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Investment Research

Finding fresh opportunities amid zero Swiss interest rates

Investment strategy insights

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- The Swiss National Bank (SNB) cut its policy rate from 0.25% to 0.0% at its June meeting.
- Swiss investors—facing zero interest rates—need a thoughtful approach to managing cash, in our view.
- We favor putting excess cash to work in income-generating strategies.
- While holding cash may feel safe in periods of uncertainty, history shows that phasing into diversified portfolios can deliver more robust long-term returns.



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Swiss investors are once again faced with zero interest rates. The Swiss National Bank (SNB) cut its policy rate from 0.25% to 0.0% at its June meeting. This follows recent data showing below-target inflation, with the year-over-year change in Swiss consumer prices turning negative in May for the first time since 2021. Concurrently, the year-to-date appreciation of the Swiss franc has recently prompted the SNB to intervene in currency markets for the first time in over three years. The SNB's main concern is a further dampening of inflationary pressures, which could be triggered by a strong franc, combined with new US tariffs.

Looking forward, the SNB now expects inflation to average just 0.2% this year and 0.5% next year, both below its previous projections. While our base case is for the policy rate to stay at 0% over the next 12 months, the likelihood of a negative policy rate would increase if global trade tensions escalate and appreciation pressure on the franc intensifies.

The outlook remains uncertain, and investors should be prepared for further surprises from the central bank.

Reviewing cash in a low or negative rate environment
With policy rates now at zero, Swiss investors need a thoughtful approach to managing cash, in our view.

The key is to match liquidity needs with the right instruments. We propose using a strategy that consists of three "categories:"

1. Everyday cash:
This is cash set aside for daily expenses or liabilities due over the next 6-12 months. Flexibility is the top priority, so investors should use current or savings accounts, money market solutions, or short-term deposits (up to 12 months). Given the focus here is on immediate access and safety, we believe tools to manage this form of cash should avoid market, credit, or currency risk. Probable returns will be low, but the goal is to ensure funds are available when needed.

2. Core liquidity and savings cash:
This covers known expenses or withdrawals over the next 1-3 years, or funds that might be needed in an emergency. Here, investors can seek a balance between flexibility and yield. Potential tools can include diversified exposure to short-duration investment grade bond funds in both Swiss francs and in other currencies where applicable to an investor's personal circumstances (up to 2 years). For those with future spending in other currencies, FX solutions may also be interesting. Some minimal interest rate, credit, or FX

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risk may be tolerable in exchange for higher yields than pure cash.

3. Iron reserve and investment cash:
This category is for longer-term needs (up to 5 years) or funds only likely to be tapped in extreme circumstances. The focus shifts to maximizing returns, with investors potentially willing to accept some price fluctuation and limited liquidity. Investors can use medium-term government or investment grade bonds and exposure to medium-duration bonds with maturities of 2-5 years, diversified across countries, sectors, and currencies. Moderate interest rate, credit, or FX risks may be tolerable to bear in exchange for potentially higher returns, as the opportunity cost of holding cash over longer timeframes is generally higher.

Across all cash categories, we believe it is important to match risk to time horizon, focus on real (inflation-adjusted) returns for longer-term cash, diversify across instruments, and regularly review allocations as needs and market conditions change.

Where should Swiss investors put excess cash to work?
With cash yields low and inflation likely to erode long-term purchasing power, Swiss investors may do well to consider putting excess cash to work in income-generating strategies.

We identify two main approaches for investing in equities or equity-related strategies:

1. Equity income strategies, including via options: Swiss dividend-paying stocks offer attractive yields, with an average dividend yield of 3.2% for the Swiss Market Index—well above the historic average of 2.4% since 2004 and higher than most Swiss franc bond yields. Over the past 30 years, dividends have accounted for more than half of the Swiss Performance Index's total returns. These companies typically have robust balance sheets and stable profitability, making their dividends relatively resilient even in downturns. Investors can access these opportunities through diversified global or Swiss equity income funds, focusing on "compounders" (companies with a track record of growing dividends), high dividend growers, and high yielders.

It may also be possible to sell call options on equity indexes or single company equities to enhance income. This strategy seeks to take advantage of the volatility risk premium—the gap between implied and realized volatility. Investors can use options as a standalone yield strategy or combine them with dividend-paying stocks. While options can boost returns, they come with specific risks, including potential losses if markets move sharply against the position. It's important to understand these risks and use options in a risk-controlled way.

2. Structured strategies: Structured strategies, such as reverse convertibles, allow investors to generate yield while waiting for better entry points in equities. These instruments combine a bond with a put option, offering coupon payments that can buffer against price corrections. If the underlying asset falls below a certain level, the investor may receive the asset instead of cash at maturity. This approach can be attractive for those seeking steady income and a more defensive way to build equity exposure, but it carries risks such as issuer default and limited liquidity.

For fixed income, diversified bond funds investing in Swiss and foreign issuers, including some exposure to high yield and emerging market bonds, may offer higher yields and improved diversification compared to cash.

Why phasing into markets may offer the most robust outcomes for the long term
While holding cash may feel safe in periods of uncertainty, history shows that phasing into diversified portfolios can deliver more robust long-term returns.

With policy rates at zero, the opportunity cost of holding cash is high for Swiss investors—especially as inflation, even at low levels, erodes purchasing power over time. Over the past century, Swiss and global balanced portfolios (typically 60% equities, 40% bonds) have outperformed cash in the vast majority of periods. For example, CIO analysis finds that in the US, balanced portfolios delivered positive returns in 88% of rolling five-year periods, and in 85% and 87% of periods for Europe and Switzerland, respectively, since 2003. Over 10- and 20-year holding periods, US stocks have beaten cash in 86% and 100% of cases, respectively, and by more than 200 times overall since 1926.

By gradually investing excess cash into a mix of stocks, bonds, commodities, and alternative assets, we expect that Swiss investors can reduce the risk of poor market timing and benefit from market dips and rebounds. A disciplined, phased approach—such as investing a set amount each month over a year—helps take emotion out of the process and can provide more opportunities to buy at lower prices during market volatility. Diversification across asset classes and regions can further reduce risk and smooths returns.

For those with established core portfolios, switching cash into high-quality fixed income can lock in yields and dampen volatility, while adding risk-controlled exposure to high yield and emerging market bonds can boost returns.

Ultimately, we believe that sticking to a long-term plan and maintaining diversification are proven strategies for navigating uncertainty. By phasing into diversified portfolios, we believe Swiss investors can position themselves to benefit from future potential asset market growth, rather than watching cash lose value on the sidelines.

Appendix

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