

No rapid economic recovery in sight

Swiss Asset Managers' Survey, H1/2020



Summary of findings

Investment experts working at Swiss-based asset management firms have a distinctly negative view of the outlook for Switzerland's economy and the financial markets as a result of the coronavirus crisis. Only a small minority expect a V-shaped economic recovery. Compared with other countries, however, the negative impact of the pandemic is likely to be much less severe for Switzerland.

Economy and geopolitics

It comes as little surprise that the asset management specialists surveyed are most concerned about the global recession triggered by the measures taken to fight the coronavirus. This means that geopolitical tensions have moved into the background somewhat, despite having escalated since the last survey. Four out of five respondents expect a U-shaped economic recovery, 18% a protracted slump (L-shaped) and only 3% a swift return to the previous growth trajectory (V-shaped). The experts unanimously believe that the impact of the coronavirus crisis on Switzerland will be smaller than or at worst comparable to that in other countries.

Financial markets and asset allocation

According to the experts, the return prospects of Swiss equities have deteriorated significantly. Around 30% of those surveyed expect a negative return in the next 12 months. The main driver of returns cited is the exceptionally expansionary monetary policy aimed at cushioning the effects of the economic slump. The interest rate outlook has been revised sharply downwards again compared with the autumn 2019 survey. Only 13% of respondents now anticipate a rise in interest rates this year – the broad consensus now seems to be “lower for longer”. Experts also think that the Swiss franc's strength will persist. The British pound was seen as the currency most likely to appreciate versus the Swiss franc in the last survey, but it has now slipped back into last place. In terms of asset allocation, many investment specialists expect to see higher equity allocations despite relatively weak expected returns. Bonds and cash, on the other hand, remain out of favour.

Monetary policy

The Swiss National Bank (SNB) enjoys considerable support among the asset management specialists surveyed. Some 95% of respondents believe the SNB's current monetary policy is appropriate. This is by far the highest figure recorded so far and much higher than the 60% result in the last survey. Not one single survey participant wants the SNB to be more restrictive at present. This is also reflected in the fact that over 90% of the experts are not expecting negative interest rates to go away before 2023. The generally strong Swiss franc (CHF) does not present too high a risk against the backdrop of the economic slump. Half of the experts see it as fairly valued at the moment, while 10% actually see its valuation as too low.

Outlook for the asset management industry

The outlook for the asset management industry in Switzerland has worsened further. Over a third of investment experts anticipate a negative business environment over the next 12 months. The proportion of optimists has fallen further to 13%, whereas half of survey participants predict a stagnating environment. Around a quarter thus expect a headcount reduction in their company. With regard to remaining competitive going forward, innovation and focusing on a niche are the most commonly cited strategies. Scarcely anyone believes that cost savings represent a promising strategy.

Sustainable investments

The volume of assets managed in line with sustainability criteria has once more increased slightly since the last survey. Some 37% of the asset managers surveyed already have more than half of their assets under management invested in accordance with environmental, social and governance (ESG) standards. Client demand is still seen as the main driver of growth in this area. That said, regulatory requirements in relation to ESG have now established themselves as a further catalyst, and product innovation on the part of asset managers is accelerating growth much more strongly than before. Almost half of the investment experts additionally think that Switzerland and in particular the Swiss asset management industry are ideally placed to play a leading role in sustainable investments. A combination of promoting Switzerland's inherent advantages and developing recommendations for asset managers without preventing a competition of ideas between individual providers is seen as a promising strategy.

Economy and geopolitics

How do you rate the current level of uncertainty in the geopolitical environment from a Swiss perspective?

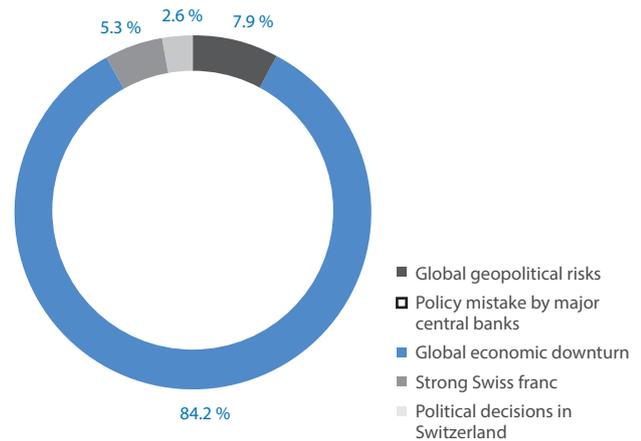


Over two thirds of the asset management specialists surveyed rate geopolitical uncertainty as high from the Swiss perspective. This is

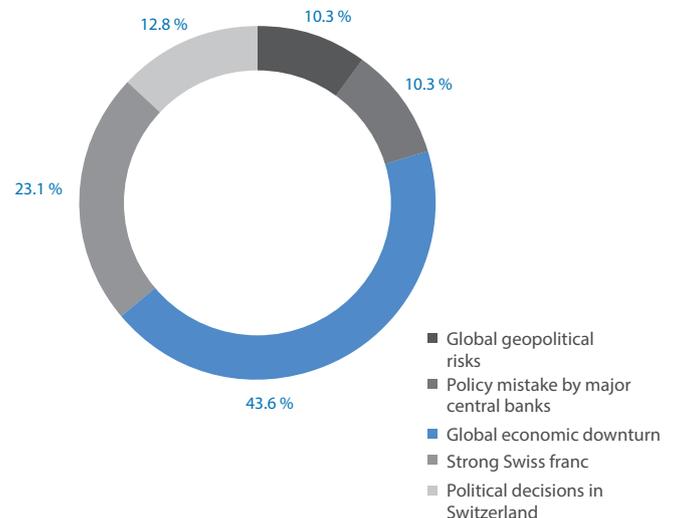
three times the figure from a year ago, reflecting tensions over trade policy as well as the increased uncertainty due to the coronavirus crisis.

Where do you currently see the biggest risks for the Swiss economy?

In view of the imminent, deep recession caused by the pandemic and the measures taken to control it, it comes as no surprise that the survey respondents see a global economic downturn as the biggest risk by far for the Swiss economy. Around twice as many experts as six months ago – 84% – share this view. All other risk factors, including the strong Swiss franc and geopolitical tensions, have thus moved into the background. Not one single respondent sees monetary policy mistakes by central banks as a risk, given the expectation that central banks are prepared to do almost anything to support the markets and the economy.

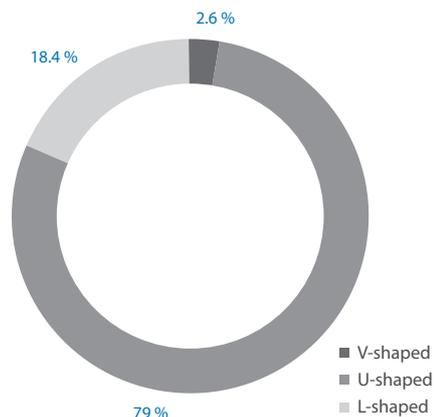


Comparison with the preliminary study



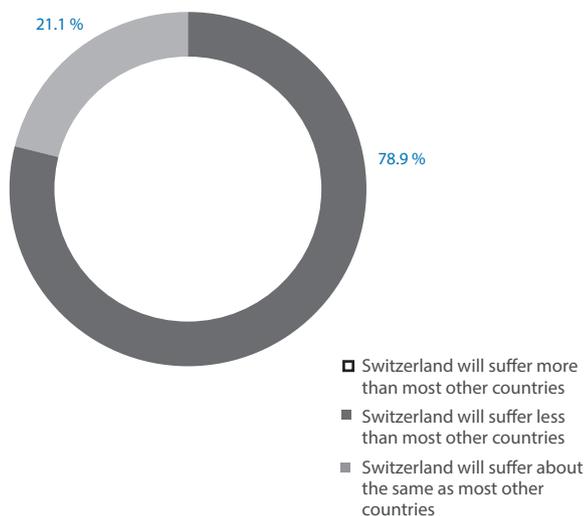
What kind of recovery do you expect after the economic collapse caused by the coronavirus?

Almost 80% of the investment specialists surveyed anticipate a protracted recession followed by a slow recovery (U-shaped). A further 18% are even more sceptical, believing that the economy will not recover at all for some time (L-shaped). This reveals a decidedly negative outlook at the time of the survey (end of April to mid-May).



How will the economic impact of the coronavirus in Switzerland compare with that in other countries?

The respondents were extremely positive, meanwhile, with regard to the Swiss economy's relative performance in international terms. All of the experts think that Switzerland will make it through the crisis better or at least not worse than other countries.



Financial markets and asset allocation

What return do you forecast in the next 12 months for Swiss equities?

29%

of survey participants expect the Swiss equity market to post a negative return in the next 12 months. Opinions have never differed as

much as they do in the latest survey: the percentages for both a return of more than 7% and a negative return are higher than ever.

Which of the following do you consider the biggest driver of returns for the next 12 months?

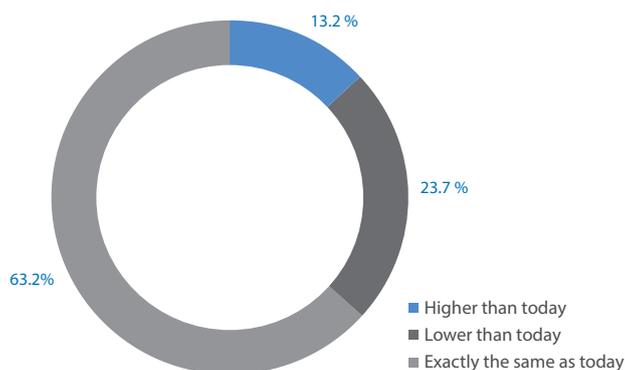


Almost half of the investment experts see the major central banks' monetary policies as the key driver of returns for the next 12 months. The professionals thus believe that the financial markets can continue

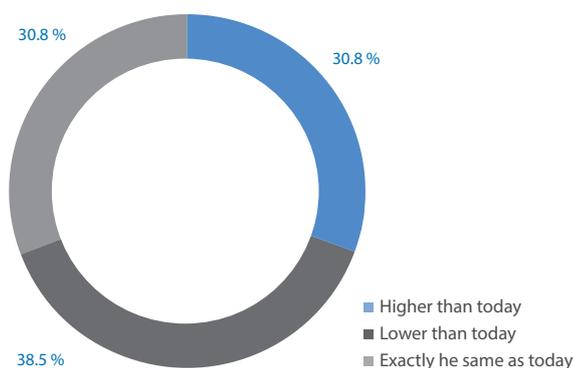
to count on a benign monetary policy backdrop, thanks in no small part to the downbeat economic outlook. However, a similar number of survey participants think that economic growth will be the main factor driving expected investment returns.

What is your 12-month forecast for Swiss 10y interest rates??

“Lower for longer” seems to be the consensus, with only a small minority of the asset management specialists surveyed expecting Swiss interest rates at the long end to start rising again this year. This view is probably influenced mainly by the deterioration in the global economic outlook, together with rate cuts and other monetary policy stimuli from various central banks.

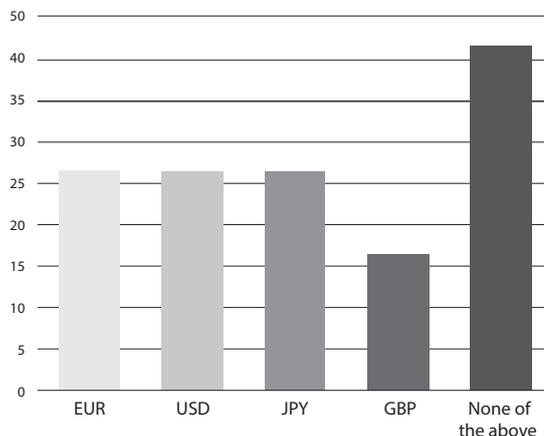


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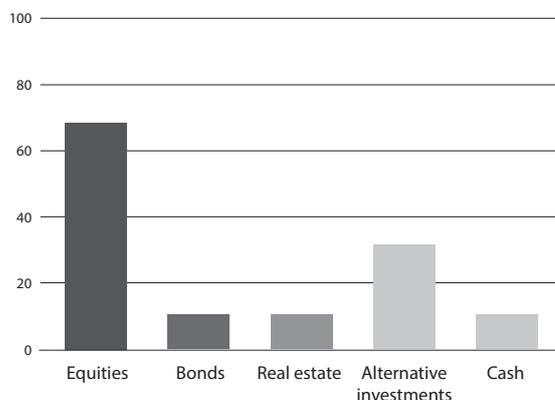
Which currencies do you think will appreciate in value against the Swiss franc in the next 12 months?

Views on the trend in the Swiss franc's valuation have barely changed since the last SAM Survey. The experts are still not expecting the franc to weaken in the next 12 months. Only expectations for the British pound have worsened markedly since the last survey.



Which asset class do you expect to increase in your allocation in the next 6 months?

The stock markets have fallen sharply from their highs at the start of the year. Despite this (or perhaps because of it), more than two thirds of those surveyed are planning to increase their equity allocation in the next six months. Alternative investments, on the other hand, have fallen out of favour quite dramatically: compared with six months ago, only around half as many respondents intend to increase their allocation to this asset class. Bonds, real estate and cash remain unpopular.



Looking at the various types of investment vehicles, where do you intend to increase your allocation in the next 6 months?



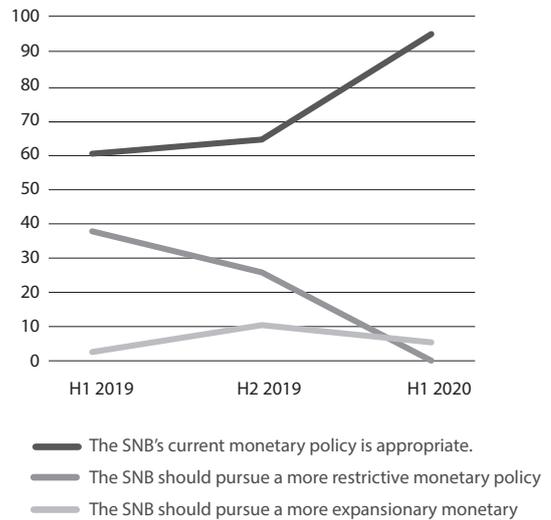
Around 55% of the experts surveyed are planning to increase their allocation to actively managed funds. This represents a slight increase in their popularity at the expense of passive funds. The experts are also more positively

disposed towards direct investments in exchange-traded financial instruments such as equities than they were six months ago. The percentage intending to invest directly in non-exchange-traded assets such as real estate and private equity in the next six months is stable at around 20%.

Monetary policy

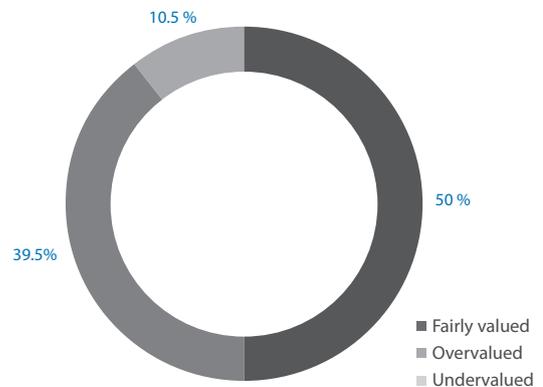
Do you think the Swiss National Bank's current monetary policy stance is appropriate?

An overwhelming majority (95%) of the asset management specialists surveyed take a positive view of the Swiss National Bank (SNB) as regards its monetary policy. This is the highest approval rating ever recorded. None of the respondents want the SNB to be more restrictive at present. This shows that the current, extremely relaxed monetary policy is viewed as necessary to support the financial markets and the economy.



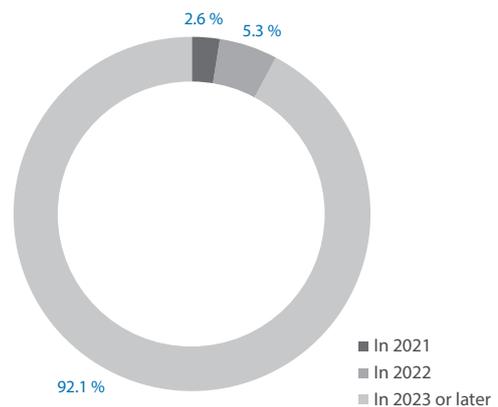
How do you view the CHF's current valuation?

Half of all the investment experts surveyed believe that the Swiss franc is fairly valued. Around 40% still think the franc is overvalued, although this figure is slowly decreasing compared with previous surveys. More than 10% – a new record – now think it is undervalued.



When do you think negative interest rates will be abolished by the SNB?

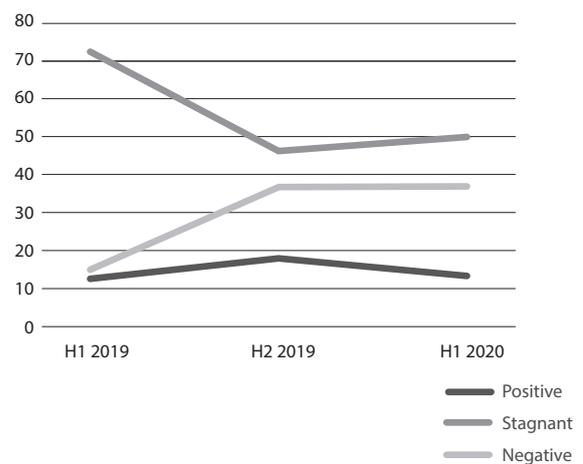
The asset management specialists who took part in the survey once again expect the timetable for abolishing negative interest rates to be extended further into the future. Almost all of them (92%) think that negative rates will be abolished in 2023 at the earliest. Six months ago, this figure was much lower at 45%. The phase of negative interest rates that has persisted for years in Switzerland, having a detrimental effect on savers, pension funds and the financial sector as a whole, thus looks likely to continue for some time yet.



Outlook for the asset management industry / Sustainable investments

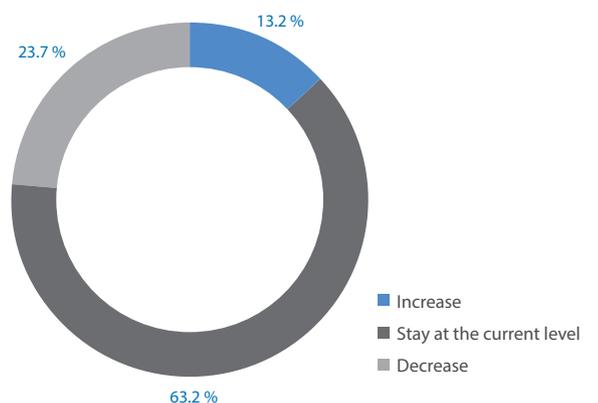
What is your expectation regarding the development of the business environment for asset management companies in Switzerland in the next 12 months?

The coronavirus caused a dramatic slump on the financial markets. This hit the asset management industry especially hard as its income from fees is directly dependent on assets under management. It is therefore unsurprising that the outlook for the industry has deteriorated further. Only one in eight of the specialists surveyed expects the industry to grow in the next 12 months. Meanwhile, 37% expect to see a negative trend. The pessimists are thus more numerous than ever.

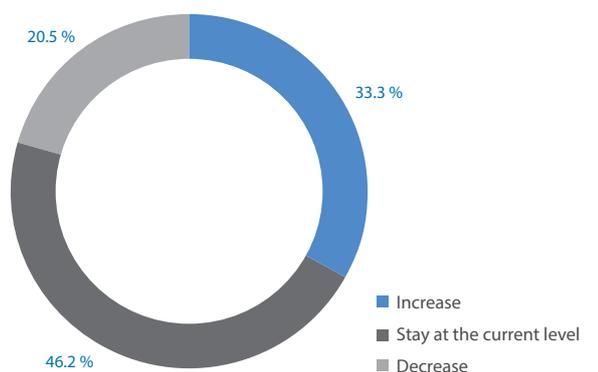


What do you expect to happen to your asset management unit's overall headcount in the next 12 months?

Only 13% of all the investment specialists taking part in the survey expect their company to increase its headcount over the next 12 months. This is a new low. Almost a quarter anticipate a headcount reduction.

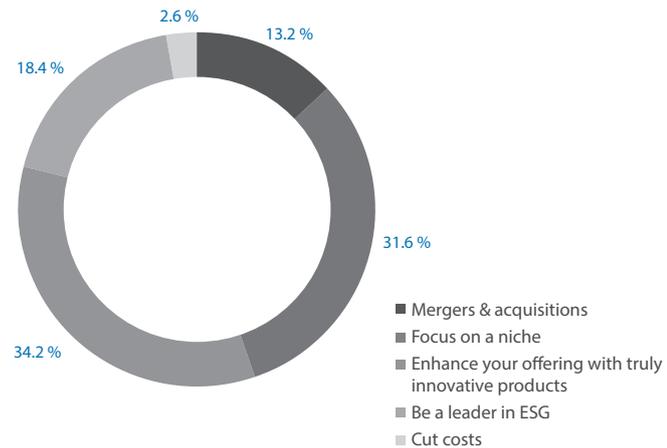


Comparison with the preliminary study



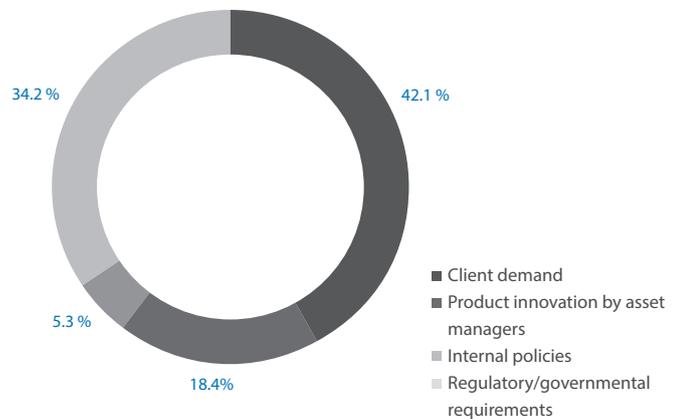
Looking ahead, which strategies do you consider to be necessary/attractive for Swiss asset managers to stay successful?

In terms of promising strategies for the future, the respondents rate focusing on a niche market and launching innovative products highest. They continue to see little benefit in mergers and acquisitions or cost-cutting programmes.



With regard to sustainable asset management (ESG), which factor do you expect to be the main driver for future growth?

Growth in sustainable investments remains strong. In addition to persistently strong demand from clients, this growth is increasingly being driven by regulation. More than a third of respondents, for example, already see legislation and regulation as key drivers for sustainable investments. This represents a further increase compared with the last survey. Product innovation is also boosting growth in sustainable investments more and more, showing that the asset management industry is increasingly playing a proactive rather than reactive role.



What percentage of your total AuM is invested according to sustainability standards (ESG)?

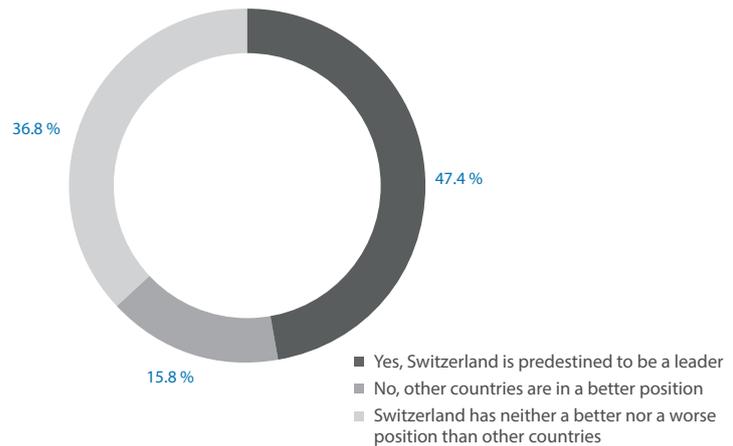
53%

The growing importance of sustainability criteria in asset management is also reflected in assets under management. More than half of the asset managers survey-

ed (52.6%) are already investing more than 25% of the assets in their care sustainably. The percentage of asset managers investing more than half sustainably showed the largest increase.

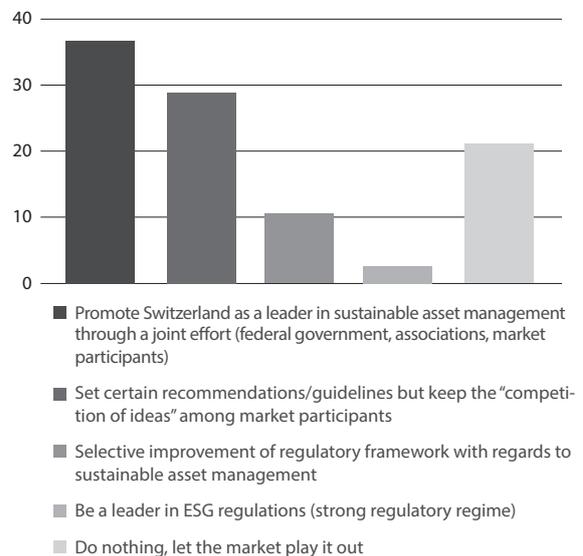
Do you think Switzerland as a whole and the Swiss asset management industry in particular are well positioned to play a leading role in sustainable asset management?

Various financial centres around the world are positioning themselves as sustainable investment hubs. The question is which countries are best placed to take on a genuine leading role in this future-proof business. If the survey respondents are to be believed, Switzerland is destined to be right at the forefront. Almost half share this opinion, whereas only one in six thinks that other countries have the edge.



If Switzerland wants to lead the way in sustainable asset management, what do you consider to be a good strategy?

When it comes to promoting Switzerland as a pioneer of sustainable investments, there are two strategies the experts see as promising. The first is joint efforts by the federal government, industry associations and companies to present Switzerland as a centre of sustainable finance. The second is setting minimum standards via recommendations and guidelines, but doing so without preventing a competition of ideas among market participants so as to encourage innovation. Stringent regulation, meanwhile, is not popular with the respondents.



About the Swiss Asset Managers' Survey

The aim of the Swiss Asset Managers' Survey is to assess the views of asset management specialists in Switzerland regarding the economic and geopolitical outlook as well as expected trends on the relevant financial markets and in the Swiss asset management industry. The survey is conducted every six months by the Asset Management Platform Switzerland and focuses exclusively on asset management companies operating in Switzerland.

The third edition of the Swiss Asset Managers' Survey was conducted from 23 April to 25 June 2020. In total, 38 asset management institutions took part in the survey, both listed and privately held companies. The participating companies manage assets of around CHF 2,000 billion in Switzerland.

Participating in the survey

We would like to thank all participating asset managers for their support. In case we forgot to contact you and you would like to participate in the next survey, please contact us.

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Asset Management Platform Switzerland

The Asset Management Platform has the vision of turning Switzerland into a leading asset management location. A permanent, institutionalised platform for the further development of the asset management business, it acts as a source of ideas and information and a partner in political and regulatory dialogues. It builds on the common ground shared by all asset management players – not just asset managers, but also their clients as well as the relevant authorities and institutions.

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