

Swiss Economics

Ukraine conflict subduing analyst sentiment significantly

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The conflict in Ukraine is clouding Swiss financial analysts' expectations for economic growth and sending their inflation expectations higher. However, the risk of a recession is low in their view.

Two-thirds of analysts have made defensive changes to their portfolios in response to the conflict.

Franziska Fischer

Economist – Swiss Macro & Strategy

Our partner



**CFA Society
Switzerland**

Contact:

Sheila Ohlund CFA, CEO
Höschgasse 83, 8008 Zürich

CFA Society Switzerland
sheila.ohlund@cfasociety.ch

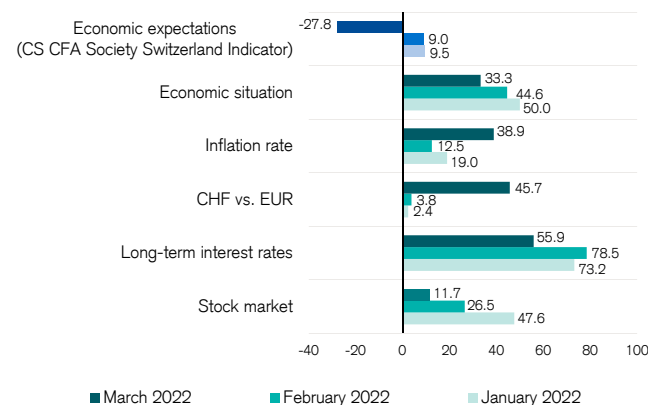
Ukraine conflict clouding prospects on a widespread basis

As war broke out in Ukraine, all economically sensitive indicators in the financial market survey have headed lower (see table). The current economic situation is perceived to have deteriorated month-on-month, while the prospects for economic growth have clouded for all regions (Switzerland, Europe, the US and China), as have expectations for Switzerland's export momentum and prospects. The analysts surveyed also believe that the labor market recovery is likely to lose pace.

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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

Sentiment indicator plunges to a two-year low

In March, the CS CFA Society Switzerland indicator came in 36.8 points below its level in the February survey, which was conducted before the situation in Ukraine escalated. At -27.8 points it is further inside negative territory than at any time since the start of the Covid-induced lockdowns in March 2020. This reflects what is expected to be a substantial slowdown in economic momentum in Switzerland over the next six months. Nevertheless, the participating analysts believe there is only a limited prospect of a recession, with just 9% of respondents seeing this risk. A large majority (79%)

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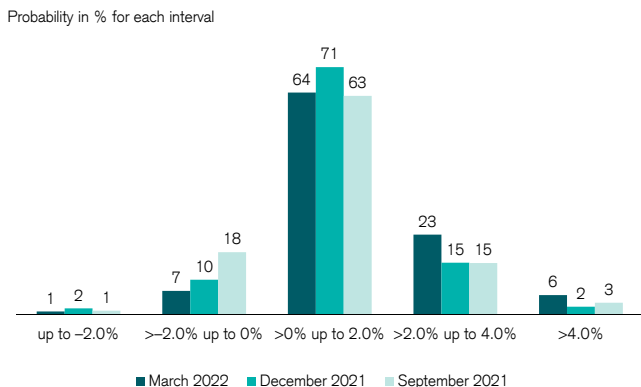
expect weaker, but still positive economic growth (see figure 4). The analysts take a more pessimistic view of prospects for the Eurozone, with two-thirds of those surveyed anticipating an economic downturn over the next six months, and as many as one in five thinking it likely that the euro area will fall into recession.

Analysts expect another inflationary shock

The responses from financial analysts also reflect the inflationary shock sparked by the war. Some 60% of those surveyed – one-fifth more than in the prior month – expect inflation to keep rising in Switzerland, the Eurozone and the US. A fall in inflation later on this year has now become less likely in the analysts' view as a result of the armed conflict. However, this forecast does not translate directly into the respondents' interest rate expectations. On the contrary, one-fifth of analysts have now ditched their previous expectation that the European Central Bank (ECB) or the Swiss National Bank (SNB) will hike interest rates in the next six months.

Figure 2: Long-term inflation forecasts

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



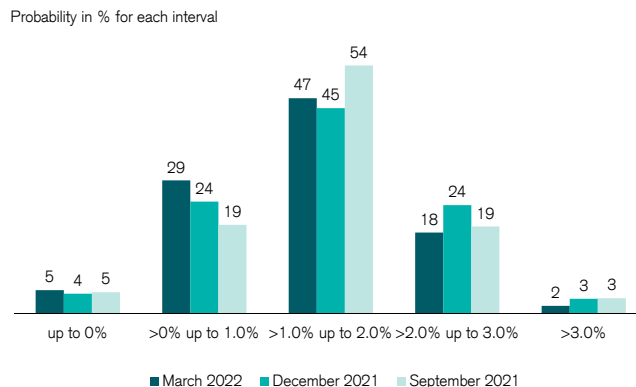
Source: CFA Society Switzerland, Credit Suisse

Long-term inflation expectations at a nine-year high

The financial analysts' long-term inflation expectations (i.e. for the next three to five years) have also risen. The point forecast has climbed from 1.30 to 1.66% since the last survey, while the mass of distribution of responses has also shifted upwards (see figure 2). The analysts surveyed now put the likelihood that inflation could overshoot the SNB's target range over the long term at 29%, a level that was last reached in June 2013.

Figure 3: Long-term growth forecasts

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



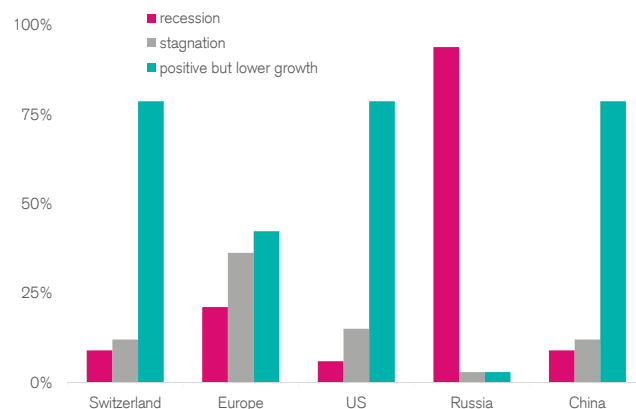
Source: CFA Society Switzerland, Credit Suisse

No material change to growth forecasts

The Ukraine conflict has slightly pushed down the mass of distribution for the long-term growth forecast (see figure 3), implying that the analysts consider the conflict moderately negative for Switzerland's potential growth. Compared to the situation before war broke out, the prospect of gross domestic product (GDP) reaching growth rates in excess of 2% in three to five years has become less likely according to the analysts, with a growth rate of 1–2% forecast at a probability of almost 50%. The analysts' point forecast has remained more or less unchanged for a year, fluctuating only slightly around the 1.8% mark.

Figure 4: Special questions on the Ukraine conflict

How do you estimate the impact on GDP growth?



Source: CFA Society Switzerland, Credit Suisse

Special question: reaction to Ukraine conflict

We asked the participants about the impact of the Ukraine conflict in a series of special questions. The situation's high market-moving potential is reflected by the analysts' deteriorating equity market forecasts which have dropped to an all-time low for the EuroStoxx 50 index. Moreover, their responses regarding investment decisions also show a clear shift towards a more defensive stance. An overriding majority of three-quarters of the analysts have adjusted their portfolios in reaction to the escalating conflict. One-third have changed the regional bias of their equity positions, for example by re-

ducing exposure to Russia or Europe, while one-quarter have scaled back their entire equity allocations. The third most frequently cited option is an increase in the commodity allocation. Moreover, 70% of the survey participants are considering longer-term changes to their portfolios going forward in reaction to the crisis.

The analysts seem to be less pessimistic about the long-term repercussions on the economy and do not expect any drastic declines in growth for Switzerland, the US or China. More than three-quarters of the participants still forecast positive (albeit softer) economic growth in these regions (see figure 4). The prospects for the eurozone are less clear, as reflected by the broader distribution of the responses. The analysts see a greater risk of recession and stagnation in this region. However, there is unanimous agreement on the outlook for the Russian economy given the sanctions and isolation im-

posed by other countries, with virtually all participants expecting Russia to fall into recession, which should also last for more than a year according to 70% of the respondents.

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 23 March 2022, involving the participation of 36 analysts from the Swiss financial sector, are published here.

(28/03/2022)

Financial Market Survey Switzerland by Credit Suisse and CFA Society Switzerland: March 2022 results

Current economic situation	good	+/-	normal	+/-	poor	+/-	balance	+/-
Switzerland	44.4	-5.6	44.4	-0.2	11.1	5.7	33.3	-11.3
Eurozone	27.8	-7.9	58.3	4.7	13.9	3.2	13.9	-11.1
USA	52.8	4.6	44.4	-3.8	2.8	-0.8	50.0	5.4
China	2.9	-8.0	77.1	6.2	20.0	1.8	-17.1	-9.8
Economic expectations	improve		no change		worsen		balance	
Switzerland (CS CFA Society Switzerland Indicator)	13.9	-16.5	44.4	-3.8	41.7	20.3	-27.8	-36.8
Eurozone	17.1	-15.6	17.1	-26.5	65.7	42.1	-48.6	-57.7
USA	16.7	-10.1	33.3	-11.3	50.0	21.4	-33.3	-31.5
China	23.5	-19.1	50.0	3.7	26.5	15.4	-3.0	-34.5
Inflation rate	increase		no change		decrease		balance	
Switzerland	58.3	22.6	22.2	-18.9	19.4	-3.8	38.9	26.4
Eurozone	61.1	23.6	16.7	-6.5	22.2	-17.1	38.9	40.7
USA	55.6	22.9	22.2	7.7	22.2	-30.5	33.4	53.4
Other economic indicators for Switzerland	increase		no change		decrease		balance	
Export momentum (situation)	25.8	-8.2	67.7	3.9	6.5	4.4	19.3	-12.6
Export momentum (expectations)	6.2	-19.3	46.9	-10.5	46.9	29.9	-40.7	-49.2
Unemployment rate	21.2	15.3	66.7	9.8	12.1	-25.2	9.1	40.5
Short-term interest rates	increase		no change		decrease		balance	
Switzerland	29.4	-12.6	70.6	14.6	0.0	-2.0	29.4	-10.6
Eurozone	48.6	-11.4	51.4	13.4	0.0	-2.0	48.6	-9.4
USA	97.1	9.1	2.9	-9.1	0.0	0.0	97.1	9.1
Short-term interest rate spread	increase		no change		decrease		balance	
Eurozone – Switzerland	31.2	-7.1	68.8	7.1	0.0	0.0	31.2	-7.1
Long-term interest rates	increase		no change		decrease		balance	
Switzerland	61.8	-20.6	32.4	18.7	5.9	2.0	55.9	-22.6
Germany	66.7	-21.5	30.3	22.5	3.0	-0.9	63.7	-20.6
USA	71.4	-11.0	25.7	12.0	2.9	-1.0	68.5	-10.0
Long-term interest rate spread	increase		no change		decrease		balance	
Germany – Switzerland	22.6	-9.3	77.4	13.6	0.0	-4.3	22.6	-5.0
Share price	increase		no change		decrease		balance	
SMI (Switzerland)	44.1	-2.8	23.5	-9.2	32.4	12.0	11.7	-14.8
EuroStoxx 50 (Eurozone)	35.3	-13.7	32.4	5.9	32.4	7.9	2.9	-21.6
S&P (USA)	41.2	-0.8	26.5	-7.5	32.4	8.4	8.8	-9.2
Swiss franc exchange rate versus	appreciate		no change		depreciate		balance	
EUR	48.6	19.8	48.6	2.4	2.9	-22.1	45.7	41.9
USD	37.1	6.3	51.4	3.3	11.4	-9.8	25.7	16.1
Commodities	increase		no change		decrease		balance	
Oil (North Sea Brent)	33.3	1.3	21.2	-4.8	45.5	3.5	-12.2	-2.2
Gold (per ounce)	48.4	4.0	25.8	-5.3	25.8	1.4	22.6	2.6

Note: 36 analysts participated in the Financial Market Survey Switzerland for March from 17 to 23 March 2022. 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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Nannette Hechler-Fayd'herbe
Chief Investment Officer – International Wealth Management
+41 44 333 17 06
nannette.hechler-fayd'herbe@credit-suisse.com

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Authors

Franziska Fischer

Economist – Swiss Macro & Strategy
+41 44 333 77 35
franziska.fischer@credit-suisse.com

Our partner

Sheila Ohlund CFA, CEO
CFA Society Switzerland
Höschgasse 83, 8008 Zürich
Tel. +41 44 382 42 44
sheila.ohlund@cfasocietyswitzerland.org