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Swiss mid-caps: Poised to benefit from the next phase of the economic cycle

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We believe Swiss mid-caps warrant closer attention because they combine structural growth with the potential to benefit from a cyclical recovery. In recent years, organic revenues for the group have grown by an average of 7.4% annually, significantly faster than those of the large-cap companies in the SMI. Solid balance sheets and low levels of debt also give them greater scope to invest.

Meanwhile, a potential recovery in the global economy, combined with the greater cyclical sensitivity of mid-cap business models, points to improving margins. Upcoming index changes should make the SMIM more cyclical and therefore better positioned for an economic upturn. With the valuation premium over large caps having declined since 2018, we see attractive entry levels.

For investors, a broadly diversified allocation to Swiss mid-caps—for example, through the SMIM—could complement an existing Swiss equity allocation. Investors may also consider overweighting the segment within the Swiss equity portion of their portfolio.

Swiss equities often form a core part of Swiss investors' portfolios. Within the domestic market, we believe it is worth taking a closer look at a segment that is often underestimated or overlooked: Swiss mid-caps. They combine the stability

of Switzerland as a business location with an attractive growth profile. Over the coming quarters, they could outperform their large-cap peers. This combination also makes the segment particularly interesting for international investors.

Mid-cap companies often operate in specialized areas within sectors such as industrials, health care, and consumer goods. They frequently grow faster than established large companies, supported by innovation, international expansion, and market-share gains. Between 2016 and 2025, Swiss mid-caps delivered average organic revenue growth of 7.4% a year, compared with 5.1% for large caps. Mid-caps therefore outpaced large caps by 2.3 percentage points a year, on average.

Many mid-caps also have very solid balance sheets. The average net-debt-to-EBITDA ratio among SMIM companies is just below one, compared with slightly above one for SMI companies. Businesses with net cash positions account for around 17% of the SMIM's weight, compared with 8% of the SMI. This financial strength gives mid-caps the flexibility to continue investing during more challenging periods while capitalizing on growth opportunities.

The timing also appears attractive. Leading purchasing managers' indexes suggest that global economic activity may be gaining momentum. Historically, mid-cap margins have been more sensitive to the economic cycle than those of more defensive large-cap companies. After facing pressure from a strong Swiss franc, higher input costs, and geopolitical uncertainty, we expect SMIM operating margins to recover significantly in 2026 and 2027. This could provide additional support for earnings and share prices.

The upcoming index changes after the market close on 18 September could provide another catalyst. The SMIM should become more cyclical, with higher weights for industrial and information technology companies alongside significantly lower weights for defensive health care and consumer staples companies. At the same time, the SMI should become even more defensive. From an index-composition perspective, this should leave mid-caps better positioned to benefit from a global recovery in trade, manufacturing, and investment.

Valuations also support selectively increasing exposure. The valuation premium of mid-caps over large caps has declined significantly since peaking in 2018. Over the past 20 years, SMIM companies have traded at an average price-to-earnings premium of around 22% to the SMI. In our view, this premium is justified by their stronger growth and more robust balance sheets. Following the removal of a highly valued constituent from the index, we see further scope for a re-rating if earnings momentum improves.

What risks should investors consider? The greater cyclical sensitivity of mid-caps presents both an opportunity and a risk. If the global economy weakens, revenue growth and the expected recovery in margins could fall short of expectations. A significantly stronger Swiss franc, particularly against the euro, would also weigh on the competitiveness of export-oriented companies and negatively affect their reported earnings. During periods of heightened risk aversion or declining market liquidity, investors often favor large, defensive companies. This can temporarily weigh on the relative performance of mid-caps and lead to greater share-price volatility. These risks support building positions gradually, maintaining broad diversification, and incorporating mid-cap exposure into a well-diversified overall investment strategy.

Our conclusion? Mid-caps currently offer interesting opportunities for investors looking to broaden their Swiss equity exposure and benefit from a potential economic recovery. Rather than investing in individual companies, investors could consider gaining broadly diversified exposure through the SMIM Index. This can help reduce company-specific risk while providing access to the segment's structural and cyclical strengths. Depending on an investor's personal risk tolerance and investment strategy, gradually building an overweight position in Swiss mid-caps relative to large caps could be appropriate. This may also help reduce the portfolio's sensitivity to individual global risk factors.

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