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Swiss equities - a worthwhile investment

What do you think of when you hear the word Switzerland? Chocolate, cheese, watches, cows grazing on alpine pastures, cleanliness or the unbeatable punctuality and reliability of the Swiss? Apart from the aforementioned products or characteristics, Switzerland is also characterised by the strict application of federalism and direct democracy in the form of regular popular votes on initiatives and referendums.

Switzerland has a strong economy and, according to the World Bank, will rank eighth in the world in 2023 with a GDP per capita of just over USD 93,000.

The service sector (trade, finance and tourism) makes the largest contribution with almost three quarters of value added, followed by industry and construction with around 25%. The agricultural sector contributes less than 1% to gross value added.

The Swiss economy is supported by an excellent education system with three universities in the top 100 of the QS World University Rankings 2023, with ETH Zurich (Swiss Federal Institute of Technology) consistently in the top 10 since 2016. A stable political environment, a highly educated workforce and an attractive tax and location policy have produced a number of global corporations from Switzerland and make the country a magnet for international companies and organisations.

In order for private and professional investors to be able to participate in such successful companies, a functioning stock exchange is required. The first Swiss stock exchange was founded in Geneva in 1850. In the following decades, other cities in the country followed, in particular the Zurich Stock Exchange in 1873. With technological development, the stock exchanges have consolidated, and today there is only one large trading centre in Switzerland, the SIX Swiss Exchange (SIX) in Zurich. The shares of around 250 companies are listed on the SIX, which enables good diversification across sectors, company sizes and investment styles. The market capitalisation of the Swiss stock exchange is around CHF 1.5 trillion. If there is one drawback to mention, it is the fact that the four largest companies (namely Nestle, Novartis, Roche and UBS) represent more than half of the market capitalisation. Nevertheless, these are pearls among Swiss companies with a global reputation.

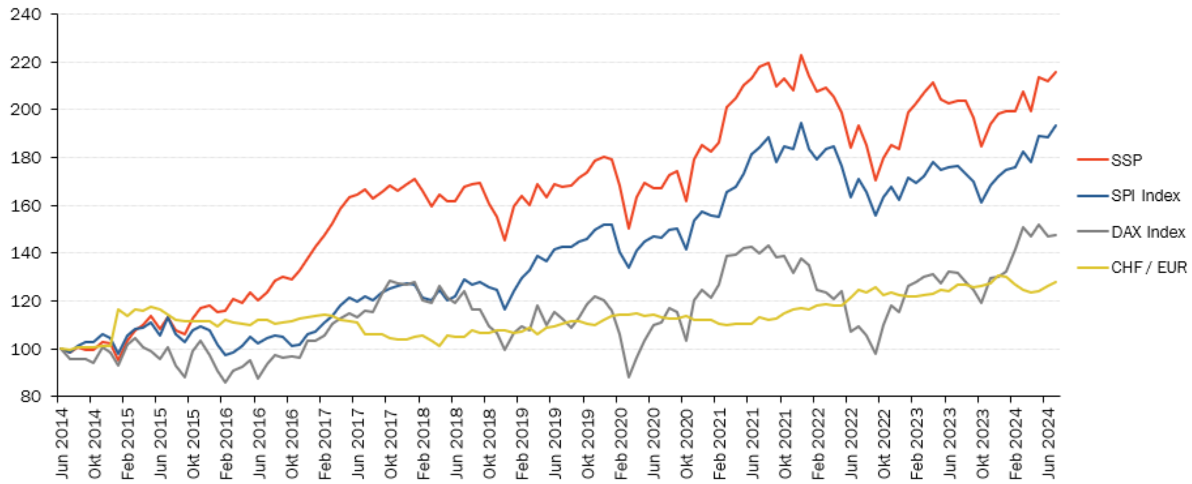
The Swiss Performance Index (SPI) is a capital-weighted representation of the Swiss equity market. It comprises 213 shares of leading companies domiciled in Switzerland or the Principality of Liechtenstein that are listed on the SIX Swiss Exchange. The index has gained 80% in nominal terms over the past ten years (2014-2024). In the same period, the German share index DAX has only advanced by 49.9% in currency-adjusted terms.

One of the main reasons for the clear outperformance of the Swiss equity market was the Swiss franc, one of the safe-haven currencies that investors turn to in times of crisis. Over the 10-year period since the end of 2014, the Swiss franc has gained around 24.5% against the EUR.

There are many reasons for the strength of the Swiss franc. The most important are the country's lean administration and low national debt. The latter stood at 17.8% of gross domestic product (GDP) at the end of 2023. Another reason is a well-functioning central bank that is independent of government policy. Thanks to the strong Swiss franc, the local population has not experienced the double-digit inflation that the USA or many EU countries have been confronted with. The strong currency made imported goods cheaper.

Asset management and support for wealthy international investors is of particular importance to the Swiss financial centre and enjoys an excellent international reputation. This is largely due to the political stability, the excellently trained and experienced advisors and the broad range of investment opportunities (equities, derivatives, currencies, cryptos, private equity and much more), which go beyond normal account savings.

Since, as already mentioned, the Swiss market as a whole is dominated by a small number of companies, a skilful stock-picking strategy and an overweight in second-line stocks can outperform the market return. The skills of the portfolio manager play an important role here and can offer investors decisive added value, as the return graph below shows.



Source Bloomberg

Total Performance			
30.06.2014 - 31.07.2024	SSP	CHF	115.9%
	SPI Index	CHF	93.4%
	DAX Index	CHF	47.5%
	CHF / EUR	CHF	27.7%

A Swiss stock selection (SSP) focussed on 25 individual stocks, which was selected by the Liechtenstein asset management company, Salman Investment Management AG, according to its predefined quantitative or qualitative criteria, outperforms the market returns of the SPI and the DAX in a 10-year comparison.

A long-term investment in Swiss equities has paid off, particularly for EUR-minded investors, not only for reasons of diversification, but also from the perspective of currency diversification. A bank custody account in Switzerland or Liechtenstein also enables the management of a globally oriented portfolio due to the international orientation of the local financial centre. Of course, it should be noted that past yield trends are no guarantee for the future.

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He has more than 20 years of experience in private banking. In addition to his affinity for traditional asset management, he has many years of experience in providing comprehensive advice to private clients, including topics such as financing, financial planning and succession planning.

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