



J. Safra Sarasin Cross-Asset Weekly

14 March 2025

A perilous period of transition

US equity markets have fallen sharply in the past few weeks, reflecting a surge in policy uncertainty and growing fears of a sharp economic slowdown. The Trump administration seems to be willing to endure short-term pain as it tries to rebalance the US from a consumption-driven economy with a large trade deficit into a manufacturing powerhouse. Its strategy relies on deregulation, privatisation, a shrinking public sector, tariffs, and efforts to weaken the dollar. There is a growing risk that the administration's policy experiment leads to much weaker growth, lower bond yields, wider credit spreads and weaker equity markets in the coming quarters, without delivering the long-term benefits it anticipates. The Fed is likely to hold steady for now, but if downside risks to growth and employment outweigh inflationary pressures from tariffs, it may ultimately be forced into deeper rate cuts than we currently expect.

Over in Europe, Germany's historical fiscal U-turn improves the growth outlook for the euro area and clearly challenges our previous negative bias on the euro. As Bund yields have risen sharply, the support of the euro against the US dollar has largely improved, though less so against the Swiss franc.

Finally, we guide our readers through our approach to forecasting policy rate decisions by the Swiss National Bank. Our analysis suggests that there should be one final 25bp rate cut to 0.25% at the March meeting.

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US macro

Trump's economic gamble

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Last week marked the worst performance for stocks since September, driven by soaring policy uncertainty and mounting concerns over an economic slowdown. Though economic fundamentals remain solid, there is a growing risk that the administration's policy experiment will result in much weaker growth in the coming quarters, without delivering the long-term benefits it anticipates. The Fed is likely to hold steady for now, but if downside risks to growth and employment outweigh inflationary pressures from tariffs, it may ultimately be forced into deeper rate cuts than we currently expect.

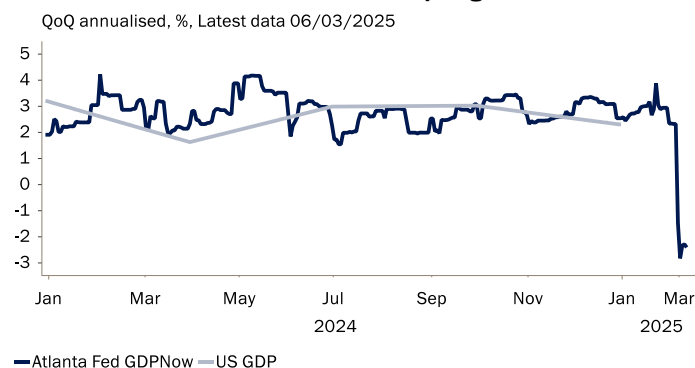
A much lower 'Trump put'

US equity markets have fallen sharply in the past few weeks, reflecting a surge in policy uncertainty, growing fears of a sharp economic slowdown, and the realisation that the so-called 'Trump put' might be much lower than previously assumed. The administration insists it is willing to endure short-term pain during "a period of transition" to lay the foundations for stronger long-term growth. While we can already see the pain in the data, we are unconvinced about the long-term gains the administration's policy mix might deliver.

The Atlanta Fed GDP tracker suggests the economy is contracting. A surge in gold imports in January means the reading is probably overly pessimistic

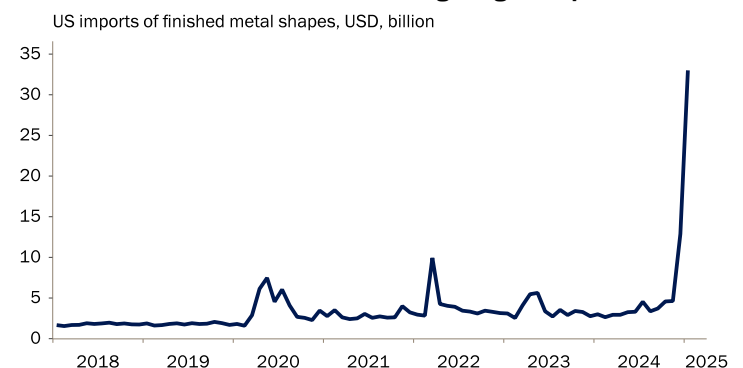
Let's start with the short term. There is no doubt that the economy is slowing. The Atlanta Fed's GDPNow estimate has plunged to -2.8% before slightly rebounding to -2.4%, raising fears that the economy is taking a turn for the worse (Exhibit 1). The reading is probably overly pessimistic, partly due to a surge in imports in January, as firms stocked up ahead of expected tariff increases. Nearly half of the increase came from a surge in gold imports, which are excluded from official GDP calculation (Exhibit 2). Adjusting for the distortion, the Atlanta Fed estimates first quarter growth at 0.4%. This is still weak and reflects the drop in business and consumer sentiment data which are used to estimate parts of the model. 'Hard data', however, such as February's jobs report and January's JOLTS data on labour market flows have held up better. In our view, GDP growth this quarter is more likely to come in at around 1%. This would mark a significant slowdown from late 2024.

Exhibit 1: The Atlanta Fed GDPNow has plunged



Source: Macrobond, Bank J. Safra Sarasin, 12.03.2025

Exhibit 2: Some of it has to do with a surge in gold imports



Source: Macrobond, Bank J. Safra Sarasin, 12.03.2025

Still, most other indicators suggest the economy is slowing down and that price pressures on the goods side are building up

The near-term outlook doesn't look great either. Consumer confidence has dropped sharply, in part due to rising inflation expectations and falling equity markets. Small-business optimism, as measured by the NFIB index, has dropped for a second consecutive month in February. That index, which leans Republican and surged after Trump's election win, recorded its steepest decline since the pandemic in the share of business owners saying it was a good time to expand their activity. Other surveys, such as the S&P Global



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PMI and those conducted by the regional Federal Reserve Banks also point to weaker investment and hiring intentions. Indeed's measure of new job postings fell in February, while the Challenger measure of layoff announcements surged to recessionary levels. Federal government job cuts have driven much of this, but layoff announcements have also risen sharply in the retail sector. Finally, the net percentage of business owners raising their selling prices jumped 10 percentage points in February, the largest monthly increase since April 2021. Most price components of the ISM and S&P Global PMIs have also climbed in recent months (Exhibits 3-5).

Exhibit 3: Capex expectations down



Exhibit 4: Layoff announcements are rising

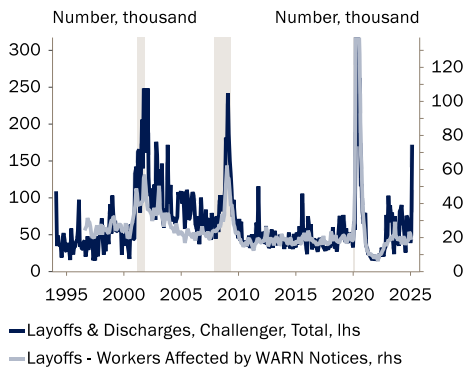
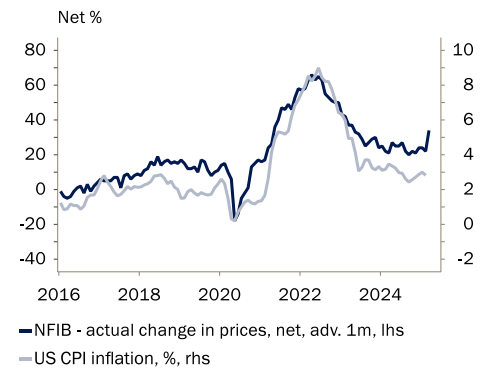


Exhibit 5: More are planning to hike prices



Trump's tariffs and erratic policies are the main culprit behind this drop in business and consumer confidence

The cause is clear. Tariffs have surged, and the president's erratic approach and U-turns have pushed trade policy uncertainty to record highs, denting confidence and fuelling price pressures. But trade is not the only source of turmoil. Uncertainty around government spending, taxation, healthcare, regulation, and national security has also risen sharply (Exhibits 6-7). The Department of Government Efficiency's (DoGE) chaotic and indiscriminate approach to spending cuts, fading hopes of further tax cuts beyond an extension of the 2017 Trump tax reforms, and an increasingly antagonistic stance toward allies such as Canada have all added to the confusion.

Exhibit 6: Trade policy uncertainty has skyrocketed

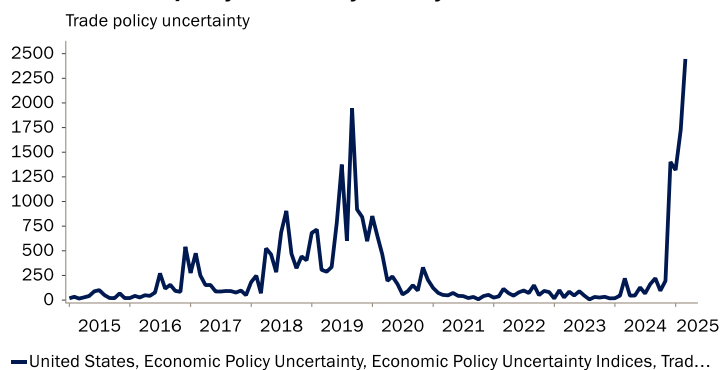
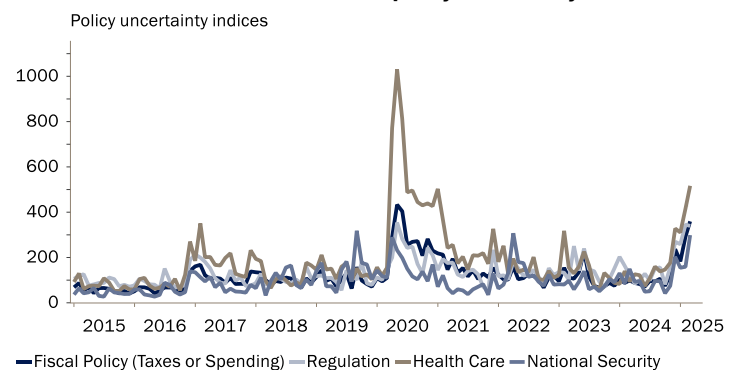


Exhibit 7: A broad-based increase in policy uncertainty



The administration's shock therapy: short-term pain for long-term gains

The administration insists that all of this is part of a "Grand Global Reordering" that will ultimately benefit the US. Its strategy relies on deregulation, privatisation, a shrinking public sector, tariffs, and efforts to weaken the dollar. The aim is to transform the country from a consumption-driven economy with a massive trade deficit into a manufacturing



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powerhouse. But before any potential gains, there will be pain, which the administration deems inevitable “during a period of transition”.

A more balanced economy is a laudable goal. But imposing tariffs on all and everything will not lead to a manufacturing renaissance

The goal of a more balanced economy, both domestically and internationally, is laudable. Targeted tariffs, combined with a coherent domestic investment strategy, can sometimes help reshape an economy, as Taiwan and South Korea have demonstrated. But this is not the path the administration has taken. And as we have argued before, indiscriminate tariffs on all imports – including those for goods the US neither produces nor is likely to – are unlikely to spark a manufacturing renaissance. If other countries retaliate, the damage will be even greater. Higher input costs will erode American firms’ competitiveness, while resources will be misallocated to inefficient producers, undermining long-term growth. The administration hopes that aggressive deregulation will offset these costs. While some reductions in red tape may help, not all regulation is harmful. A “shoot first, ask questions later” approach may do more damage than good.

Far from clear that the dollar is the root-cause behind the decline in US manufacturing. A Mar-a-Lago Accord seems far-fetched

It is also far from clear that the dollar, as some in Trump’s economic team argue, is the true culprit behind American manufacturing’s decline. Other advanced economies, such as Germany, have also seen a long-term decline in manufacturing employment and activity. Proposals to weaken the dollar and keep bond yields low by coercing other countries to sell their dollar reserves and swap their holdings of treasuries into century bonds seem far-fetched and dangerous. Why would China agree? And even if it does, such a move would undermine the creditworthiness of US Treasuries, the backbone of the global financial system. A more credible way to lower interest rates, the dollar, and the trade deficit would be to shrink the fiscal deficit through lower spending and higher taxes.

Inclusive institutions are a key determinant to a country’s long-term prosperity. Some actions undertaken by this administration are a threat to this inclusivity

Perhaps even more troubling is the damage being done to the country’s institutions. The work of economist Daron Acemoglu, last year’s Nobel laureate, shows that inclusive institutions – those that encourage broad participation in economic and political life, protect property rights, enforce the rule of law, and create incentives for innovation investment – are the foundation of long-term prosperity. Extractive institutions, by contrast, concentrate power and wealth in the hands of a small elite. They restrict economic opportunities, limit innovation, and create instability. Recent actions by this administration, such as the dismantling of the Education Department and the politicisation of the rule of law point to potential threats to the inclusivity of American institutions.

The Fed might have to ease policy more than we currently forecast

Given this stagflationary shock, what should the Fed do? As Chair Powell made clear last week, the Fed will remain on hold when it meets next week. Beyond that, its course will depend on how it assesses the balance of risks between slowing growth and persistent inflation. Tariffs push up goods prices, but weaker growth is likely to dampen services inflation. Pricing power is likely to decline too, meaning firms could struggle to pass on higher costs to consumers and may have to absorb more of the tariffs through lower margins. Inflation expectations will be critical for the Fed’s response, but it may be ultimately be forced into deeper rate cuts than we currently anticipate. In short, there may be no Trump put, but there is still a Fed put.



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Global fixed income

Resilience test for credit spreads

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Over the past three weeks, US High Yield credit spreads have widened by roughly 60bp. Credit spreads are a key driver of financial conditions and hence an all-important macro signal. The widening reflects a more challenging environment for the US economy and risk assets. Apart from the damaging broad-based tariff announcements, comments from the Trump administration about the need to reign in fiscal spending have added to growth fears in particular, at a time when the momentum in the US economy is already showing clear signs of slowing. We see the risk for spreads to widen further over the coming months. Although the low duration of the High Yield market offers a significant cushion, caution is advised.

Over the past few weeks, US high yield spreads have widened by 60bp

For the first time in 2025, high yield spreads have widened more meaningfully as financial markets have moved into risk-off mode. US High Yield option adjusted spreads to US government bonds have increased by 60bp over the past two weeks as increased policy uncertainty due to the broad imposition of tariffs and widespread job cuts within Federal Government Agencies have battered investor confidence.

Credit spreads are currently tighter than suggested by traditional drivers

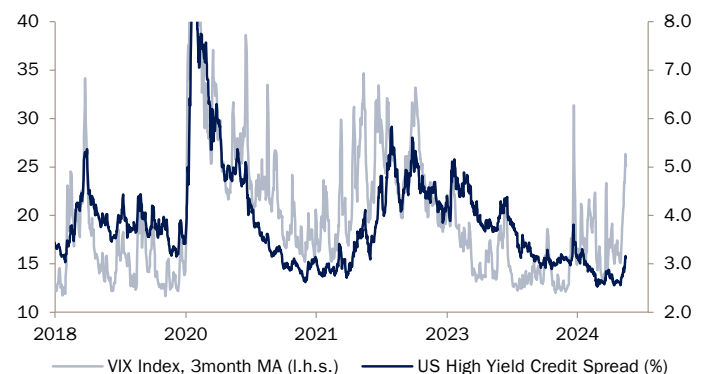
Credit spreads are already about 250bp tighter than traditional, manufacturing-based drivers for credit spreads would suggest (Exhibit 1). For one, the US services economy has clearly proved to be much more resilient than expected given the traditional leading indicators. Second, there are structural reasons for tighter High Yield spreads: (1) The average credit quality within the High Yield market has improved over time such that any funding stress has been confined to the lower rating spectrum of the high yield market so far and (2) private credit markets, which now provide significant financing to High Yield companies, have grown tenfold to around 2trn USD since 2009, removing the need for many companies to refinance in public markets.

Exhibit 1: HY spreads tighter than suggested by cyclical drivers



Source: Macrobond, Bank J. Safra Sarasin, 13.03.2025

Exhibit 2: Spread widening very muted so far



Source: Macrobond, Bank J. Safra Sarasin, 13.03.2025

The advent of private credit markets could lead to higher volatility in times of stress

The strong growth in private credit markets is not without risks. These markets are less liquid and hence take longer to transmit relevant information to investors, potentially leading to a more abrupt price adjustment if new information arises. It doesn't matter whether imbalances have built in public or private credit markets, they will eventually show up. So, the advent of private credit markets could lead to higher volatility in times of stress.



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The environment for risk assets has become more challenging

Credit spreads are a key driver of financial conditions and hence an all-important macro signal. Contrary to the yield curve, they have done a good job of signalling a more resilient economy over the past 24 months than generally expected. That said, the environment for risk assets has become more challenging. Apart from potentially damaging broad-based tariff announcements, comments from the Trump administration about the need to reign in fiscal spending have added to growth fears, at a time when the momentum in the US economy is already showing clear signs of slowing. The last point is highly relevant since the large fiscal deficit spending during the Biden administration has provided a substantial contribution to US growth since the pandemic.

Risk is for spreads to widen over coming months

Given the sharp rise in equity market volatility, the spread widening in High Yield has been very muted so far (Exhibit 2). With the potential for a more meaningful slowdown of the US economy, the risk is for High Yield spreads to widen over coming months. That said, given its low duration, the High Yield market offers a significant cushion. For example, over 12 months, yields can rise by about 290bp before a loss is incurred (Exhibit 3). Nevertheless, we would advise caution at the current juncture.

Exhibit 3: Still a meaningful cushion, given the low duration of the High Yield market

	Duration	YTM (bp)	Break-even yield increase over horizon (bp)			Break-even yield over horizon (%)		
			3m	6m	12m	3m	6m	12m
US Aggregate	6.2	465	19	39	82	4.84	5.04	5.47
US IG	6.9	515	19	39	80	5.34	5.54	5.95
US HY	3.0	730	63	132	290	7.93	8.62	10.20
EU Aggregate	6.3	338	14	28	58	3.51	3.65	3.95
EU IG	4.6	366	21	42	90	3.87	4.08	4.56
EU High Yield	2.8	567	54	113	250	6.21	6.80	8.17
UK Gilts	8.5	468	14	28	58	4.82	4.96	5.26
UK Aggregate	7.6	485	16	33	68	5.01	5.18	5.53
UK IG	5.7	553	25	50	105	5.77	6.03	6.58

Source: ICE, Bank J. Safra Sarasin, 13.03.2025



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US equities

Detox for US equities

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We review some of the recent commentary by President Trump and Treasury Secretary Bessent on the economy and the market. They acknowledge that their ambition to rebalance the US economy away from public spending towards private investment would require a transition period with softer growth and potentially weaker equity markets. They argue that no “Trump put” exists, which is unlikely. Yet, the pain threshold has arguably not been reached. While we stick to our end-year target of 6’300 for the S&P500, the fluidity of Washington politics prompts us to define S&P500 scenarios if US growth were to slow more than our forecast.

Trump says he is not even looking at the market

The equity market has become increasingly sensitive to the political noise coming out of Washington D.C. The election-driven optimism has evaporated and given way to concerns about the economic impact of the new US administration’s measures on the economic cycle. Recent interviews in particular with President Trump and Treasury Secretary Bessent have stirred market worries over the administration’s tolerance for a weaker economy and for softer equity markets. In contrast to his first term, Trump has made clear that the equity market is currently no measure of success to him – “I’m not even looking at the market, because long term, the United States will be very strong with what is happening here”. He also cautioned that “there is a period of transition, because what we’re doing is very big” and added: “look, we’re going to have disruption, but we’re OK with that”.

Treasury Secretary Bessent wants to rebalance the US economy away from fiscal spending

Rather than dismissing these comments as being impulsive and nothing more than a reaction to a softening equity market, it is worth considering what the “big” thing is. Scott Bessent has provided more detail in this regard. He said on Friday that “there’s going to be a natural adjustment as we move away from public spending to private spending”, and that “the market and the economy have just become hooked and we’ve become addicted to this government spending, and there’s going to be a detox period”.

Bessent has apparently convinced Trump that 10-year yields are more important than the Fed Funds rate

Apparently, he has also convinced President Trump that the long end of the curve is more relevant for the economy than Fed rates themselves: “The president wants lower interest rates and ... in my talks with him, he and I are focused on the 10-year Treasury” Bessent said and added “He is not calling on the Fed to lower rates. He believes that if we ... deregulate the economy, if we get this tax bill done, if we get energy down, then rates will take care of themselves and the dollar will take care of itself”.

Bessent has a coherent view of the world, which would require a significant rebalancing of the US economy

Listening to both, Trump and Bessent, it seems as if they are following a fairly coherent strategy based on Bessent’s view of the world. In an Op-Ed in the Economist last year (here), before his nomination for Treasury Secretary, he stressed the role the US needs to play in reshaping the international order. The ultimate goal is a rebalancing of global trade and a strengthening of the industrial base in the US. In order to get there, he believes that surplus countries need to release suppressed domestic demand and the US need to scale back fiscal expenses.

Such a transition would require significant fiscal consolidation and would weigh on growth temporarily

Bessent views public sector investments as substantially less efficient than private sector investments. With yields pushed up by an excess of fiscal spending, which is artificially supporting growth, private sector investments are being crowded out and would return with lower yields. The transition period Trump has referred to, would thus likely be marked by significant fiscal consolidation and much lower growth rates, before the private sector would pick up the slack, incentivised to invest by lower inflation and lower interest rates.



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This would be flanked by increased foreign demand, driven by a weaker US dollar and more stimulus in other regions.

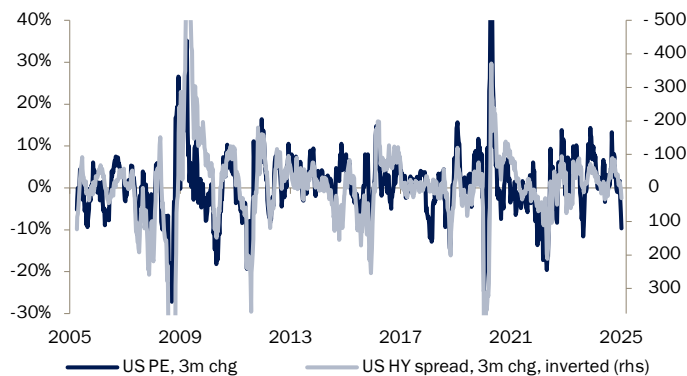
We don't know the pain threshold but more than stabilisation measures are unlikely

What we don't know is the pain threshold of the US administration, yet what can safely be assumed is that the government is unlikely to re-stimulate demand significantly before some adjustment towards the aforementioned targets has taken place. Further fiscal expansion would only increase current imbalances, raise inflationary risks, lead to higher interest rates and push up the US dollar. Thus, even if the government felt the need to prop up the economy and the market, these would at best be stabilisation measures.

The S&P500 de-rating has been moderate if the magnificent 7 are excluded

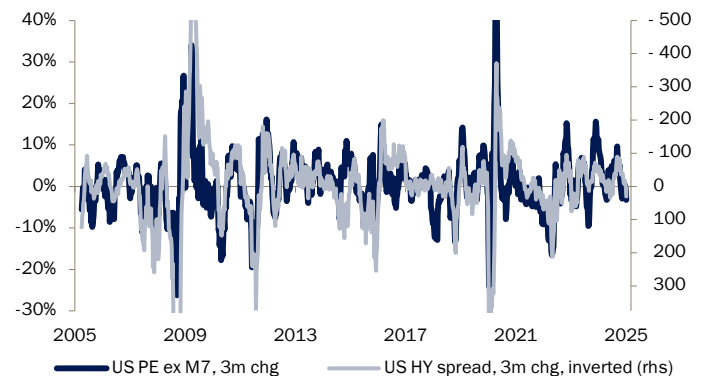
What does this mean for the equity market? US valuations are still elevated despite the recent de-rating. At 20x 12-month forward EPS, no such thing as a slowdown is priced. The multiple is in line with our year-end forecast, which is based on a somewhat weaker but not weak US GDP growth forecast of 2.2% for 2025. The same goes for earnings where we assume around 13% growth from 2025 to 2026 (the base for 12-month forward earnings at the end of the year). Market stress has been fairly contained so far, reflected by the very limited move in High-Yield spreads. At first sight, there is a gap between the fairly significant 10% de-rating of the S&P500 12-month forward PE and the minor spread widening in credit (Exhibit 1), but it disappears after the 'Magnificent 7' are excluded from the PE, which reveals a minor 3% de-rating for the S&P493 (Exhibit 2).

Exhibit 1: A significant 10% de-rating of the S&P 500 PE...



Source: LSEG, Bank J. Safra Sarasin, 13.03.2025

Exhibit 2: ...shrinks to only 3% if Magnificent 7 are excluded



Source: LSEG, Bank J. Safra Sarasin, 13.03.2025

If GDP growth were to slow to 1.5% in 2025, we would expect the S&P to remain range-bound and fall to 5100 if growth slows to 1%

We would argue that not much of a slowdown is priced yet, as most of the valuation adjustment has come from the Magnificent 7, largely for idiosyncratic reasons. This means more index downside is feasible if GDP growth were to trend towards levels below our forecast. If GDP growth were to slow gradually to 1.5%, earnings growth would slow to 5% and likely stall if GDP growth were to fall below 1%. High-yield spreads would likely widen by no more than 50 to 100bp in case of 1.5% GDP growth, leaving valuations close to current levels. If growth were to slow to below 1%, spreads could jump by several hundred basis points. PEs would likely drop by 5% to 10% to around 18x in this case. No earnings growth and a 10% drawdown in multiples would then leave the S&P 500 at around 5'100. In the more benign slowdown scenario, with growth decelerating to 1.5% only, we would assume 5% upside until year-end, leaving the S&P 500 at around 5'800.

Too early for target adjustments but fluidity of US politics widens range of potential scenarios

While it is far too early to make any adjustments to year-end targets, the fluidity of US politics leaves room for potential changes down the line. If the Treasury Secretary and the President are serious about the agenda formulated in recent interviews, risks for the cycle are skewed to the downside. An appropriate hedge at this point in time is a more defensive positioning in our view, as growth and momentum are unlikely to recover in the near term.



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Euro

Turning constructive, but major risks remain

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Germany's historical fiscal U-turn significantly improves the growth outlook for the euro and clearly challenges our previous negative bias on the euro. As Bund yields have risen sharply, the euro's support against the US dollar has largely improved, but less so against the Swiss franc, in our view. On the flipside, markets continue to shrug off the risk of political setbacks, including the possibility of a repeal by the German constitutional court. Moreover, Vladimir Putin voiced his reservations about the Ukrainian offer for a temporary ceasefire on Thursday, dampening hopes for an early peace deal. Lastly, the euro's tariff risk premium still appears to be relatively low, leaving the currency vulnerable as the US-EU trade war escalates.

German stimulus package clearly challenges our previous negative bias on the euro

The prospect of a historic debt-financed German infrastructure package worth EUR 500 billion to be spent over the next ten years, along with a considerable increase in defence spending significantly improve the growth outlook for Germany and the euro area. The U-turn in Germany's fiscal policy clearly challenges our previous negative bias on the euro. In essence, the stimulus package could add 1% to annual German GDP growth. Within the euro area, the suggested European ReArm program would create additional fiscal space for higher member state defence spending, in part through a joint loan program worth EUR 150 billion. So far, markets have welcomed the prospective package, leading to a significant improvement in sentiment (Exhibit 1).

Exhibit 1: Improved sentiment is supporting the euro for now

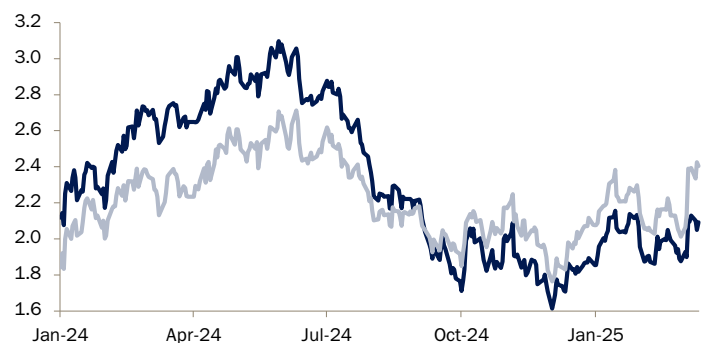
Euro area, Sentix economic expectations index



Source: Macrobond, Bank J. Safra Sarasin, 13.03.2025

Exhibit 2: ECB policy rate expectations have risen sharply

EUR OIS, (EONIA) implied policy rates, %



Source: Bloomberg, Bank J. Safra Sarasin, 13.03.2025

The support for the euro has largely improved versus the US dollar, but only to a lesser extent versus the Swiss franc

The euro has rallied strongly, gaining around 5% since the beginning of the year. What's more, the stimulus plans have led to a significant adjustment in ECB rate expectations, with markets pricing out slightly more than one rate cut until year-end (Exhibit 2). The repricing also guided Bund yields meaningfully higher over the past fortnight. In contrast, US Treasury yields have fallen on the other side of the Atlantic as markets have begun to weigh the risks of President Trump's policies to US growth. Taken together, this has substantially narrowed the yield advantage of US Treasuries versus German Bunds, justifying the recent EUR-USD surge (Exhibit 3). Against this backdrop, we believe that a retracement of EUR-USD towards parity has become much less likely. Yet the euro's recent surge against the Swiss franc is less justified from a yield perspective, as Swiss government bond yields have risen to a similar extent as German yields, arguing for a near-term EUR-CHF retracement (Exhibit 4). The stronger support for EUR-USD relative to EUR-CHF is also reflected in 3-month risk reversals (Exhibit 5).



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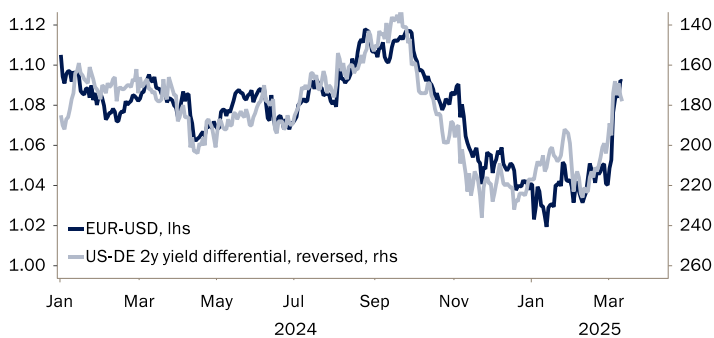
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Yet markets continue to shrug off the risk of political setbacks for now

In spite of all the recent optimism on the euro area, we note that markets continue to shrug off the risk of political setbacks for the time being. The German stimulus package still has to pass both houses of parliament. What's more, a group of leftist and rightist lawmakers filed an emergency petition with the Federal Constitutional Court earlier this week. While the vote itself is constitutional, the procedure could provide legal grounds for attack, as the court has repeatedly insisted in the past that parliament must have sufficient time to deliberate – especially for a stimulus program of unprecedented size.

Exhibit 3: EURUSD is closely aligned to yields...

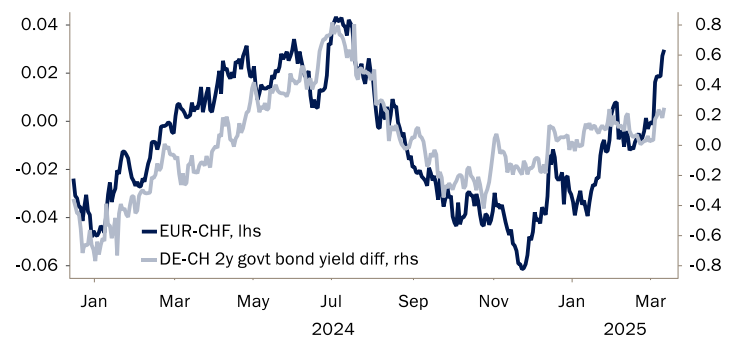
EUR-USD vs 2y yield differential



Source: Macrobond, Bank J. Safra Sarasin, 13.03.2025

Exhibit 4: ...while EURCHF is increasingly misaligned

EUR-CHF vs 2y govt bond yields, in 6-month changes



Source: Macrobond, Bank J. Safra Sarasin, 13.03.2025

Vladimir Putin voiced his reservations about the ceasefire plan on Thursday, dampening hopes for an early peace deal

Another source of recent euro optimism was Ukraine's willingness to accept an immediate 30-day ceasefire. While the US and European allies push Russia to reciprocate, President Putin voiced his reservations about the ceasefire plan on Thursday, dampening hopes for an early peace deal. Given that the long-term strategic interests of the two countries remain diametrically opposed, a deal will be extremely difficult to reach, which in our view limits the euro's near-term upside.

The announcement of EU countermeasures to US tariffs is likely to prompt Trump to up the ante, which could escalate the trade war and weigh on the euro

Lastly, the close alignment between EUR-USD and its yield differential suggests that the euro's tariff risk premium has remained relatively low. So far, President Trump's tariffs have mainly targeted non-European economies, such as Canada, Mexico and China. Yet this has changed with US tariffs on steel and aluminium coming into effect on Wednesday, which has stalled the euro's rally for now. The EU Commission's announcement of tough countermeasures is likely to prompt President Trump to up the ante even further, which could escalate the US-EU trade war and weigh on the euro (Exhibit 6).

Exhibit 5: EUR bullishness more pronounced versus USD than CHF

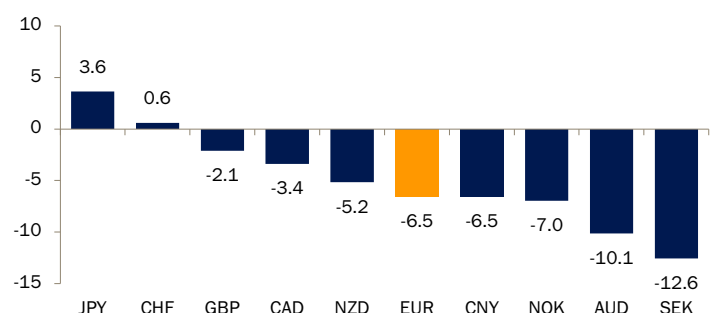
25-delta, 3-month risk reversals



Source: Bloomberg, Bank J. Safra Sarasin, 13.03.2025

Exhibit 6: Tariffs remain a downside risk for the euro

FX performance versus US dollar during President Trump's 1st trade war, 01.01.2018 – 31.12.2019, in %



Source: Macrobond, Bank J. Safra Sarasin, 13.03.2025



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SNB Preview

Our five-step approach suggests one last rate cut

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We expect that the SNB will cut its policy rate by 25bp to 0.25% at its meeting next week and will maintain such rate for the remainder of the year. Current conditions suggest that another rate cut would support the nascent improvement in growth momentum and would be useful to anchor the medium-term inflation rate closer to 1%. We consider risks of a recession or deflation as rather low. Zero or even negative interest rates are therefore not necessary. We regard the exchange rate as fairly valued. We also expect the SNB to revise up its inflation forecast for 2027 which would indicate less of a need for further rate cuts.

Our five-step approach to forecast the SNB policy decision

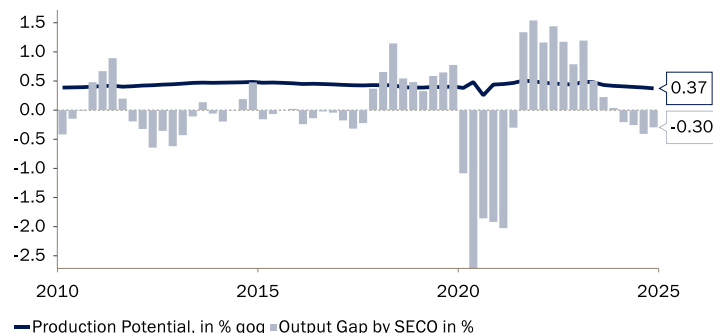
Our approach to forecasting the SNB is as follows: (1) We first gauge if the current circumstances warrant an expansionary monetary policy or not. (2) We then ask if the current degree of accommodation is sufficient based on the latest SNB inflation profile and (3) if economic developments since December may have changed the SNB's considerations. (4) We then evaluate future risks to its baseline forecasts and its policy options in risk scenarios, and (5) weigh the pros and cons between the three policy tools in the current situation: a rate cut, FX interventions and a forward guidance.

Step 1: Growth is below potential and inflation is rather low

First, we note that the economy has been growing below potential in the last quarters such that the output gap remains negative (Exhibit 1). The headline inflation rate of 0.3% sits in the lower part of the SNB's inflation target range (Exhibit 2). The core rate (CPI ex energy, fuel, fresh and seasonal products) of 0.9% would normally signal a very balanced inflation development. However, the rent increase of 3.4% yoy contributed 0.7 percentage points to headline inflation. This will not be repeated this year as the mortgage reference rate has recently dropped. Headline inflation ex rent of -0.3% yoy is a warning sign. We conclude that an expansionary policy is needed from a growth and inflation perspective.

Exhibit 1: Output gap and potential growth

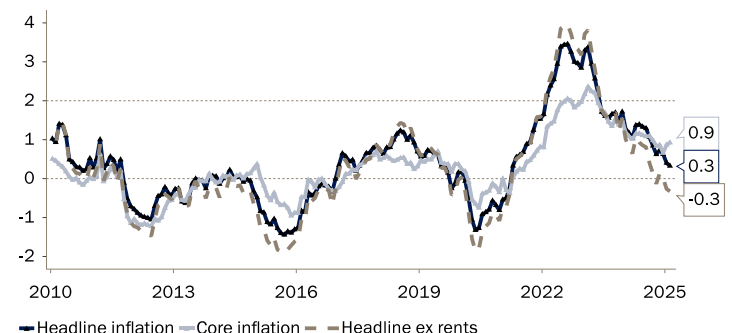
SECO, Sport Event Adjusted Outputgap and Potential Growth, last data: 2024 Q4



Source: Macrobond, Bank J. Safra Sarasin, 10.03.2025

Exhibit 2: Consumer price inflation

Swiss Inflation, CPI in % yoy, latest data: 02/2025



Source: Macrobond, Bank J. Safra Sarasin, 10.03.2025

Step 2: Monetary policy is not sufficiently expansionary yet – still, the inflation outlook does not justify negative policy rates

Second, we ask whether past policy rate cuts were sufficient based on the SNB's latest inflation projection (Exhibit 3). What can be inferred from the chart is (i) that quarterly inflation rates are slightly lower in 2027 than in 2026, (ii) that they are neither upward nor downward sloping in the last four quarters of the forecast horizon, and (iii) that they are below the middle of the inflation target range but far away from 0%. Still, we believe that the SNB should not signal that they are happy if inflation expectations settle at 0.7%. We conclude that another rate cut would be helpful to move the endpoint of the inflation



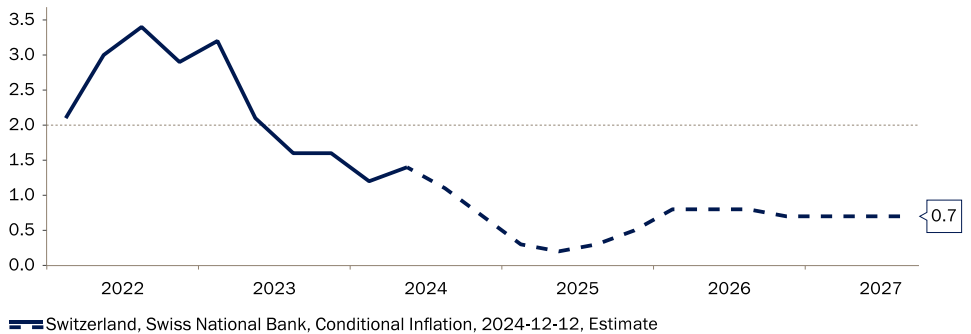
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forecast closer to 1.0%, the middle of the target range. Another rate cut and inflation forecasts of 0.8% or 0.9% for Q3 and Q4 of 2027 could be sufficient to signal that in the absence of future shocks, the SNB doesn't anticipate further rate cuts.

Exhibit 3: SNB inflation projection based on constant policy rates

Switzerland, Swiss National Bank, Conditional Inflation Estimate in %



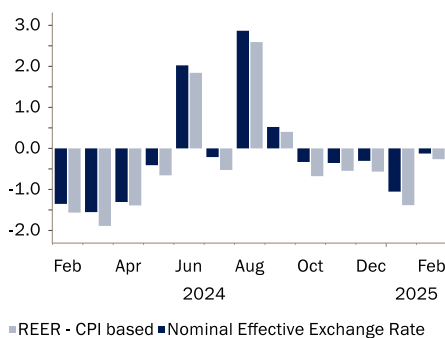
Source: Macrobond, Bank J. Safra Sarasin, 10.03.2025

Step 3: Economic developments since the December meeting were broadly as expected for inflation and slightly positive for growth. Importantly though – the environment has become more uncertain

Third, we analyse whether a revision of the inflation projections would be warranted due to developments in (a) inflation, (b) financial markets and (c) economic activity since the last policy rate decision in December. (a) Inflation data for the past three months suggest a small upside risk to the 1Q25 inflation projection of 0.3%. (b) The Swiss franc has depreciated around 2% since December, reducing the risk of imported deflation (Exhibit 4). However, a steeper yield curve takes away some of that FX stimulus. (c) Swiss economic indicators suggest a stabilisation and a shift towards a more positive momentum. A higher consumer confidence and an increase of real estate prices support stronger private consumption. In addition, the rise in the unemployment rates seems to be coming to an end. Investment spending should improve from a stronger sentiment and a lower Swiss franc. Overall, we conclude that recent economic developments suggest a small upward revision to the inflation profile – independent of any further rate cuts (Exhibit 5 and 6). We note though that those revisions would mainly affect the first half of the SNB's forecast horizon and they come with a much more uncertain global economic environment.

Exhibit 4: Trade weighted Swiss franc

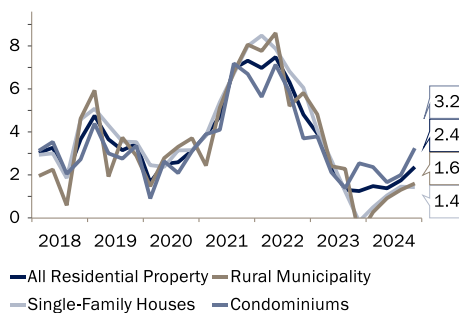
Switzerland, FX Indices, Swiss National Bank, in % mom



Source: Macrobond, Bank J. Safra Sarasin, 10.03.2025

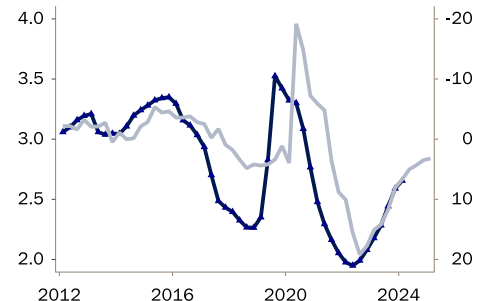
Exhibit 5: Real estate prices increase

Real Estate Prices, Swiss Statistical Office, in % yoy, latest data: 2024 Q4



Source: Macrobond, Bank J. Safra Sarasin, 10.03.2025

Exhibit 6: Labour market stabilises



Source: Macrobond, Bank J. Safra Sarasin, 10.03.2025

Step 4: Policy options if risks materialize

Fourth, we ask what policy options the SNB has if risks to its economic scenario materialize and whether those risks have become more or less likely. The two most important risks we saw in December were (a) a global trade war and (b) a stronger Swiss franc due to falling interest rate differentials towards the euro and the US dollar.



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The US has just accused Switzerland of engaging in unfair trade practices leading to its sizable trade surplus with the US

(a) Latest policy announcements suggest that the risks of a global trade war have increased and that the US wouldn't spare Switzerland. In case of additional tariffs on imports from Switzerland, it is unlikely for Switzerland to retaliate with higher tariffs on US goods. Instead, a depreciation of the Swiss franc versus the US dollar would make sense. This would result in a combination of lower net exports and higher import prices. If the franc does not fall naturally, another rate cut could help supporting growth in this case.

Lower policy rates and recent policy intentions to increase defence and infrastructure spending make a cyclical recovery in the euro area more likely

(b) Overall, it is fair to say that the risks of an appreciation of the Swiss franc as a reaction to shrinking interest rate differentials versus the euro curve did not materialise. Policy rate differentials declined slightly, and money market futures have more rate cuts priced in for the ECB than for the SNB. However, interest rate differentials rose lately for longer maturities. Stronger growth in the euro area usually leads to a stronger euro and a higher demand for Swiss exports. This would make another rate cut unnecessary.

Risks originate mainly from volatile external developments

We conclude that risks are balanced and originate mainly from volatile external developments. We note further that initial conditions are favourable from a risk perspective as (i) inflation expectations are anchored at a sufficiently high level, (ii) wage growth suggests that future unit labour costs are within the inflation target range, and (iii) that the exchange rate is close to its medium-term value in real trade weighted terms (Exhibit 7-9).

Exhibit 7: Stable inflation expectations

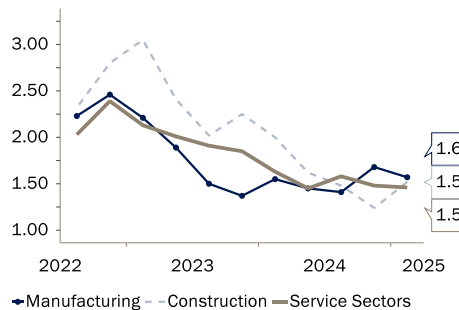
Switzerland, SNB, Business Cycle Signals, in %



Source: Macrobond, Bank J. Safra Sarasin, 10.03.2025

Exhibit 8: Sufficient wage growth

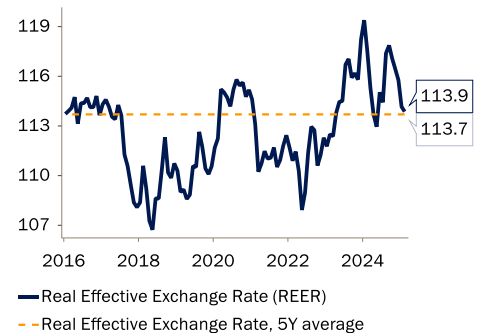
KOF Business Surveys, Gross Wages on Employees, Expected Change in % Next Year, latest data: 2025 Q1



Source: Macrobond, Bank J. Safra Sarasin, 10.03.2025

Exhibit 9: Swiss franc is fairly valued

Switzerland, SNB, CHF-FX Indices (Dec 2000 = 100)



Source: Macrobond, Bank J. Safra Sarasin, 10.03.2025

Step 5: Interest rates remain the policy tool of choice: We conclude that a 25bp cut in March would be the best policy response of the SNB

Fifth, we conclude from the above that an expansionary monetary policy is still needed, that an additional stimulus would help steer inflation away from the lower end of the SNB's target range and closer to the middle, but that arguments for sizable rate cuts have become weaker. In our view, the SNB will be weighing between no rate cut and a 25bp rate cut. We believe that FX-interventions or the use of its communication policy are no substitutes in the current circumstances. It is difficult to argue for a material misalignment of the exchange rate, leading us to rule out FX-interventions for the time being. FX interventions would also risk a deeper scrutiny of any exchange rate manipulation practice by the US. Financial markets have priced in a March rate cut with no more cuts thereafter. Using the communication channel to steer market expectations successfully would be difficult. In theory, the SNB could explain a pause in its rate cutting cycle and indicate a high likelihood of another cut in June. Yet, such a strategy could lead to lower medium-term inflation expectations, leaving the SNB in a more difficult position. We also don't think that the economic data that we expect until June would make the communication of a rate cut easier than it would be in March. Hence, we are convinced that the SNB will cut its policy rate by 25bp next week and that no further policy rate change will be needed this year.



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Economic Calendar

Week of 17/03 – 21/03/2025

Country	Time	Item	Date	Unit	Consensus Forecast	Prev.
Monday, 17.03.2025						
US	13:30	Empire Manufacturing	Mar	Index	-2.00	5.70
	13:30	Retail Sales Control Group	Feb	mom	0.50%	-0.80%
	15:00	NAHB Housing Market Index	Mar	Index	42.00	42.00
Tuesday, 18.03.2025						
GE	11:00	ZEW Survey Expectations	Mar	Index	--	26.00
EU	11:00	ZEW Survey Expectations	Mar	Index	--	24.2
US	13:30	Housing Starts	Feb	1'000	1383k	1366k
	13:30	Building Permits	Feb	1'000	1450k	1473k
	13:30	NY Fed Services Act.	Mar	Index	--	-10.50
Wednesday, 19.03.2025						
JN	02:30	BOJ Target Rate	Mar19	%	0.50%	0.50%
US	13:30	MBA Mortgage Applications	Mar14	wow	--	11.20%
	19:00	FOMC Rate Decision (UB)	Mar19	%	4.50%	4.50%
Thursday, 20.03.2025						
UK	08:00	Employment Change 3M/3M	Jan	1'000	--	107k
	12:00	CBI Trends Total Orders	Feb	Index	--	-28.00
	12:00	CBI Trends Selling Prices	Mar8	Index	--	19.00
	13:00	Bank of England Bank Rate	Mar20	%	--	4.50%
US	13:30	Philadelphia Fed Business Outl.	Mar	Index	12.00	18.12
	15:00	Leading Index	Feb	mom	-0.10%	-0.30%
Friday, 21.03.2025						
JN	00:30	Natl CPI Ex Food, Energy YoY	Feb	Index	2.50%	2.50%

Source: Bloomberg, J. Safra Sarasin as of 13.03.2025



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Market Performance

Global Markets in Local Currencies

Government Bonds	Current value	Δ 1W (bp)	Δ YTD (bp)	TR YTD in %
Swiss Eidgenosse 10 year (%)	0.80	11	48	-3.5
German Bund 10 year (%)	2.86	2	49	-3.0
UK Gilt 10 year (%)	4.68	-1	7	0.6
US Treasury 10 year (%)	4.29	-1	-24	3.2
French OAT - Bund, spread (bp)	70	-2	-13	
Italian BTP - Bund, spread (bp)	115	3	-1	

Stock Markets	Level	P/E ratio	1W TR in %	TR YTD in %
SMI - Switzerland	12'836	18.0	-1.0	11.2
DAX - Germany	22'567	15.2	-3.6	13.4
MSCI Italy	1'218	11.1	-1.8	11.5
IBEX - Spain	12'821	11.7	-3.1	11.1
DJ Euro Stoxx 50 - Eurozone	5'328	15.0	-3.5	9.2
MSCI UK	2'443	12.2	-1.4	5.7
S&P 500 - USA	5'522	20.6	-3.7	-5.9
Nasdaq 100 - USA	19'225	24.3	-4.1	-8.4
MSCI Emerging Markets	1'106	14.7	-2.2	3.2

Forex - Crossrates	Level	3M implied volatility	1W in %	YTD in %
USD-CHF	0.88	6.9	0.5	-2.2
EUR-CHF	0.96	6.4	0.5	1.9
GBP-CHF	1.14	7.1	0.6	0.9
EUR-USD	1.08	7.6	0.1	4.2
GBP-USD	1.29	7.2	0.2	3.1
USD-JPY	148.7	10.2	0.4	-5.2
EUR-GBP	0.84	5.3	-0.1	1.0
EUR-SEK	11.07	6.2	1.3	-3.5
EUR-NOK	11.59	6.9	-1.4	-1.7

Commodities	Level	3M realised volatility	1W in %	YTD in %
Bloomberg Commodity Index	105	10.5	0.6	6.2
Brent crude oil - USD / barrel	71	23.7	-0.9	-3.4
Gold bullion - USD / Troy ounce	2'982	13.8	2.5	14.4

Source: J. Safra Sarasin, Bloomberg as of 13.03.2025



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