



Assessment of the interest rate and mortgage market

Interest Rate Market:

The yield curve continues to decline further into negative territory, especially in the medium-term segment. A slight downward movement is also visible at the long end. The market increasingly expects a persistently loose monetary policy, with policy rates potentially remaining in negative territory for longer.

Monetary Policy:

In an environment of a weak US dollar, foreign exchange interventions are costly and inefficient for the SNB. It therefore continues to rely on the policy rate as its central tool. A cut to 0% is considered the most likely step. A reduction by -0.50% would be excessive in the current environment.

Mortgage Rates:

Mortgage rates have slightly declined, while interest rates for ten-year fixed mortgages have remained largely unchanged. With the anticipated rate cut in June, SARON-based mortgages are expected to become cheaper one last time. For short and medium-term maturities, the downside potential is exhausted. However, at the long end, there is still some room for lower rates over the next twelve months.

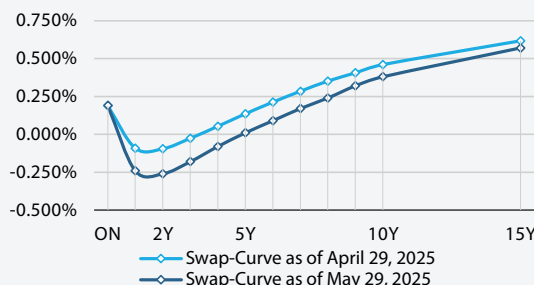
Interest Rate Market

The SNB's second monetary policy decision of the year is approaching – and with it, the dynamics of negative interest rates along the yield curve are intensifying, especially in the medium-term segment. Just a few weeks ago, the market drew a binary distinction between negative and zero interest rates. Now, only the extent of the rate cut remains open. The question is no longer if, but how far the SNB will go.

Short-term swap rates clearly point to a policy rate cut to -0.25% in September, with a growing likelihood of further steps down to -0.50% by year-end. The long end of the curve is also moving – albeit hesitantly – closer to zero. The market increasingly assumes that loose monetary policy may not be just temporary, but of a more structural nature.

For the June 19 meeting, the market is implicitly pricing in around 0.30% of movement. At the same time, market participants are increasingly hedging against a surprisingly strong SNB response – such as a half-percentage-point cut.

Interest Rate Swap Curve Structure



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

Swiss monetary policy

While central banks around the world are grappling with persistently high long-term interest rates—driven by rising debt, ongoing inflationary pressures, and geopolitical uncertainty—a contrasting picture is emerging in Switzerland. Here, not only short-term but increasingly also long-term interest rates are falling, a clear sign that the domestic interest rate environment is decoupling from global trends. Switzerland is becoming more and more of a monetary policy outlier in the global context.

For the SNB's meeting on June 19, a return to negative interest rates is coming into focus, although we believe such a decisive move would be premature at this stage. In the market, the question is no longer if but when—and much points to

September being more likely than June.

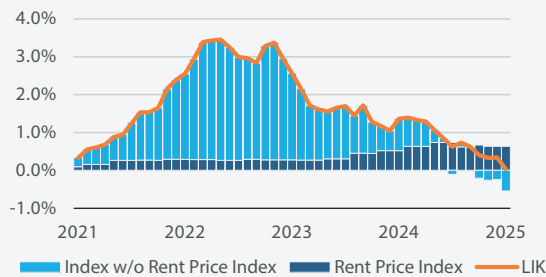
Adjusted for housing rents, inflation already stands at -0.54% , suggesting an environment where prices are no longer rising but increasingly falling. While the SNB emphasizes that it focuses on medium-term price developments rather than short-term fluctuations, the persistent weakness in inflation is hard to ignore. The SNB's room for maneuver is increasingly limited to the policy rate, as large-scale currency interventions offer little scope in light of the current weakness of the US dollar.

Whether the SNB will repeat its sharp 0.50% rate cut from December 2024 remains uncertain. Given the erratic and

unpredictable trade policy under the Trump administration, such an aggressive move would be premature and could send misleading signals to markets. Moreover, domestic economic activity has so far remained stable: preliminary GDP data for Q1 surprised to the upside, and in 2024, wages have risen in real terms for the first time in three years—a key signal for consumption.

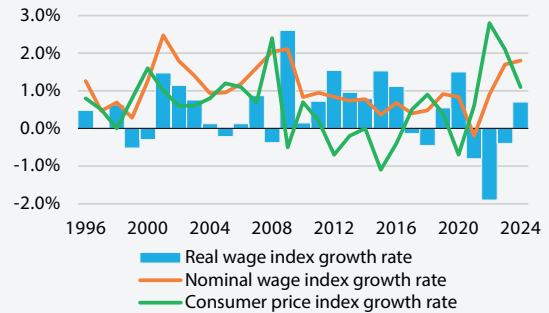
Against this backdrop, we expect the SNB to make another, but moderate, 0.25% rate cut in June—showing a willingness to tolerate temporarily negative inflation rates, and with the expectation that another easing step in September is likely to follow.

Inflation trend



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

Trends in nominal wages, consumer prices and real wages



Source: Federal Statistical Office.

Foreign monetary policy

Just as Trump's tariff offensive against China has eased, he is now turning his attention to Europe—threatening tariffs of up to 50%, which he is keeping in reserve as a bargaining tool. At the same time, the legal basis for his global tariff policy is weakening: courts have ruled it unconstitutional, arguing that President Trump overstepped his authority. While an appeals court has temporarily upheld the tariffs, they are still considered unconstitutional. The tariff chaos is thus entering a new phase.

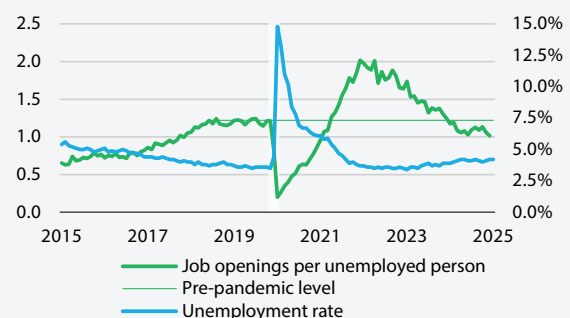
From a monetary policy perspective, there are also growing arguments for caution. The Fed is likely to maintain its wait-and-see stance at the upcoming June 18 meeting. The labor market remains solid, though job openings have slightly declined. The slightly negative GDP growth in Q1 was likely distorted by front-loaded imports ahead of anticipated tariff hikes, which worsened the trade balance. Domestic demand, measured by private final demand components, remained stable. Nevertheless, growing uncertainty is becoming evident, especially in corporate behavior. Companies are holding back not only on hiring but also on investment. A gradual slowdown in labor and economic momentum seems plausible. As long as these uncertainties persist, even a rate cut would likely have limited impact.

The inflationary effects of tariff policy remain unclear. Many companies plan to pass on at least part—and in some cases all—of the additional costs to consumers. The general willingness to raise prices has increased, given the recent high-inflation environment. Even firms not directly affected by tariffs may take the opportunity to increase prices and margins, potentially triggering another dynamic price spiral similar to the post-pandemic period. From the Fed's perspective, these developments represent risks that could hinder a sustained return to price stability. Against this backdrop, a cautious approach by the Fed remains appropriate.

The ECB is expected to announce another 0.25% rate cut on June 6. However, even here, questions arise as to whether monetary easing will have much effect in the current climate—where many economic agents are waiting for clarity—and

whether such measures might be more effective if postponed. Inflation remains slightly above the ECB's target, and the economy could generally benefit from a more expansionary stance, even if it cannot resolve underlying structural issues.

US labour market



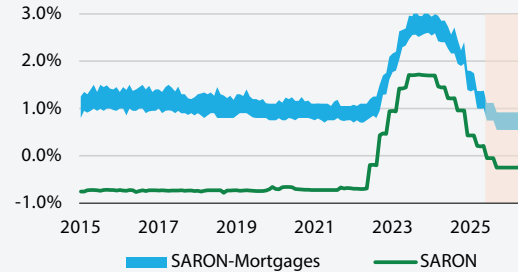
Source: FRED. The white area marks the recession period during the pandemic.

Mortgage interest rates

Since the last assessment, the interest rate environment has changed only slightly. Mortgage rates have declined further, particularly for short- and medium-term maturities. Ten-year fixed-rate mortgages have remained largely stable. With the expected policy rate cut, the SARON is likely to fall once more, exhausting its remaining downside potential. For SARON mortgage holders, further rate cuts are therefore unlikely to provide additional relief.

Fixed-rate mortgages with maturities of two to five years remain particularly attractive. Low market rates currently allow for favorable conditions, depending on the credit margin, to hedge against interest rate risk. Ten-year terms are also appealing at present, even though we see further downside potential. We expect a moderate decline over the coming months, though accompanied by some volatility.

SARON-mortgages and forecast



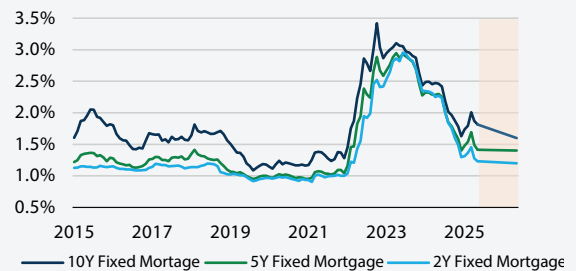
Source: SNB, smzh ag. The range of SARON mortgage rates covers half of all loan agreements. Forecast from June 2025.

Interest rate forecast in figures

	19.05.25	30.06.25	31.12.25	30.06.26	31.12.26
SARON	0.21	0.00	0.00	0.00	0.04
Swap 3 years	-0.11	0.02	0.05	0.06	0.10
Swap 5 years	0.07	0.20	0.22	0.23	0.27
Swap 10 years	0.42	0.51	0.56	0.57	0.61

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 June 2025.



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