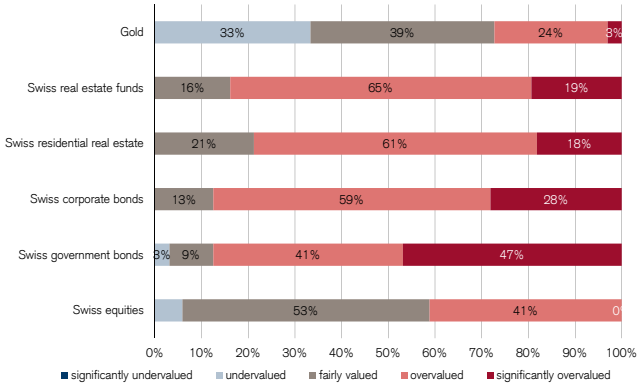
Source: CFA Society Switzerland, Credit Suisse

EUR/CHF fair value has increased according to analysts

Forecast heterogeneity for CHF exchange rate movements has increased recently. The analysts' views do not point to any clear direction for the currency's performance against USD, as the responses are fairly evenly distributed between expectations of upwards, downwards and sideways movements. In terms of EUR, there is no difference between the percentages of analysts who expect an uptrend or a downtrend, while the majority do not anticipate any change at all. At the same time, the analysts' estimates of the fair value of EUR/CHF in our special quarterly poll imply that the exchange rate could continue to trend upwards under normal circumstances, given that the mass of distribution of responses has moved in this direction (see figure 2). While the analysts saw a 64% likelihood that the fair value was between 1.00 and 1.10 in February, this percentage has now dropped to 49%. Meanwhile, a fair value between 1.10 and 1.20 has become more realistic at 40% (up from 26% in February).

Figure 3

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



Source: CFA Society Switzerland, Credit Suisse

Analysts consider Swiss bonds highly overvalued

In another regular special poll, we asked the analysts about the valuation levels of certain Swiss asset classes. In the opinion of the survey participants, the value of sovereign and corporate bonds and residential property has continued to rise since February, while equities and gold have become cheaper and real estate funds have seen no change in value. This means that Swiss sovereign and corporate bonds remain the most expensive asset classes, followed by real estate funds and residential property (see figure 3). Gold currently seems to be the most fairly valued asset class according to the analysts, while at least 53% of the respondents consider equities to be priced appropriately. Overall, none of the asset classes look significantly undervalued to analysts, with only gold deemed moderately undervalued.

The CFA Society Switzerland and Credit Suisse have been conducting the Switzerland Financial Market Survey (a monthly survey of financial analysts) since January 2017. Detailed results of the survey conducted between 14 and 20 May 2021, involving the participation of 36 analysts from the Swiss financial sector, are published here.

(25/05/2021)

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

Current economic situation	**good**	**+/–**	**normal**	**+/–**	**poor**	**+/–**	**balance**	**+/–**
Switzerland	30.6	23.3	61.1	-7.2	8.3	-16.1	22.3	39.4
Eurozone	16.7	14.2	61.1	3.6	22.2	-17.8	-5.5	32.0
USA	55.6	23.1	36.1	-26.4	8.3	3.3	47.3	19.8
China	48.6	-12.9	51.4	12.9	0.0	0.0	48.6	-12.9
Economic expectations	**improve**		**no change**		**worsen**		**balance**	
Switzerland (CS CFA Society Switzerland Indicator)	72.2	-1.0	27.8	5.8	0.0	-4.9	72.2	3.9
Eurozone	77.8	5.3	19.4	1.9	2.8	-7.2	75.0	12.5
USA	52.8	-19.7	41.7	19.2	5.6	0.6	47.2	-20.3
China	42.9	7.0	54.3	-7.2	2.9	0.3	40.0	6.7
Inflation rate	**increase**		**no change**		**decrease**		**balance**	
Switzerland	58.3	5.8	36.1	-6.4	5.6	0.6	52.7	5.2
Eurozone	66.7	14.2	27.8	-14.7	5.6	0.6	61.1	13.6
USA	72.2	4.7	16.7	-10.8	11.1	6.1	61.1	-1.4
Other economic indicators for Switzerland	**increase**		**no change**		**decrease**		**balance**	
Export momentum (situation)	15.2	9.6	75.8	3.6	9.1	-13.1	6.1	22.7
Export momentum (expectations)	54.5	-17.3	39.4	16.3	6.1	1.0	48.4	-18.3
Unemployment rate	28.6	-23.9	40.0	10.0	31.4	13.9	-2.8	-37.8
Short-term interest rates	**increase**		**no change**		**decrease**		**balance**	
Switzerland	13.9	1.7	86.1	-1.7	0.0	0.0	13.9	1.7
Eurozone	13.9	4.1	86.1	-4.1	0.0	0.0	13.9	4.1
USA	22.2	7.6	77.8	-7.6	0.0	0.0	22.2	7.6
Short-term interest rate spread	**increase**		**no change**		**decrease**		**balance**	
Eurozone – Switzerland	8.6	-1.7	88.6	4.0	2.9	-2.2	5.7	0.5
Long-term interest rates	**increase**		**no change**		**decrease**		**balance**	
Switzerland	66.7	7.7	27.8	-13.2	5.6	5.6	61.1	2.1
Germany	69.4	7.9	27.8	-8.1	2.8	0.2	66.6	7.7
USA	72.2	-0.3	22.2	2.2	5.6	-1.9	66.6	1.6
Long-term interest rate spread	**increase**		**no change**		**decrease**		**balance**	
Germany – Switzerland	17.1	-4.0	74.3	0.6	8.6	3.3	8.5	-7.3
Share price	**increase**		**no change**		**decrease**		**balance**	
SMI (Switzerland)	55.6	-13.6	33.3	10.2	11.1	3.4	44.5	-17.0
EuroStoxx 50 (Eurozone)	55.6	-23.9	33.3	20.5	11.1	3.4	44.5	-27.3
S&P (USA)	47.2	-14.3	36.1	7.9	16.7	6.4	30.5	-20.7
Swiss franc exchange rate versus	**appreciate**		**no change**		**depreciate**		**balance**	
EUR	28.6	4.2	42.9	-18.1	28.6	14.0	0.0	-9.8
USD	37.1	15.1	37.1	-19.0	25.7	3.7	11.4	11.4
Commodities	**increase**		**no change**		**decrease**		**balance**	
Oil (North Sea Brent)	36.4	-5.7	48.5	1.1	15.2	4.7	21.2	-10.4
Gold (per ounce)	54.5	20.3	15.2	-37.4	30.3	17.1	24.2	3.2

Note: 36 analysts took part in the Financial Market Survey Switzerland for May from 14 to 20 May 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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