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WILL THE SWISS FRANC REMAIN STRONG IN TODAY'S ENVIRONMENT?

The Swiss franc has been one of the world's most stable and strongest currencies for decades. In times of economic or political uncertainty, it is consistently sought after as a "safe haven" – often resulting in further appreciation.

Against this backdrop, the question arises whether this mechanism will continue to function in today's environment. Global conditions have changed: geopolitical tensions are increasing, inflation rates differ significantly across major economic blocs, and monetary policy has become less predictable.

Nevertheless, there are strong arguments suggesting that the Swiss franc will remain strong in the future – possibly stronger than many economists would prefer.

Stability as the Core Foundation of the Currency

The strength of the Swiss franc is not accidental but the result of structural factors.

For years, Switzerland has been characterized by:

- relatively low inflation
- stable public finances
- a solid current account balance
- political and institutional stability

Compared to the eurozone and the United States, inflation differentials are particularly significant. While many countries have faced substantially higher inflation in recent years, price increases in Switzerland have remained moderate.

This difference is crucial, as currencies reflect purchasing power over the long term. Economies with higher inflation tend to see their currencies depreciate relative to more stable currencies such as the Swiss franc.

Low Interest Rates – Yet a Strong Currency

At first glance, this combination appears paradoxical: Switzerland traditionally has lower interest rates than many other economies, yet the franc remains strong. According to classical theory, lower interest rates should lead to depreciation, as capital flows toward higher-yielding currencies. In practice, however, the opposite is often observed.

The Swiss franc benefits from a structural trust premium. For many investors, short-term returns are not the primary focus, but rather:

- capital preservation
- stability
- protection against inflation and geopolitical risks

Especially in uncertain times, this safety motive clearly outweighs interest rate considerations.

In other words, the Swiss franc is less a yield currency and more a safe-haven currency.

Inflation Abroad – Driving Demand for the Franc

A key driver of current developments is higher inflation abroad.

In both the United States and the eurozone, expansionary fiscal policy, structural deficits, and geopolitical factors have contributed to rising prices.

For investors, this implies:

- real losses in local currencies
- increasing uncertainty regarding monetary stability
- a search for alternatives

The Swiss franc benefits directly from this trend. It is perceived not only as a currency but also as a store of value – comparable to gold, but with greater liquidity and functionality.

Oil Prices and Exchange Rates – A Key Adjustment Mechanism

Rising oil prices generally increase inflation – including in Switzerland.

However, the Swiss franc exerts a stabilizing effect. When global energy prices rise, this often leads to:

- higher global inflation
- increased demand for safe-haven currencies
- appreciation of the franc

This appreciation, in turn, reduces import prices, offsetting part of the imported inflation. This represents a key advantage over economies that lack such a buffer.

Geopolitics as an Amplifier

Another often underestimated factor is the geopolitical environment. Compared to many other countries, Switzerland is only indirectly affected by current conflicts:

- no direct war-related costs
- no significant fiscal burdens
- strong political neutrality

In contrast:

- defense spending is rising in Europe
- the United States faces high fiscal deficits
- uncertainties persist due to conflicts in the Middle East

These differences also influence how currencies are perceived. Capital seeks stability – and continues to find it in Switzerland.

The Role of the Swiss National Bank

A key player is the Swiss National Bank (SNB). In the past, it has repeatedly attempted to limit excessive appreciation of the franc, particularly to protect the export sector. However, its room for maneuver is limited.

- Foreign exchange interventions are possible but not unlimited
- Negative interest rates come with side effects
- Containing inflation is currently the priority

In an environment of global uncertainty and inflation differentials, it is difficult to prevent structural appreciation over the long term. The SNB can mitigate the trend – but is unlikely to reverse it. Despite its actions, the Swiss franc remains strong.

Impact on the Swiss Economy

A strong franc is both an advantage and a challenge. In particular:

- the export industry
- tourism
- internationally active companies

face increasing pressure.

At the same time, other areas benefit. The combination of low inflation, high stability, geopolitical neutrality, and global demand for safe assets provides a solid foundation.

Conclusion: Strength Built on Structural Foundations

The Swiss franc is strong – and there are compelling reasons to believe it will remain so.

Although interest rates in Switzerland are lower than in other currency areas, the safety motive currently dominates.

In a world characterized by uncertainty, debt, and structural imbalances, the Swiss franc remains one of the few currencies that continues to command trust.

THE GULF CONFLICT – IMPLICATIONS FOR GROWTH, INFLATION, AND INTEREST RATES

Geopolitical conflicts in the Middle East are not a new phenomenon. However, their economic significance remains substantial – and is often underestimated.

The current conflict in the Gulf region has the potential to impact a critical node of the global economy: energy supply. In particular, oil production in the region and transportation through the Strait of Hormuz are of strategic importance.

The economic consequences of such a conflict follow a clear logic:
higher oil prices → higher inflation → rising interest rates → weaker growth.

This dynamic is well documented historically – and could unfold once again.

The Strategic Importance of the Gulf

A significant share of global oil production originates from the Middle East. Even more critical, however, is transportation: around 20% of globally traded oil passes through the Strait of Hormuz, making it a classic "single point of failure" in the global economy.

Even the threat of disruption – whether through military escalation, sanctions, or sabotage – is sufficient to destabilize markets. An actual disruption would have far more severe consequences.

Oil Prices as the Starting Point of the Shockwave

The immediate reaction to geopolitical tensions in the Gulf is a rise in oil prices. The mechanism is straightforward: the risk of supply disruptions increases, markets price in scarcity, and prices respond accordingly. Historically, such situations often lead to sharp price spikes.

However, oil is not a typical commodity. It is a universal input factor for the entire economy. Oil prices significantly influence the cost of:

- transportation (road, air, shipping)
- production (chemicals, industry, agriculture)
- energy (directly or indirectly)

An increase in oil prices therefore acts as a broad-based burden on the global economy.

Inflation: Direct and Indirect Effects

The first impact of rising oil prices is higher inflation.

This occurs on two levels: energy prices increase directly – fuel, heating oil, and electricity become more expensive. These components carry significant weight in consumer price indices.

More importantly, however, are second-round effects: higher transportation and production costs are passed on through price increases, affecting virtually all goods and services.

The result is broad-based inflation that extends beyond the energy sector.

Loss of Purchasing Power and Growth Slowdown

Rising prices lead directly to real losses in purchasing power.

Households in industrialized countries must allocate a larger share of their income to energy and essential goods. This results in reduced consumption in other areas, declining demand for non-essential goods, and pressure on corporate earnings.

Particularly affected are:

- energy-intensive economies (e.g., Germany, Japan, South Korea)
- import-dependent countries without domestic resources
- lower-income households

The consequence is a slowdown in growth – in extreme cases, a recession. Historically, oil price shocks have often triggered or amplified economic downturns.

Central Banks in a Dilemma

The most critical aspect is the response of monetary policy. Rising inflation generally forces central banks to adopt tighter policies: interest rates are increased and liquidity is reduced.

However, in the case of an oil price shock, inflation is supply-driven. This creates a classic dilemma:

- fighting inflation → further weakens growth
- supporting growth → risks entrenched inflation

In practice, central banks have limited room for maneuver. As long as inflation is driven by high energy prices, lowering interest rates would risk undermining their credibility.

Impact on Financial Markets

For financial markets, this combination is particularly unfavorable. Rising inflation, higher interest rates, and slowing growth typically lead to:

- Lower valuations: Higher interest rates increase discount rates for future earnings, reducing equity valuations.
- Declining profits: Weaker growth puts pressure on revenues and margins.
- Increased uncertainty: Geopolitical risks raise risk premiums.

The result is generally falling or at least more volatile equity markets.

Winners and Losers

As in most such scenarios, there are both winners and losers:

- Winners:
    - oil and gas producers
    - energy-exporting countries
    - commodity companies

- Losers:
  - energy-intensive industries
  - consumer goods sector
  - import-dependent economies
  - highly indebted governments and companies

The global distribution of effects is therefore highly asymmetric.

The Alternative Scenario: De-escalation with Strong Upside

While the consequences of escalation are negative, the reversal in the case of de-escalation can be equally powerful.

A collapse of the Iranian regime or a lasting stabilization of the Strait of Hormuz would:

- significantly reduce supply risks
- lower oil prices
- ease inflationary pressures

This would reverse the described dynamics:

- declining inflation
- room for interest rate cuts
- stronger economic growth

For financial markets, this would represent a clearly positive scenario. As markets price in risks in advance, their removal can lead to disproportionately strong gains.

Conclusion: A Classic External Shock with Global Impact

A conflict in the Gulf is not a regional event but a global economic shock. The mechanism is clear and historically proven:

- rising oil prices drive inflation
- inflation forces higher interest rates
- higher rates slow growth
- weaker growth weighs on markets

This combination is particularly challenging for investors. Geopolitical risks are often temporary – but their economic effects are immediate.

Implications for Investors

For investors, this implies:

- increased volatility is likely
- defensive positioning becomes more important
- exposure to energy and commodities can provide stability

Above all, markets react faster than the real economy.

PRIVATE DEBT FUNDS – AN UNDERESTIMATED SYSTEMIC RISK

Private debt – and in particular private debt funds – are widely regarded as one of the most attractive asset classes today: stable returns, low volatility, and attractive premiums over traditional bonds. Few institutional investors remain unexposed.

However, this broad consensus should be approached with caution. Private debt is not merely an alternative source of credit, but a market segment that systematically assumes risks that other lenders deliberately avoid. In favorable conditions, this model works well. In more challenging environments, however, it can evolve into a systemic risk.

A Market That Has Grown Too Quickly

The global volume of private debt has expanded significantly over the past two decades, reaching approximately USD 1.7 trillion by the end of 2025. This growth is not coincidental but the result of structural shifts:

- regulatory constraints have limited banks' ability to extend riskier loans
- investors have sought alternative yield sources amid low bond returns
- private equity has required increasing amounts of debt financing no longer fully provided by banks

As a result, private debt has not grown organically but has effectively been "forced" by the system. In other words, a market of this scale exists primarily because risks have been transferred from banks to private lenders.

Lending Where It Becomes Challenging

Private debt funds do not finance the highest-quality risks, but rather those that remain. This is particularly evident in:

- highly leveraged private equity structures
- mid-sized companies without capital market access
- complex or structurally weak business models
- turnaround and distressed situations

The market thrives on assuming risks that banks are no longer willing to bear. This is not a market failure – it is the core business model.

Less Diversification, Greater Concentration Risk

Private debt is often perceived as a stable investment. In reality, the opposite is frequently true.

A typical private debt fund is concentrated in:

- a limited number of borrowers
- specific industries
- illiquid individual exposures

In contrast, banks maintain broadly diversified loan portfolios. The implication is clear: a single problematic exposure can significantly impact a fund – multiple simultaneous defaults can destabilize it. What appears as stable returns today often merely reflects the absence of stress conditions.

Leverage on Leverage – A Risky Mechanism

A particularly critical issue is the double leverage embedded in the system.

Private debt funds:

- finance already highly leveraged companies
- take on additional leverage at the fund level

This additional leverage typically ranges from 10–30%, sometimes higher. This creates a classic amplification effect: losses at the company level are magnified at the fund level and ultimately impact investors disproportionately. While leverage enhances returns in favorable conditions, it accelerates losses in downturns.

The Illusion of Control

A common argument is that private debt is safer because funds can actively intervene. This is only partially true. Restructurings are time-consuming, capital-intensive, and not always successful.

More importantly, if many borrowers encounter difficulties simultaneously, even the most experienced lender loses control. The system functions only as long as problems remain isolated.

When the Environment Deteriorates

The real stress test for private debt is still ahead. Two factors are particularly critical:

- Rising interest rates: Many loans are floating-rate, meaning higher rates directly burden borrowers.
- Economic slowdown: In a recession, default rates rise – especially among highly leveraged companies.

This combination is dangerous: rising financing costs, declining earnings, and limited refinancing options can lead to crises at the fund level and, in extreme cases, to collapses. Early signs of such developments are already emerging.

The Hidden Link to the Banking System

Private debt is often presented as an alternative to the banking system. In reality, however, strong interconnections exist. Banks provide credit lines to funds, thereby indirectly financing their risks.

The risks have therefore not disappeared – they have merely been shifted. In stress scenarios, this can create a feedback loop:

- losses in private debt funds
- lead to losses for banks
- and amplify the crisis

The system is less transparent than before 2008 – but not necessarily less risky.

The Illusion of Stability

Why, then, is private debt perceived as stable? The answer is straightforward:

- there are no daily market prices for these loans
- valuations are model-based and differ across funds
- losses often become visible only with delay

This results in artificially smooth return profiles. However, the absence of volatility does not equate to low risk – it often reflects limited transparency.

Conclusion: An Asset Class with Significant Risk Potential

Private debt is no longer a niche phenomenon but a central component of the global financial system. This makes it all the more important to approach it with caution. The asset class combines:

- elevated credit risk
- structural concentration
- additional leverage
- close links to the banking system

As long as conditions remain stable, the system functions. However, if the environment deteriorates, the dynamics can quickly reverse. In such cases:

- investors may face unexpectedly large losses
- liquidity can evaporate
- risks can flow back into the banking system

Private debt is therefore not a defensive alternative to bonds, but a cyclical and highly sensitive asset class with potentially significant systemic implications.

Implications for Investors

Given its current popularity, heightened caution is warranted. Key questions include:

- how robust are the underlying credit portfolios?
- what is the effective level of leverage?
- how would the portfolio perform in a severe recession?

In an environment of rising interest rates and increasing uncertainty, one principle remains particularly relevant: returns are often simply compensation for risks that have not yet materialized.

AI INVESTMENTS: WHAT COMES NEXT?

Artificial intelligence is currently the dominant theme in financial markets. Few sectors have exhibited comparable momentum over the past two years. Expectations are high: increased productivity, new business models, and structural transformation across entire industries.

These prospects have triggered a substantial investment boom. Investment is no longer limited to software or individual technology companies. Instead, capital is being deployed across the entire value chain: chips, memory, computing power, data centers, network infrastructure – and increasingly the energy supply required to operate these systems.

Estimates suggest that global investments in AI infrastructure and related areas will exceed USD 400–500 billion in 2026, with further growth expected. Major technology companies are investing tens of billions annually in expanding data centers and AI capabilities.

This raises a key question: Are these investments sustainable – or are we entering a phase of excess?

The Investment Boom Is Real – and Necessary

It is important to recognize that the current AI investment boom is not irrational.

AI applications – particularly in the field of generative models – require substantial computing power. This, in turn, depends on:

- specialized high-performance chips
- large-scale memory capacity
- highly scalable data centers
- stable and cost-efficient energy supply

Without this infrastructure, AI cannot function.

These investments are therefore a prerequisite for technological progress – comparable to the expansion of railway networks in the 19th century or internet infrastructure in the 1990s. At the same time, a familiar pattern emerges: when a technology is perceived as “revolutionary,” investments often outpace sustainable demand.

Productivity Gains – But Sufficient?

A central argument for AI is the expected increase in productivity. In many areas, such gains are already visible:

- automation of routine processes
- more efficient software development
- improved data analysis
- optimization of operational workflows

Over the long term, AI may indeed contribute to a meaningful growth impulse. However, the key question is whether these productivity gains are sufficient to justify current investment levels. Higher productivity does not automatically translate into proportionally higher profits.

- widespread adoption can lead to pricing pressure
- competition drives efficiency gains toward customers
- margins may not increase in line with productivity

As a result, a significant portion of the economic benefits of AI may accrue to consumers rather than investors.

A Familiar Pattern: Technology Cycles

The current development follows a well-known historical pattern. New technologies have repeatedly led to phases of elevated investment, high valuations, and ambitious expectations.

Examples include:

- mainframe computing in the 1960s and 1970s
- personal computing in the 1980s and 1990s
- the internet and telecommunications around 2000

In all cases, the technology ultimately prevailed. However, investments were often excessive, many companies disappeared, and a substantial portion of invested capital was lost. At the same time, a small number of dominant winners emerged, capturing most of the value creation. There is little reason to assume that this cycle will be fundamentally different.

Winners and Losers – A Strong Asymmetry

A defining feature of such technology cycles is the asymmetric distribution of outcomes:

- a small number of companies achieve exceptional success
- the majority underperform or exit the market

For investors, this presents a significant challenge. At the time of investment, it is often unclear which technologies will prevail, which business models are sustainable, and which companies can scale effectively.

In the current AI landscape, this uncertainty is particularly pronounced. Rapid technological progress and intense competition further increase the risk. Another critical factor is capacity expansion: data centers are being built globally at scale, while many companies invest in similar technologies. Over time, this can lead to overcapacity and pricing pressure.

Such phases typically reveal which investments are economically viable – and which are not. Historically, these periods have often been associated with substantial write-downs.

Valuations and Capital Markets

High expectations for AI are already reflected in the valuations of many companies. In some segments, valuations are historically elevated, future earnings are largely priced in, and the margin for disappointment is correspondingly limited. This increases the vulnerability of such investments.

An Often Overlooked Factor: Energy

An increasingly relevant factor is energy demand. AI systems require substantial amounts of electricity. The expansion of data centers is therefore driving increased demand for power and investment in energy infrastructure, making energy prices a key variable.

Conclusion: Significant Opportunities – with Substantial Risks

AI has the potential to fundamentally transform the economy. The technology is real, applications are broad, and productivity gains are likely.

At the same time, history shows that such phases are often accompanied by excesses. The combination of very high investment levels, ambitious expectations, and uncertain winner structures means that part of the deployed capital may not generate sustainable returns.

The key challenge lies in identifying those companies that will not only benefit from the technology but also achieve sustainable profitability over time.

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