Interest rates

October 2021

Evolution & outlook

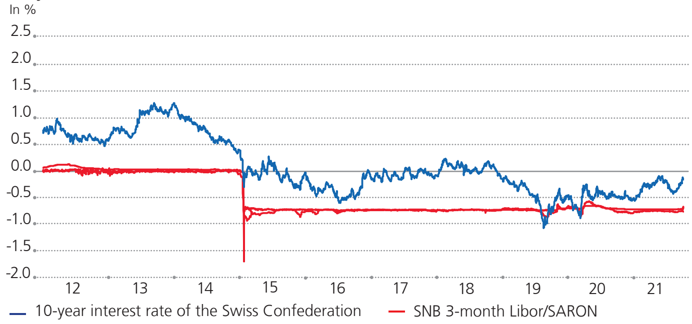
Nervousness about risk

The corporate bond markets in Europe and Switzerland remained relatively quiet in September despite the default of the Chinese real estate group Evergrande, as it is mainly exposed to China. At the same time, Swiss, German and US 10-year government yields rose by 15, 22 and 24 basis points respectively. **A moderate rise, but one that reflects investors' nervousness about risks**. The list of uncertainties is growing. Firstly, without really fearing a US default, the markets are scrutinising the US Congress, which is once again taking its time with raising the debt ceiling and passing the federal budget. Secondly, inflation is high and rising energy prices are a concern. In August, consumer prices rose by 5.3% in the US and 3% in the eurozone. But this inflation is mainly due to temporary phenomena. Statistical effects are still at work and bottlenecks are disrupting the supply of certain goods. However, the link between the rise in energy prices and the consumer price index is becoming tighter, although so far this has not set off a wage-price spiral, which limits the lasting effects. In times of rising prices, employees tend to demand wage increases to compensate for their loss of purchasing power. But the labour market, whether in Europe or the US, is not strained enough to generate widespread wage pressures. While there are labour shortages in some sectors, the pressure is limited. Moreover, hourly productivity is increasing and offsetting the rise in wages. In other words, labour costs are under control and should not fuel inflation.

This view is shared by the central banks. The ECB, for example, attributes the high inflation to disruptions caused by the pandemic and base effects. The US Federal Reserve takes a similar view, although it now admits that the effects are greater and more protracted than originally assumed. In Switzerland, the rise in inflation is more modest. The consumer price index remained unchanged in September and the annual variation is stable at 0.9%. Despite a more moderate increase in inflation in Switzerland, the SNB shares the view of its counterparts and points to rising oil prices and goods affected by supply difficulties. **The fluctuations this year correspond to the expected statistical effects. Once these are over, inflation should return to more moderate levels.**

Another source of uncertainty for investors is that central banks are preparing to normalise their monetary policy. While the prospect of tapering - announced at Jackson Hole at the end of August - did not cause panic in the markets, the reactions to J. Powell's statements on 22 September regarding the imminent reduction of the bond-buying programme and a possible interest rate hike from 2022 were much stronger. Lastly, the strength of the dollar, especially against the euro, confirms the nervousness of the markets and the risk aversion phase. The dollar acts as a safe haven and has appreciated by almost 2.5% over the last 3 months. Beyond this transitional period, the fundamental data argues for a weaker dollar against the euro and the Swiss franc. The financial attractiveness of the United States is currently compensating for the US foreign trade deficit. However, it remains uncertain for how long, especially since the stimulus programmes will increase the deficit and intensify the downward pressure.

Key interest rates



Source: Thomson Reuters Datastream

Outlook for the interest rate and mortgage yield curve

Despite the prospects of tapering and inflation fears, monetary policies will remain expansionary. Central banks are monitoring medium-term price developments and are focusing on financial stability and employment recovery. Low interest rates and abundant liquidity will remain in place for several months. **US, European and Swiss interest rates will fluctuate within a low range**. A significant change in the mortgage yield curve appears unlikely due to all these factors. At best, there could be an adjustment of the lowest interest rates. None of this is likely to have any impact on the strong Swiss franc, although it will not be able to remain indifferent to future developments in trade and financial relations with Europe, the US and China. **The strong Swiss franc and low interest rates are here to stay at least for the foreseeable future**.

Interest rates 3 months	30.09.2021	3 months	12 months
Switzerland	-0.67	-0.75	-0.75
Eurozone	-0.55	-0.50	-0.40
USA	0.13	0.15	0.25
10-year interest rates			
Switzerland	-0.17	-0.40	-0.10
Eurozone	-0.19	-0.40	0.00
USA	1.53	1.30	1.90

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