



Assessment of the interest rate and mortgage market

Interest Rate Market

Despite the recent rate cuts, the market expects about three more rate hikes in the next four meetings. This expectation is leading to falling interest rates, particularly in the medium-term segment.

Monetary Policy

The risks of excessive disinflation and the continued upward pressure on the Swiss franc will very likely prompt the SNB to lower its key interest rate again in December.

Mortgage Rates

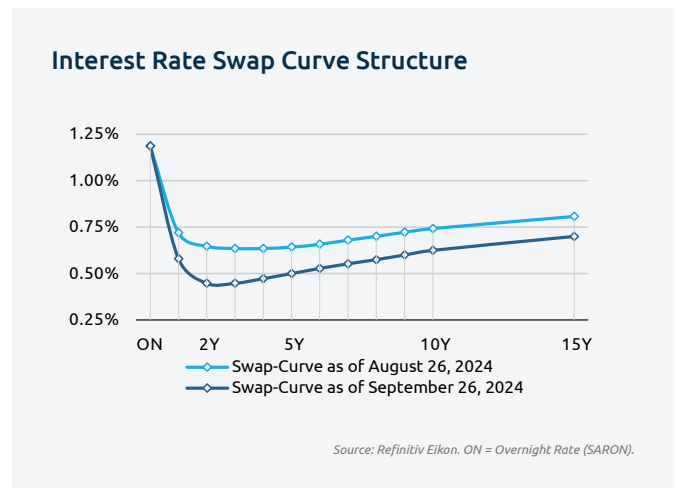
Fixed mortgage rates have continued to decline compared to the previous month. SARON mortgages have also become cheaper due to the recent interest rate decision.

Interest Rate Market

In its latest monetary policy assessment, the SNB lowered the key interest rate by 0.25% to 1.00%. Despite this move, the yield curve remains inverted, as the two-year swap rate has now fallen to 0.45% and the ten-year rate to 0.62%. The downward trend in market rates, which began in the weeks leading up to the rate cut, continues with this decision.

The market still sees room for further rate cuts from the SNB, as reflected in the low rates for short- and medium-term maturities. Rate cuts of 0.25% each are expected in December and March, with a substantial probability of another reduction in June.

Since the beginning of the year, the volatility of the yield curve has been largely driven by expectations of future rate decisions. However, the prospect of three additional rate cuts, on top of the three already implemented, seems ambitious. This suggests that the potential for a significant further downward shift in the yield curve may be limited.



Swiss monetary policy

The SNB was not influenced by the Fed's substantial 0.50% rate hike and instead opted for a more moderate 0.25% cut. At the same time, it significantly lowered its inflation forecast compared to its June outlook and indicated that further rate adjustments are likely in the coming quarters.

The SNB faces two key risks to price stability that necessitate additional rate cuts: increased disinflation and further appreciation of the Swiss franc. In August, year-over-year inflation stood at 1.06%, with around 75% of the increase attributed to rising rental prices. In contrast, easing price pressures are evident in most other sectors. With falling interest rates, a reduction in the mortgage reference rate becomes more likely, which could lower existing rents and intensify disinflationary effects. This disinflationary trend is expected to continue and potentially accelerate over the next 6 to 12 months, pushing inflation toward the 0% lower bound.

The SNB's current inflation forecast reflects these developments. Despite the lower key interest rate of 1.0%, the SNB now expects inflation could fall to 0.50% next year if the rate remains unchanged. Additionally, it no longer anticipates inflationary surges due to second-round effects. The biggest risk now lies in inflation dropping more than expected, potentially threatening price stability.

The strong franc further exacerbates this issue, as it continues to appreciate as a safe haven in the current economic climate. Further rate cuts could help maintain or even widen the interest rate differential with other currencies, thereby alleviating upward pressure on the franc.

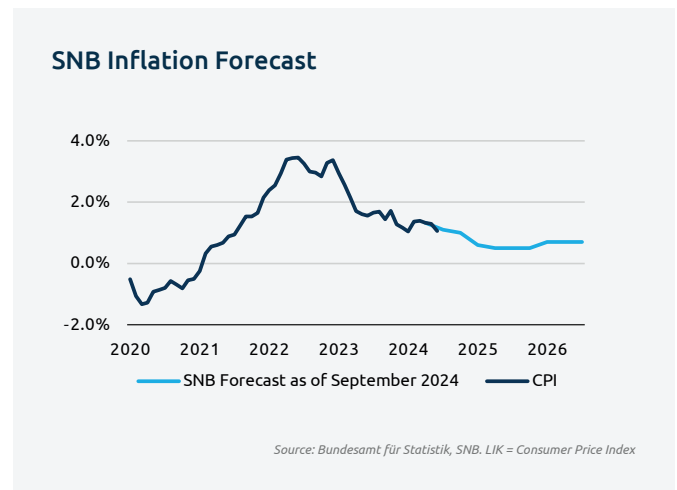
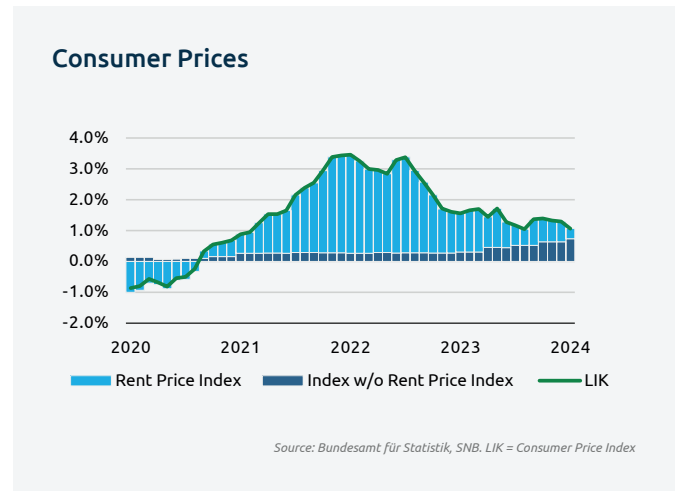
Thus, rate cuts are necessary to counter both the risk of excessively low inflation and the appreciation pressure on the franc. We expect further 0.25% cuts at both the December and March meetings.

Foreign monetary policy

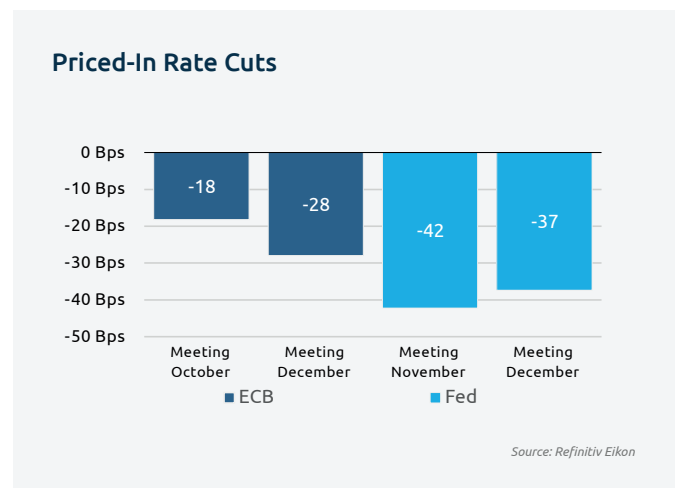
Jerome Powell surprised the markets with a substantial 0.50% cut. With this decision, the Fed is following through on its previous announcements and clearly signaling that it will not tolerate a weakening labor market.

In recent months, signs of an undesired weakening in the labor market have intensified: the unemployment rate has risen above 4.0%, employment growth has stagnated, and wage growth has slowed. At the same time, inflation is slowly moving in the desired direction, making the timing of the rate cut appear appropriate. However, upward risks to inflation remain, as economic activity is still high and could be reignited by the looser monetary policy. The pace of future rate cuts will largely depend on new labor market data. If the labor market recovers, further rate cuts will be less likely. However, if the weakening continues, more cuts can be expected. Currently, the market anticipates that the Fed will implement additional rate cuts totaling 75 basis points in the remaining meetings of the year.

For the ECB, markets are expecting rate adjustments totaling 0.50% by the end of the year. In the Eurozone,



inflationary pressures have eased more significantly than in the U.S., and upward risks are limited. This is primarily due to weaker economic growth and numerous economic and political challenges. While a loosening of monetary policy is welcomed, it is unlikely to be sufficient to address the underlying structural problems.



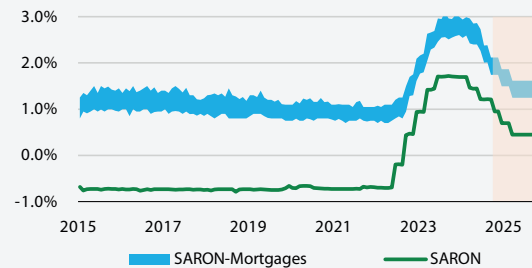
Mortgage interest rates

Fixed mortgage rates have continued to decline and are currently ranging between 1.60% and 1.80%. The costs for SARON mortgages have also become more favorable with the latest interest rate decision and are expected to fall within the range of 1.70% to 1.90%, depending on the individual credit margin. Fixed-rate mortgages can still be secured at better terms than SARON mortgages.

The rates for fixed-rate mortgages are heavily influenced by expectations of future rate cuts. Currently, in addition to the three rate cuts already implemented, the market is pricing in almost three more cuts. If the outlook shifts in the coming weeks to suggest that more than three cuts will be necessary, fixed mortgage rates could fall further. However, if the expectation stabilizes that these three cuts will suffice,

we may see the bottom for fixed mortgage rates. In our view, the potential for lower fixed mortgage rates is largely exhausted.

SARON-Mortgages and Forecast



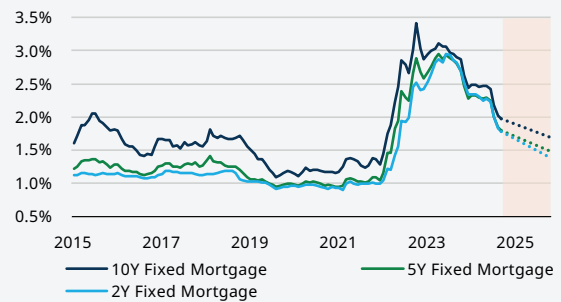
Source: SNB, smzh ag. The range of SARON mortgage rates covers half of all loan agreements. Forecast from October 2024.

Interest rate forecast in figures

	30.09.24	31.12.24	30.06.25	31.12.25	30.06.26
SARON	1.00	0.75	0.50	0.50	0.54
Swap 3 years	0.51	0.56	0.57	0.59	0.65
Swap 5 years	0.54	0.62	0.62	0.63	0.68
Swap 10 years	0.66	0.70	0.70	0.71	0.76
Swap 15 years	0.73	0.77	0.77	0.78	0.83

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 October 2024.

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smzh ag
Tödistrasse 53, CH-8002 Zürich
+41 43 355 44 55
contact@smzh.ch
www.smzh.ch

