

20 March 2023

Caution still called for

The backdrop

- On Sunday, 19 March it was announced that Credit Suisse would be taken over by UBS.
- Two Swiss big banks, both of which are among the world's 30 systemically important banks, are now obliged to join forces.
- It is important to point out that the banking system in Switzerland continues to function normally. The market share of the big banks in terms of domestic business has been declining in recent years. Competition in the asset management sector is fierce.
- A smoothly functioning banking sector is essential for any economy. At the same time, its importance for Switzerland has to be categorised: its share of gross value added amounts to around 5% while approx. 2% of all employees outside the agricultural sector work in the banking field.

Immediate market reaction

- On Monday, financial markets reacted in a composed manner.
- Interest rates: The yields on government bonds are falling along the entire yield curve. In Switzerland, the 10-year Swiss government bond was yielding 0.75% this morning. Just two weeks ago, the yield on this security was 1.5%.
- Bonds and equities: It comes as no surprise that the banking sector is the most severely affected. The market reacted particularly negatively to the treatment of AT1 bonds in relation to shares in the case of CS. Consequently, the spreads for subordinated financial assets have risen more sharply.
- The Swiss franc declined slightly against the euro and US dollar compared with the listings on Friday. The Japanese yen appears to be acting as a safe haven to a limited extent.

Over the week, the focus could shift again to the USA, the origin of the latest developments (see our comment of 14 March 2023).

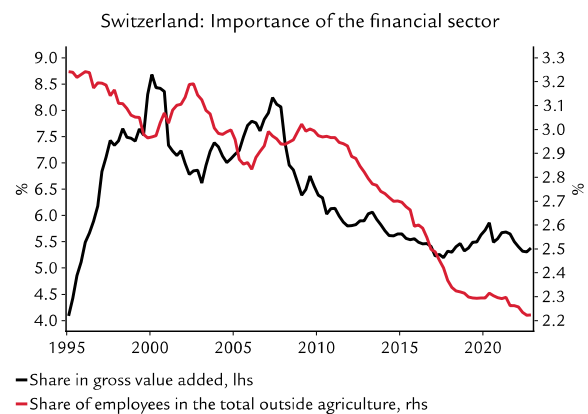
Consequences for monetary policy

- Global uncertainty regarding the economic environment remains high. Central banks are facing a double challenge of ensuring both price stability and stability of the financial system.
- Our short-term expectation is that the central banks in Switzerland, the Eurozone and the USA will hike key interest rates further, but we believe that the tightening of monetary policy could come to an end earlier than anticipated.

Our reaction: cautious positioning retained

- In view of the many imponderables relating to the economic impact of these events, the consequences for monetary policy and the risks for certain companies, it is too early to adopt a clear position vis-à-vis the market at this time.
- While we cannot rule out periods of strong recovery and opportunities, we prefer to adopt a generally cautious positioning.

Importance of the financial sector in Switzerland



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