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What long-term Swiss Franc investors should bear in mind

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Many long-term studies show international equity returns of 10 to 12% – in dollars. In the usual stock market comparisons in local currency at the end of each year, the Swiss market often does not rank among the top performers. Should Swiss franc investors therefore concentrate on foreign markets?

EA 6.56-foot-long table in an American family is no longer than a two-metre table in a Swiss household. A fair comparison must use the same units of measurement. This also applies to the comparison of returns in different currencies. If you take the returns in local currency, it's like the two tables: measured in feet and metres, they appear to be different in length.

A look into the past illustrates the differences. The average deviation between local returns for various stock exchanges based on monthly data from 1970 to 2024 is 1.9%. In comparison to Swiss equities at 7.7%, it is US equities at 10.7% that exhibit the largest difference (3% – top line in the table).

Diversify – but how?

Because the Swiss franc is more stable (it is the currency with the lowest long-term inflation), returns are lower when measured in Swiss francs than in local currency. It can be said that savers abroad can look forward to an apparently greater increase in assets, while Swiss investors are also getting richer, just less obviously. If one correctly compares Swiss franc returns from a Swiss perspective, the differences even out. The mean deviation halves to 1% and the difference in returns between Swiss and US equities disappears.

Calculated in Swiss francs, long-term returns in the range of 6 to 8% therefore seem realistic; Japan is an exception, with its excess at the end of the 1980s and subsequent ultra-long bear market. However, it should be noted that small differences in returns over the years have a massive impact on assets. If a Swiss investor had invested CHF 100,000 in Switzerland over this 55-year period, she would have assets of CHF 5.8 million at the end of 2024, but "only" CHF 2.5 million with German equities – that is, less than half!

Return on selected stock markets from 1970 to 2024

	Switzerlansd	UK	Germany	USA	Japan	France
Return in local currency	7.7%	10.3%	7.6%	10.7%	7.1%	9.7%
Return in Swiss francs	7.7%	6.0%	6.0%	7.6%	5.7%	6.2%
Volatility	15.6%	21.4%	20.7%	18.7%	20.1%	21.3%

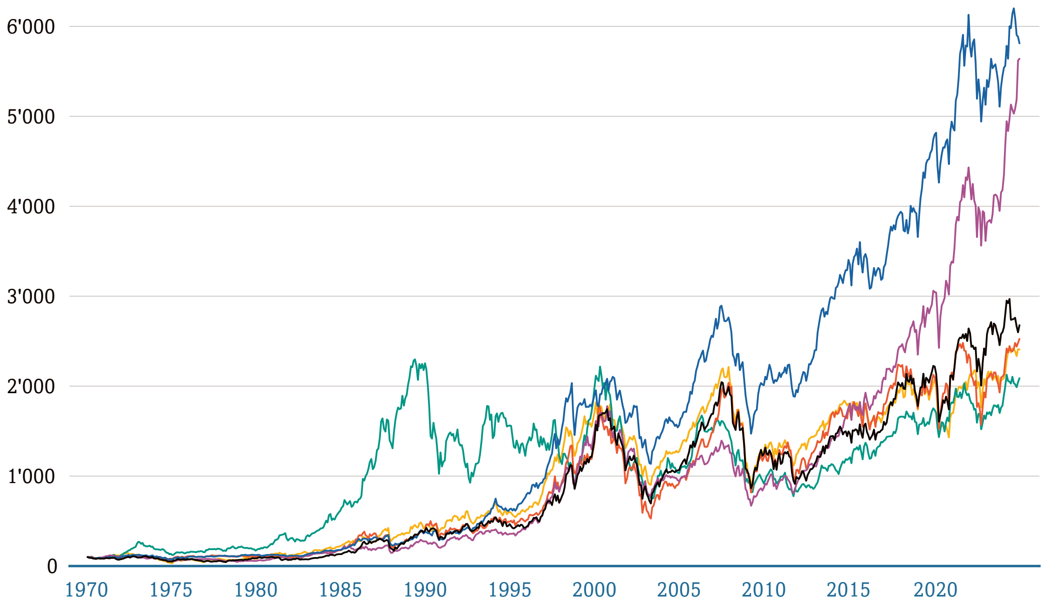
Source: Bloomberg, MSCI and own calculations

The different currency trends of the Swiss franc and the dollar are relevant here; in the long term, the exchange rate differences are characterised by the different currency devaluations. Inflation in Switzerland has averaged 2.2% annually for the past 55 years, compared with 3.9% in the USA. For example, $1,000 from 1970 is only worth $119 today, while CHF 1,000 from then has a purchasing power of CHF 309 today.

As you cannot know this in advance, you should diversify internationally. But how?

The global equity index MSCI World serves as a neutral starting point, with countries weighted according to their market capitalisation. This equity index achieved a Swiss franc return of 6.7% p.a. and a volatility of 16.5% over the 55 years. Although the global portfolio is less volatile than any individual foreign market, international diversification can be optimised in two ways from the perspective of a Swiss investor.

Market development of selected stock markets from 1970 to 2024



Indexed to 100 as at 1 January 1970
Chart: themarket.ch – Source: Bloomberg, Pirmin Hotz AG

The Swiss domestic market has advantages

On the one hand, the capitalisation weighting leads to a certain degree of procyclicality: after the excessive rise in the 1980s, the Japanese stock market accounted for almost half of the global index; investors bore the full brunt of the subsequent collapse with the capitalisation-weighted world index. Following the rise of the US market in recent years, it dominates the MSCI World with a weighting of over two thirds – with an uncertain outcome.

On the other hand, the Swiss domestic market has a certain advantage because the foreign currency risks are lower: they are only borne indirectly through the amount of foreign sales by Swiss companies, but not directly through the trading currency of the equity. In the table above, this is reflected in the lower volatility of the Swiss market.

These two findings are used to analyse how a portfolio consisting of these six countries – Germany, France, Japan, Switzerland, the UK and the USA – performs in comparison to the MSCI World Index if all countries are initially weighted equally and then the Swiss share is gradually increased. However, this should not be more than half, as this would otherwise run counter to the primacy of diversification.

What is the result? The higher the Swiss share, the higher the returns and the lower the risk. Thanks to international diversification, the latter even falls below the level of the Swiss equity market. An appropriate investment strategy and therefore the optimal share of Swiss equities is not an exact science. From a risk/return perspective, however, a 30–50% share of Swiss equities in the overall equity allocation seems appropriate.

Better risk-return profile

This optimises the two aspects of procyclicality and foreign currency risks in comparison to the capitalisation-weighted MSCI World. The number of negative months decreases over the observation period: while the MSCI World recorded 266 out of a total of 660 months with a price decline (40.3%), the diversified portfolio, in which Swiss equities were given four times the weighting, showed 257 months (38.9%).

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Portfolios with different Swiss equities from 1970 to 2024

	Return	Volatility	Return/Volatility
MSCI World (capitalisation weighted)	6.7%	16.5%	0.41
All countries* equally weighted, at 16.7%	7.2%	15.8%	0.46
Switzerland double weighted (28.6%), Remainder at 14.3%	7.4%	15.5%	0.48
Switzerland triple weighted (37.5%), Remainder at 12.5%	7.4%	15.2%	0.49
Switzerland weighted fourfold (44.4%), Remainder at 11.1%	7.5%	15.1%	0.50
Switzerland weighted fivefold (50%), Remainder at 10%	7.5%	15.0%	0.50

*Germany, France, Japan, Switzerland, UK and USA
Source: Bloomberg, MSCI and own calculations

The conclusion is that differences in returns between markets tend to even out over the long term, which makes currency hedging unnecessary for long-term investors. For Swiss investors, there is also a plausible reason for a "home bias," i.e., an overweighting of the Swiss equity market, from a risk/return perspective.

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