

Swiss equities, US tariffs, and the threat of lower drug prices

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Switzerland's recent news cycle has been anything but favourable. Over the 1 August 2025 Swiss national holiday weekend, the US administration announced a 39% tariff on goods imported from Switzerland, effective 7 August, and set to remain unless a new trade agreement is reached. Just a day earlier, on 31 July, President Trump sent letters to 17 major pharmaceutical companies demanding lower prescription drug prices by September 2025. These developments pose clear challenges for the Swiss economy, yet Swiss equities have shown remarkable resilience.

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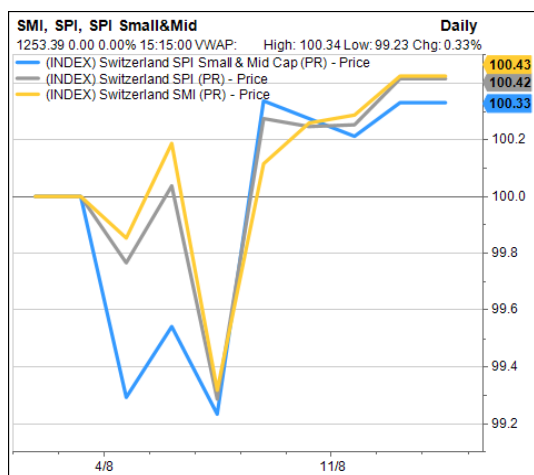
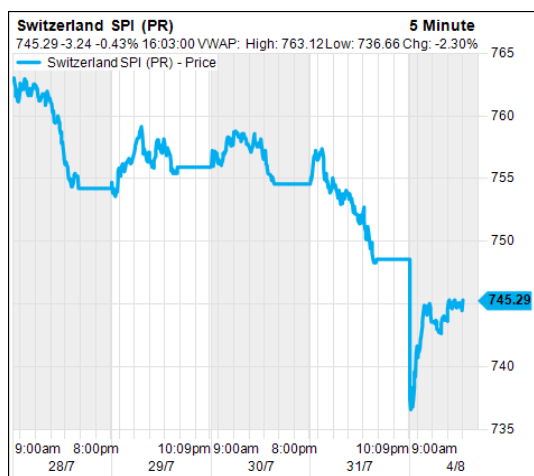
Tariffs impact overview

Currently, goods imported into the US from Switzerland face a 39% tariff, with the exception of pharmaceuticals and gold bars. In 2024, Swiss exports to the US were dominated by pharmaceutical products (\$35bn, exempt), precious stones and metals (\$15bn, partially exempt), technical products and machinery (\$8bn), and watches (\$5bn). For the time being, the industrial and luxury sectors face the greatest short-term pressure.

Most large Swiss industrial companies have diversified their production footprint over the years, partly to offset currency risks. For example, ABB generates roughly 25% of its sales in the US, with an estimated 75–80% of those sales already supplied via local production. The company plans to raise that figure to 85–90% within the next year, which should further cushion the tariff impact.

The situation is different in luxury goods, where companies such as Richemont and Swatch maintain significant production facilities in Switzerland, with their “Made in Switzerland” label being central to brand identity. Richemont, for instance, has strong pricing power and could offset some of the additional costs by rising prices in the US and modestly raising global prices. However, the sector is already in a soft patch, and recent price increases have begun to weigh on demand. Even so, most large players in both the industrial and luxury segments are positioned to limit the impact of these tariffs.

On 4 August, after an initial sell-off, Swiss equities recovered throughout the day, and are today higher than prior the announcement on tariffs and drug prices.



The question of US drug prices

Branded drug prices in the US are typically 1.5 to 3 times higher than in other OECD countries. Several structural factors explain this disparity.

First, at launch, drug prices in the US are set by private entities—primarily pharmaceutical companies—alongside intermediaries such as pharmacy benefit managers (PBMs). PBMs operate within integrated healthcare systems, retail pharmacy chains (e.g. CVS Pharmacy), and insurance companies (e.g. UnitedHealth Group). They purchase drugs at discounts from the official list price but are not required to disclose the net purchase price. This lack of transparency contributes to an opaque system. PBMs, often described as “middlemen,” wield significant power: they negotiate prices on behalf of employers and health plans that bear most of the prescription drug costs, take a percentage of the negotiated savings, and heavily influence where a drug is placed on an insurer’s formulary.

Second, there is a key difference in how prices evolve over time. In the US, branded drugs are regularly repriced, often adjusted upward for inflation. In most other OECD countries, prices are set by a central government body and remain largely unchanged for the duration of the drug’s patent. As a result, a drug that may initially be “only” 50% more expensive in the US than abroad can see that gap widen substantially over time, leading to pronounced long-term price differentials.

What can the US government do to lower prices?

In the United States, the federal government is prohibited from negotiating drug prices directly with pharmaceutical companies. Any change to this framework would require new legislation—a process that must pass through both chambers of Congress. This was one reason President Trump, during his first term, issued an executive order aimed at lowering drug prices, only to see it blocked by a federal judge.

Legislative reform faces significant resistance, including some Republicans who argue that price controls could stifle innovation. In many cases, their opposition is also linked to the economic importance of pharmaceutical companies in their states—firms that contribute substantial tax revenue and maintain strong lobbying influence. These political and economic realities have derailed previous reform efforts, and the likelihood of a law change in the near future remains low.

Against this backdrop, President Trump is exerting pressure on pharmaceutical companies to voluntarily cut prices and expand direct-to-consumer (DTC) platforms. By bypassing intermediaries, such measures could increase pricing transparency, reduce the impact on manufacturers, and deliver a quick political win for the President, who could claim a tangible victory without changing the law.

What about tariffs on drugs?

Such a move would be highly counterproductive, driving drug prices higher rather than lower. Moreover, with 80% of generic drugs in the US sourced from abroad, imposing tariffs on them would inevitably raise costs for American consumers. This matters greatly, as generics account for the vast majority of prescriptions filled in the US by volume.

Why pharmaceutical companies are investing heavily in the US?

Ensuring adequate domestic supply is a national security issue, a lesson underscored during and after COVID-19, when many drugs became unavailable. The US government is pushing

for greater pharmaceutical production capacity on American soil, and industry players are well aware of this priority. This is a reason why Roche—a Swiss healthcare company—plans to invest USD50bn over the next five years in the US and Novartis—a Swiss pharmaceutical company—plans to invest USD23bn to be able to serve this market locally.

To conclude, despite recent negative headlines, Swiss equities remain an appealing choice for domestic investors. On the tariff front, most large companies face limited direct impact, and there is hope that Switzerland can negotiate a more favourable arrangement with the US. Otherwise, as in the past, the Swiss economy will adapt. In pharmaceuticals, political pressure persists, but the most probable outcome is that the industry will offer targeted price cuts on certain drugs, giving President Trump a quick political win. However, this will not address the structural challenge of the industry of expiring patents that must be replaced to sustain long-term growth.

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