



Assessment of the interest rate and mortgage market

Interest Rate Market:

With the recent policy rate cut, the yield curve has almost fully normalized. Amid geopolitical tensions in the Middle East, interest rates have risen slightly in recent weeks. However, the curve is expected to trend slightly downward again in the coming weeks.

Monetary Policy:

The economic outlook has continued to deteriorate slightly, both globally and in Switzerland. We expect weaker growth and a softening labor market. If risks were to intensify further and deflation to gain further traction, the SNB could take the next step in September: a return to negative interest rates.

Mortgage Rates:

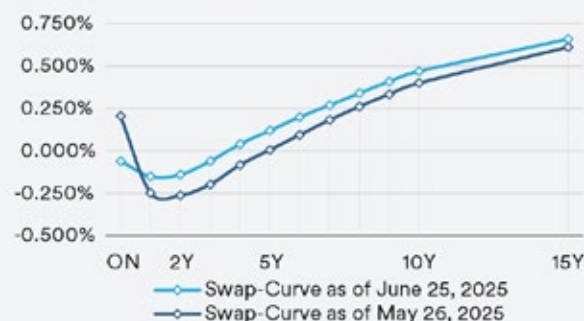
SARON mortgages have bottomed out. Any additional rate cuts would no longer ease the burden for borrowers, as a negative SARON is not passed on. Fixed-rate mortgages are currently attractive across all maturities, but there is little room for further decline. Only long-term rates are expected to ease slightly.

Interest Rate Market

For now, the SNB is refraining from returning to negative interest rates, instead cutting the policy rate to 0.00%. As a result, the SARON now stands at -0.05%, falling below zero for the first time in nearly three years. The swap curve has almost fully normalized, once again sloping upwards with increasing maturity.

Compared to the previous month, the entire curve is slightly higher. This is likely due to geopolitical risk premia: the conflict between Iran and Israel temporarily raised concerns that rising oil prices could rekindle global inflation risks. Since this scenario has not materialized and tensions have eased recently, there is good reason to expect the curve to flatten again in the coming weeks, with slightly lower swap rates across all maturities.

Interest Rate Swap Curve Structure



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

Swiss monetary policy

This time, the SNB avoided any unpleasant surprises and, as we expected, cut the policy rate from 0.25% to 0.00%. From the current perspective, it is still too early for a return to negative interest rates. At the same time, the inflation forecast was revised downward: despite the lower policy rate, expected inflation is now below the March projection across all time horizons—though still in positive territory. This is noteworthy, given that consumer prices in May were already at -0.10% year-on-year.

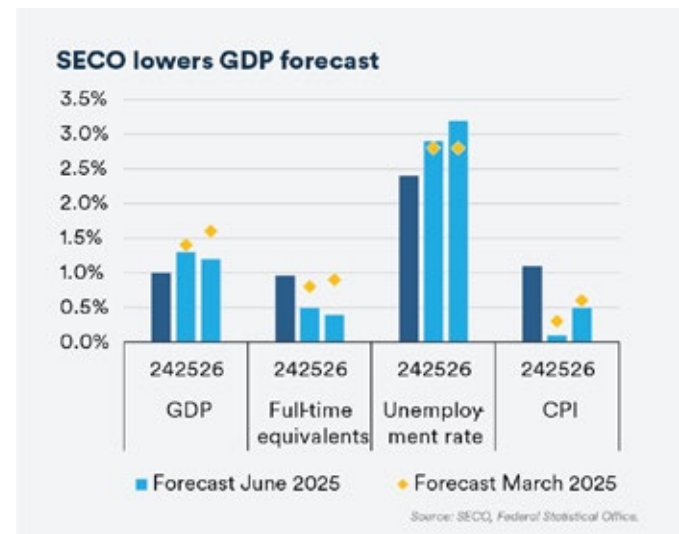
A key driver of this decision is the increasingly uncertain economic outlook. SECO expects weaker GDP growth in the coming years than previously assumed. The labor market is also expected to lose momentum, with lower employment growth

and a slightly rising unemployment rate. In this environment, inflationary pressures are likely to ease further—not only due to cooling economic activity but also because of the strong Swiss franc, which is trading at a multi-year high against the US dollar and remains stable against the euro. Inflation expectations have declined accordingly.

At the same time, the domestic economy remains resilient. Switzerland is still far from stagnation or recession. Nonetheless, it is unlikely to remain fully insulated from the global slowdown. The franc continues to face appreciation pressure, driven by geopolitical tensions, economic risks, and growing fiscal uncertainty, particularly in the US.

If deflation trends continue in Switzerland, another rate cut in September might come into focus. Clear signals for such a move would include persistently negative inflation rates over the coming months, combined with a further weakening of the global

economy. Currently, the market is pricing in a probability of less than 30% for another rate cut in September.

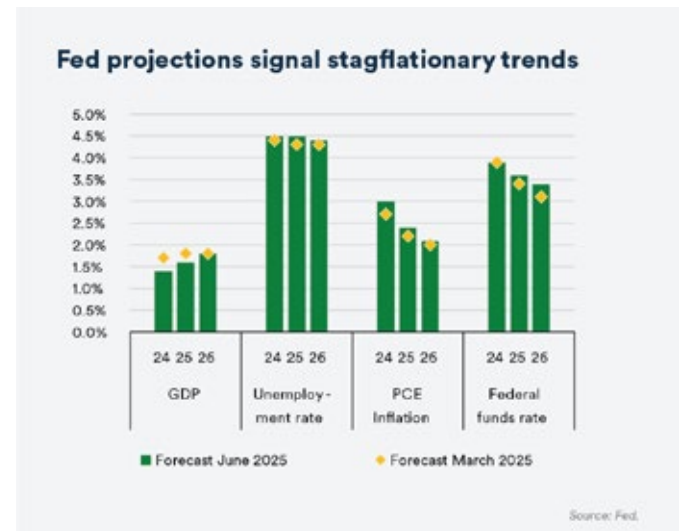


Foreign monetary policy

As expected, the US Fed kept its policy rate unchanged following the June meeting. Uncertainty about the economic outlook remains high, which is reflected in the Fed's updated projections: the new median shows slightly lower GDP growth, a weaker labor market, and slightly higher inflation. This combination reinforces risks of a stagflationary scenario. Nevertheless, the Fed still projects two rate cuts by year-end, while markets are currently pricing in nearly three.

Several studies and surveys suggest that the new import tariffs will have an inflationary effect. The extent of this impact remains unclear, as it has not yet appeared in the current inflation data. The coming months should provide more clarity. As long as these "dark clouds" over price stability persist, the Fed is likely to remain cautious—especially if the labor market holds up.

While the US labor market remains resilient, signs of a slowdown are increasing. If this weakness starts showing up in hard data over the next few weeks, a first rate cut could come as early as the July meeting. The market currently assigns a probability of around 20% to that outcome. As of now, a cut in September appears more likely. Market pricing implies nearly a 70% chance that the policy rate will be lowered to a range of 4.00% to 4.25%. Two developments would be decisive: moderate inflation and a noticeable weakening in the labor market. If, however, tariff-driven price pressures prove stronger and the labor market remains firm, the pause could be extended.



Mortgage interest rates

Following the latest policy rate cut by the SNB, SARON mortgages have reached their bottom. At a policy rate of 0.00%, the SARON is already slightly negative. However, due to contractual floors, a negative value is not passed on to borrowers. More favorable conditions are now only possible through individual margin adjustments. Whether or not the SNB lowers the policy rate into negative territory is largely irrelevant for SARON mortgages and offers no immediate additional relief.

Fixed-rate mortgages are currently attractive across all maturities. Underlying market rates are close to zero or even slightly below. Accordingly, the potential for further declines in mortgage rates is limited. For the ten-year term, we expect slightly lower rates over the next twelve months. However, this may come with some volatility.

SARON-mortgages and forecast



Source: SNB, smzh ag. The range of SARON mortgage rates covers half of all loan agreements. Forecast from July 2023.

Interest rate forecast in figures

	31.12.25	30.06.26	31.12.26	31.12.26
SARON	0.00	0.00	0.02	0.13
Swap 3 years	0.03	0.04	0.08	0.20
Swap 5 years	0.21	0.22	0.25	0.35
Swap 10 years	0.59	0.59	0.61	0.69

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 advertised rates from various providers. Forecast from July 2023.



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