LMM COMPASS

Dear reader

The Swiss National Bank (SNB) has once again lowered its key interest rate in response to declining inflation. The appreciation of both the Swiss franc and the euro, driven by global uncertainties, is helping to curb price pressures. Further rate cuts are possible, but only in the case of significant developments, as negative interest rates come with undesirable side effects for the real estate market, pension funds, and retirement provisions. Read more about the situation in Switzerland in our in-depth article.

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THEMES

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MARKETS AND STRATEGIES

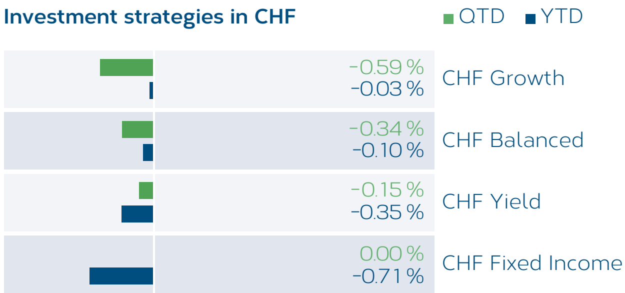
The second quarter of 2025 was influenced by several key factors: In addition to the market distortions caused by the US tariff announcements, the interest rate cuts by the European Central Bank (ECB) and the SNB and the recovery on the equity markets should also be mentioned. The US dollar continued to lose value, while European equities maintained their outperformance relative to US stocks. Gold remained in demand as a "stabilizer".

Overall, CHF investment strategies posted slightly negative returns, while EUR strategies ended in positive territory. The differences can be attributed not only to the level of equity and foreign currency exposure but also to how equity investments were implemented. For instance, a global approach with an overweight in US equities had a negative effect compared to a strategy with a stronger "home bias".

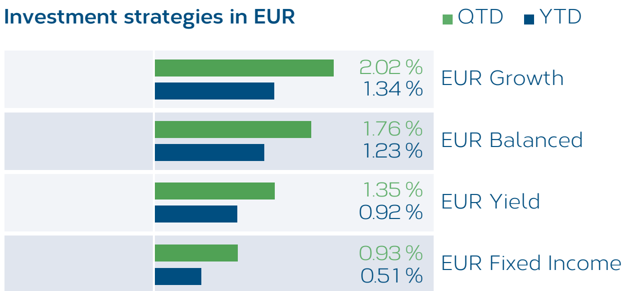
		Value	% QTD	% YTD	Currency
Currencies	EUR / CHF	0.93	-2.24	-0.44	
	EUR / USD	1.17	+8.66	+13.35	
	USD / CHF	0.80	-10.03	-12.17	
	USD / JPY	144.44	-3.41	-8.09	
Bonds	Switzerland		+0.83	-0.56	CHF
	Europe		+1.75	+0.84	EUR
	USA		+1.21	+4.02	USD
	EMMA (Hard Currency)		+3.72	+6.37	USD
	Inflation Linked		+4.69	+8.27	USD
	High Yield		+4.89	+6.83	USD
	World		+4.52	+7.27	USD
Equities	Switzerland		-3.26	+5.21	CHF
	Europe		+2.49	+8.55	EUR
	North America		+11.25	+6.13	USD
	Pacific		+12.30	+12.68	USD
	EMMA		+11.99	+15.27	USD
	World		+11.53	+10.05	USD
Alternatives	Real Estate		+4.72	+6.66	USD
	Commodities		-4.12	+3.30	USD
	Gold		+5.71	+25.80	USD
	Private Equity (listed)		+8.15	+1.56	USD
	Hedge Funds		+1.85	+2.39	USD

Calculation LMM; Period 01.01.2025–06.30.2025

Investment strategies in CHF



Investment strategies in EUR



Note: the figures are before costs
Calculation LMM; Period 01.01.2025–06.30.2025

SWITZERLAND – HEADING BACK TOWARDS ZERO AND NEGATIVE INTEREST RATES?

What Are Zero and Negative Interest Rates?
Zero and negative interest rates are monetary policy tools in which a central bank's key interest rate is set at 0% or below. This means that banks receive no interest—or even have to pay—for deposits they hold with the central bank.

Why Were Zero and Negative Interest Rates Introduced in the Past?
Combating Recession and Deflation: Following the global financial crisis of 2007–2008, the world experienced a severe recession. Economic growth stalled, prices stagnated or even fell (deflation), and businesses held back on investments. In such situations, interest rate cuts are a proven tool to stimulate investment and consumption.
Encouraging Consumption and Investment: Low interest rates make saving less attractive. The goal is to create incentives for households to increase their spending and for companies to invest their capital productively instead of keeping it unused.
Reducing Financing Costs: With zero or negative interest rates, governments, businesses, and households can borrow at lower costs. Cheaper credit is intended to support growth-boosting investments.
Raising Inflation to Target Levels: The European Central Bank (ECB) and other central banks (such as the US Federal Reserve) aim for an inflation rate of around 2% to ensure economic stability. Low or negative interest rates are meant to help reach this target and prevent deflation.
Exchange Rate Management: In countries like Switzerland, negative interest rates were used to weaken the national currency. A currency that is too strong makes exports more expensive, which can harm the economy. Negative rates aim to reduce capital inflows and curb further appreciation of the Swiss franc.

What Are the Risks and Side Effects?
As helpful as the measure may be in the short term, it remains controversial in the long run:
- Savers lose real wealth when interest rates are below the rate of inflation.
- Asset prices can rise sharply, potentially leading to bubbles in real estate and equity markets.
- Banks and pension funds come under pressure, as their business models rely on positive interest rates.
- "Zombie companies" (non-viable firms) may be artificially kept alive.

How Can You Protect Yourself from Negative Interest Rates?
Switch Banks or Use Allowances: Many banks only apply negative interest rates above a certain balance. You can optimize by negotiating free allowance thresholds, switching banks, or spreading funds across multiple institutions.
Use Savings and Fixed-Term Accounts: Savings accounts or short-term time deposits often offer positive interest rates above zero.
Invest in Short-Term Bonds or Money Market Funds: These instruments offer conservative returns with low volatility and serve as an alternative to non-interest-bearing accounts.
Add Real Assets to Your Portfolio: Real estate, equity ETFs, or gold are considered long-term inflation- and interest rate-resistant assets.
Reduce Liquidity: If you don't need large cash holdings, you can use the excess to pay down debt, make advance payments, or invest—in order to avoid negative interest charges.

What's the Situation in Switzerland?
In June 2025, the Swiss National Bank (SNB) lowered its key interest rate to 0% in response to downward inflationary pressure and a strong Swiss franc.

Are Negative Interest Rates Likely to Return in Switzerland?
It remains uncertain whether negative interest rates will be reintroduced in Switzerland, but there are arguments both for and against such a move. Here's a balanced assessment:

Arguments in Favor of Reintroducing Negative Interest Rates:
Falling Inflation: Inflation in Switzerland is currently below the SNB's target (below 1%).
Strong Swiss Franc (CHF): The franc is in high demand as a "safe haven," putting pressure on Swiss exports.
Global Rate Cuts: If other central banks (e.g., the ECB or US Fed) continue cutting rates, interest rate differentials may force the SNB to respond.

What Speaks Against Negative Interest Rates?
Past experiences: Negative interest rates have reduced bank profitability and were heavily criticized by savers.
Financial system stability: Negative rates distort capital markets, encourage asset bubbles (e.g. in real estate), and weaken retirement provisions.
Alternative instruments: The SNB can also intervene through foreign exchange purchases or verbal interventions without pushing interest rates into negative territory.

Conclusion
Negative interest rates are a monetary policy tool that was necessary during times of crisis but carry long-term risks—especially for private savers. To limit the negative effects on wealth, it is important to utilize diversification opportunities across asset classes, currencies, regions, and sectors, always considering the individual risk profile.

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