

Rates and bonds

October

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ECB and Fed hike, while SNB holds steady. September was an important month on the monetary policy front, setting the stage for rate hikes during the remainder of the year. Government bond yields reached their highest level in over 20 years and are already pricing much of this in. We look back at developments on rates and bond markets in September, as well as provide an outlook on market expectations for the months ahead.

Swiss bond market

September brought numerous new issues on the Swiss bond market, with companies launching new bonds at the longer end in particular; indeed, three quarters of all issues came with a maturity of over five years. Vaudoise Insurance was active in the market for only the second time, with a four and eight-year dual-tranche offering (rated A- by ZKB). With coupons of 0.9% and 1.25% respectively, both tranches were well received. Due to the general increase in the level of interest rates since the issue, however, they are trading at slightly below the issue price. Hero (no rating) – another rare issuer – also appeared on the market: The well-known Swiss food producer successfully placed a CHF 100 bond with a maturity of just under six years and a coupon of 2.934%.

SNB: No change for now, but increasing room for manoeuvre

The Swiss National Bank (SNB) opted to stick to its zero interest-rate policy in September. The decision was hardly a surprise, given that rumours had already been circulating in the summer that internal SNB sources expected the policy rate to remain at zero until the end of 2027. Expectations for the September meeting were therefore limited.

That said, the derivatives market is pricing in a rate hike by mid-2027. This is based on recently published inflation numbers showing a significant uplift: Annual inflation unexpectedly increased to 0.8% from only 0.4% in the previous month. The primary reason was a weaker Swiss franc – making imported goods more



"The SNB's room for manoeuvre is increasing. Whether it needs to utilise it or not depends on how long energy prices stay elevated."

Joel Gubser
Investment Advisor

expensive – as well as higher energy prices. A closer look at the national consumer price index shows that the "living and energy" and "transport" categories were the biggest contributors to the higher inflation number. In both areas, the recent jump is due to increased energy prices: mainly the higher price of heating oil in the case of "living and energy", and more expensive motor fuel in the case of "transport". However, there are no grounds for an immediate monetary policy response to an energy-induced rise in inflation: The price shock is squeezing demand which is likely to hit economic activity. It comes at a time when capacity utilisation rates in manufacturing are below-average and there is virtually no sign of any pressure on wages.

Thus, we do not expect a rate hike from the SNB for now, despite the higher headline inflation rate of 0.8%: fact is, inflation is still within the lower half of the 0% to 2% target range. If core inflation – in other words, the rate of price growth after stripping out seasonal products and energy – nevertheless picks up significantly and inflation extends across the board, a rate move is likely

to become more realistic in our view. Given that both the European Central Bank and the US Fed have already proceeded to raise interest rates, the SNB's room for manoeuvre has increased, and a rate hike can no longer be ruled out.

Europe: Rates rise again to 2.5%

As anticipated by the market, the European Central Bank (ECB) in September raised its deposit rate for a second time this year by 0.25% to the current 2.5%. The ECB is therefore responding to the most recent inflation figure of 3.3%, which shows an acceleration in the rate of price growth compared with the previous month (2.9%). This is unlikely to have been the final rate hike: Another move is likely in December, with up to three more moves expected by the end of 2027 if we are to believe the derivatives market.

The market is therefore reflecting the ECB's expectation that the wave of elevated energy prices is leading to longer-term, more persistent inflation than previously assumed. A normalisation is not expected until mid-2027 onwards. At the same time, the European Central Bank expects slightly better economic growth: Forecasts have been increased by 0.1% and 0.2% for 2026 and 2027 respectively.

Overview of current key interest rates

Country	Key interest rate	Last changed
Switzerland	0.00%	19.06.2025 (-0.25%)
Eurozone	2.5%	10.09.2026 (+0.25%)
US	3.75–4.00%	16.09.2026 (+0.25%)

Data as at 30.9.2026

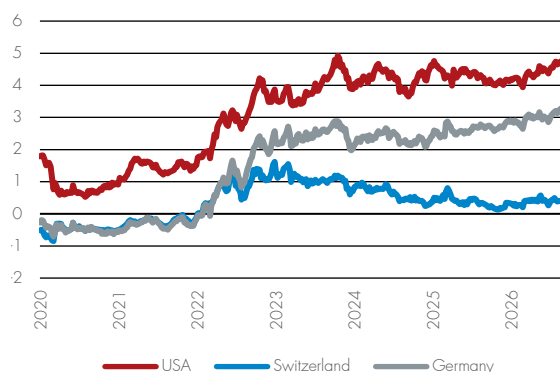
Source: Zuger Kantonalbank

Sharp variation in EU government bond yields

While interest rates worldwide have risen sharply owing to a combination of inflation fears and worries about excessive government debt and have now reached their highest level since the dotcom bubble, France in particular stands out among European countries: Yields on 10-year French government bonds have climbed to over 4.85%, corresponding to a risk premium to the German equivalent – generally considered risk-free – of nearly 130 basis points. This is the highest figure since the European debt crisis in 2012 and is emblematic of investors' concerns about France's financial and political stability, with the continuing deficit and political deadlock causing investors to be wary. The absolute figure of 4.85% is also a historic high.

France (rated A+ by S&P) is therefore paying significantly more for its debt than any other country within the Eurozone – including BBB+ rated Italy (4.61%) or Bulgaria (4.48%), and even BBB rated Greece (4.46%).

Historical comparison of 10-year government bonds



Comparison of 10-year YTM of government bonds as at 30.9.2026

Source: Zuger Kantonalbank, Bloomberg LP

US: Fed hikes and Warsh proves his independence

The US Federal Reserve raised its key interest rate by 0.25% to the new range of 3.75% to 4% on 16 September – the first increase since 2023. The decision was unanimous, which has not been the case for some time, and means that the new Chairman, Kevin Warsh, also voted for a rate hike. This is significant, because President Trump nominated Warsh to be the new Fed Chairman in order to deliver lower interest rates.

The background to the decision is the fact that in the US, too, inflation lies between 3.0% and 3.7% – depending on the measure – and thus significantly above the target range. Warsh reiterated the target as well as the intention to swiftly bring inflation under control, which was seen as a hawkish signal. Furthermore, Warsh commented that the economy was strong and that the rate hike was removing “a dose of accommodation” from monetary policy. Warsh is thus implying that the current interest-rate environment is viewed as expansionary – which should likewise be understood as a hawkish signal.

Whenever the Fed launches a rate hike cycle, it rarely hikes just once. The intervals between the rate hikes nevertheless remain unclear. Forecasts from the derivatives market currently show that a further rate hike is expected before the end of the year, with the possibility of another two or three next year.

US treasury yields reach peak levels

The closely watched 10 and 30-year US treasury yields rose sharply in September and are already discounting much of the trend towards inflation and rate hikes. At 5.27% and 5.61% respectively, yields reached levels last seen prior to the financial crisis. The equity market continues to ignore the situation: Growth stocks normally respond sensitively to higher interest rates; however, that has not yet been the case. Higher interest rates are bad news for the US taxpayer; indeed, the interest burden on government debt is increasing – which is all the more significant when the high level of government debt is taken into account. This amounted to around USD 8 or 9 trillion prior to the financial crisis, whereas now the figure stands at over USD 40 trillion. Spending on interest payments – a function of the debt burden and level of interest rates – is therefore rising exponentially.

Higher interest rates have a dampening effect not only on the government budget but also for the US consumer: Interest rates on 30-year mortgages have risen above 7% again for the first time since 2023, which is hitting an already embattled housing market. Furthermore, the rate hike affects consumers directly through more expensive leasing and credit card credit but also in the form of record fuel prices resulting from the Iran war. This is already reflected in consumer sentiment, which in September fell to its lowest point since 2014. Whether President Trump and his party will pay the price in the midterms in early November will become apparent. If the Republicans lose their majority in the Senate or in Congress, government business will at any rate become significantly more difficult for Trump.

New Swiss franc issues

Currency	Coupon	Issuer	Maturity	Price	Yield	Spread	Denomination	ISIN	Issuing volume
CHF	1.8775%	ABP Finance PLC	26.10.2033	100.07	1.88	112	5k + 5k	CH1585337707	100 m
CHF	2.934%	Hero	28.06.2032	100.27	2.90	219	5k + 5k	CH1606711476	100 m
CHF	1.8675%	Emirates NBD Bank PJSC	13.10.2031	100.46	1.80	110	5k + 5k	CH1609605279	150 m
CHF	1.6803%	Digital Constellation BV	08.10.2029	100.55	1.55	93	5k + 5k	CH1609605246	225 m
CHF	2.06%	Digital Constellation BV	06.10.2032	100.85	1.92	120	5k + 5k	CH1609605253	185 m
CHF	2.415%	Digital Constellation BV	06.10.2036	101.28	2.30	143	5k + 5k	CH1609605261	100 m
CHF	1.3%	Schwyzner Kantonalbank	08.10.2035	100.97	1.21	37	5k + 5k	CH1610296829	150 m
CHF	2.1769%	GRENKELEASING AG	28.09.2029	100.42	2.05	148	5k + 5k	CH1612088521	100 m
CHF	1.73%	Fomento Economico Mexicano SAB de CV	14.10.2031	100.25	1.70	100	5k + 5k	CH1609605238	300 m
CHF	2.2875%	Helvetia Schw. Versicherungsges. AG	15.10.2046	100.10	2.30	143	5k + 5k	CH1598620172	275 m
CHF	1.6%	Cham Swiss Properties AG	27.10.2031	100.14	1.59	89	5k + 5k	CH1581468365	100 m
CHF	1.12%	Asian Development Bank	21.10.2041	99.47	1.18	20	5k + 5k	CH1598620164	100 m
CHF	1.74%	DekaBank Deutsche Girozentrale	13.10.2036	100.07	1.75	105	100k + 100k	CH1585337673	100 m
CHF	1.3975%	Danske Bank A/S	29.09.2034	99.93	1.43	63	200k + 200k	CH1598620131	110 m
CHF	1.8325%	Credit Agricole SA	23.09.2034	100.22	1.83	106	100k + 100k	CH1598620123	170 m
CHF	1.4777%	BMW International Investment BV	23.12.2031	100.11	1.48	78	5k + 5k	CH1609602839	285 m
CHF	1.845%	BMW International Investment BV	23.09.2036	100.01	1.86	100	5k + 5k	CH1609602847	125 m
CHF	1.605%	Bank Vontobel AG	29.09.2034	100.60	1.54	75	5k + 5k	CH1607696023	200 m
CHF	0.9475%	Inter-American Development Bank	29.09.2034	100.19	0.95	14	5k + 5k	CH1585337665	150 m
CHF	0.19%	St Galler Kantonalbank AG	19.04.2027	99.95	0.22	24	100k + 1k	CH1568297985	100 m
CHF	1.25%	BKW AG	25.04.2033	99.68	1.34	57	5k + 5k	CH1598620099	200 m
CHF	1.05%	Aargauische Kantonalbank	07.10.2033	99.54	1.14	37	5k + 5k	CH1607659112	200 m
CHF	1.015%	IGT Bank AG	30.03.2032	99.58	1.27	54	100k + 100k	CH1581468324	150 m
CHF	1.5%	IGT Bank AG	30.09.2036	99.51	1.59	71	100k + 100k	CH1581468332	200 m
CHF	1.2225%	Telstra Group Ltd	30.09.2033	99.14	1.37	61	5k + 5k	CH1598620073	200 m
CHF	0.9%	Vaudoise Assurances Holding SA	25.09.2030	99.36	1.09	44	5k + 5k	CH1581468274	100 m
CHF	1.25%	Vaudoise Assurances Holding SA	25.09.2034	99.60	1.34	53	5k + 5k	CH1581468282	120 m
CHF	1.6575%	OTP Bank Nyrt	22.09.2032	99.35	1.84	113	100k + 100k	CH1598620065	155 m
CHF	1.015%	St Galler Kantonalbank AG	23.09.2036	99.67	1.21	34	5k + 5k	CH1604208798	210 m
CHF	1.25%	Corner Banca SA	16.09.2030	99.63	1.36	72	5k + 5k	CH1581468258	150 m
CHF	0.55%	Zuercher Kantonalbank	17.11.2028	100.05	0.68	7	5k + 5k	CH1581468266	175 m
CHF	1.2%	SFS Group Ltd	30.09.2033	99.45	1.29	54	5k + 5k	CH1581468233	250 m
CHF	1.125%	North American Development Bank	29.09.2034	99.26	1.25	44	5k + 5k	CH1604760905	125 m
CHF	1.5175%	BPCE SA	25.09.2034	98.97	1.70	88	5k + 5k	CH1581468225	170 m

Source: Zuger Kantonalbank, cbonds.com, 30 September 2026

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

Conclusion

The outlook for key interest rates in the final quarter will clearly be in the direction of rising interest rates. The capital market is already discounting much of this, however, with interest rates on government bonds in the US and EU having risen to multi-year record highs. Whether key interest rates will actually be hiked again on more than one occasion will essentially depend on the duration of the war in Iran and the accompanying energy shortage.

For the SNB too, the environment provides greater freedom of manoeuvre and rate hikes can no longer be ruled out. Even so, we do not expect any major moves given the situation in manufacturing and capacity utilisation.

The bond market therefore continues to offer attractive opportunities: Many of the issues of recent months are available below their issue price, while interest rates are already pricing in much of the outlook.

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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