Zuger Kantonalbank

Rates and bonds

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The conflict in Iran continues to weigh on markets, with oil prices once again approaching USD 100 per barrel and inflation concerns coming back into focus. After the broad-based decline in yields seen in June, capital market rates in Switzerland and Europe moved significantly higher in July. We look back at developments on interest rate and bond markets in July, as well as provide an outlook on market expectations for the months ahead.

Swiss bond market

Issuance activity remained seasonally subdued in July, with only a handful of new bonds coming to market. Alongside a small number of issuances from cantonal and international banks, NJJ Continental S.A. (BB–/BB+), the parent company of Swiss telecommunications provider Salt Mobile, took advantage of the summer lull to issue a high-yield bond, a relatively rare occurrence in the Swiss bond market.

Meanwhile the situation seems to be improving for Spital Wetzikon, whose bond has suffered payment arrears for almost two years: Not only have the shareholder municipalities agreed CHF 50 million in financing, but rumours now suggest a takeover bid from Aevis Victoria is in the offing. In a surprise move, Thurmed – the umbrella organisation for hospitals in Thurgau – also expressed its desire to take a stake in Spital Wetzikon. This paves the way for the creditors to negotiate a solution by December as part of the debt restructuring proceedings and reduce the losses through a haircut. Based on the improved outlook, Spital Wetzikon's outstanding bond rallied sharply in July: From just 38% in June, prices of nearly 50% were being paid.

SNB: Rate move unlikely this year

There was no policy decision by the Swiss National Bank (SNB) in July. The latest inflation data for June showed that consumer prices remained unchanged month-on-month, supported by stable and, in some cases, declining energy prices. On a year-on-year basis, inflation eased slightly to 0.5% from 0.6% in the previous month. Following a temporary, energy-driven uptick, inflation has therefore stabilized at a low level.

"The conflict in Iran has still not been resolved. If energy prices remain high for longer, core inflation is likely to rise too."

Joel Gubser
Investment Advisor

Looking ahead, however, a renewed acceleration cannot be ruled out given the recent escalation of the conflict in Iran and the associated disruption of shipping through the Strait of Hormuz. Nevertheless, we do not expect the SNB to face any pressure to raise rates at its next policy meeting in September. At the same time, capital market yields are unlikely to revisit their June lows unless the conflict sees a lasting resolution.

Although the latest Purchasing Managers' Index (PMI) data showed a decline in sentiment, the indicator remains comfortably above the threshold that signals economic expansion. At the same time, the KOF Economic Barometer rose significantly, supported primarily by improvements in the manufacturing, construction, and financial sectors. Indicators related to consumption and exports, meanwhile, remained broadly stable. As a result, the barometer has returned to its pre-Iran conflict level and currently stands at its highest reading since August 2024.

Europe: ECB still on hold and keeping its cards close to its chest

The European Central Bank (ECB) left interest rates unchanged in July and offered little guidance regarding its next policy decision in September, reiterating its meeting-by-meeting, data-dependent approach. ECB officials repeatedly emphasized the exceptionally high degree of uncertainty and stressed the importance of upcoming inflation data. Preventing inflationary pressures from feeding through into the broader economy via second-round effects remains the central bank's primary objective. Should such effects materialize and lead to a renewed increase in core inflation, further rate hikes are likely to be back on the agenda.

Overview of current key interest rates

Country	Key interest rate	Last changed
Switzerland	0.00%	19.06.2025 (–0.25%)
Eurozone	2.25%	11.06.2026 (+0.25%)
US	3.50–3.75%	11.12.2025 (–0.25%)

Data as of 31 July 2026

Source: Zuger Kantonalbank

Despite June's sharp rise in oil prices, economists' inflation expectations fell remarkably. Annual inflation expectations declined from 3.5% in May to 3.0%, while the closely watched three-year forecast was revised down from 3.0% to 2.8%. At the same time, respondents became more cautious on growth, anticipating a marked slowdown in the second half of the year and lowering their forecasts for 2027.

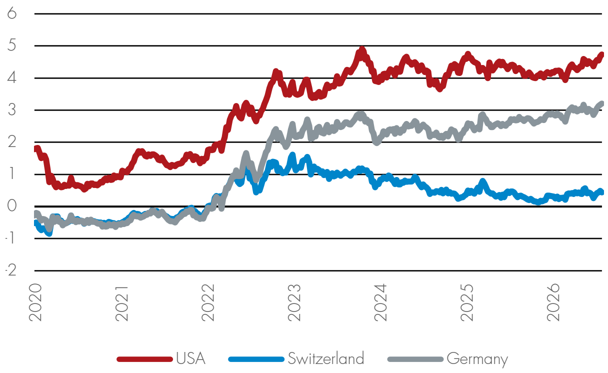
The ECB therefore faces a challenging policy trade-off. On the one hand, elevated energy prices continue to fuel inflationary pressures and increase the risk of second-round effects. On the other hand, there are mounting signs of an economic slowdown. Market participants currently expect the ECB to deliver another rate hike in September, followed by an additional 25 basis point increase before year-end.

Expectations of further ECB rate hikes have provided support for the euro against the Swiss franc, with the EUR/CHF exchange rate temporarily rising above 0.9340, its highest level since January. The weaker franc should ease pressure on both the Swiss National Bank and the Swiss export sector, which has been grappling with the effects of the currency's strength.

US: No rate move and less communication

The US Federal Reserve left interest rates unchanged in July for the fifth consecutive meeting. In the run-up to the decision, however, market expectations remained unusually divided, with derivatives markets still pricing in a probability of more than 30% for a rate hike on the day of the announcement. Such a lack of consensus is rare, as market pricing has generally been a reliable guide to recent Fed decisions.

Historical comparison of 10-year government bonds



Comparison of 10-year YTM of government bonds as of 31.7.2026

Source: Zuger Kantonalbank, Bloomberg LP

Two aspects of the decision stood out. First, while FOMC decisions are typically unanimous among the twelve voting members, this meeting saw three dissenting votes, all in favor of a rate hike. This not only highlights differing assessments of the current economic environment within the Committee, but also suggests that the underlying bias remains tilted toward tighter rather than looser monetary policy. Whether policy rates will ultimately be raised remains uncertain. At the same time, we can expect that Chairman Kevin Warsh will, over the medium term, seek to lower interest rates in line with President Trump's stated preferences. Against this backdrop, the Fed's reluctance to pursue a more aggressive easing path can be viewed positively, as it reinforces the central bank's independence and credibility.

The second key takeaway was Warsh's firm commitment to the Fed's 2% inflation target. With core inflation still running above 3%, his comments were widely viewed as hawkish. Market consensus therefore continues to expect at least one additional rate hike by year-end to bring inflation back under control.

New Swiss-franc issues

Currency	Coupon	Issuer	Maturity	Price	Yield	Spread	Denomination	ISIN	Issuance volume
CHF	1.92%	Jefferies Financial Group Inc	03.08.2032	100.57	1.86	132	100k + 1k	CH1533656240	150 m
CHF	1.1075%	European Investment Bank	06.08.2041	100.51	1.09	19	200k + 200k	CH1580409170	200 m
CHF	1%	Basellandschaftliche Kantonalbank	31.07.2034	100.52	0.97	33	5k + 5k	CH1434204363	155 m
CHF	0.875%	Eurofima	20.07.2035	100.04	0.89	22	5k + 5k	CH1580409162	150 m
CHF	0.95%	Thurgauer Kantonalbank	28.07.2034	99.88	0.98	36	5k + 5k	CH1585208783	240 m
CHF	0.8075%	International Bank for Rec. & Dev.	22.07.2036	99.48	0.89	16	100k + 100k	CH1484612119	125 m
CHF	2.5%	NJJ Continental SA	15.07.2031	100.36	2.52	202	100k + 1k	CH1583584417	205 m
CHF	1.2525%	Banco del Estado de Chile	22.07.2032	99.66	1.32	81	5k + 5k	CH1562934799	150 m
CHF	1.065%	Transpower New Zealand Ltd	21.07.2036	99.23	1.15	45	5k + 5k	CH1564881972	200 m
CHF	1.415%	Severn Trent Utilities Finance PLC	07.08.2034	99.38	1.51	89	5k + 5k	CH1564881964	180 m
CHF	1.3725%	Societe Generale SA	15.07.2033	99.54	1.46	89	200k + 200k	CH1580409121	205 m
CHF	0.15%	St. Galler Kantonalbank AG	09.02.2027	99.95	0.20	25	100k + 1k	CH1568296706	100 m

Source: Zuger Kantonalbank, cbonds.com, 31 July 2026

New CHF Bond Issues in July (excluding government issuers and reopenings; minimum issue size: CHF 100 million)

Conclusion

Geopolitical tensions in the Middle East remain elevated, keeping inflation concerns firmly on investors' radar. While equity markets have largely looked through these developments, interest rate markets have reacted more decisively, repricing expectations across the curve. Investors now anticipate further policy tightening in both the Eurozone and the United States, whereas the outlook for Switzerland appears comparatively stable. As a result, the Swiss franc has weakened significantly and is trading at multi-month lows against both the euro and the US dollar.

In our view, interest rate and bond markets are pricing in a predominantly negative scenario. We therefore consider the current level of capital market yields to be an attractive opportunity for bond investors. Swiss bonds stand out in particular, with the Swiss Bond Index currently offering an average yield to maturity of around 0.94%, providing an attractive entry level.

Implementation options

Individual security recommendations:
Fixed Income Top Picks, available from your client advisor

ZugerKB Fonds – Obligationen ESG:
Distributing: Security no. 129774937
Reinvesting: Security no. 129774938

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