

Mortgage Radar

Your monthly guide for residential and investment property financing

“Geopolitical risks are becoming apparent on the Swiss rates market in interest rate volatility and growing interest-rate expectations. This increases pressure on mortgage holders to switch to a fixed-rate mortgage. Yet such decisions should always be taken as part of a holistic financial analysis. The current environment also requires investors to optimize their short-term financing structure.”

Fredi Pfammatter, Head of Corporate Clients & Mortgages

SNB holds policy rate steady at 0.00%

The geopolitical situation has escalated significantly following the US and Israeli military strikes against Iran at the end of February. The economic consequences of this war remain difficult to assess, and the further development is marked by substantial uncertainty. With the blockade of the Strait of Hormuz, inflation risks have once again come into sharper focus. Nevertheless, at its March 19 meeting, the Swiss National Bank (SNB) saw no reason to raise interest rates. The SNB adjusted its inflation forecast slightly upward and reaffirmed its willingness to intervene in the foreign exchange market if necessary.

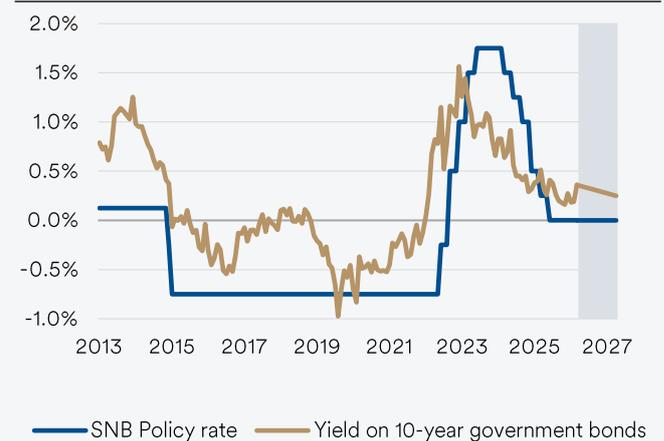
The longer the conflict persists, the greater inflation concerns are likely to become. Immediate intervention through the key interest rate appears premature under these circumstances and risks unnecessarily burdening economic developments without effectively addressing the underlying causes. With current inflation near zero, there is sufficient leeway from a price stability perspective to respond to any potential acceleration in inflation. **Consequently, we expect the SNB to maintain a wait-and-see approach for now and monitor developments.**

Mortgage rates and home financing

Interest rates for fixed-rate mortgages are higher compared to the previous month. At present, ten-year mortgages can be secured at rates ranging from 1.70% to 2.10%, depending on the provider. SARON mortgages remain the most cost-effective option, with rates around 0.90% to 1.20%, while fixed-rate mortgages with maturities of two to five years currently fall between 1.30% and 1.60%.

Interest rate for 10-year bonds continues its trend

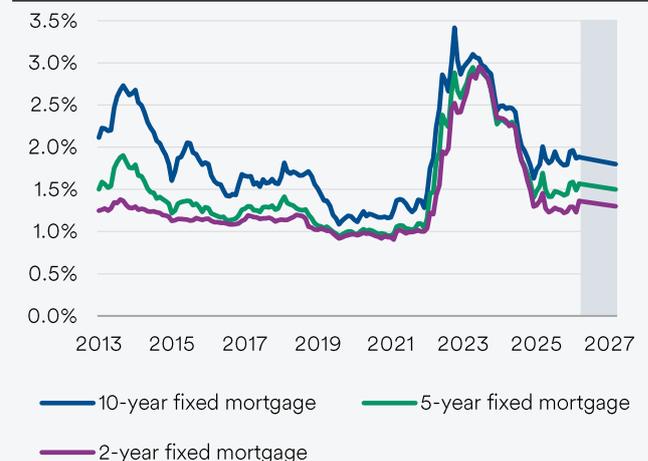
Key Swiss interest rates and forecast



Source: SNB, smzh ag.

Fixed rates currently volatile and higher than last month

Interest rates for fixed-rate mortgages and forecast



Source: smzh ag. Average values based on indicative rates.

Rates volatility: Does it make sense to switch to a fixed-rate mortgage?

What sounded like negative interest rates just a few weeks ago has shifted: First calls for the SNB to hike rates by year-end are emerging. For many mortgage holders with SARON financing, this raises the question of whether they should act now before rates rise again, as experienced in 2022/2023. While this concern is understandable, it is often too simplistic in many cases.

A rational assessment is crucial: If the key interest rate remains at its current level over the next ten years, a SARON mortgage would be about 0.50 percentage points cheaper per year compared to a ten-year fixed-rate mortgage under current market conditions. The key interest rate would need to average roughly 0.50% over the entire term for both options to be cost-neutral, and significantly higher for a fixed-rate mortgage to become financially advantageous. While it is not impossible for the key rate to reach such a level in the next ten years, it does appear unlikely at the moment given long-term macroeconomic factors.

The decision is not only a question of interest rates, but also a matter of personal circumstances. For those who value predictability over maximum cost efficiency, a fixed-rate mortgage can make sense. **Whether and when a switch is worthwhile depends on the individual situation and should be evaluated as part of a comprehensive financial analysis.**

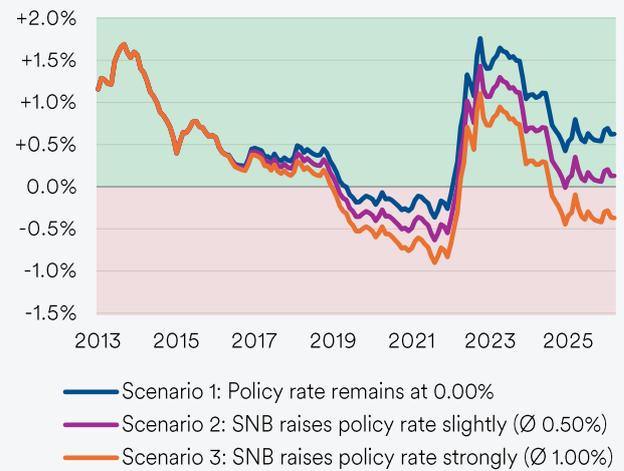
Key for investors: optimizing short-term financing

Swap rates have risen across the entire yield curve since the outbreak of the Iran conflict, with particularly notable increases in shorter maturities. Previously, rate cuts were priced in more aggressively than what was actually realized, and this normalized over the past year. Current market conditions now reflect expectations of up to two interest rate hikes by year-end.

This is crucial for investors who manage their debt financing through fixed advances with regular rollovers. When there is no strong expectation regarding interest rates, the choice of maturity becomes less significant. In such cases, longer maturities are often more efficient as they reduce operational effort. However, at present, longer maturities also incorporate risk premiums for anticipated rate hikes. Those who believe these hikes will not materialize can deliberately avoid costs by opting for shorter maturities. **A financing analysis can demonstrate how adjusting short-term financing structures can generate cost savings with minimal effort.**

SARON for the price, fixed rate for peace of mind

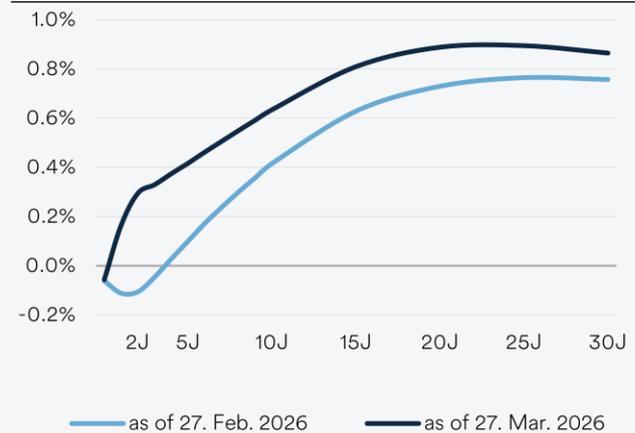
Annual savings SARON vs. 10-year fixed-rate mortgage over 10 years



Source: SNB, smzh ag. Above 0: savings with SARON mortgage. Below 0: savings with 10-year fixed-rate mortgage.

Swap curve has moved higher since outbreak of war

Swap curve compared to previous months



Source: Bloomberg, smzh ag.

Short-term swap rate increases differ in steepness

SARON rate and swap rates for less than one year



Source: Bloomberg, smzh ag.

Do you have any questions about real estate or mortgages? Contact our experts



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