Assessment of the interest rate and mortgage market

Interest Rate Market
Despite low inflation figures in January, volatility in the Swiss interest rate markets remained high. In recent days, however, Swiss interest rates have slightly declined, driven by increasing global macroeconomic risks.

Monetary Policy
In the upcoming March meeting, another rate cut by the SNB from 0.50% to 0.25% is expected. However, there remains a possibility that the SNB might pause its easing cycle.

Mortgage Rates
Mortgage rates have been higher since the beginning of the year but are expected to correct slightly downward in the coming weeks.

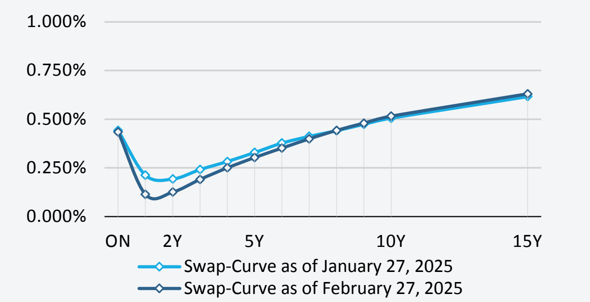
Interest Rate Market

The yield curve remains largely unchanged compared to the previous month, except for the mid-segment, which has once again declined slightly. The rise in long-term interest rates over the past two weeks has stabilized, with higher rates correcting downward for the time being.

The lower rates in the mid-segment reflect a renewed expectation that the SNB might loosen its monetary policy more aggressively. Currently, just under two rate cuts are priced in for this year, with a reduction from 0.50% to 0.25% at the March meeting almost fully anticipated.

Following another SNB rate cut in March, the yield curve could already take on a consistently upward-sloping trajectory.

Interest Rate Swap Curve Structure



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

Swiss monetary policy

The latest inflation data for the first month of this year show a new low, with an inflation rate of 0.40% compared to the same month last year. Despite the ongoing decline, this development aligns with the SNB's inflation forecast and is therefore not surprising.

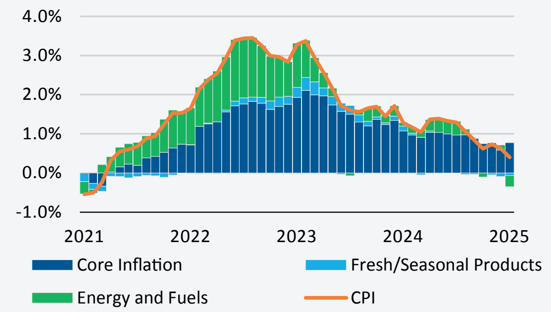
Notably, core inflation – which excludes volatile components such as energy, fuel, and fresh or seasonal products – has increased year-over-year compared to the previous month. However, this is primarily due to base effects, as core inflation actually declined month-over-month, meaning prices have fallen.

Switzerland's quarterly real GDP grew by 0.5% in Q4 2024, resulting in an annual growth rate of 0.9% for the year, compared to 1.2% in 2023. Despite this slowdown, the performance remains remarkably strong compared to European neighbors, particularly Germany, underscoring Switzerland's economic resilience.

The SNB will determine and communicate its next monetary policy decision on March 20. Although headline inflation (CPI) is approaching 0% and could even turn negative in upcoming data releases, SNB officials have recently emphasized that a temporary negative inflation rate is not concerning as long as medium-term inflation remains within the 0–2% target range.

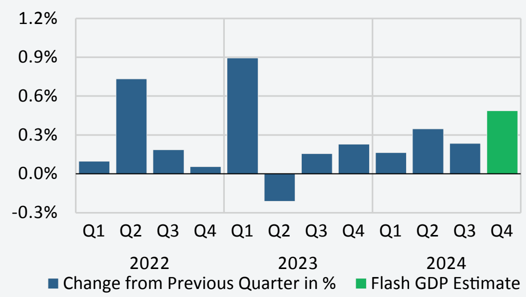
Given this, a surprise rate pause cannot be ruled out, as the SNB may choose to preserve its flexibility for future rate cuts. On the other hand, the Swiss franc remains in high demand as a safe-haven currency amid global economic uncertainty, and deflation risks could be underestimated. Against this backdrop, we consider a further rate cut to 0.25% in March to be the most likely scenario, though the decision is expected to be a close call.

Inflation Trend



Source: Federal Statistical Office, CPI = Consumer Price Index.

Swiss GDP



Source: Federal Statistical Office, SECO

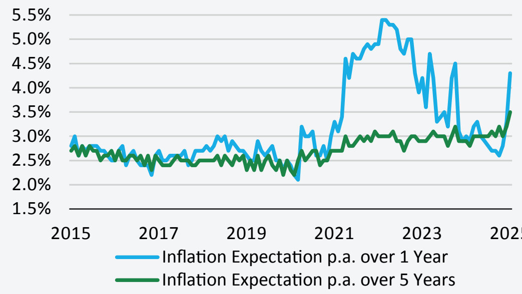
Foreign monetary policy

On March 6, the ECB will determine its monetary policy stance, with a broad consensus expecting another 0.25% rate cut.

Attention is increasingly shifting to the question of when the rate-cutting cycle will pause and further easing will be temporarily halted. The disinflation process in the euro area has slowed, and while initial signs of wage growth moderation are emerging, wage growth levels remain elevated, posing a risk of persistent inflationary pressure in the services sector. As a result, the ECB is likely to adjust its tone in the coming meetings and signal a pause in rate cuts by summer. Until then, up to two more rate reductions following the March meeting remain likely.

In contrast, inflation concerns in the U.S. are rising, as reflected in consumer sentiment surveys from the University of Michigan. Tariffs imposed and threatened by Trump have pushed short-term inflation expectations higher, potentially prompting tighter Fed policies. However, market-based inflation indicators do not yet signal an uncontrollable surge, despite a slight uptick from the previous month. Consequently, the Fed is expected to maintain its wait-and-see stance until inflation dynamics stabilize.

Inflation Expectations based on survey data in the USA



Source: University of Michigan, Refinitiv Eikon

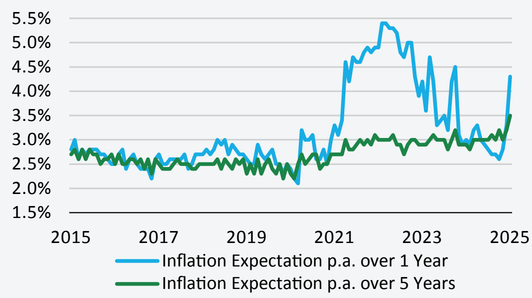
Mortgage interest rates

Fixed-rate mortgage rates have reached their highest level since the beginning of the year, currently ranging between 1.40% and 1.90%. SARON-based mortgages, depending on the individual credit margin, are between 1.20% and 1.40%, making them cheaper than most fixed-rate mortgages.

If the SNB lowers its key interest rate in the March meeting, SARON-based mortgages could become even more affordable. The past two months have been characterized by macroeconomic-driven volatility, which could persist. However, in the medium term, we expect a calming of volatility and a slight decline in mortgage rates, though the overall room for further reductions is limited.

As a result, the current period might present a good opportunity to lock in a fixed-rate mortgage.

SARON-Mortgages and Forecast



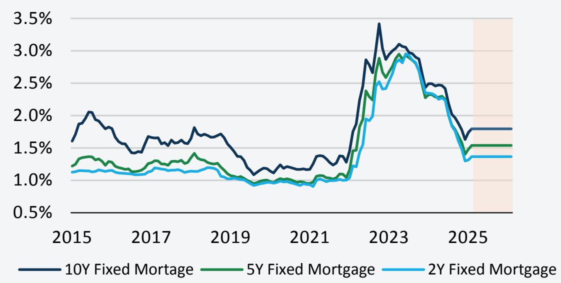
Source: SNB, smzh ag. The range of SARON mortgage rates covers half of all loan agreements. Forecast from March 2025.

Interest rate forecast in figures

	27.02.25	30.06.25	31.12.25	30.06.26	31.12.26
SARON	0.45	0.25	0.25	0.26	0.32
Swap 3 years	0.18	0.13	0.12	0.14	0.24
Swap 5 years	0.29	0.21	0.22	0.24	0.33
Swap 10 years	0.50	0.34	0.36	0.39	0.48

Source: Bloomberg, UBS Switzerland AG
Please note that the 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 March 2025.

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