Assessment of the interest rate and mortgage market

Interest Rate Market
The interest rate swap curve shows a further decline, particularly in the mid-term segment. The market anticipates two rate cuts in December and March, with a possible third reduction over the course of 2025.

Monetary Policy
The reduction in the price level increase (Disinflation) is stronger than the SNB predicted in September, and given the current macroeconomic situation, a key interest rate cut to 0.75% in December appears very likely.

Mortgage Rates
Fixed mortgage rates have slightly decreased compared to the previous month.

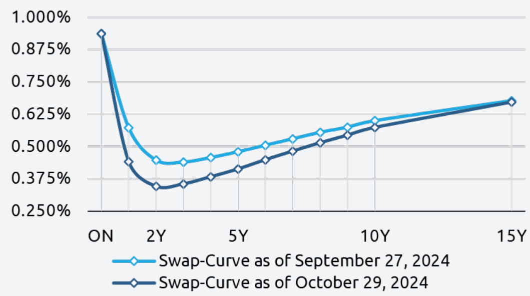
Interest Rate Market

The interest rate swap curve responded to the latest inflation data with a decline, particularly in the mid-term segment. Two-year swap rates are currently around 0.35%, while the ten-year swap rate stands at approximately 0.57%. Although the downward trend in market interest rates continues, it remains primarily focused on the mid-term segment.

From the market's perspective, there is still potential for rate cuts by the SNB, reflected in the low rates for short- and mid-term maturities. Rate cuts of 25 basis points are anticipated in both December and March, with a moderate likelihood of another reduction in June.

Since the beginning of the year, movements in the yield curve have been heavily influenced by expectations of future monetary policy measures. However, an additional three rate cuts beyond those already implemented seem optimistic. In our view, the scope for further reductions in fixed mortgage rates is largely exhausted.

Interest Rate Swap Curve Structure



Source: Refinitiv Eikon. ON = Overnight Rate (SARON).

Swiss monetary policy

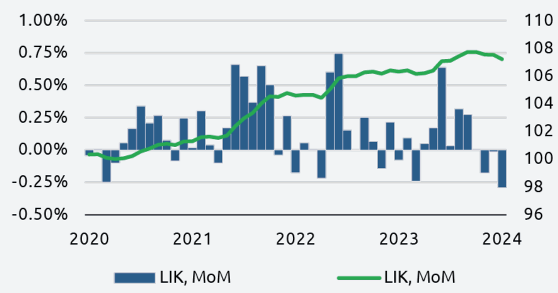
Consumer prices for September show stronger disinflation than the SNB previously anticipated. Annual inflation now stands at 0.84%, with a month-on-month price drop of 0.29%—the largest decline since the start of the inflation surge. Prices have fallen by nearly 0.50% from their peak.

This trend increases the likelihood of a deflationary environment and supports the expectation that the SNB may need to further reduce the policy rate. The market is already pricing in two additional rate cuts to 0.50% in the upcoming sessions, with a possible third cut to 0.25% in 2025. If the market expectations prove accurate, Switzerland could once again approach a low-interest-rate environment, with negative rates potentially within reach. SNB President Martin Schlegel also considers this scenario feasible, especially if global and domestic economic conditions weaken further and the Swiss franc appreciates.

An additional easing of monetary policy is not strictly necessary but could be implemented without negative effects. The Swiss labor market continues to show moderate cooling, while the economy exhibits modest growth. The domestic economy is likely to be supported next year by consumer demand, which will benefit from real wage growth. Since the pandemic, the external sector has faced numerous challenges that have been successfully managed. However, structural issues within the EU have reduced its attractiveness as an export market, impacting Swiss exporters, particularly in Germany, Switzerland's second-largest trading partner, where economic stagnation or contraction persists.

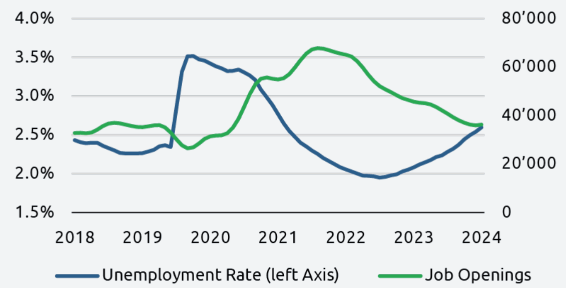
Since the pandemic, Switzerland has intensified efforts to secure its supply chains, diversify trading partners, and access new markets—measures aimed at promoting long-term economic stability. Nevertheless, Switzerland remains vulnerable to potential global economic slowdowns, making supportive monetary policy a sensible consideration.

Consumer Prices



Source: Bundesamt für Statistik, SNB. LIK = Consumer Price Index

Swiss Labour Market



Source: Bundesamt für Statistik, SNB.

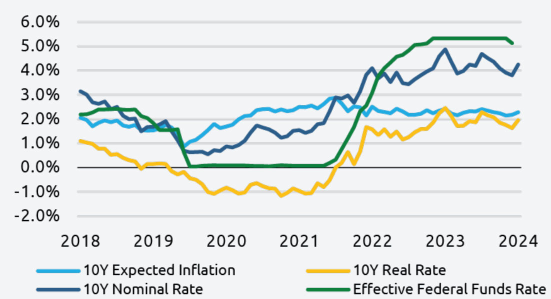
Foreign monetary policy

On Thursday, November 7, the penultimate Fed meeting of the year will take place, and the futures markets expect a 25 basis point rate cut, which would lower the Federal Funds Rate target range to 4.50% to 4.75%. The initial 50 basis point cut triggered significant market reactions and strengthened expectations for further drastic measures, as early signs of labor market weaknesses became apparent. However, these expectations have since cooled, and a cautious, gradual approach now seems most likely, supported by ongoing inflation risks and a more robust-than-expected labor market.

These adjusted expectations are particularly reflected in the 10-year U.S. Treasury yield, which has increased due to higher real interest rates and rising inflation expectations. The Fed is prepared to respond to further labor market softening but will not take rapid steps, as inflation risks and a strong economic performance make swift easing challenging. Therefore, we expect a 25 basis point cut in November and see a potential rate pause in December as likely.

In Europe, the disinflation process is intensifying while economic momentum remains weak. Discussions are underway on whether monetary measures are needed for stabilization and if rate cuts below the neutral rate are required. The bond market has already responded by pricing in accelerated rate cuts, with a significant likelihood of a 50 basis point reduction at the December meeting. We anticipate that the ECB will maintain its current pace and cut rates by 25 basis points at each of the next three meetings.

Trends in the 10-Year US Treasury Yield



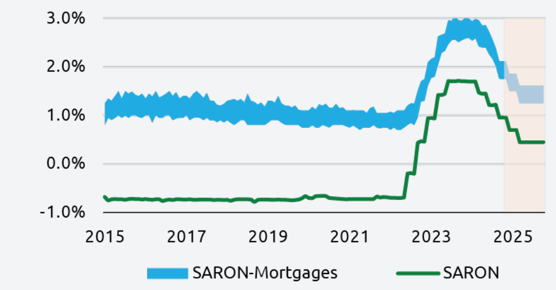
Source: Fred.

Mortgage interest rates

Fixed mortgage rates have slightly declined and currently range from 1.50% to 1.75%. SARON mortgages, depending on individual credit margins, range between 1.70% and 1.90%, with fixed mortgages still available at more favorable terms.

Fixed mortgage rates are heavily influenced by expectations of future rate cuts. In addition to the three rate reductions already implemented, nearly three more cuts have been priced into the markets. If macroeconomic conditions change such that more cuts are necessary, fixed mortgage rates could decline further. However, if the current assessment holds that these three cuts are sufficient, we may have reached the low point for fixed mortgage rates. In our view, the scope for additional reductions in fixed mortgage rates is actually largely exhausted.

SARON-Mortgages and Forecast



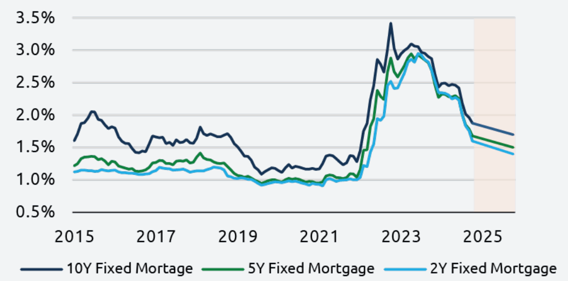
Source: SNB, smzh AG. The range of SARON mortgage rates covers half of all loan agreements. Forecast from November 2024.

Interest rate forecast in figures

	28.10.24	31.12.24	30.06.25	31.12.25	30.06.26
SARON	0.95	0.75	0.50	0.50	0.53
Swap 3 years	0.33	0.51	0.54	0.56	0.61
Swap 5 years	0.39	0.58	0.59	0.61	0.65
Swap 10 years	0.55	0.69	0.70	0.70	0.75

Source: Bloomberg, UBS Switzerland AG
Please note that stated interest rate is in part a forecast and the actual interest rate may be higher or lower.

Fixed-Rate Mortgages and Forecast



Source: smzh AG. The interest rates for fixed-rate mortgages are based on showcase rates from various providers. Forecast from November 2024.

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