Assessment of the interest rate and mortgage market

Interest Rate Market
Despite the rise in the inflation rate in April, the interest rate market remains stable.

Monetary Policy
Another key interest rate cut of 0.25% in June has become less likely.

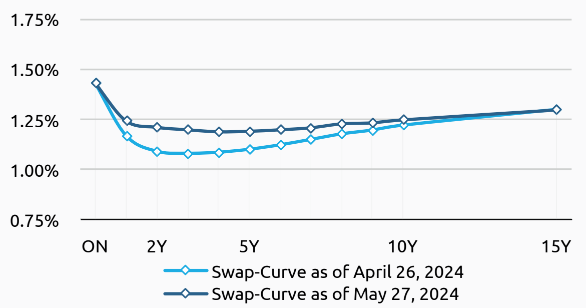
Mortgage Rates
The rates for fixed-rate mortgages are unchanged compared to the previous month.

Interest Rate Market

The inflation data for April did not trigger significant reactions in the interest rate market. However, the increased rates in the medium-term segment suggest that the pace of rate cuts may be slower than originally expected. Until now, two more rate cuts had been priced in by the end of the year. The market now reflects the assessment that persistent inflation, a weaker Swiss franc, and positive, though below-average, economic growth will not prompt the SNB to lower rates significantly. Therefore, the likelihood that the key interest rate will be at 1.00% by the end of the year is decreasing.

Long-term market rates are well-anchored at their current level and are expected to remain stable. Significant volatility is not anticipated in the near future.

Interest Rate Swap Curve Structure



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

Swiss Monetary Policy

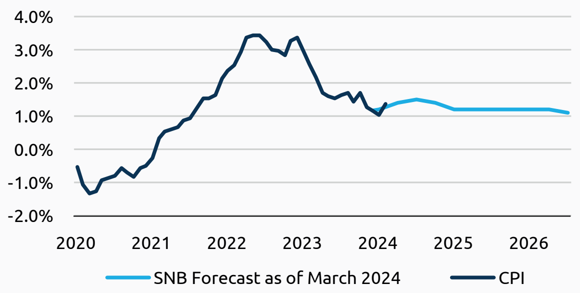
The downward trend in inflation observed since the beginning of the year was interrupted by the latest data for April. The basket of goods used to calculate consumer prices has become 0.32% more expensive compared to the previous month, mainly due to the rising prices of imported goods and services. This is plausible, as the Swiss franc has been continuously losing value against the euro and the US dollar since the beginning of the year.

The SNB has long expected that inflation could gain some momentum. The targeted weakening of the domestic currency is presumably the main reason for this assumption. With the increase in the inflation rate from 1.04% to 1.37%, these expectations now appear to be materializing. The SNB expects the strongest increase in the third quarter, which will, however, remain well below the target range of 2.00%. Accordingly, there is currently no cause for concern. However, if the inflation rate exceeds the SNB's forecasts, the SNB is unlikely to implement further key interest rate cuts.

The new statistics from SECO, which now allow for a preliminary estimate 45 days (60 days for the final data) after the end of a quarter, indicate that real GDP in Switzerland grew by 0.20% in the first quarter of this year. The positive, though below-average growth relieves the SNB of the pressure to lower key interest rates for economic reasons.

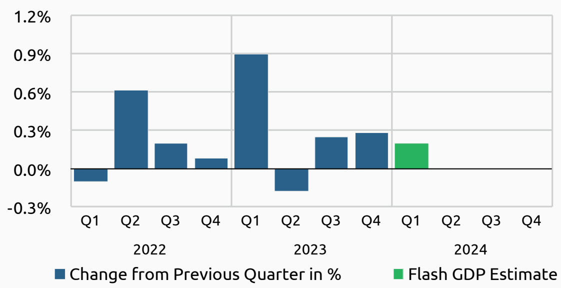
Therefore, a key interest rate cut in June is no longer priced in as confidently by the market as in the previous month. However, we still expect the SNB to cut rates by another 0.25% in June.

SNB Inflation Forecast



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

GDP Growth Switzerland



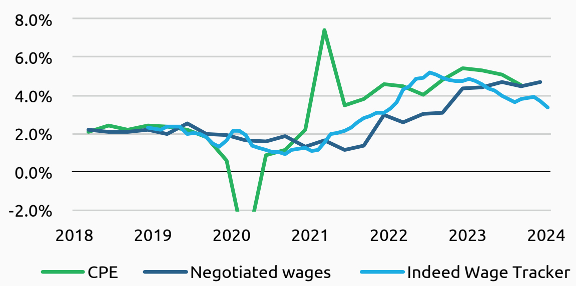
Source: SECO

Foreign Monetary Policy

In the USA, the market situation eased after inflation met expectations following four unexpectedly high increases. This did not necessarily make interest rate cuts more likely, but discussions about rate hikes lost significance. Inflation remains stubborn, driven by rising housing costs and producer prices. Without a significant economic downturn, both inflation and interest rates will only decrease very slowly, which is why it is expected that the Fed will not implement a rate cut before the summer break.

In contrast, the ECB is likely to start cutting rates in June. The economic recovery in the euro area has been weak so far and could gain the necessary momentum from monetary easing. However, high wage growth in the euro area poses a problem from an inflation perspective. Data released on Thursday on negotiated wages for the first quarter of this year show an increase. If wage growth remains high, it will be more difficult for the ECB to continue with further rate cuts.

Wage Growth in the Eurozone



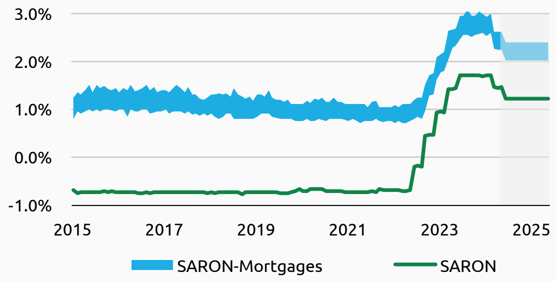
Source: ECB Data Portal, GitHub, Indeed

Mortgage Rates

Mortgage rates remain stable and unchanged compared to the previous month. The difference between SARON mortgages and fixed-rate mortgages is minimal and may disappear after a possible rate cut in June. The interest rate for SARON mortgages ranges between 2.20% and 2.50% depending on the individual credit margin.

Given the macroeconomic conditions, we expect fixed-rate mortgages to remain unchanged for the time being and only become cheaper again towards the end of the year or early 2025. Currently, fixed-rate mortgages with a two-year term offer the most favorable conditions. They provide the opportunity to benefit from already priced-in rate cuts while eliminating the risk of interest rate changes during the term. After the term expires, the situation can be reviewed and reassessed.

SARON-Mortgages and Forecast



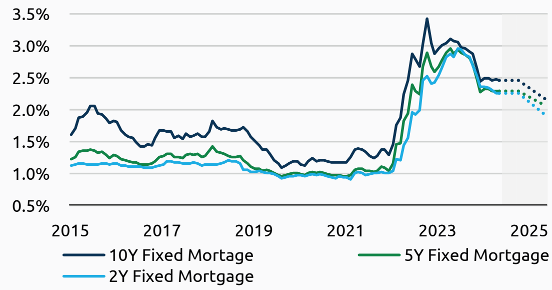
Source: SNB, smzh AG. The range of SARON mortgage rates covers half of all loan agreements. Forecast from May 2024

Interest rate forecast in figures

	19.04.24	30.06.24	31.12.24	30.06.25	31.12.25
SARON	1.45	1.25	1.00	1.00	1.02
Swap 3 years	1.10	1.06	0.88	0.87	0.93
Swap 5 years	1.13	1.09	0.97	0.95	1.01
Swap 10 years	1.25	1.20	1.11	1.09	1.15
Swap 15 years	1.33	1.29	1.20	1.17	1.24

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: The interest rates for fixed-rate mortgages are based on showcase rates from various providers. Forecast from May 2024

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