Zuger Kantonalbank

Rates and bonds

November

04.11.2025

With the Fed having resumed its rate-cutting cycle in September, the US still calls the tune on the interest-rate front: in October the central bank proceeded to reduce interest rates a second time – notwithstanding the absence of official economic numbers due to the current shutdown. While the SNB and ECB are on hold for the time being, the corporate reporting season has begun, and new issuance therefore remains quite limited. We take a look back at developments on interest rate and bond markets in October, as well as turn to market expectations for the months ahead.

Swiss bond market

Switzerland's corporate reporting season is already in full swing and for that reason very few new bonds were issued in October. That said, we did see new issues from a number of cantonal banks. Also worth noting was the issue of a new perpetual bond by Hypo Vorarlberg Bank AG: with a coupon of 4.375% and callable for the first time on 14 February 2031, the Austrian bank successfully placed CHF 50 million. The issuer was already known to the Swiss franc market. Even so, the issue represents its first-ever subordinated perpetual bond – in the form of an AT1 – in the Swiss franc market. Given its subordination and elevated risks, the security is not rated investment grade, and for that reason we would not advise our clients to buy it.

The backdrop for bondholders nevertheless remained encouraging: new US tariff threats against China lifted the Swiss franc and sent interest rates tumbling. Interest rates consequently fell significantly over the course of October, with the 10-year Swiss bond yield at its lowest level since 2022, i.e. barely above 0%. Although the significantly more liquid swap markets – which are used as a reference for mortgage interest rates – are at a slightly higher level, here too the trend is towards lower interest rates.

SNB: stable at 0.0%, focus on EUR-CHF

There was no change in Swiss interest rates in October. For the first time, however, the SNB published a "summary of the discussion" in relation to its September monetary policy assessment. Although – as expected – the document brought virtually no new insight, it provided confirmation that the Governing Board does not see any need for further rate cuts and continues to view monetary policy as expansionary. Despite an inflation figure of only 0.2% in September, the SNB does not see any risk of either deflation or a significant reduction in inflation. Overall, the tone remained slightly hawkish, although this had scant impact on market movements. In any case, the SNB is likely to be more heavily focused on currency markets given that on 20 October the Swiss franc reached a new record high with a closing price of CHF 0.92261 to the EUR.

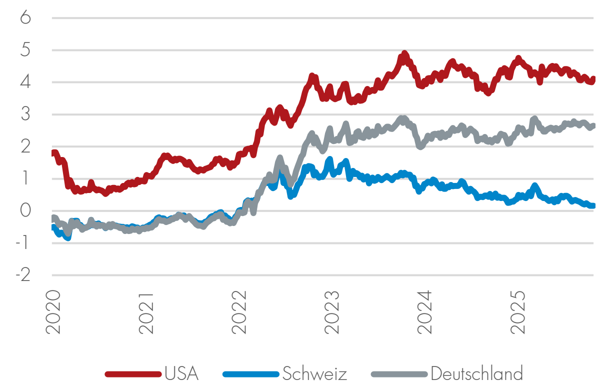
"Though interest rates are currently stable, growth and inflation risks are still tilted downwards."

Joel Gubser
Investment Advisor

Europe: still in wait-and-see mode; outlook unclear

The European Central Bank (ECB) left its deposit rate unchanged in October for the third time in succession. In the accompanying media release it opted not to provide concrete guidance, instead emphasising that it would assess its next steps on a data-dependent basis and from meeting to meeting. According to the central bank, the labour market remained robust while company balance sheets were in sound health. Nevertheless, it said the outlook was still clouded by uncertainty, particularly in light of ongoing trade conflicts and geopolitical tensions. The ECB had already adjusted its inflation forecasts in September and expects a figure of just 1.7% for 2026 – below the 2% target level. Given the strong euro and subdued global backdrop, inflation risks are likely to remain tilted downwards – which could provide scope for rate cuts in the medium term.

Historical comparison of 10-year government bonds



Comparison of 10-year YTM of government bonds as of 31.10.2025

Source: Zuger Kantonalbank, Bloomberg LP

Meanwhile, France is still under pressure. Not only is the political situation becoming more acute, but the country has also suffered a rating downgrade: following Fitch's downgrade in September, S&P has likewise reduced France's credit rating from AA– to A+ – referencing political instability and the slow progress made on reforms. Although the downgrade seems to be a mere formality, it does mean France has lost its AA status – which could lead to selling pressure on the part of institutional investors that have guidelines and quotas for the various rating segments. The 17 October downgrade was surprising in that the review had not been planned until the end of October. S&P nevertheless felt it appropriate to make the change on an immediate and urgent basis. The only major international ratings agency that still rates France AA is Moody's, with an Aa3. That said, Moody's too placed France on a "negative" outlook in October – which is typically seen as paving the way to a downgrade.

US: rate-cutting cycle continues

The US has been in shutdown since 1 October, with Republicans and Democrats unable to agree a deal on the government budget. The fact that non-essential government employees are consequently on unpaid leave at the moment means a large number of macroeconomic figures are not being published. The key non-farm payroll report was postponed indefinitely in October. An exception was nevertheless made for the consumer prices index, as this is essential for calculating calculate social benefits. The Fed therefore faced a major challenge with regard to its 29 October meeting, given that it normally bases its rate decisions on inflation and labour market data. How much longer the situation persists is unclear – the longest and most recent shutdown occurred in Trump's first term and lasted 35 days.

Despite the lack of data, the Fed decided to lower the key interest rate band by 25 basis points to 3.75–4.00%. Once again, the rate decision was not unanimous. The newest Fed governor – and Trump loyalist – Stephen Miran voted for a 0.5% cut, as was the case at the September meeting. Another governor also dissented and voted for no change at all.

Overview of current key interest rates

Country	Interest rate	Last change
Switzerland	0.00%	19.06.2025 (–0.25%)
Eurozone	2.00%	05.06.2025 (–0.25%)
US	3.75–4.00%	29.10.2025 (–0.25%)

Data as of 31.10.2025

Source: Zuger Kantonalbank

The press conference given by Fed Chairman Jerome Powell left markets less than impressed. The Fed brought an immediate end to the reduction in its balance sheet ("quantitative tightening") and going forward plans to reinvest maturing securities in the market. Powell nevertheless raised doubts about another rate cut in December. A reduction has largely been seen as a racing certainty up until the time of the press conference, but Powell is keeping all options open. In response, US Treasury bond interest rates closed slightly higher on a day-on-day basis. Even so, a majority of market participants expect another downward move in December. However, the assumption is that Treasury yields will not show a clear trend until macro data are available again and the Fed's path forward can be gauged.

New issues in Swiss francs

Currency	Coupon	Issuer	Maturity	Price	Yield	Spread	ZKB rating	Denomination	ISIN	Issue volume
CHF	4.375%	Hypo Vorarlberg Bank AG	Perpetual	100.70	4.26	409		5k + 5k	CH1494626265	50 million
CHF	0.875%	Amag Leasing AG	20.05.2027	100.13	0.84	89	BBB	5k + 5k	CH1494626257	150 million
CHF	0.71%	International Development Association	01.12.2037	100.03	0.72	17		100k + 100k	CH1472996946	120 million
CHF	0.4275%	Korean Air Lines Co Ltd	13.11.2028	100.16	0.40	39		100k + 100k	CH1494626224	100 million
CHF	0.8%	Basler Kantonalbank	21.11.2035	100.26	0.79	33	AAA	5k + 5k	CH1265891056	150 million
CHF	0.75%	St. Galler Kantonalbank AG	14.11.2034	100.25	0.75	34	AA+	5k + 5k	CH1500439638	150 million
CHF	0.75%	Schwyzer Kantonalbank	17.11.2034	99.99	0.76	37	AAA	5k + 5k	CH1498956932	150 million
CHF	0.95%	Liechtensteinische Landesbank AG	12.11.2032	100.26	0.92	66		100k + 100k	CH1487332095	200 million
CHF	0.8425%	NRW Bank	12.11.2040	100.08	0.87	21		5k + 5k	CH1485827187	125 million
CHF	0.8%	Banca dello Stato del Cantone Ticino	05.11.2032	100.89	0.72	42	A+	5k + 5k	CH1487332087	110 million
CHF	1.035%	Banco del Estado de Chile	29.10.2030	100.17	1.01	88		5k + 5k	CH1487332079	100 million
CHF	1.04%	Allreal Holding AG	27.10.2031	100.40	0.98	78	BBB	5k + 5k	CH1487332061	110 million
CHF	0.85%	Rhätische Bahn AG RHB	31.10.2042	101.64	0.79	9	AA-	5k + 5k	CH1477384155	100 million
CHF	0.6%	Nidwaldner Kantonalbank	28.10.2030	100.70	0.48	34	AA+	5k + 5k	CH1487331998	100 million

New issues in October in Swiss francs (excludes government borrowers)

Source: Zuger Kantonalbank, cbonds.com, 31.10.2025

Summary

Despite the provisional deal reached between the US and China, there is a risk of further trade conflicts that could impede global economic growth. Key interest rates in Switzerland and Europe are likely to remain at the current level for the time being, although the risks are clearly tilted downwards. We think the safe haven of Swiss bonds remains attractive for the purpose of stabilising a balanced portfolio. For US dollar investors we continue to recommend short-dated bonds, which will benefit directly from cuts in key interest rates.

Implementation options

Individual security recommendations:
Bond 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?

Please do not hesitate to contact your client advisor.

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