

Swiss Economics

ESG investments highly relevant to Swiss financial analysts

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The sentiment barometer for the Swiss economy has recovered from its collapse in August. As a result, the overall picture emerging from the survey of analysts is neutral to optimistic once again.

Special questions on the topic of ESG investing revealed that sustainability criteria have a role to play as far as 90% of financial analysts are concerned.

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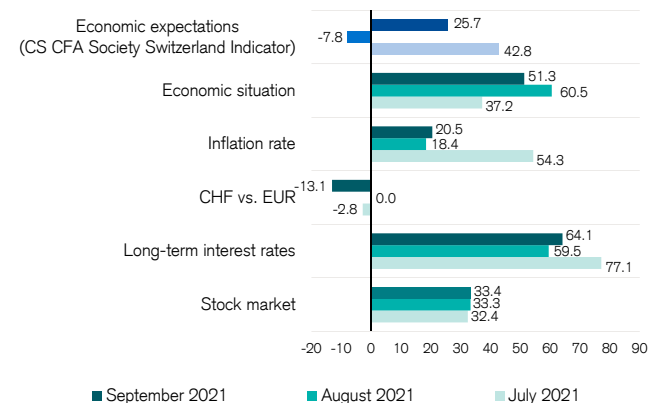
Marked recovery in the sentiment barometer for Switzerland

Following the dramatic collapse last month, the CS CFA Society Switzerland indicator bounced back in September. It now stands at 25.7 points and is therefore well inside positive territory again, roughly between the levels it recorded in July and August. Across the pandemic as a whole, the indicator

has therefore recorded three clear and deep v-shaped crashes, in tandem with the three main waves of the virus. There has been a marked deterioration in the analysts' assessment of the economic situation in China (see table in the appendix), as predicted by the survey participants' expectations over recent months. However, according to two-thirds of analysts, the market may already have bottomed out.

Figure 1: Indicators for Switzerland

Balance of responses (a positive value signals a rise, while a negative reading indicates a fall)



Source: CFA Society Switzerland, Credit Suisse

Other macro indicators still pointing to a positive picture

As far as the other forecasts obtained from the analysts surveyed are concerned, there were only minor changes compared to the previous month. The trend in the economic outlook for the eurozone and the US is similar to that of Switzerland. As a result, the analysts remain optimistic with regard to the prospects for Swiss exports. Almost 60% of

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respondents expect the good situation at present to continue for at least another six months, while almost 30% are actually anticipating a further improvement. The unemployment rate is also expected to at least stabilise, while in the view of one-third of the analysts surveyed, it should continue to fall.

Analysts' interest rate and equity market expectations unchanged

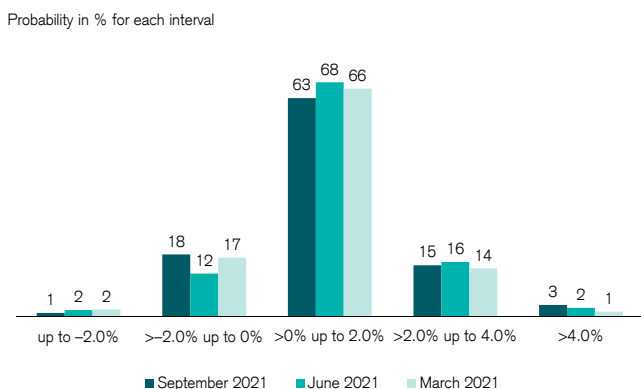
Also the financial analysts' interest rate forecasts remain practically unchanged. At the short end, 80% of survey participants are not predicting any change for the world's three main economic regions even after the latest round of central bank meetings. Meanwhile around 70% of respondents think that interest rates at the long end will rise. In relation to the Swiss equity market, expectations have hardly moved at all over the past three months. Just over half of analysts expect prices to rise over the next six months, while one-third believe that prices will stagnate. It is a similar story when it comes to the forecasts for the Euro Stoxx 50 and S&P 500, although expectations for the latter have become a little less optimistic compared to the previous month.

Uncertainty surrounding the trend in inflation remains high

After the analysts' short-term inflation expectations fell sharply in August, they were broadly unchanged in September. As previously, 40% of survey participants project that the Swiss inflation rate will climb in the next half-year, but the distribution of responses, which is an indicator of uncertainty, remains high. For the US, the number of analysts who expect inflation to decline is now almost as high as the proportion who expect it to rise.

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

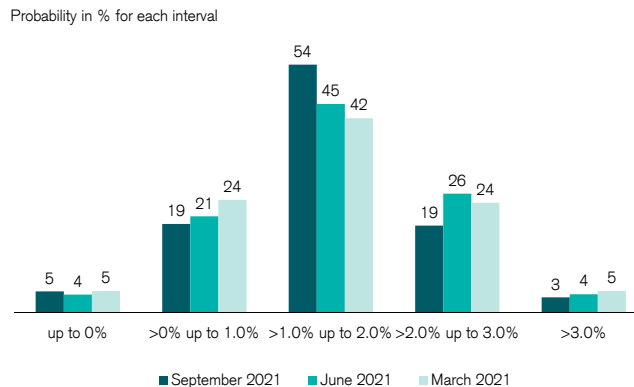
Analysts' long-term inflation forecasts have continued to rise

However, the analysts have revised up their long-term inflation expectations since our last round of special questions in June. At 1.4% (up from 1.37% in June), their average forecast for 2024 to 2026 significantly exceeds the projection of the Swiss National Bank (SNB), which looks for an inflation rate of only 0.8% for the second quarter of 2024. At the same time, the change in the probability mass compared to the last

quarter is marginal (see figure 2). The analysts see a 63% probability of inflation ranging from 0 to 2%, while the probabilities of it exceeding or falling short of this range are 18% and 19%, respectively.

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

Long-term economic growth expected to be above trend

The analysts' long-term growth expectations have declined slightly compared to June. Last quarter, the respondents still saw a 30% probability of economic growth in Switzerland averaging more than 2% in the next three to five years. This percentage has now fallen to 22%. Annual average growth of 1 to 2% is considered far more likely at a probability of 54%. The analysts' average forecast of 1.81% is marginally below the June level of 1.86%. Nonetheless, this still points to strong, above-trend economic growth in the years ahead.

Annual special survey on ESG investing

A year ago, we introduced a series of special questions to obtain and monitor analysts' views on the subject of ESG (Environmental, Social, Governance) over time. By and large, their opinions have not changed dramatically since September 2020 (see table). 60% of the survey participants indicated that investment management clients expect ESG considerations to be factored into all – not just particular – investment decisions. In addition, 10% more than in the previous year now expect ESG investing to generate higher returns. However, the majority of respondents (50%) do not see it having any clear impact on returns. According to the financial analysts, the biggest risk involved in ESG investing is the limited investment universe, although concerns about "fashion investing" are now deemed equally problematic. Higher costs are cited as an obstacle in only around 10% of the responses. Moreover, although the subject of climate change has attracted immense attention over the past year, a substantial 35% of the respondents said that their clients are not making greater demands in terms of environmental issues.

Special questions on ESG investing

Investment management clients expect ESG considerations...	Per- cent	Year on- year change
...to be incorporated only into special ESG products.	30	-12.9
...to be considered in all investment management decisions.	59	2.1
...not to be a factor in investment management products.	11	10.8
Investment management clients expect the implementation of ESG considerations to...		
...result in lower investment returns.	16	-5.0
...have no effect on investment returns.	50	-4.7
...result in higher investment returns.	34	9.7
Are clients asking more from you on climate change?		
No.	34	0.2
Yes, they are asking for more information and analysis.	34	-9.2
Yes, they are asking that current products should take climate change into greater consideration.	21	17.3
Yes, they are asking for new investable products that take climate change into account.	11	-8.3
Standardized terminology regarding ESG investments (e.g. ESG, sustainable, impact investments) is...		
...an important factor to communicate accurately and avoid potential misrepresentation.	82	-1.8
...not a key obstacle to incorporating ESG data into investments.	18	1.8
Which of the three ESG areas lack clear and robust data that can be relied on in the making of investment decisions?		
Environmental	36	2.6
Social	44	-1.2
Governance	21	-1.3
What is the biggest risk when investing in ESG?		
Limitation of the investment universe	26	-2.3
Higher tracking error	8	-6.6
Mixing ethical considerations with rational fundamentals	22	2.6
Fashion investing	26	1.8
Higher cost	13	3.5
Other	5	1.0

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 16 and 23 September 2021, involving the participation of 39 analysts from the Swiss financial sector, are published here.

(27/09/2021)

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

Current economic situation	good	+/-	normal	+/-	poor	+/-	balance	+/-
Switzerland	56.4	-4.1	38.5	-1.0	5.1	5.1	51.3	-9.2
Eurozone	44.7	-7.9	44.7	2.6	10.5	5.2	34.2	-13.1
USA	57.9	-13.2	36.8	10.5	5.3	2.7	52.6	-15.9
China	16.2	-16.2	59.5	-5.4	24.3	21.6	-8.1	-37.8
Economic expectations	improve		no change		worsen		balance	
Switzerland (CS CFA Society Switzerland Indicator)	38.5	17.4	48.7	-1.3	12.8	-16.1	25.7	33.5
Eurozone	39.5	10.6	44.7	5.2	15.8	-15.8	23.7	26.4
USA	34.2	15.8	39.5	-7.9	26.3	-7.9	7.9	23.7
China	29.7	13.9	45.9	-14.6	24.3	0.6	5.4	13.3
Inflation rate	increase		no change		decrease		balance	
Switzerland	43.6	4.1	33.3	-6.2	23.1	2.0	20.5	2.1
Eurozone	47.4	2.7	26.3	-2.6	26.3	0.0	21.1	2.7
USA	44.7	5.2	13.2	-2.6	42.1	-2.6	2.6	7.8
Other economic indicators for Switzerland	increase		no change		decrease		balance	
Export momentum (situation)	29.4	-7.0	67.6	7.0	2.9	-0.1	26.5	-6.9
Export momentum (expectations)	28.6	10.4	57.1	-9.6	14.3	-0.9	14.3	11.3
Unemployment rate	10.5	-6.6	55.3	3.9	34.2	2.8	-23.7	-9.4
Short-term interest rates	increase		no change		decrease		balance	
Switzerland	17.9	-3.7	79.5	1.1	2.6	2.6	15.3	-6.3
Eurozone	18.9	-2.7	78.4	0.0	2.7	2.7	16.2	-5.4
USA	18.4	-8.6	78.9	5.9	2.6	2.6	15.8	-11.2
Short-term interest rate spread	increase		no change		decrease		balance	
Eurozone – Switzerland	11.1	5.4	88.9	-2.5	0.0	-2.9	11.1	8.3
Long-term interest rates	increase		no change		decrease		balance	
Switzerland	69.2	7.0	25.6	-9.5	5.1	2.4	64.1	4.6
Germany	71.8	6.9	25.6	-6.8	2.6	-0.1	69.2	7.0
USA	76.9	3.9	20.5	-3.8	2.6	-0.1	74.3	4.0
Long-term interest rate spread	increase		no change		decrease		balance	
Germany – Switzerland	24.3	-1.4	67.6	-3.8	8.1	5.2	16.2	-6.6
Share price	increase		no change		decrease		balance	
SMI (Switzerland)	51.3	4.1	30.8	-8.1	17.9	4.0	33.4	0.1
EuroStoxx 50 (Eurozone)	53.8	2.4	25.6	-8.7	20.5	6.2	33.3	-3.8
S&P (USA)	43.6	-7.8	33.3	-1.0	23.1	8.8	20.5	-16.6
Swiss franc exchange rate versus	appreciate		no change		depreciate		balance	
EUR	21.1	-3.9	44.7	-5.3	34.2	9.2	-13.1	-13.1
USD	28.9	6.0	42.1	-6.5	28.9	0.3	0.0	5.7
Commodities	increase		no change		decrease		balance	
Oil (North Sea Brent)	31.6	16.4	44.7	-18.9	23.7	2.5	7.9	13.9
Gold (per ounce)	48.6	9.2	35.1	-7.3	16.2	-2.0	32.4	11.2

Note: In September, 39 analysts took part in the Financial Market Survey Switzerland from 16 to 23 September 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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Every investment involves risk, especially with regard to fluctuations in value and return. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income.

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