

Analysts

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Basic Information

Real GDP (USD Bn): 936.5 (2024)

M2 (USD Tn): 1.082 (Oct 2025)

CPI: 107.0 (Nov 2025)

PPI: 104.6 (Nov 2025)

Con. Confidence: -34.0 (Nov 2025)

Currency: CHF

Overview of Switzerland

- Switzerland is a fully sovereign European state that is **not a member of the European Union**, though it is closely integrated with the EU through a dense network of bilateral agreements. As part of the **EFTA** bloc, Switzerland enjoys preferential access to EU markets while retaining full autonomy over fiscal, monetary, and regulatory policy.
- Switzerland has a federal parliamentary political system where fiscal responsibilities are shared between the federal government, through the **Federal Council** and the 26 cantons, through the Council of States. Each canton has significant autonomy in taxation and budgetary policy.
- Monetary policy managed by the Swiss National Bank which is led by Chairman Martin Schlegel. The bank operates under a **sole mandate** to ensure **price stability, defined as inflation within 0-2%**. The SNB uses its policy rate, forward guidance, and when necessary foreign exchange interventions as key tools. The key operational target is **SARON**, (Swiss Average Rate Overnight). Operating an interest-rate corridor system, the SNB steers SARON rates by setting the interest on sight deposits held at the SNB as its key policy rate and by standing ready to provide or absorb liquidity through repo and reverse-repo operations.
- Switzerland benefits from a highly skilled labour force, strong institutions, and a diversified export base dominated by pharmaceuticals, chemicals, precision instruments, and high-value manufacturing. Its largest trading partners are the EU, the United States, China and India. The economy consistently runs a large current account surplus, reflecting high national savings and strong external competitiveness. To manage the strength of the CHF, the SNB plays an outsized role in recycling the surplus generated, by accumulating FX reserves and investing some of those reserves into equities abroad. Switzerland's **Net International Investment Position** stands at around **CHF1 Trillion**.
- The financial sector remains a cornerstone of the Swiss economy, encompassing global leaders in wealth management, private banking, insurance, and asset management. While traditional bank secrecy laws have been substantially diluted over the past decade in line with international transparency standards, Switzerland remains a premier hub for cross-border wealth.

Policy Developments

Fiscal and Regulatory Policy

- Lawmakers are currently deliberating recissions to spending packages for 2027-2029 budget, stemming from larger than expected deficits generated this year.
- The Federal Council is currently proposing increased banking regulations that would increase capital requirements on Swiss banking giant UBS by up to US\$26 Billion. Under the government's proposal, UBS would only be permitted to use Common Equity Tier 1 (CET1) capital to capitalize its foreign subsidiaries and would tighten standards on whether more hard-to-value assets on UBS's balance sheet could count toward bank capital.

Monetary Policy

- The SNB continued its rate cut cycle that began 2024, delivering cuts at each of the banks March and June meetings, bringing the policy rate to 0.0%. The banks refrained from further cuts in their following 2 meetings, emphasizing a high bar to take the policy rate negative.

Geopolitical

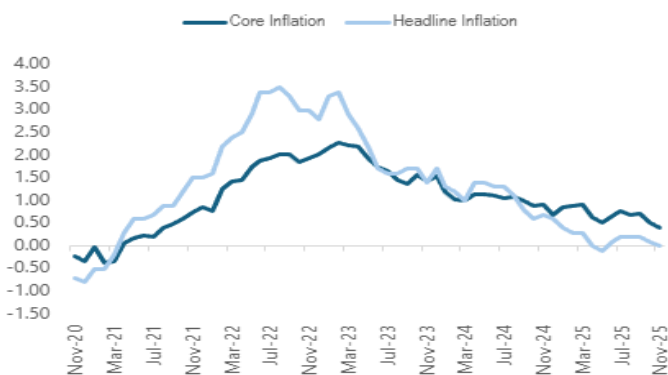
- The United States will impose a tariff of 15% on Swiss goods, or the most-favored-nation rate where higher. This represents a substantial reduction from the 39% rate initially announced on Liberation Day. While Switzerland was unable to secure a revised rate by the end of the 90-day tariff pause in August, negotiations were ultimately successful, with the lower tariff agreed in November, with investment commitments by Swiss firms to invest US\$200 Billion across five years into the US. Exemptions have been made for pharmaceutical imports.

Price Stability and Inflation

Inflation has continued its steady decline since 2024. It fell to 0% YoY and briefly dipped into negative territory between April and May. Inflation rebounded in June, before continuing its decline, with November CPI coming in weaker than forecasted at 0.0% YoY. Much of the weakness in inflation can also be attributed to **declines in the volatile food and energy categories.**

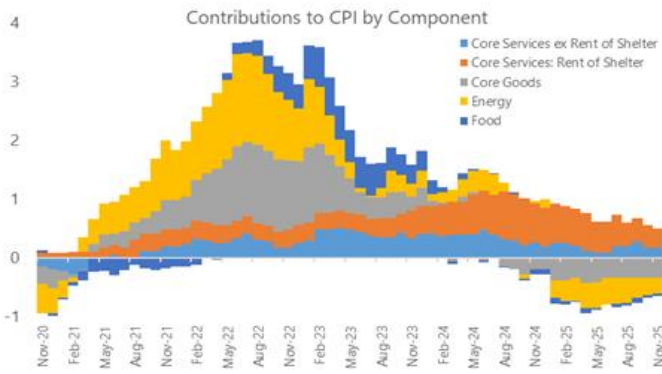
Throughout 2025, energy inflation has stayed in deeply negative territory, fluctuating around -6.0% to -7.0%. Much of this reflects base effects from the sharp run-up in energy prices in preceding years, which were driven by the broader European energy crisis. That surge stemmed from supply disruptions following Russia's invasion of Ukraine and the scramble to secure more expensive alternative gas supplies, such as LNG. As

Figure 1 : Headline and Core Inflation



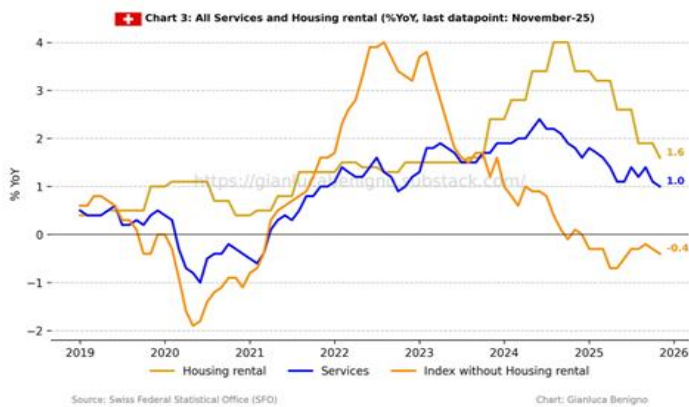
Source: CEIC

Figure 2: Contributions to CPI by Component



Source: CEIC

Figure 3: CPI ex Housing



Source: FSO, Gianluca Bengino

energy prices have since begun to taper off, these base effects are now weighing on inflation.

Core inflation has remained elevated above headline inflation throughout the year, remaining resilient even as headline inflation went negative in April and May, coming in at 0.6% and 0.5% YoY respectively. **Services inflation remains the main driver for this.**

Services inflation in Switzerland has remained persistently sticky. It continued to rise through the post-pandemic recovery, ultimately peaking in July 2024. Since then, it has been gradually easing, though greatly lagging goods which have experienced deflation, since the 2nd half of 2024. Starting the year at 1.8%, services inflation has continued to decline, reaching 1.0% as recently as November. This follows several months of stickiness, with readings hovering between 1.1% and 1.4% from June to October, broadly mirroring the underlying strength in core inflation.

Much of this can be attributed to **the strength in rent and housing services**. Rent and housing services have been a major source of support for inflation, accounting for roughly 20% of the CPI basket and remaining elevated above services and core inflation. Excluding this category, headline inflation would have been negative throughout the year. However, the component has seen gradual disinflation throughout 2025, reflecting the impact of the SNB's rate cuts. Switzerland's housing inflation is **tightly tied to interest-rate movements through the reference mortgage rate**. As policy rates have come down, the reference rate has also moderated, translating into softer inflation pressures within the housing services category. Shelter inflation has remained flat on a MoM basis in eight months so far this year and only mildly positive in the remaining three. On a YoY basis it has dis-inflated from 2.9% in Jan to 1.2% in November. Under the SNB's accommodative policy stance, the dynamics within this component could mean further disinflation and tip the economy into deflation

Conversely, weighing on inflation has been the **persistent deflation in goods**. Goods inflation has remained negative throughout the year and continues to lose momentum, with monthly inflation turning negative in four of the past five months. This been largely led by persistent deflation in imported goods, which account for 23.0% of all goods transactions in Switzerland, even as domestic goods inflation has stayed positive throughout 2025. The decline in imported goods inflation extends from early 2024, following a period of elevated imported goods inflation in prior years. **A key factor has been the stronger CHF**: Since April, after the currency's substantial appreciation, monthly imported goods inflation has continued to remain negative. Among the goods categories, deflation in durable and non-durable goods have led the way, largely moving

Figure 4: Swiss GDP Growth

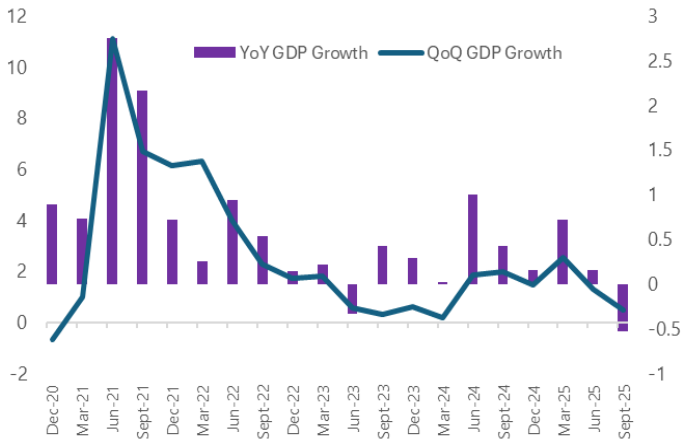


Figure 5 : Swiss Export Volumes to US

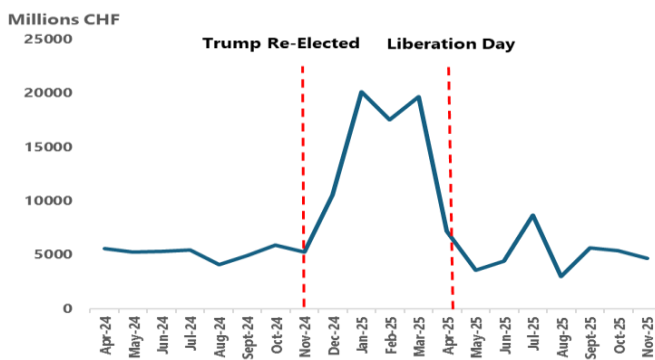
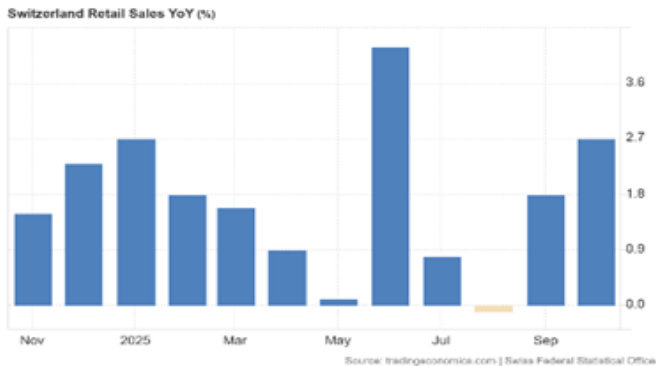


Figure 6: Swiss Retail Sales



in lockstep while semi-durable goods inflation has remained to most resilient.

Growth

The path of Switzerland’s growth in 2025 has largely been defined and determined by the trajectory of U.S. trade policy since Trump’s re-election and the ensuing volatility in export demand by US firms and the Franc in response to those developments. Export demand following Trump’s re-election surged as US importers attempted to front run tariffs, frontloading their imports. This was primarily concentrated within chemicals and pharmaceutical exports. This led to strong growth in QoQ growth in Q4 2024 and Q1 2025 at 0.6% and 0.7% respectively and on a YoY basis at 2.5%. However, export demand weakened in Q2, despite the delayed implementation of 39% tariff on Swiss exports from the 90-day pause announced by the Trump administration, leading growth to slow to 0.1% on a QoQ basis in Q2. Growth decelerated further to -0.5% in Q3 following the official enforcement of tariffs, after Switzerland failed to negotiate a lower rate by the August deadline. The contraction was primarily led by a **continuation of the decline** in export demand **observed in the Chemical and Pharmaceutical sectors** from Q2, despite their tariff exemption, as frontloaded export demand in Q1 tapered off and normalised. Also contributing were increased import volumes and weaker quarterly government outlays. However, growth remained resilient despite trade volatility headwinds, with 2025 overall growth expected to reach 1.4%. Supporting this has been resilient private consumption expenditure.

Consumption

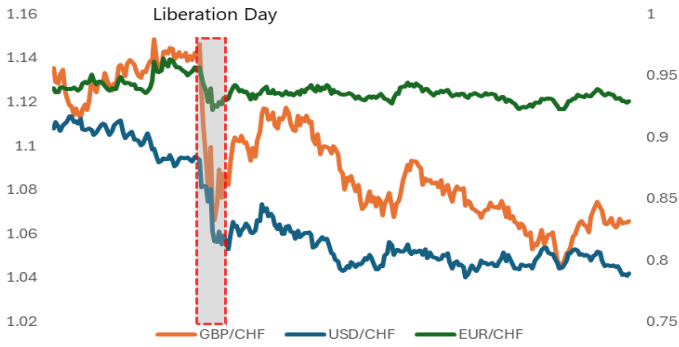
Domestic consumption contributes to 50% of Swiss GDP. Buoyed by strong real wage growth in 2024, private consumption has remained robust this year, recording three consecutive quarters of quarter-on-quarter expansion. Private consumption expenditures rose by between 1.4 – 1.6% this year. Swiss retail sales reflect, this notching consistent YoY growth throughout the year.

This is likely to continue in 2026. UBS wage surveys indicate that nominal wages are expected to rise by about 1% in 2025. With year-to-date inflation likely to finish near 0.2%, this would translate into another year of solid real wage growth of roughly 0.8%.

Trade

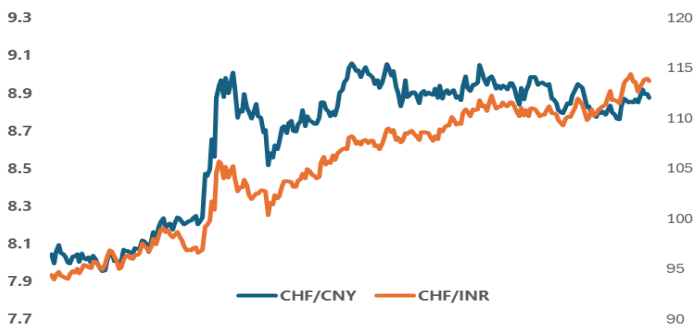
Net exports account for roughly 12% of Switzerland’s GDP, reflecting the country’s strong integration into global markets. With the reduced tariff rate negotiated between the Swiss government and Trump administration, the **impact of US tariffs** on Swiss export growth going forward **should be limited**. The Swiss economy’s direct exposure to the US stands at 4%, with

Figure 7: YTD performance of GBP, USD, EUR against CHF



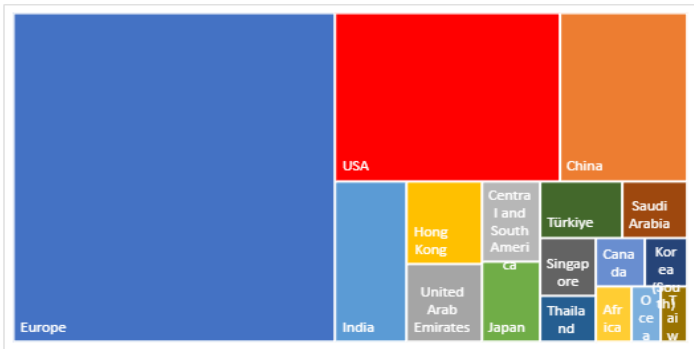
Source: Investing.com

Figure 8 : YTD Performance of CNY and INR against CHF



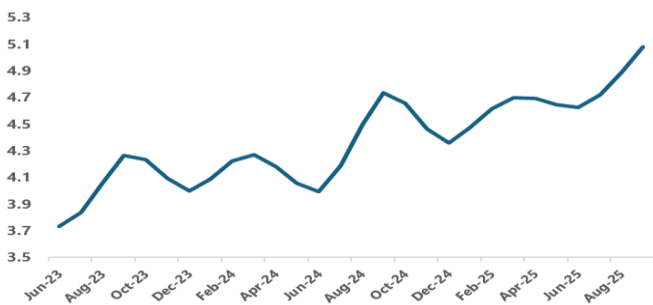
Source: Investing.com

Figure 9 : Switzerland trading partners by export volume



Source: FSO

Figure 10 : Swiss Unemployment Rate 3M Rolling Average



Source: CEIC

around 17% of total export demand originating from the United States. Chemical and pharmaceutical products, which account for about 60% of Swiss exports to the US, or roughly 10% of total Swiss export volumes, have already been exempted from the tariffs. However, tariffs remain in place on all other exports, most notably watchmaking, machinery, and electronics.

These industries should experience weak growth or even outright declines in export volumes going forward. Watch exports saw a 7.8% decline in Q3 QoQ. While tariffs have been the primary factor shaping Swiss export performance, the outlook for 2026 will largely hinge on the trajectory of the CHF and whether its strength persists.

Following Liberation Day, declining investor confidence in the USD as a safe-haven currency and store of value triggered a flight to safety into the CHF. CHF has risen 13% year to date, outperforming other developed market (DM) currencies, with USD/CHF, CNH/CHF, INR/CHF and GBP/CHF reaching their lowest levels in the past decade. These are concerning developments for Swiss export growth, with exports to the US, China, India and UK making up approximately 36% of export demand. To determine the export competitiveness of Swiss exports we should look at the real effective exchange rate (REER) off the CHF, a trade-weighted exchange-rate index adjusted for relative inflation. The CHF's REER has appreciated by 3.6% year-to-date, rising from 100.22 to near 104 in November, nearing the highs last observed in late 2023 to early 2024. Historically, periods of a stronger REER coincide with softer GDP growth due to reduced export competitiveness. A weaker CHF exchange rate against its major trading partners going forward, most importantly against the EUR would bolster export demand.

A likely tailwind for Swiss export growth should come from its recently signed Trade and Economic Partnership agreement (TEPA) deal with India. Switzerland, as part of the EFTA bloc, signed a free trade agreement with India in March 2024, which entered into force in October this year. Under the agreement, India will reduce tariffs to zero on approximately 80–85% of goods imported from EFTA members. Improved trade access to one of the world's fastest-growing economies would certainly support Swiss export demand over the long term and help reduce the Swiss economy's reliance on the US market.

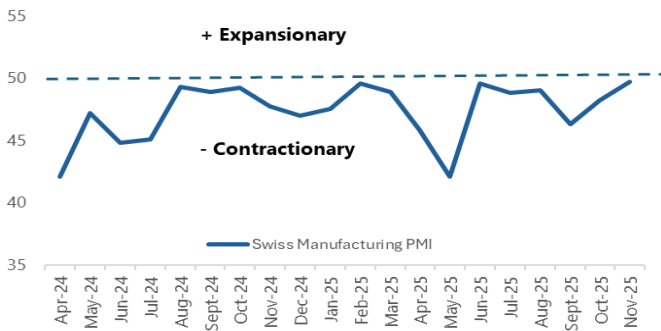
Labour Market

The labour market continued to soften in 2025, with unemployment edging higher, as shown by the rising three-month rolling average of the jobless rate. Payroll growth weakened in Q1 before stabilising with modest rebounds in Q2 and Q3.

Figure 11: Vacancies to Unemployed Ratio



Figure 12: Swiss PMI Data



Source: CEIC

Figure 13: Swiss Wages against Output Gap

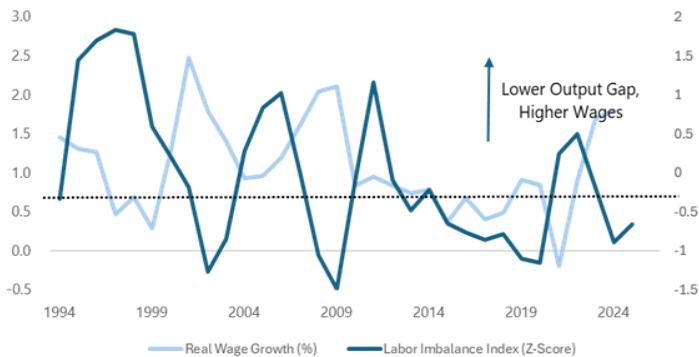
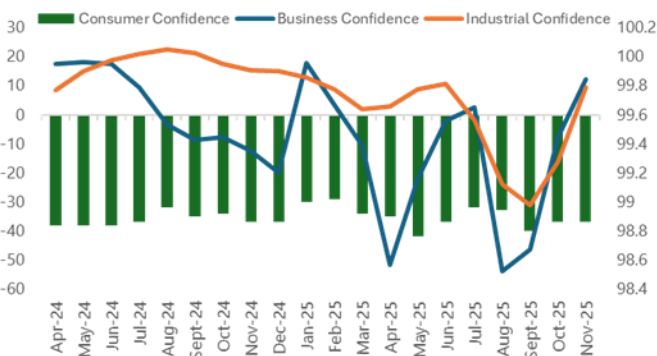


Figure 14 : Swiss Business and Consumer Confidence Data



Source: CEIC

Labour demand has cooled. The ratio of unfilled vacancies to unemployed workers has retreated toward pre-pandemic norms after a brief spike in late 2024, likely reflecting temporary export and hiring activity related to tariff front-loading. Conversely, labor supply conditions remain stable. The labour force participation rate has held close to its long-run average of roughly 84%. Standardising Switzerland’s published employment rate gap, as a measure of labour market imbalance relative to its historical distribution, it highlights increasing slackness within the labor market since 2023.

Taken together, this suggests that the uptick in unemployment in 2025 has been driven primarily by weaker labour demand. Job creation has not kept pace with labour-force growth, leaving the economy below its breakeven employment rate.

Reported difficulties in recruiting skilled workers continued to ease in Q3, even as the unemployment rate rose, suggesting that **cyclical rather than structural** factors are driving current labour-market dynamics. **Tariffs are the likely culprit.** Job losses in 2025 have been concentrated within the manufacturing industry, continuing its decline from late 2024. Swiss manufacturing PMIs indicate this weakness clearly, having sharply declined post Liberation Day. Employment declined across nearly all industries, with one notable exception: Pharmaceuticals, which were exempt from tariffs. Further job losses within the sector are likely limited with Swiss industrial confidence showing signs of rebounding. Nonetheless, the Swiss labour market remains healthy, with the employment rate at 80%, which should continue to support solid private consumption and growth

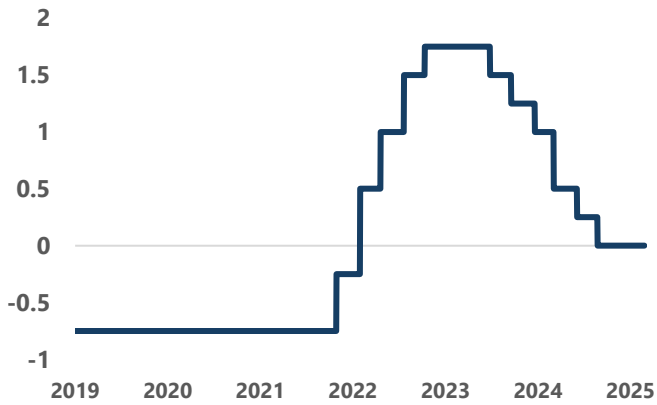
Swiss National Bank

Likely to go negative?

The consensus view among observers remains that the SNB will be unlikely to cut rates into negative territory. **We agree with this assessment.** As highlighted above, while headline numbers suggest that Switzerland is close to slipping into deflation, much of the declines were driven by weaker energy prices, which the SNB is likely to look through.

The SNB will likely remain closely focused on **services inflation**, which has been the stickiest component of prices. A continuation of the downtrend in services inflation would place further downward pressure on core inflation. The outlook for services inflation will largely hinge on the pace of real wage growth, which should improve in 2026. Further disinflation in this category would certainly reopen the door toward rate cuts into negative territory. However, doing so as highlighted earlier, would weaken shelter inflation in tandem and add to deflationary pressures.

Figure 15 : SNB Policy Rate



Source: CEIC

Additionally, consumer, business and industrial confidence has **rebounded** from their recent lows following the initial imposition of tariffs. Consumer sentiment climbed to its strongest level since July, supported by an improvement in economic expectations (-39, up from -49 in October) and a more optimistic assessment of households' financial situations (-29, from -32). Switzerland's KOF Economic Barometer, a measure of business confidence, rose to 101.7 in November, its highest reading since March, driven largely by stronger expectations for export demand. Surveyed inflation expectations, while lower than in Q1, remain well-anchored and consistent within the SNB's target range of 0% – 2%. at 0.73% as of Q3, comfortably within the SNB's inflation target band and slightly above realised inflation for that period. These developments should reassure the SNB that financial conditions remain adequately supportive. Other barometers suggest that this is true. M2 growth has remained consistently positive throughout the year, with no months of contraction, indicating steady and robust credit creation. Swiss equities are on track to claw back their second-half losses and finish the year up 10%, recovering from the declines triggered by the lead-up to and announcement of the Liberation Day tariffs.

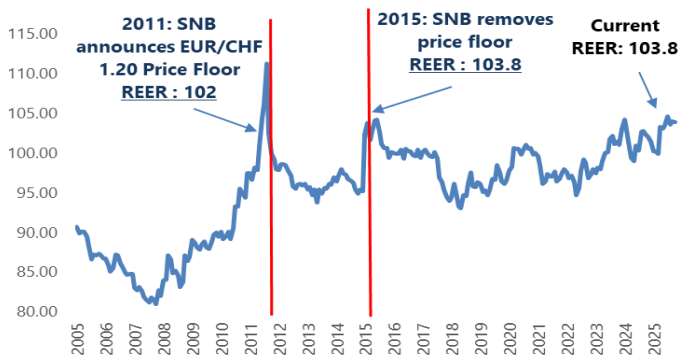
Furthermore, there appears to be significant institutional resistance within the SNB to returning policy rates to negative territory. At its September meeting, even against the backdrop of sharply higher U.S. tariffs of 39% then, the Bank stressed that the bar for additional easing remained high and that any move below zero should not be viewed as equivalent to a conventional rate cut. The SNB once again reiterated their view that current policy was appropriate at their recent December meeting.

FX intervention coming?

The franc's sharp appreciation this year has prompted speculation over whether the SNB might intensify foreign exchange interventions to curb further strengthening. Recent data on the Bank's reserves and FX operations indicate interventions of around CHF 5 billion across the second and third quarters, highlighting a renewed willingness to expand its balance sheet in support of the currency. With growth weakening over the past two quarters and the economy confronting the prospect of steep U.S. tariffs of 39%, markets have also questioned whether the SNB might consider reintroducing a price floor against selected currency pairs, such as USD/CHF, which have seen the sharpest declines. However, going forward, with the finalised lowered US tariff rates, **this is unlikely**.

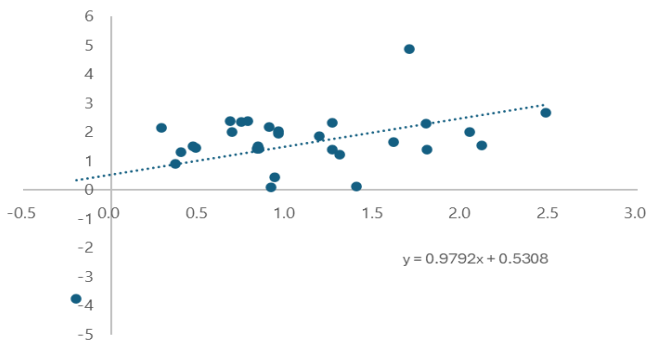
The SNB last imposed a price floor on the CHF in the EUR/CHF cross. This was implemented in 2011 at the SNB's September meeting and was set at 1.20 to protect diminishing European export demand. At the time, the real effective exchange rate

Figure 16 : CHF Historical Real Effective Exchange Rate (2005-2025)



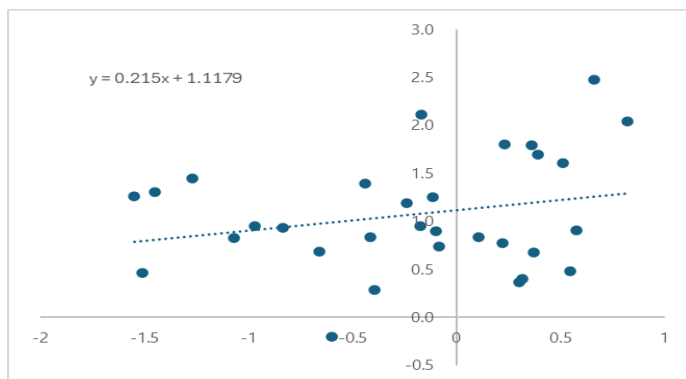
Source: FRED

Figure 17: Swiss Labor Market Output Gap against Real Wage Growth



Source: FSO, CEIC

Figure 18: Scatter of Swiss Real Wage Growth against 1Y forward consumption spending



Source: CEIC

(REER) of the CHF spiked toward 111 in the lead up to the announcement and was 102.8 on the date of the announcement. Today, the CHF is near 104, above the level seen when the price floor was enacted.

However, the circumstances are materially different. Unlike the abrupt and disorderly appreciation in 2011, the Swiss franc has strengthened gradually over time and has remained broadly within the trading range established in the years following the introduction and subsequent removal of the exchange-rate floor in 2011 and 2015 respectively. The CHF's relative weakness compared with 2011 reflects the fact that the euro has also appreciated alongside the franc, albeit to a lesser extent, similarly benefiting from safe-haven inflows following the announcement of US tariffs. Further FX interventions **should be expected** if the Franc continue to appreciate but will likely be **limited in scope**. In its September meeting, the bank refrained from labelling the CHF as a risk or 'highly valued', a term it had used in previous communications prior to interventions.

Adding to these headwinds is the political backdrop. Sustained FX intervention risks Switzerland being labelled a currency manipulator by the U.S. Treasury, a designation the SNB is keen to avoid. Switzerland currently violates two of the three criteria, and sustained FX intervention at 5% of GDP would cement its designation.

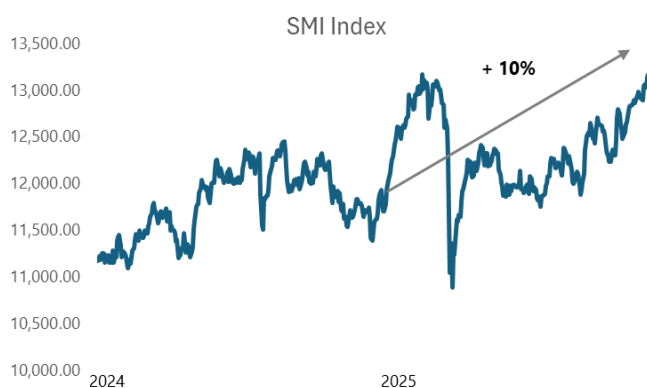
This is likely a strong point of consternation for the SNB, particularly under the current Trump administration, which may interpret any intentional attempts to weaken of the franc as an attempt to gain a trade advantage. Such a move could invite retaliation, including the possibility of reversing or tightening the recently negotiated lower tariff rates. Taking these factors into account, the scope for FX intervention going forward is likely to be limited.

Nonetheless, with the policy rate already at zero, the SNB's effective policy lever going forward remains FX intervention, to avoid a further tightening in financial conditions through the FX market.

Economic Outlook

Looking ahead to 2026, forecasts from government agencies, the SNB, and financial institutions place full-year GDP growth in a range of 1.0% to 1.4% year on year. Our estimates lie at the upper end of this range at 1.4%, reflecting increased optimism on investment spending and export demand. Final consumption expenditure should expand by roughly 1.4% in 2026. Our estimates indicate that a 1% increase in real wage

Figure 19: SMI Index Performance



Source: Investing.com

growth translates into a 0.98% rise in consumption the following year. With real wages set to grow by about 0.8% in 2025, when spending is forecast to grow by 1.5%. While the government forecasts places investment growth near 1.5% as well, strengthening external demand, improved household spending, and continued monetary accommodation from the SNB point to modest upside. We therefore assume investment growth of 1.7%. On net exports, we find that a 1% increase in the REER of CHF weakens net export revenue by -0.1%. Based on our expectations of a 1% drop in CHF strength, we project 0.4% growth in net exports.

Overall, these drivers yield a projected GDP growth rate of 1.4% for 2026, on the upper range of consensus expectations. On the labor market and wages, with the relaxation of tariffs, improving business sentiment, and our expectation of a weaker CHF in 2026 boosting export competitiveness, labour demand should rebound as hiring within the manufacturing sector improves, albeit with a lag. Payroll growth should maintain its positive trajectory and accelerate in the second half of the year, as a weaker CHF begins to support exports and job growth within manufacturing. This should support continued real wage growth in 2026.

Using 30 years of data, modelling labour market tightness, measured by the employment rate gap, against real wage growth and we find that a 1 percentage point increase in tightness is associated with a 0.21% rise in real wages. The output gap in is currently 0.13%. Stronger export demand should help close this gap and generate a modest positive labour market imbalance of 0.0–0.1% in 2026, supporting wage growth of 1.3–1.4% over the year.

We hold a more constructive view on inflation than consensus and expect the SNB to begin signalling policy tightening at its Q4 meeting. Further disinflation in housing appears highly limited, with no additional cuts expected, while robust wage growth should support firmer services inflation. At the same time, favourable base effects from last year's sharp goods and energy disinflation are likely to lift year-on-year prints in these categories, resulting in a firmer overall inflation profile.

Capital Markets

Equities

After a year of volatility fuelled by concerns over US trade policy, Switzerland's blue-chip SMI is on track to close 2025 up 9-10%. US importers frontloading purchases ahead of potential tariffs and boosting export demand supported strong Q4 earnings in pharmaceutical and consumer discretionary names like Roche and Richemont, which helped the index start the year on a strong footing.

Figure 20: SMI Returns by Sector

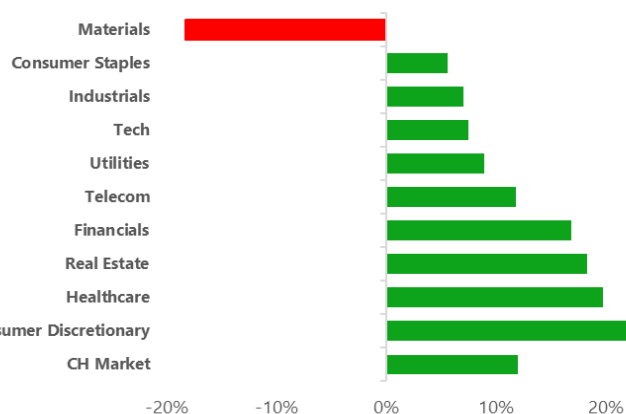
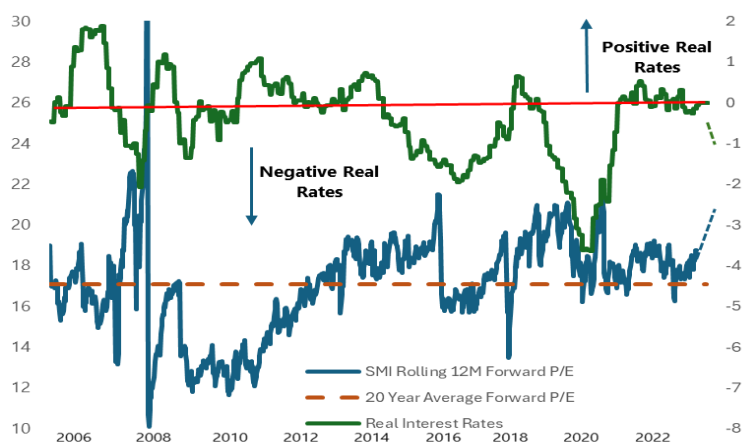


Figure 21: Swiss Real Interest Rates on SMI 12M Forward PE



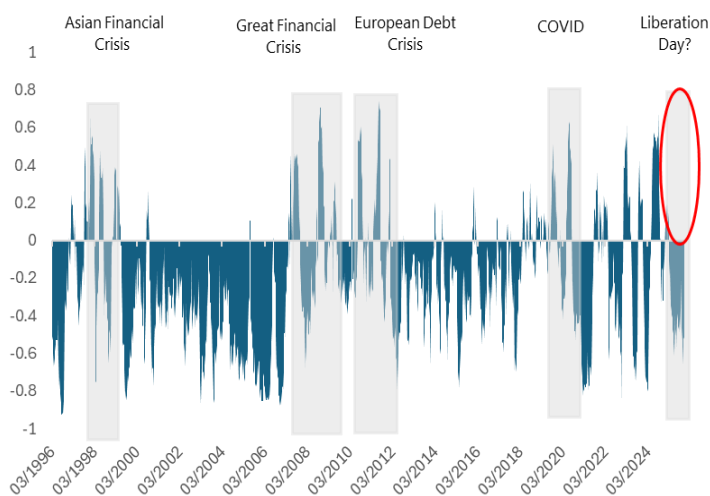
Source: CEIC, Bloomberg

The index briefly traded above but failed to push through its previous highs made in 2021 at the 12 800 level in March. In April, amid a broader trend of global deleveraging before and after Liberation Day, the index tumbled 18% to reach its year-to-date lows. The declines were led by the pharmaceuticals, financials and consumer discretionary sectors. Pharmaceutical giants Roche and Novartis, who collectively make up 31% of the index saw drawdowns of 22% and 19% from their March levels, including autonomous spending, this implies private consumption growth of around 1.3% in 2026. Government while UBS and Swiss luxury goods conglomerate Richemont saw declines of 28% and 33% respectively. The index has since rebounded from its Liberation Day lows and is approaching its March highs, led by gains in Roche, Novartis and UBS. These gains were supported by Roche and Novartis' commitments to increase investment in the US, insulating them from the Trump administration's proposed pharmaceutical tariffs, assuaging fears of reduced pharmaceutical export demand from the US, alongside positive progress in their drug development pipeline. However, this tailwind is likely to be partially offset by agreements with the Trump administration to lower drug prices in exchange for relief from tighter regulatory scrutiny and the avoidance of renewed tariffs. Both companies currently generate close to half their revenues from the US market.

Multiples

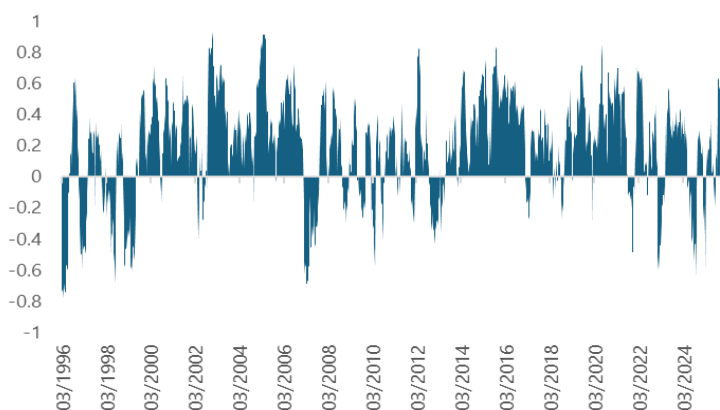
SMI 2026 earnings growth of around 7.0% in 2026 is expected. The index is currently trading close to its 20-year average forward P/E of 17.6x. However, scope remains for multiple expansion toward the past decade peak multiple of around 21x. Real interest rates remain negative and should normalise at around -30 to -40bp throughout the year, as inflation is forecasted to improve to 30bp and the SNB remains on hold. These accommodative financial conditions should support stronger inflows rotating into Swiss equities, as real returns on Swiss bonds and deposit accounts remain unattractive, while improving confidence in the Swiss economic outlook. Negative real rates will also contribute to further weakening in the CHF, improving export competitiveness and reinforcing investor confidence in economic growth and corporate profitability, particularly in the pharmaceuticals sector, which accounts for roughly 35% of the index and demonstrates a relatively high sensitivity to currency movements. Investor sentiment should be further supported by improving business and consumer confidence prints, alongside the lower negotiated US tariff rates. Analysis of the index's historical rolling 12-month forward P/E highlight a positive relationship between periods of negative real interest rates and above-average valuation multiples.

Figure 22: 3M Rolling Correlation of CHF and USD



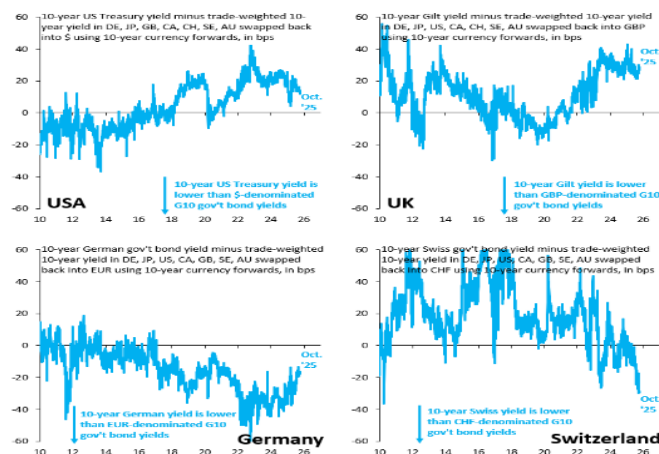
Source: Bloomberg

Figure 23: 3M Rolling Correlation of CHF and Gold



Source: Bloomberg

Figure 24: Convenience Yield of US, UK, Germany and Switzerland



Source: Robin Brooks

CHF and Swiss Government Bonds

The CHF has appreciated 13% to date as measured by its Nominal Effective Exchange Rate (NEER). A key driver of the CHF's outperformance to date has been renewed demand for safe-haven currencies. This surge followed the announcement of the Liberation Day tariffs, which undermined confidence in the USD as a safe-haven asset. Concerns over the stability and credibility of U.S. institutions in policymaking prompted investors to rotate into alternative safe assets, with the Swiss

franc and Swiss sovereign yields benefiting prominently from this shift. Its consistent status as a safe-haven currency can be attributed to Switzerland's **strong and stable fiscal position** and reduced **confidence in that of its developing market peers**. Safe haven currency flows have observably been concentrated toward countries with well-managed and stable debt profiles. Switzerland's debt-to-GDP ratio remains healthy at 37% and has enjoyed an exceptionally strong credit profile, with its sovereign debt having continued to maintain a AAA rating for decades. Investor confidence is further underpinned by the country's constitutional "debt brake," which enforces disciplined, countercyclical fiscal policy, helping to smooth business cycle fluctuations and limit excessive debt accumulation.

Historically, the CHF has exhibited strong positive correlations with traditional safe-haven assets such as the Japanese yen (JPY), the US dollar (USD) and gold, during risk-off environments. Since Liberation Day, some of these relationships have broken down. While the CHF's positive correlations between gold and other precious metals maintained and strengthened, the opposite was true for its correlation with the USD, as uncertainty around the USD's role as a safe-haven asset grew. As the number of alternative safe-haven assets dwindled, the Swiss franc reaped disproportionate gains.

This is also evident in the Swiss sovereign debt market. Switzerland's yield curve remains relatively flat with both the 2Y – 10Y spread and 5s-30s spread around 38bp and 45bp respectively. While these narrowed yield differentials can be partially be attributed to weak term premiums in duration arising from weak growth and inflation expectations for the Swiss economy, much of it can be explained by low fears of debt monetisation.

In recent years, several developed economies with traditionally safe-haven statuses have seen increasing concerns regarding the sustainability of their fiscal positions. The U.S. has embarked on large-scale spending through initiatives such as the OBBBA, the U.K. faces widening budget deficits alongside its costly triple-lock pension commitment, and Germany has launched substantial defence-related fiscal packages. The "Confidence Yield" measures each country's ability to issue new debt cheaply

Figure 25: Central Bank Cuts against 30 Year Rates

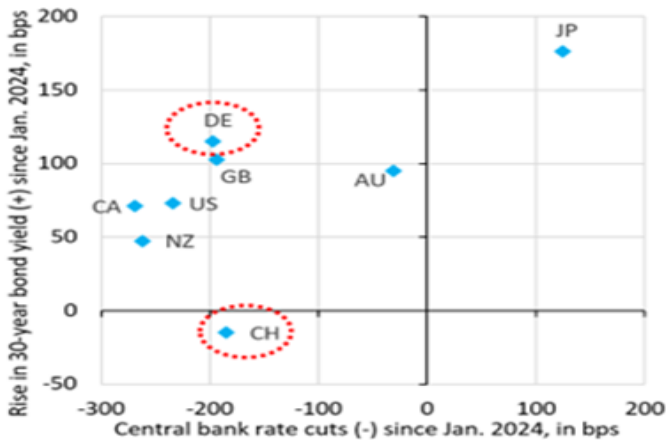


Figure 26: 20y10Y Swap Rates

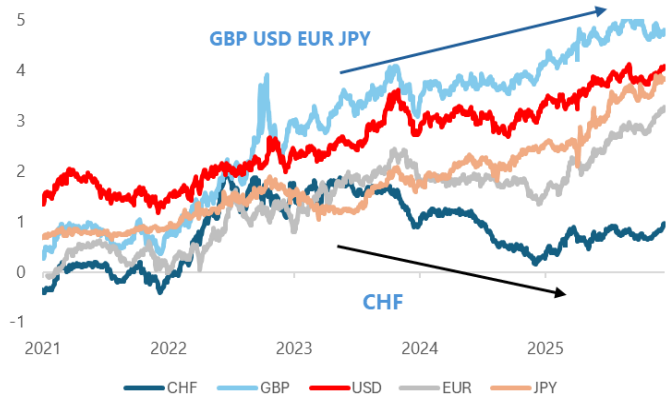
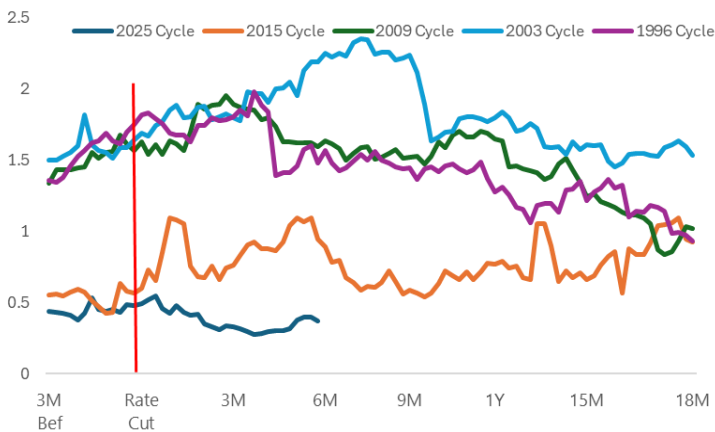


Figure 27: Swiss 2s10s Spread Historical Data



Source: Bloomberg

when hedging foreign yields into domestic currency. As observed in Figure X, when comparing the “Convenience Yield” on Swiss sovereign debt with those of other developed economies that have traditionally been viewed as safe havens, Switzerland stands out with its convenience yield continuing to decline even as the above countries ones remain positive or have begun trending upwards.

This repricing of debt monetization risk is also evident in the when observing the movements of long-duration sovereign bond yields across these economies. As shown in Figure 19, despite

many central banks entering into rate cut cycles, Switzerland stands out as one of the few countries where long-term yields have declined in step with policy rates. Ten-year forward rates, as measured by the swaps market, have risen in other developed markets, while Switzerland’s forward rates have continued to drift lower. This divergence reflects differing term premiums and neutral rate expectations higher in other markets and lower in Switzerland. Switzerland’s net financial account surplus has surged to CHF 41 billion in Q2 level since Q3 2018, a substantial increase from Q1’s surplus of CHF 16.4 billion, reflecting these significant inflows.

However, not all developments support further strengthening in the CHF. Low short-duration Swiss yields and SARON rates have created attractive carry opportunities. **Adoption of the CHF as a funding currency should rise**, with its volatility now more compressed following the strong appreciation in Q2. On a volatility-adjusted basis, the CHF now offers more attractive carry returns than the JPY, which has seen volatility expansion in light of the market’s rapid repricing of Prime Minister Takaichi’s proposed fiscal expansion plans, diminishing its appeal to carry traders. Carry/Vol ratios for the CHF against many other G10 and EM currencies are at their highest levels.

Fixed Income and Currency Strategies

Steepening 2s10s in Swiss Sovereigns

There remains scope for further steepening in the Swiss sovereign yield curve throughout 2026. As export momentum improves, driven by a weaker CHF and a rebound in Eurozone manufacturing activity, business sentiment, real wages and external demand should strengthen, supporting higher private consumption and broader economic growth. This should prompt markets to price in higher growth expectations into Swiss duration, contributing to a bear steepening in the yield curve.

We note that historical data **does not support** this view. The Swiss yield curve has flattened by around 10bp since the last SNB rate cut nearly six months ago. History suggests this flattening continues later in the cycle. Around 18 months after

the conclusion of SNB easing cycles, the Swiss 2s10s spread has typically re-flattened.

It flattened by approximately 88bp and 61bp respectively following the 1996 and 2009 rate cut cycles, and by around 15bp after the 2003 rate-cut cycle. The exception was the 2015 SNB rate-cut, when the yield curve steepened by around 32bp 18 months later. We consider the current conditions surrounding the 2015 and 2003 rate cut cycle to be most analogous the current environment. The current macro environment differs from the 2009 cycle, when the SNB was cutting rates into a global recession. At the time of the 2015 rate cut, the Swiss economy

was entering deflation, which later deepened to a trough of -1.4% year-on-year headline inflation in September 2015, similar to current conditions with November's headline CPI at 0.0%.

It also bears many similarities to the 2003 cycle. The SNB began its current rate-cut cycle in March 2024, responding to mounting price stability concerns as core inflation sharply slowed, led by rapid goods disinflation. Sticky services inflation which peaked in June 2024 and subsequently began to ease, prompted the SNB to continue its policy easing. These conditions mirror those in 2003, when rapid disinflation in services and weak goods inflation raised price stability concerns and prompted the SNB to initiate its policy easing cycle. The curve steepened by up to almost 70bp following the rate cut.

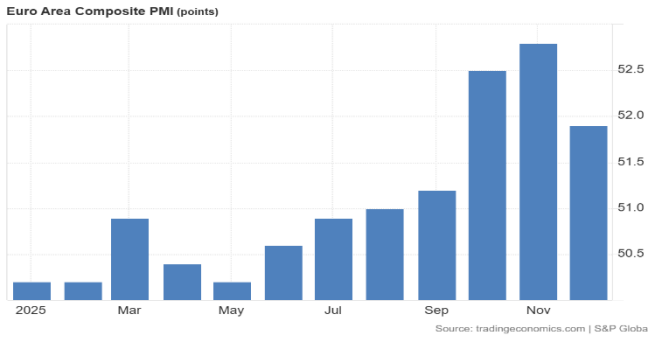
However, the spread subsequently bear-flattened in 2004 as the SNB began tightening policy in response to improving economic conditions. We see the current Swiss economic trajectory and SNB policy path as closely mirroring those of 2003. Inflation should likely prove more resilient than forecast and prompt the SNB to signal policy tightening at its final 2026 meeting. The 2s10s spread should steepen through 2026, following a similar early-cycle pattern to 2003, with the subsequent bear-flattening likely to occur toward year-end and into 2027.

Furthermore, the SNB is likely to interpret further curve flattening as a tightening of financial conditions, which could strengthen CHF appreciation pressures and, in turn, lower expectations of future policy tightening, supporting our steepening bias. However, a steepening of a similar magnitude to that seen in 2023, 60 bp from the end of the rate-cut cycle, which would imply a further 70 bp steepening from the current spread is unlikely. During that period, cuts were implemented against a backdrop of negative growth, whereas the SNB is now acting proactively ahead of potential growth concerns. A more **modest steepening of around 40–50 basis points** from present levels is more likely.

Stronger EUR/CHF

Trade idea: Long EUR/CHF 25D RR

Figure 28: EuroArea Composite PMI



Entry: 0.9300 (Enter on 31/12/2025)

Target: 0.94600

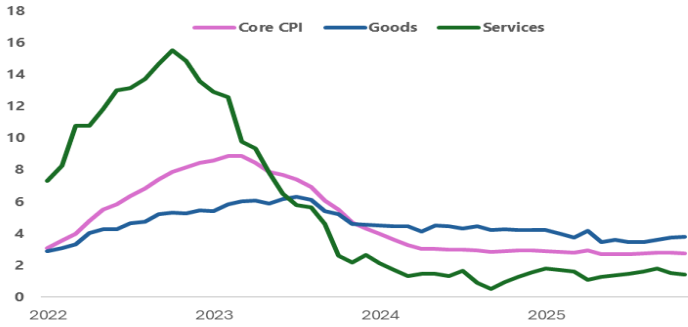
Stop: 0.91900

RR Ratio: 1.5

Carry: 2.0% (1Y Implied)

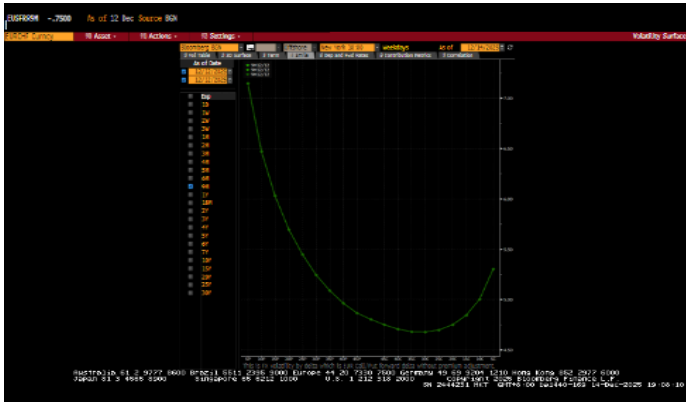
The Euro Area and Switzerland are at different stages of the growth cycle, with Euro Area activity appearing close to a cyclical trough while Swiss growth and inflation momentum softens.

Figure 29: EU Core, Goods and Services inflation



The ECB has remained on hold since June, keeping its policy rate at 2.0% amidst backdrop of uncertainty in the Eurozone. In recent communications, ECB officials have consistently emphasised that policy is currently at neutral, favouring a “wait-and-see” approach to assess the balance of risks going forward, which currently remain broadly even based on recent inflation. However, there are signs that contraction in Europe have likely reached their trough and that risks to both growth and inflation skew to the upside. Meanwhile, Swiss inflation remains weak and is unlikely to show signs of recovery in the near term. The SNB is likely to stand pat and keep rates at zero through 2026, in our view only likely to guide towards further tightening in Q4. These conditions imply growing tailwinds for the EUR into 2026, while those that drove the CHF’s rapid appreciation to date are likely to continue tapering.

Figure 30: EUR/CHF 9M Volatility Surface



Source: Bloomberg

Figure 31: EUR/CHF Cross



Source: TradingView

European industrial production decline is showing signs of bottoming out. Germany’s industrial output posted two consecutive months of MoM growth, for the first time since 2024. Europe’s export sector has faced significant headwinds, notably from recently imposed US tariffs and China’s continued depreciation of the yuan (CNY), both of which have eroded Europe’s export competitiveness. However, some of these headwinds are likely to subside in 2026. Weak export growth in Q2 and Q3 largely reflected a normalisation in demand following earlier front-loading ahead of US tariff implementation after Donald Trump’s re-election. Export demand should return to its typical trends supporting stronger growth.

The rollout of Germany’s defence-related fiscal stimulus should provide a meaningful tailwind to industrial investment and output. Recent business confidence surveys point to improving sentiment, even as Eurozone manufacturing PMIs have contracted over the past two months, a downturn largely driven by weakness in German manufacturing. In contrast, Eurozone Composite PMIs have remained in expansionary territory, supported by resilient services activity but weighed down by manufacturing softness. The implementation of the stimulus package should help stabilise German manufacturing, ease the

drag on Eand support a gradual recovery in industrial momentum.

Recent soft inflation prints were led by declines in volatile food and energy prices. Core inflation has remained firm since May, having trended upward to and remaining at 2.4% since October, supported by firm services inflation which rebounded in August and printed at 3.5% as recently as November. Further upward wage pressures to sustainably extend the rebound in services inflation and push headline inflation above the ECB's 2% target.

Similar to Switzerland, the Eurozone has seen muted goods inflation, supported by a EUR that has appreciated roughly 15% year-to-date. However, as base effects unwind, the disinflationary impact of imported goods is likely to throughout the year. The ECB's wage tracker index edged up to 2.7% in Q4, above expectations continuing its uptrend from Q1. ECB President Lagarde in the ECB's recent communications acknowledged this strength, noting that it was stronger than the ECB's forecast. Another notable signal of increased hawkishness on the ECB Governing Council came from member Schnabel, who recently commented that risks are tilted to the upside for both growth and inflation and that she was "rather comfortable" with markets pricing in a rate hike as the ECB's next move.

As nominal wage growth and industrial activity continue to strengthen, underlying inflationary pressures should firm. Going forward, ECB communications are likely to lean hawkish and reinforcing market optimism for European growth, supporting the EUR. Recent EUR/CHF weakness has largely been driven by strong CHF demand, rather than EUR weakness. The pair dipped toward the 0.92 level even as market expectations of a final cut by the ECB were priced out. However, there are several headwinds to further CHF appreciation which should support a stronger EUR/CHF.

The CHF's low-volatility environment, combined with significant rate differentials relative to other currencies, will support its growing use as a funding currency for carry trades, leading to increased selling pressure on the franc. Furthermore, as the Trump administration's efforts to restructure global trade are likely to take a back seat into 2026, following the finalisation of tariff rates and a growing focus on domestic priorities ahead of the midterm elections, the safe-haven inflows that drove the sharp appreciation of the CHF should subside. Although Swiss growth should remain constructive, inflationary pressures will likely only pick up toward year-end 2026. The SNB should on hold throughout the year, only beginning to signal policy tightening toward the end of 2026. While an improvement in euro-area growth would provide some support to Swiss activity, the boost to growth would likely be insufficient to meaningfully bolster growth and inflation to warrant a repricing of Switzerland's neutral rate.

What's priced in?

The EUR/CHF cross is currently pricing in softer inflation, further depreciation, and a subdued volatility environment. 1y EUR inflation swaps remain below the ECB's 2% price target at around 1.8%. OIS curves in both regions imply policy rates remaining unchanged over the next year, while the EUR/CHF forward curve remains in backwardation. With risks increasingly skewed toward a higher ECB policy rate, a long EUR/CHF

position offers a clean carry trade. Using options allows us to capture **not only spot appreciation** but also **more positive realized skew** as sentiment toward EUR becomes more positive, creating a more convex payoff profile. Additionally, the negative skew in EUR/CHF makes this trade a net credit, enhancing the trade's risk-reward profile. Our stop remains below the 0.92 level, which has been speculated to be the SNB's intervention threshold. The EUR/CHF cross briefly traversed the 0.92 level in mid-November where it subsequently reversed intraday and rallied to its recent high of 0.939 just weeks later. The apparent SNB backstop at 0.92 strengthens our conviction in the trade's favourable risk-reward profile.

Additional information (Accurate as of 17/12/2025)

EUR/CHF 9M Forward Price: 0.9194

EUR/CHF 9M HV: 5.76%

EUR/CHF ATM IV : 4.6%

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