Zuger Kantonalbank

Rates and bonds

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The US Fed didn't disappoint, cutting interest rates in December for the third time in succession. Although little is expected from the ECB or SNB in 2026, in the US the stage is set for an interesting year: There is evidence of a growing split within the Fed, and it remains to be seen whether the new Chair will be able to unite the Committee behind them. We take a look back at developments on interest rate and bond markets in December, as well as turn to market expectations for the months ahead.

Swiss bond market

Due to seasonal factors, the Swiss primary market was largely calm in December, with little in the way of new bond issuance. The completion of the merger between Helvetia and Baloise was nevertheless a key event in the Swiss market. Our research partner Zuercher Kantonalbank had previously rated both issuers A-, but temporarily withdrew the rating in the course of the transaction. The merger to form the new Helvetia Baloise Holding Ltd should nevertheless be viewed positively from a rating perspective. The merger took place without any cash outflows and results in broader diversification across products and markets, additionally boosting the financial stability of the combined firm.

After the quiet months of November and December, issuance activity is likely to pick up again quickly in the new year.

SNB: Zero interest-rate policy remains in place

As expected, the Swiss National Bank left its benchmark interest rate unchanged on 11 December at 0.0%. Ahead of the decision, members of the Governing Board had already made clear that there was a high threshold for a return to negative interest rates. Although year-end inflation rates came in slightly lower than forecast, the SNB does not see any need for negative interest rates in order to ensure price stability – in particular since its monetary policy decisions are primarily geared to the medium-term inflation picture.

"Not much is expected from the SNB in 2026 – though the risks remain tilted to the downside."

Joel Gubser
Investment Advisor

Based on current conditions there is no need for a rate cut in 2026. There is even less prospect of a rate increase, given that inflation is likely to stabilise at the lower end of the target range while economic growth is set to come in slightly below the long-term average. Consequently, there is good reason to expect a continuation of current interest-rate policy, while the risks remain tilted towards the downside. If growth softens at a significantly faster rate, the Swiss franc experiences a substantial appreciation or inflation rates fall markedly, negative interest rates could be back on the monetary policy agenda in 2026.

Despite unchanged benchmark interest rates, CHF capital market interest rates – which are key to loans, mortgages and bonds – have risen noticeably since November; indeed 10-year swap yields are currently around 0.25% above their level at the beginning of November. The close linkage with European capital market interest rates is likely to be the main driver, with several members of the

European Central Bank having recently issued distinctly hawkish signals and even vaguely alluded to the possibility of a rate increase as the next monetary policy move. These expectations have consequently driven up interest rates within the Swiss franc zone.

Europe: Brighter prospects for 2026 and 2027

As expected, the European Central Bank (ECB) decided to leave its benchmark interest rate unchanged in December. The ECB also reiterated that it would continue to take a data-dependent approach to its decision-making, without holding out the prospect of changes in key interest rates.

Overview of current key interest rates

Country	Key interest rate	Last changed
Switzerland	0.00%	19.06.2025 (–0.25%)
Eurozone	2.00%	05.06.2025 (–0.25%)
US	3.50–3.75%	11.12.2025 (–0.25%)

Data as of 31.12.2025

Source: Zuger Kantonalbank

For this year, the bank expects slightly higher GDP growth than it did in September (now 1.4% vs. 1.2% previously); the ECB has also marginally upgraded its growth forecast for 2026 and 2027 too. Inflation expectations for the years ahead have been revised up slightly, based on a significant increase in government expenditure. If we look at the sentiment barometer most recently published in December, however, multiple indicators still show no sign of a trend reversal: Purchasing manager indices for the eurozone as well as German manufacturing were weaker than expected and lower than in November.

US: Fed cuts to between 3.50% and 3.75%

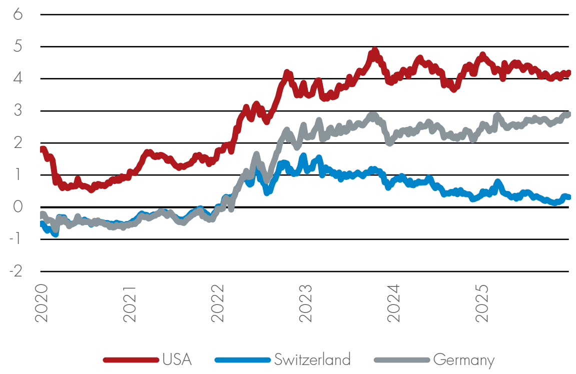
On 10 December the Fed decided to cut its benchmark rate by 25 basis points for the third time in succession, with the target rate now 3.5–3.75%. The decision was not unanimous, with three members voting against the decision during the FOMC's formal deliberations: Two members voted against any rate cut, while one member called for a double cut of 50 basis points.

The newly published dot plot shows clearly that four other anonymous members do not give the latest rate reduction their unreserved support. Such a split within the Fed Committee is extremely rare and highlights the impact of the political pressure being exerted on the central bank. The Fed's new Chair will lead their first meeting in June; whether they succeed in getting the Committee behind them and driving monetary policy decisions at the politically desired pace remains to be seen. In any case, the current dot plot signals caution: The median expectation of all Fed members shows that only one further 0.25% reduction is anticipated in 2026.

If we look at implied cuts in interest rates based on the derivatives market, slightly more than two reductions are currently priced in. In light of clearly formulated political expectations and the administration's growing control over the Fed, this level continues to look fairly conservative; consequently, there is hope for three or more interest-rate cuts.

The divergence between political expectations, monetary policy projection and investors expectations is therefore likely to shape the US interest-rate landscape this year, creating an interesting context.

Historical comparison of 10-year government bonds



Comparison of 10-year YTM of government bonds as of 5.1.2026

Source: Zuger Kantonalbank, Bloomberg LP

The Fed additionally updated its quarterly economic forecasts, expecting a significantly stronger economy in 2026 than it did previously. It now anticipates growth of 2.3%, representing a significant improvement on its previous forecast of 1.8%. Expectations for 2027 and 2028 were only marginally altered and are still within the 2% range.

New issues in Swiss francs

Currency	Coupon	Issuer	Maturity	Price	Yield	Spread	ZKB rating	Denomination	ISIN	Issue volume
CHF	0.5%	Luzerner Kantonalbank AG	19.12.2030	99.45	0.65	27	AAA	5k + 5k	CH1489902523	250 million
CHF	0.615%	Fed. des caisses Desjardins du Québec	17.06.2032	99.20	0.78	29		5k + 5k	CH1503892759	335 million
CHF	0.5%	Basellandschaftliche Kantonalbank	17.12.2029	99.87	0.57	28	AA	5k + 5k	CH1434204322	150 million
CHF	1.15%	Basellandschaftliche Kantonalbank	17.11.2045	98.50	1.26	29	AA	5k + 5k	CH1434204330	100 million

New issues in December in Swiss francs (excludes government borrowers and reopenings, only includes issues over CHF 100 million)

Source: Zuger Kantonalbank, cbonds.com, 5 January 2026

Conclusion

The SNB and ECB seem to have ended their rate-cutting cycle for now. Whether that remains the case will become apparent during the new year. Thus far, however, economic indicators have not shown any clear recovery.
As for the Fed, on the other hand, further rate reductions are expected in 2026. It nevertheless remains to be seen what the growing split within the FOMC and political influence on capital market interest rates will be.
Despite this, we continue to view Swiss bonds as an attractive, safe haven for stabilising a balanced portfolio in an environment characterised by uncertainty. On a US dollar basis we continue to recommend short-dated bonds, which benefit directly from potential cuts in key interest rates.

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

Do you have any questions or thoughts on this publication?
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