

Switzerland's Financial Paradox: Stability Built on Fragility

Introduction

Switzerland has long been a symbol of financial stability as a nation whose conservative banking culture, strong currency, and independent central bank made it a safe haven in times of global stress. Yet beneath this reputation lies a paradox. The very institutions meant to anchor stability now embody new forms of fragility which will be explored in this article.

On one side, UBS [NYSE: UBS] has grown so large after absorbing Credit Suisse that its balance sheet now dwarfs the Swiss economy, raising doubts about whether the country could credibly backstop it in a future crisis. On the other hand, the Swiss National Bank [SWX: SNBN], known for its independence and prudence, has become one of the world's biggest investors in U.S. Big Tech, with tens of billions tied up in a handful of well-known Silicon Valley equities. In combination, these developments leave us with the question of whether the country is exporting stability or importing fragility. And at the core of both challenges lies the Swiss franc, whose highly-valued status draws in capital whenever global markets tremble.

Together, these dynamics reveal a striking paradox: the institutions designed to safeguard Swiss stability have become conduits for global volatility, leaving the country more exposed than ever to risks it cannot control.

UBS – Too Big for Switzerland?

In March 2023, Swiss regulators orchestrated the emergency takeover of Credit Suisse by UBS to prevent a full-scale financial crisis. After countless scandals and the eventual trigger of the U.S. regional banking crisis, Credit Suisse had lost all confidence, and outflows of deposits started to proceed rapidly. UBS agreed to acquire them for CHF 3bn in stock, with the deal including the Swiss central bank providing liquidity and a loss guarantee of up to CHF 9bn, where UBS would assume the first CHF 5bn, and the federal government the next CHF 9bn. In an unprecedented move, the Swiss government agreed to completely write down Credit Suisse's Additional Tier 1 shares with a nominal value of approximately CHF 16bn, making it the first time AT1 instruments have been zeroed before equity holders in a major European bank. The intervention prevented a further collapse but came at a large monetary and reputational cost for the Swiss financial system.

Now in 2025, UBS carries a balance sheet almost twice the size of the Swiss economy. This imbalance presents a debate over whether UBS poses a risk for Switzerland, where the nation may be unable to absorb the bank in a future crisis. Swiss regulators are proposing to increase UBS's Common Equity Tier 1 (CET1) capital ratio, from ~14% to ~17%. To meet that new threshold, UBS would be required to raise up to CHF 26bn in additional capital by 2030, aiming to shift the risk burden from public backstops onto the bank itself. A large part of this will require UBS to fully capitalize its foreign subsidiaries. Just this last Friday, the government has proposed a phased approach, giving UBS seven years to bring capital backing of its foreign units from 65% at the start to 100% by the end of the period. The implications of this proposal are severe for UBS, hindering their profitability and flexibility to pay shareholders dividends. It will also constrain UBS's ability to compete with its U.S. rivals, which are under looser regulations. UBS has restated its opposition to the plan, arguing the \$24bn capital burden is excessive, misaligned with international norms, and risks undermining Switzerland's competitiveness as a financial hub. Many critics are arguing that this proposal fails to eliminate the core systemic risk of a crisis of confidence, and that capital buffers are not a substitute for a credible resolution plan of structural reforms. As UBS falls under regulatory scrutiny, the idea of relocating its HQ to London or New York has been mentioned, mainly seen as a

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negotiating tool with Swiss regulators. However, CEO Sergio Ermotti publicly denied moving HQ is 'on the table', so for now, no expectations have arisen.

Potential solutions

Force UBS to shrink: spin-off non-Swiss units

In theory, spinning off sizeable overseas businesses can bring UBS's size closer to what Switzerland can backstop; however, management has ruled out shrinking as an option, saying it isn't a justified action from its risk profile and would limit the firm's competitiveness. In the eyes of the rest of the world, this idea can also be seen as a policy U-turn, following fairly soon after the Credit Suisse rescue.

Recovery & Resolution Framework

Another solution could be to strengthen UBS's recovery and resolution framework, allowing the Swiss government to isolate parts of the bank, if necessary, without bailing out the entire bank. In September 2025, Switzerland's financial regulator FINMA stated UBS's current emergency plan is still incomplete, suggesting this could be a viable solution. However, a plan to allow the state to isolate and restructure troubled parts of the bank in a crisis scenario, while protecting UBS's core functions, is very complex and near impossible to negotiate.

The Swiss National Bank's Big Tech Bet

"We've got a bizarre situation here." - The Silence of the Lambs (1991)

Effective Central Banks maintain stability and health in the financial system. Customary strategies may include the issuance of currency, changing interest rates, regulating financial institutions, managing foreign reserves (for the stability of their own currency and adjustments of exchange rates), and emergency lending to distressed banks and governments. Deviating from the norm, the Swiss National Bank (SNB) adopted a unique yet effective strategy: operating as a quasi-sovereign wealth fund. Since its inception in 1907, the SNB has been a special institution. Most central banks are governmental organizations established to be independent of political influence. Following the Swiss mantra of stability, the SNB was established as a joint-stock company with both public and private investors. Public investors, such as the Swiss cantons (which are akin to regions or states) and cantonal banks, hold approximately half of the stocks, with retail and institutional investors holding the rest.

The premise behind this arrangement is strict independence. Before 1907, Switzerland had a fragmented economic system with multiple notes in circulation. This led to apparent inefficiency in the country's operation. Due to concerns about federal overreach, the cantonal governments established this unique arrangement, ensuring independence, transparency, and involvement from each canton, while also benefiting from the advantages of a unified central bank. While the SNB is a company, it is exempt from fiduciary responsibilities by Swiss law, instead focusing on monetary stability. In practice, this leads the Swiss government to limit dividends, voting rights, and shareholders' claims on the SNB's balance sheet. One may ask (reasonably) why people invest in a firm with such limitations. Beyond speculation (a scarce market, which leads to illiquidity and massive spikes when demand increases) and psychological importance (the symbolic value of owning a portion of the national bank), there is little financial rationale. The dividend has been fixed at 15 CHF per year per stock, even when the SNB stock peaked above 8000 CHF. The sole semi-rational justification behind an investment could be the hope for a change in the SNB's regulations. Having more access to the SNB's vast balance sheet (such as higher dividends) could be very profitable. This, however, is highly unlikely due to the central role of the SNB in the Swiss economy and the overall stability of the Swiss financial system.

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Traditionally, central banks have bought gold and government bonds to achieve macroeconomic objectives. Central banks can quickly sell these highly liquid assets to intervene in foreign exchange markets during times of crisis. Switzerland has long faced deflationary pressures due to the CHF's position as a safe-haven currency. Investors flock to Swiss assets, which appreciate the CHF, resulting in low inflation and, in some instances, deflation. To depreciate (or at least try to lessen the appreciation) of the CHF, the SNB could buy bonds or gold from other central banks or governments. This, however, leads to significant losses when the CHF appreciates. To mitigate losses to Swiss citizens (affected through cantons' ownership of SNB), the SNB adopted a new strategy in 2005: purchasing foreign equities. These equities offer higher returns than gold and bonds, while also appreciating the CHF. This strategy has resulted in the SNB having a significant exposure to various markets, with a total balance sheet of \$855bn. The U.S. exposure amounts to \$167bn, with \$42bn of it being invested in just five tech firms: Amazon [NASDAQ: AMZN], Apple [NASDAQ: AAPL], Meta [NASDAQ: META], Microsoft [NASDAQ: MSFT], and Nvidia [NASDAQ: NDVA]. While profitable, these positions create a problem that contradicts the SNB's very philosophy of stability, given recent concerns about a tech bubble in the U.S. This issue arises from this strategy focusing on addressing the symptoms of safe-haven inflows rather than addressing the root cause.

Switzerland's Macro Paradox

The Swiss franc, long a symbol of safety, has become one of the country's biggest headaches. President Trump's tariffs brought uncertainty into the global markets, driving investors into havens like gold, the yen, and the franc. As a result, the currency has been appreciating against the dollar since the beginning of the year. For Switzerland, this strength is less a sign of confidence than a source of economic strain. A strong franc makes imports cheaper, pushing consumer prices into decline while simultaneously squeezing exporters who must sell goods abroad in more expensive francs. While the U.S. and Europe still struggle to bring inflation down, Switzerland faces the opposite dilemma.

This leaves the SNB no choice but to act upon. Having only recently ended a long experiment with negative interest rates, it has cut the rates now six times in a row and is currently keeping them at 0.00%. Currency interventions, such as selling francs and buying foreign assets, remain an option, but are politically risky. The U.S. Treasury has already placed Switzerland on its monitoring list for currency manipulation, and further interventions could invite new tariffs after Switzerland has already been hit with the highest tariff rate for any advanced country at 39%. The central bank thus has to trade off defending domestic stability and provoking its most important trading partner.

This dilemma mirrors the paradoxes surrounding UBS and the SNB's equity portfolio. In each case, Switzerland's reputation as a haven attracts global capital, but the very inflows that project stability create vulnerabilities the country cannot easily manage. UBS has grown too large for the state to credibly backstop, the SNB's credibility is now partly tied to the fate of Silicon Valley, and the franc itself risks tipping the economy into deflation while stirring conflict abroad. The image of Switzerland as a fortress of financial prudence endures, yet its foundations increasingly depend on forces far beyond its borders.

TAGS: Switzerland, Central Bank, UBS, CHF, Tech

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