

October 2025

Interest rates & bonds

More Fed cuts are typically credit positive

	10-year government bond yield			Investment-grade credit spread		
	Current	Sep. 2025*	Year-to-date*	Current	Sep. 2025*	Year-to-date*
US	4.1%	-8 bps	-42 bps	74 bps	-5 bps	-6 bps
Eurozone	2.7%	3 bps	39 bps	78 bps	-6 bps	-24 bps
UK	4.7%	-3 bps	13 bps	85 bps	-8 bps	-11 bps
CH	0.2%	-8 bps	-8 bps	76 bps	3 bps	7 bps

10-year government bond yield eurozone = DE, bps = basis points.
* Change as at 25 September. Source: Bloomberg

USA

- Following the US Fed’s rate cut on 17 September, US Treasury yields declined across the curve. As lower rates support risky assets, credit spreads in both Investment Grade (IG) and High Yield (HY) tightened. We expect tariffs to increase US inflation over the next months, but only temporarily.
- We continue to expect policy rate cuts in October and December this year and another two interest rate cuts for 2026, which should bring down the Fed funds target rate (lower bound) to 3.00%.

Eurozone

- Credit spreads tightened in September, in line with the US, but 10-year Bund yields rose. French 10-year spreads over German Bunds widened and now trade close to Italy.
- In Europe, headline inflation is at target and barely moving. We continue to see no further rate cuts in 2025 or 2026.

UK

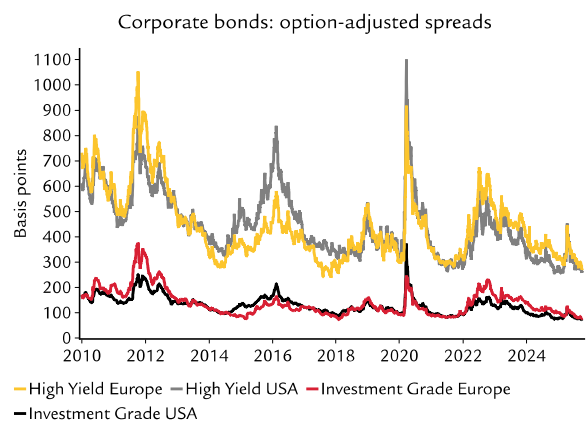
- IG credit spreads in the UK tightened in September, in line with the US and eurozone credit markets. 10-year yields slightly declined.
- For the Bank of England, we expect one more interest rate cut in 2025 and another two in 2026.

Switzerland

- IG spreads were stable, while the 10-year Swiss government bond yield declined in September.
- In September, the SNB left its policy rate on hold, as expected. We do not foresee further rate cuts by the SNB in 2025 or 2026.

Good technical support, but high valuations

EUR and USD credit spreads in investment grade (IG) and high yield (HY) remain tight. The spread levels are roughly as low as they were before the post-pandemic rate increases by the ECB and Fed in 2022. The asset class currently benefits from relatively low 1-year recession probabilities (25% for the eurozone, 30% for the USA according to a Bloomberg survey), solid balance sheets, solid credit metrics as well as strong asset valuations. Fed rate cuts also add to the positive backdrop for credit, and all-in yields remain attractive (around 2.5-3% above 2021 levels). In combination with a significantly lower duration (vs. before 2022), the asset class could even withstand an interest rate increase without experiencing a negative total return (i.e. it has a high break-even yield). As a result, the credit asset class has not experienced outflows. Given solid fundamentals and technicals – notably fund flows and bond supply – credit valuations remain high, leaving limited room for spread tightening. However, there are risks that could lead to spread volatility, more likely in HY than in IG. On the fundamental side, these are related to tariffs, geopolitics or AI investment risks. On the technical side, higher bond supply or weaker inflows due to declining US all-in credit yields are risks to watch. Overall, we have a neutral view for IG but expect HY spreads to widen in both EUR and USD. On duration, we expect lower US Treasury yields and are neutral on eurozone and Swiss government bond yields.



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 25/09/2025

Equities

AI euphoria

Regional equity markets	Sep. 2025*	Year-to-date*
USA	2.9%	13.8%
Eurozone	1.7%	16.4%
UK	0.6%	16.2%
Switzerland	-1.6%	5.9%
Emerging markets	7.6%	28.1%

MSCI net total return indices in local currency.
* Performance as at 25 September. Source: Bloomberg

USA

- Due to AI euphoria and the first rate cut by the Fed, the US-market gained strongly in September.
- AI-related stocks advanced strongly in September. The Magnificent 7 are up more than 8% and Tesla and Alphabet advanced 28% and 18%, respectively. Oracle gained 40% in one day.
- The US equity market valuation is by some measures at an all-time high (e.g. price to sales) or close to it (Shiller PE). AI stocks are in a bubble, but at the moment, there is no sign for a sudden end of the party.

Eurozone

- In September, European stocks advanced less than US stocks as there is very little AI exposure.
- Despite the AI boom, European stocks have slightly outperformed the US market in 2025. European banks advanced 65% this year and more than 450% in the past five years – more than AI stocks and the Magnificent 7. Even the European market is now priced above historical averages.

UK

- UK stocks outperformed eurozone stocks slightly.
- The UK market still benefits from a low valuation, but the economy is weak.

Switzerland

- The Swiss market lost slightly in September due to the weak performance of some index heavyweights and the lack of AI exposure.
- At the time of writing, there was no indication on how Swiss pharma companies will respond to the end-of-September US deadline regarding a plan to lower US pharma prices.

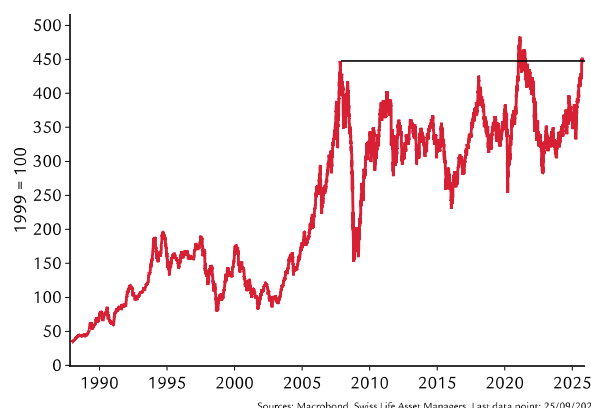
Emerging markets

- Emerging markets outperformed in September.
- Like for the US market, AI is a key driver of the positive development. The IT sector has a weight of 26% in the index and Chinese IT stocks like Baidu or Alibaba are up around 40% in September.

Emerging markets – start of a trend?

Emerging market (EM) equities are back after years of weak performance. Year-to-date, they have outperformed global equities by around 10% (in USD). The question is whether this is the start of a longer-term comeback or just another short-term bounce. Let us start with a historical analysis. Since 2007, there have been no price gains in EM stocks (see chart). From 2007 to now, US stocks have outperformed them by almost 400% (in USD). We see the following reasons for this development: 1. In 2007, a strong EM bull market ended. 2. Earnings per share did not rise much in EM due to a strong dilution effect (new issuance of equity which spreads earnings across more shares), but aggregate earnings rose more than in the US. 3. EM stocks did not profit from unconventional monetary policy and zero interest rates. 4. The USD appreciated a lot against EM currencies in the last 15 years.

MSCI Emerging Markets Equities Price Index (USD)



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 25/09/2025

The outlook for EM equities today is better than it was until about a year ago, for the following reasons: 1. Valuation is neutral and very low compared to developed markets (forward PE of 13 vs. 20 for developed markets). 2. EM stocks (in particular Chinese technology stocks) are very well positioned to benefit from the AI boom. 3. We expect further USD depreciation and tariffs may be reduced. 4. EM central banks have room to cut rates. 5. Historically, EM stocks outperformed during US Fed easing cycles. There are, however also risks: 1. The top stocks in the index are tech stocks that have risen a lot. 2. The Chinese economy is not strong, and a lot of AI phantasy is now priced. 3. Tariffs could do harm. 4. Earnings growth expectations have increased, but earnings revisions are not yet very positive. Nevertheless, we think that in sum, the recent development represents more than a short-term bounce.

Currencies

Unchanged views

	Sep. 2025*	Year-to-date*	1-month view
EUR/USD	0.5%	13.4%	↗
EUR/CHF	-0.1%	-0.6%	→
GBP/USD	-0.3%	7.5%	↗
USD/JPY	1.1%	-5.4%	↘

* Performance as at 25 September. Source: Bloomberg

USA

- For once, September showed a mixed picture for the USD. While the greenback continued to weaken against EUR and CHF, it gained against JPY and GBP. The performance picture was also mixed vis-à-vis emerging market currencies.
- We stick to our view of continued USD weakness as market confidence is not yet restored and as we currently expect more policy rate cuts by the Fed than markets over the next few months.

Eurozone

- While the EUR gained against USD and GBP in September, supported by a relatively hawkish tone by the ECB, it weakened somewhat against other European currencies such as CHF and NOK.
- We reiterate our positive view on EUR/USD and our neutral view on EUR/CHF.

UK

- After a strong performance in August, GBP/USD lost ground again in September as core inflation data softened somewhat after the positive surprise in the previous month.
- We reiterate our neutral view on EUR/GBP and our positive view on GBP/USD.

Switzerland

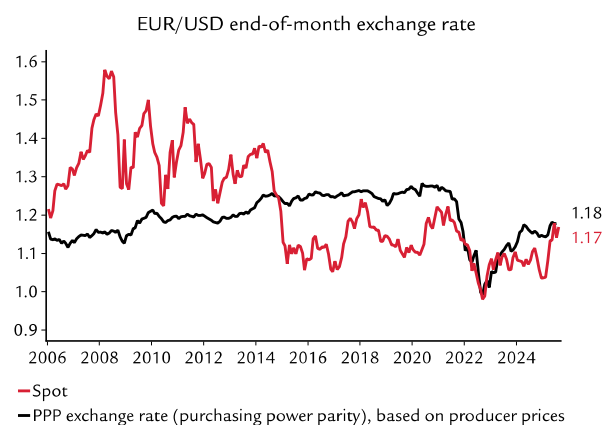
- Despite no positive news from the tariff front, CHF appreciated slightly against EUR in September. As expected, the SNB kept its policy rate unchanged in September and brought no fresh impetus for CHF exchange rates.
- We remain neutral on EUR/CHF and have a negative view on USD/CHF.

Japan

- At the time of writing, the JPY had lost more than 1% in September on a trade-weighted basis.
- In line with our view of a weaker USD, we expect USD/JPY to move lower until year-end.

USD no longer overvalued against EUR

One of the grievances of the US President and his economic advisor Stephen Miran at the beginning of the year was the overvaluation of the USD due to its status as the global reserve currency. Miran had published a paper with various adventurous proposals under the monicker of the “Mar-A-Lago Accord” to tackle the issue. The discussion of these proposals in financial markets, together with controversial policy measures by the US administration, was enough to spark a confidence crisis that has significantly weakened the USD year-to-date. Ironically, the administration has thereby already reached its goal to get rid of the overvaluation, which indeed had been an issue. One way to measure the valuation of a currency is to compare the same basket of goods between two economies and calculate the exchange rate that yields the same price for the basket. According to Bloomberg data (see chart), this so-called purchasing power parity (PPP) exchange rate is currently 1.18 for EUR/USD if producer prices are used. Based on consumer prices, the PPP EUR/USD exchange rate is 1.20. We prefer, however, producer prices as it gives the best indication regarding the international competitiveness of companies. After the up-move in EUR/USD, the valuation argument, which is anyway only a medium- to long-term driver of exchange rates, is now no longer a supportive factor of EUR/USD. Other arguments remain however in favour of further USD weakness, in our view. Apart from the confidence crisis, which we think will continue via continued political pressure on the Federal Reserve, the melting yield advantage of the USD is the most important argument to expect a higher EUR/USD until year-end.



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 08/2025

Asset allocation

US monetary policy easing is a tailwind

Review

- Equity markets around the world surged in September, fuelled by robust corporate earnings and a 25 basis point cut by the US Federal Reserve, which signalled the potential for further monetary easing. Emerging market stocks also delivered a strong performance. In contrast, Swiss equities lagged, posting negative returns due to a stronger Swiss franc and ongoing uncertainty surrounding tariffs.
- US government bond yields declined modestly in September, driven by the Fed's rate cut. Swiss yields also moved lower, while German Bund yields remained largely stable.
- Corporate credit spreads continued to tighten and remain at historically tight levels, reflecting strong demand and solid fundamentals.
- On a trade-weighted basis, the USD depreciated in the first half of September before rebounding towards the end of the month.

Current asset allocation views

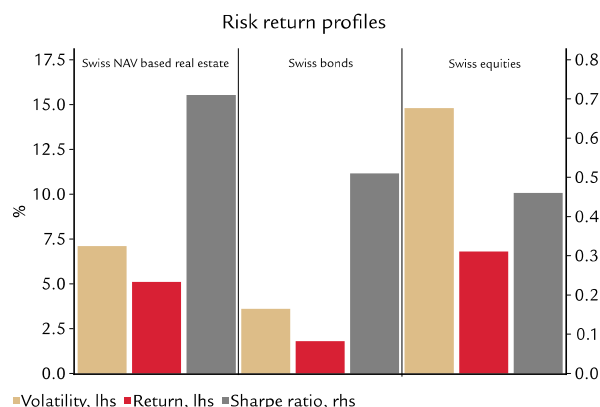
Asset class	Active weight
Global government bonds	neutral
Global investment-grade credit	underweight
Global equities	overweight

Source: Swiss Life Asset Managers

- We maintain an overweight in equities, given a robust earnings outlook and supportive monetary conditions. Within equities, we continue to favour emerging markets equities alongside US equities.
- On government bonds we remain neutral to slightly overweight. Within the asset class, we prefer US over European exposure, the reason being more attractive bond yield dynamics and supportive monetary policy in the US.
- Credit spreads remain near historically tight levels. While all-in yields are elevated, we continue to prefer sovereign bonds over corporate bonds. In our view, the risk-reward profile in credit remains skewed, offering limited upside relative to potential downside. Equities, by contrast, offer a more compelling upside. We maintain an underweight in credit.
- We remain cautious on the USD, particularly from a Swiss franc perspective (see currency section in this publication).

The case for alternatives and Swiss real estate

In today's asset allocation landscape, investors are steadily increasing exposure to alternatives and real assets. Traditional equity and bond markets face challenges such as high valuations, uncertain forward returns and shifting correlations, leading investors to seek new sources of diversification and return. Alternatives such as private equity and hedge funds offer potential for higher returns and access to opportunities not fully reflected in public markets. Real assets like infrastructure, real estate, commodities and precious metals may provide a hedge against inflation. Infrastructure and real estate can also deliver stable, long-term cash flows. Within this context, Swiss NAV-based real estate funds stand out as a particularly attractive segment (NAV=net asset value). They offer transparent valuation mechanisms, relatively low volatility and consistent income streams backed by high-quality tenants and long-term leases. The Swiss market benefits from strong institutional demand, limited supply in prime locations, and a stable macroeconomic environment making it a resilient anchor in diversified portfolios. The allocations into real assets also align with structural megatrends: digital transformation (data infrastructure), energy transition (renewables and critical materials) and demographic shifts (healthcare and housing). While illiquidity, valuation transparency and access may pose challenges, the strategic case for allocating to alternatives and real assets – including Swiss NAV-based real estate – has strengthened as part of a more resilient and forward-looking portfolio design.



Sources: Macrobond, Swiss Life Asset Managers, KGAST Immo monthly, SBI AAA-BBB TR, SPI TR, 29.12.2006 - 31.08.2025. For Swiss NAV-based real estate, the monthly volatility is calculated on an unsmoothed time series to better reflect the actual level of risk.

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