

Swiss Economics

Economy set to stabilize after Omicron wave of infections

Financial Market Survey Switzerland | 23/02/2022, 08:55, UTC

Swiss financial analysts expect the good economic situation at present to continue. However, they are becoming more pessimistic with regard to the equity market.

According to the analysts' assessments of the fair value of the EUR/CHF exchange rate, the Swiss franc is currently not overvalued.

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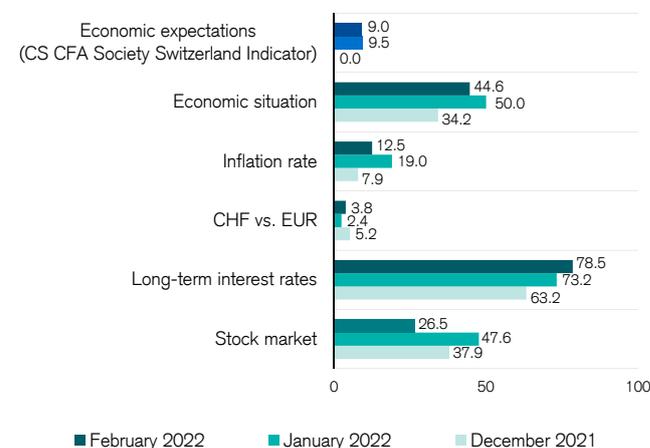
Sentiment indicator remains steady

The CS CFA Society Switzerland indicator for February broadly maintained its level from the prior month and stands just inside positive territory at 9 points (see figure 1). Almost half of the analysts participating do not expect any change over the coming six months in what is currently a good economic situation, with only one-fifth anticipating a downswing. In terms of regions (Switzerland, the Eurozone, the US and

China), participants are most positive about China, with 43% expecting an upswing. However, this is probably due in part to the analysts' view that the current situation in China is normal to poor (see table).

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

Slight deterioration in analysts' assessment of prospects for the equity market

In terms of further increases in share prices on the global equity markets, survey participants have become more skeptical and are at their most pessimistic in 16 months. Fears surrounding an even more rapid normalization of monetary policy and the geopolitical unrest in Ukraine will certainly have contributed to this sentiment. Nonetheless, survey par-

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ticipants do not foresee a longer-lasting correction in share prices. Instead, 47% of those surveyed believe the Swiss Market Index will be higher than its current level in six months' time, with just one-fifth of respondents expecting it to be lower.

According to the analysts, inflation should stop rising soon

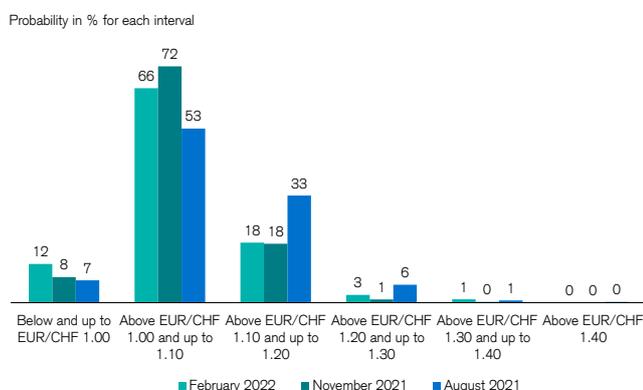
The inflation indicator in the financial market survey hit its high point back in March 2021. At that time, three-quarters of respondents were expecting inflation to rise. Since then, more and more analysts have been predicting that inflation will pass its peak over the following six months. While the actual trend has repeatedly produced surprises in the opposite direction, participants are sticking with their assessment. For the US, 52% of the analysts surveyed now expect inflation to fall, with 40% predicting a decrease in inflation in the Eurozone. Turning to Switzerland, the majority of respondents believe that inflation rates will remain at their current level. However, inflation in Switzerland is considerably lower than in the other regions.

Analysts anticipate key rate hikes by the Fed and the ECB by August

As far as long-term interest rates are concerned, the analysts' forecasts have been pointing to an uptrend for several months now – this has been confirmed by actual market movements. Over 80% of participants also believe that long-term interest rates will continue to rise in future. While analysts' expectations at the short end had remained steady for a long time, there are now signs of a shift in their responses. For the US, 88% of the analysts surveyed expect short-term interest rates to rise, which is not surprising given that the first key rate hike by the Fed has been flagged up for as soon as March. In the euro area, 60% of analysts anticipate a rate move from the European Central Bank (ECB) by August this year. Switzerland is the only country in which the majority expects a sideways trend – i.e. no key rate hikes from the Swiss National Bank (SNB) – in the next six months.

Figure 2: Fair value exchange rate

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



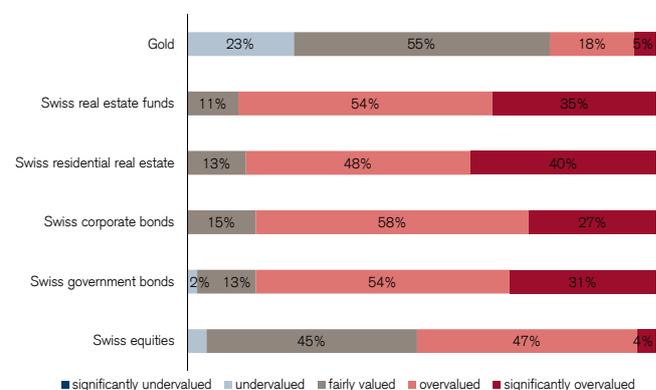
Source: CFA Society Switzerland, Credit Suisse

CHF seems hardly overvalued at present

Overall, the analysts expect the CHF exchange rate versus the EUR and the USD to appreciate slightly, although the largest proportion of responses points to a sideways movement. This matches with the analysts' estimates regarding the fair value of the EUR/CHF exchange rate (see figure 2). The responses are a little more broadly distributed compared to the last poll in November 2021, which means that uncertainty has increased somewhat. Nonetheless, according to the respondents the fair value is most likely (at a probability of 66%) between 1.00 and 1.10, implying that the CHF is hardly overvalued at its current level of 1.04. With a 12% probability, analysts even consider an exchange rate below parity as fair. Opinions have changed markedly on this front since the beginning of the pandemic and the uptrend in inflation rates in the euro area. In November 2019, the analysts saw a 50% probability of the fair value coming in below 1.10.

Figure 3: Valuation level of Swiss asset classes

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



Source: CFA Society Switzerland, Credit Suisse

Gold is the only fairly valued asset class according to analysts

In our second special quarterly poll, the financial analysts assess the market value of various Swiss asset classes. Based on their responses, gold is the only fairly valued asset class (see figure 3). The analysts' views on the valuation of Swiss equities have been fluctuating between overvalued and fairly valued for some time. At present, opinions are tending towards overvaluation once again, despite the latest market correction. Slightly more than half of the analysts consider Swiss equities overvalued. However, only 4% of those surveyed believe the asset class is highly overvalued. A different situation applies to Swiss residential property. 40% of analysts consider this asset class highly overvalued, while a further 48% think it is overvalued. As in the case of real estate funds, there is a growing tendency towards overvaluation. The prospects for Swiss bonds have improved somewhat owing to the approaching interest rate reversal. Nonetheless, both sovereign and corporate bonds remain overvalued in the eyes of the analysts. This has always been the case since we introduced this poll nine years ago.

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 10 and 17 February 2022, involving the participation of 57 analysts from the Swiss financial sector, are published here.

(21/02/2022)

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

Current economic situation	good	+/-	normal	+/-	poor	+/-	balance	+/-
Switzerland	50.0	-2.4	44.6	-0.6	5.4	3.0	44.6	-5.4
Eurozone	35.7	-4.8	53.6	3.6	10.7	1.2	25.0	-6.0
USA	48.2	-6.6	48.2	5.3	3.6	1.2	44.6	-7.8
China	10.9	-3.7	70.9	-4.7	18.2	8.4	-7.3	-12.1
Economic expectations	improve		no change		worsen		balance	
Switzerland (CS CFA Society Switzerland Indicator)	30.4	4.2	48.2	-8.9	21.4	4.7	9.0	-0.5
Eurozone	32.7	-0.6	43.6	0.7	23.6	-0.2	9.1	-0.4
USA	26.8	3.0	44.6	-5.4	28.6	2.4	-1.8	0.6
China	42.6	1.1	46.3	0.0	11.1	-1.1	31.5	2.2
Inflation rate	increase		no change		decrease		balance	
Switzerland	35.7	-9.5	41.1	12.5	23.2	-3.0	12.5	-6.5
Eurozone	37.5	-10.1	23.2	4.2	39.3	6.0	-1.8	-16.1
USA	32.7	-3.0	14.5	-2.2	52.7	5.1	-20.0	-8.1
Other economic indicators for Switzerland	increase		no change		decrease		balance	
Export momentum (situation)	34.0	-4.9	63.8	2.7	2.1	2.1	31.9	-7.0
Export momentum (expectations)	25.5	14.4	57.4	-12.0	17.0	-2.4	8.5	16.8
Unemployment rate	5.9	3.3	56.9	-4.6	37.3	1.4	-31.4	1.9
Short-term interest rates	increase		no change		decrease		balance	
Switzerland	42.0	6.3	56.0	-8.3	2.0	2.0	40.0	4.3
Eurozone	60.0	24.3	38.0	-26.3	2.0	2.0	58.0	22.3
USA	88.0	-2.5	12.0	2.5	0.0	0.0	88.0	-2.5
Short-term interest rate spread	increase		no change		decrease		balance	
Eurozone – Switzerland	38.3	20.8	61.7	-15.8	0.0	-5.0	38.3	25.8
Long-term interest rates	increase		no change		decrease		balance	
Switzerland	82.4	6.8	13.7	-8.3	3.9	1.5	78.5	5.3
Germany	88.2	15.0	7.8	-16.6	3.9	1.5	84.3	13.5
USA	82.4	-2.6	13.7	1.2	3.9	1.4	78.5	-4.0
Long-term interest rate spread	increase		no change		decrease		balance	
Germany – Switzerland	31.9	-6.6	63.8	10.0	4.3	-3.4	27.6	-3.2
Share price	increase		no change		decrease		balance	
SMI (Switzerland)	46.9	-12.6	32.7	4.1	20.4	8.5	26.5	-21.1
EuroStoxx 50 (Eurozone)	49.0	-12.9	26.5	-2.1	24.5	15.0	24.5	-27.9
S&P (USA)	42.0	-10.4	34.0	0.7	24.0	9.7	18.0	-20.1
Swiss franc exchange rate versus	appreciate		no change		depreciate		balance	
EUR	28.8	0.2	46.2	1.0	25.0	-1.2	3.8	1.4
USD	30.8	-2.5	48.1	7.6	21.2	-5.0	9.6	2.5
Commodities	increase		no change		decrease		balance	
Oil (North Sea Brent)	32.0	2.0	26.0	-14.0	42.0	12.0	-10.0	-10.0
Gold (per ounce)	44.4	8.5	31.1	-15.1	24.4	6.5	20.0	2.0

Note: 57 analysts took part in the Financial Market Survey Switzerland for February from 10 to 17 February 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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