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The Swiss economy defies the crisis

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The Swiss economy proved more resilient than expected in the first quarter, and we continue to view the outlook as positive for both industrial production and the services sector. A stabilization in the Middle East could improve the outlook further; with lower energy prices and inflation risks, the SNB is also likely to feel less pressure to raise rates quickly. For investors, the environment for risk assets should therefore remain constructive. Diversification and capital preservation strategies nevertheless remain sensible to prepare for future volatility.

The Swiss economy currently looks more positive than it did in the spring. It grew by 0.7% quarter over quarter in the first quarter—a solid result, particularly given the noticeable turbulence, for example in energy and commodity prices, and the ongoing uncertainty. Both the services and industrial sectors contributed to growth.

But it was not only the first quarter that was robust; Swiss companies also assess the current situation positively. The manufacturing purchasing managers' index stood at 57.3 points in May, its highest level in almost four years. In the past, readings this high have coincided with an acceleration in industrial production. The situation in the services sector is also assessed as robust; the corresponding PMI stands at 56 points, a similarly high level.

In addition, the situation in the Middle East is likely to stabilize. A lasting opening of the Strait of Hormuz could support not only markets, but also the Swiss economy. The signing of a letter of intent between the US and Iran was certainly a positive development in this respect, even though many of the details remain unresolved, the ceasefire remains fragile, and further setbacks are likely.

A full normalization in the oil market could, however, take several months. Accordingly, we expect oil prices to continue trading above pre-war levels for the rest of the year. Uncertainty may ease sooner, though, which could have a positive impact not only on markets, but also on the economy.

The conflict in the Middle East was also a key issue for the Swiss National Bank (SNB). While the European Central Bank responded to the rise in inflation and increased its policy rate by 25 basis points to 2.25% in June, the SNB refrained from raising rates and left its policy rate unchanged at 0%. It justified its still-expansionary monetary policy with low inflation and below-average economic capacity utilization. With the recent decline in energy prices, inflation risks are likely to fall further, which is why we expect the policy rate to remain unchanged in the coming months as well.

We therefore expect the first rate hike no earlier than sometime in 2027. If further economic acceleration becomes apparent in the second half or at the beginning of next year, the market is likely to start pricing in SNB rate hikes again, which could also affect yields on Swiss government bonds. And of course, we cannot rule out that unforeseen developments in the Middle East conflict could continue to cause elevated volatility in Swiss bond markets.

Nevertheless, we believe it is too early to set aside economic risks—first, because negotiations among the US, Iran, and Israel have often proved fragile in recent months, and second, because of the potentially significant delayed effects of the war on global supply chains, growth, and inflation.

A key risk is a scenario in which the Strait of Hormuz is opened, but this opening is delayed or temporarily reversed. That would allow uncertainty to persist, and the impact on growth and inflation could increase because many strategic oil, gas, and commodity reserves have now been sharply depleted. In this case, energy and commodity prices would likely rise quickly again and remain at a high level—or even reach higher levels.

Foreign demand also remains subject to uncertainty. US growth has proved resilient, but US tariffs, which could be raised again, could continue to weigh on Swiss exports. In Europe, too, higher inflation could further weigh on growth and, therefore, on demand for Swiss exports.

Our conclusion? First, the Swiss economy has weathered the crisis in the Middle East relatively well so far. And several indicators suggest that growth could also develop solidly in the second half. Second, such a recovery, despite the existing risks, is likely to have a positive effect on markets. Investors are therefore advised to maintain their exposure to risk assets in the second half as well. Good diversification, especially in concentrated positions in technology stocks, and capital preservation strategies can help prepare for further market turbulence. Such turbulence will almost certainly remain with us in the second half.

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