A STRONG SWISS FRANC

Investment policy
January 2025

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Despite all the geopolitical unknowns, the global economy is by no means in a bad state. There are once again some pronounced regional differences: while US growth is losing a little momentum and seems to have achieved the desired soft landing, Europe is still waiting for the first signs of a recovery to emerge. Meanwhile, the Chinese economy remains hamstrung by the massive misallocation of capital over recent years.

It is rare for economic regions to move in perfect sync. What is important is that the global economy as a whole is growing, creating more prosperity and opening up new markets, and thus bringing opportunities for the corporate world. This remains in excellent shape and will continue to prosper.

Is Europe being left behind?

Germany and France, which are supposed to be the engines of the European economy, are under pressure. It is no coincidence that both countries' governments have been brought down by budgetary issues. Demographic pressures on the welfare state have been compounded by constantly growing demand for state support and intervention. Coming on top of the existing chronic budget deficits, this has produced huge fiscal policy challenges. The price is now being paid for years of half-hearted muddling through.

The perception of Europe's structural deficits is being made still worse by a persistent cyclical dip. This will inevitably come to an end in the next upturn, meaning there is a large risk of painting an overly gloomy picture of Europe's future. Patience and trust in market forces are required; the latter will compel politicians and businesses to make the necessary corrections.

From an investor perspective, it should be borne in mind that Europe – and Switzerland in particular – is home to many healthy, highly profitable companies. Their long-term success is not dependent on short-term growth rates in their domestic market; rather, it is based on long-term success on the global markets.

Interest rates and currencies

The world will not be gripped by negative interest rates and deflation in 2025. Price drivers include the ageing population, the energy transition and increasingly interventionist national economic policies. We continue to expect inflation rates in the main foreign currencies to be slightly elevated.

Switzerland is something of an exception. Its strong currency is resulting in persistent deflationary pressure. The large interest rate step recently taken by the Swiss National Bank might be somewhat premature, but it reinforces our medium to long-term expectation of low inflation. That points to steady franc appreciation, coupled with continued low interest rates, close to the zero mark.

Positioning

The broad equity markets are by no means overvalued. Earnings yields of 5–6% still offer an attractive risk premium over the much lower real interest rates. This yield pickup and the potential for an economic recovery continue to support investments in equities. That applies in particular to the many high-quality Swiss stocks whose recent share price performance has been restrained, resulting in attractive valuation levels. We remain overweight in equities.

The persistently low interest rate environment will also support the Swiss real estate market, where rising demand is met by construction activity that remains subdued. Well-diversified investments in stable-yielding residential property therefore remain a firm fixture of our balanced mandates.

Within fixed income, the Swiss franc and the financially sound corporate world hold the most appeal. While yields on foreign-currency bonds might look more attractive at first glance, this advantage will be eroded over the long term by currency losses.