

June 2026

Interest rates & bonds

Higher rates after US inflation data surprise

	10-year government bond yield			Investment-grade credit spread		
	Current	May 2026*	Year-to-date*	Current	May 2026*	Year-to-date*
US	4.4%	7 bps	27 bps	72 bps	-6 bps	-6 bps
Eurozone	2.9%	-10 bps	8 bps	79 bps	-3 bps	1 bps
UK	4.8%	-20 bps	34 bps	85 bps	-7 bps	2 bps
CH	0.4%	0 bps	11 bps	74 bps	1 bps	-5 bps

10-year government bond yield eurozone = DE, bps = basis points.
* Change as at 29 May. Source: Bloomberg

USA

- Higher-than-expected inflation prints in the US, notably for April producer and core consumer prices, led to significantly higher government bond yields across the curve in May. USD credit spreads, however, tightened both in high yield (HY) and in investment grade (IG) over the month.
- The Fed is likely to keep the policy rate stable this year, viewing inflation as a temporary energy shock.

Eurozone

- German Bund yields and EUR credit spreads declined slightly last month. As a result, total return of EUR credit significantly outperformed USD credit.
- We expect the ECB to hike its policy rate by 25 bps in June and in September as it appears very focused on fighting inflation risks.

UK

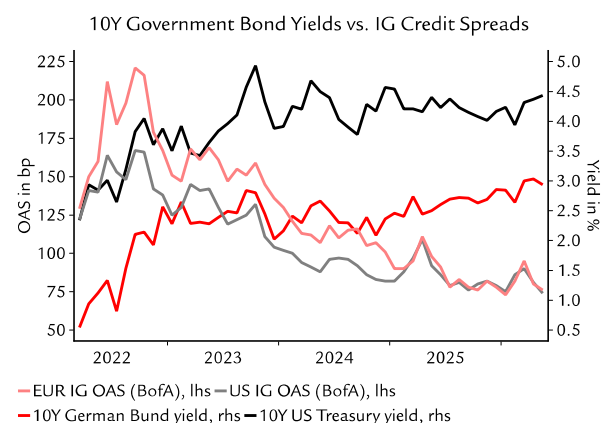
- Given softer activity and inflation data in the UK, 10-year gilt yields declined in May. Comparable to the US, IG spreads in the UK tightened last month.
- The Bank of England indicated it would tighten policy in the event of a “larger or more protracted shock”. We expect one rate hike in September 2026.

Switzerland

- Driven mainly by energy prices, inflation rose from 0.3% to 0.6% in April and Swiss 10-year government bond yields increased temporarily. Swiss IG credit spreads were rather stable in May as well as year-to-date.
- We expect the SNB to hold its policy rate at 0% and to start hiking toward neutral only in late 2027.

Spreads are correlated to government bond yields

The empirical correlation between government bond yields and credit spreads is typically negative, as rising rates often coincide with strong growth and higher inflation expectations, leading to lower default risk and tighter spreads, while the opposite holds during risk-off periods. This relationship can, however, turn positive when inflation is driven by adverse shocks rather than robust demand – such as supply-side disruptions or rising inflation expectations – forcing central banks to tighten monetary policy despite weakening growth; in such cases, higher rates reflect tighter financial conditions and lead to rising credit risk and wider spreads. Periods of suppressed risk-free rates have also encouraged a search for yield, compressing spreads. Since mid-2022, spreads have tightened alongside rising 10-year yields but following the Iran war in late February 2026 and higher energy prices, rates have continued to rise, increasing the risk that the correlation could turn positive if rates remain elevated. A prolonged closure of the Strait of Hormuz would further weaken corporate fundamentals via higher energy prices, tighter financial conditions and slower growth, with a stronger impact on eurozone companies than on US peers. Our base case remains that oil prices will decline in the coming months; we therefore maintain a neutral stance on IG, HY and Swiss IG spreads and expect lower 2-year and 10-year government bond yields in the US, eurozone and Switzerland in June.



Equities

Semiconductor rally

Regional equity markets	May 2026*	Year-to-date*
USA	5.2%	10.9%
Eurozone	4.1%	8.0%
UK	0.5%	6.8%
Switzerland	3.4%	4.2%
Emerging markets	9.7%	25.6%

MSCI net total return indices in local currency.

* Performance as at 29 May. Source: Bloomberg

USA

- The US equity market rose by 5.2% in May, supported by a strong rally in semiconductor stocks and a solid end to the earnings season.
- The Philadelphia Semiconductor Index (SOX) has surged, gaining 79% year-to-date and 67% since the end of March.
- However, the overall market rally remains highly concentrated, with very narrow market breadth driven primarily by semiconductor stocks.
- Despite strong earnings growth, the market valuation is now very rich again (P/E ratio of 26).

Eurozone

- Eurozone equities performed broadly in line with the US market in May, trailing the US market by only 1.8% year-to-date.
- This performance is notable given the region's limited exposure to AI and semiconductor stocks. At the same time, earnings growth is significantly weaker than in the US.

UK

- The UK underperformed in May, reflecting its defensive sector profile and little technology exposure.

Switzerland

- The Swiss equity market continued to lag behind due to its sector composition.

Emerging markets

- Emerging markets continued to outperform in May, supported by their high exposure to AI-related infrastructure. The largest technology companies account for around 35% of the index.
- Similar to the US, market breadth is narrow. The biggest tech names like Samsung or SK Hynix have risen by 150–250% year-to-date.
- However, earnings do support the rally. For emerging markets, earnings growth is expected to be around 40% in 2026, with Korean earnings projected to grow by more than 100%.

Semiconductor rally, earnings season and the market

Semiconductor stocks have risen sharply this year, with gains ranging from 50% to 250%, and even stronger performance over the past three years. Similar patterns were observed during the tech bubble in 2000 and like then, we are told that “this time is different”. Valuations of semiconductor stocks now appear elevated, in particular in the US (see table below). The semiconductor index trades at a P/E ratio of around 70 and AMD has a P/E ratio of more than 170. For Asian stocks, the pattern is different: although their price performance has been stronger, their valuation remains relatively moderate, with P/E ratios of 20-25. Given their expected earnings growth, these valuations do not appear excessive. In our view, US semiconductor stocks look expensive and somewhat overhyped, while Asian stocks still trade at reasonable prices. However, in both cases, the extreme growth rates and margins need to persist for the next years to justify valuations. This is far from certain as it rests on the assumption that computing power needs to be maximised at any cost to harness the benefits of AI.

Stock	Performance YTD in %	PE ratio (trailing)	PE 2027	Earnings growth 2026
Micron Technology	225%	43.5	8.9	538%
AMD	131%	171.5	38.4	73%
Nvidia	14%	37.2	17.0	85%
ASML	51%	53.4	33.7	27%
TSMC	49%	30.9	18.6	127%
Samsung	146%	23.5	5.3	465%
SK Hynix	246%	21.0	5.7	356%
Philadelphia Semiconductor Index	80%	70.1	22.3	95%
Korea Stock Market	95%	22.4	7.3	125%

Sources: Bloomberg, Swiss Life Asset Managers. Last data point: 28.05.2026

The recent earnings season, especially in the US and emerging markets, has delivered excellent results. Current expectations point to earnings growth of 12–18% for developed markets in 2026–2027, while emerging markets are forecast to grow by around 40% in 2026 and 20% in 2027. Net earnings revisions are clearly positive. Despite this positive development, risks have increased. Inflation and interest rates have risen, parts of the US equity markets show bubble-like characteristics and geopolitical tensions remain elevated.

For now, we retain a positive outlook on equities primarily supported by strong earnings momentum, which is likely to persist over the next one to two quarters. However, our full-year performance target of around 10% for global equities has already been reached. As a result, any further significant market gains would likely lead us to adopt a more cautious stance.

Currencies

Room for further USD strength

	May 2026*	Year-to-date*	1-month view
EUR/USD	-0.6%	-0.7%	↘
EUR/CHF	-0.7%	-2.2%	→
GBP/USD	-1.1%	-0.1%	↘
USD/JPY	1.7%	1.6%	→

* Performance as at 29 May. Source: Bloomberg

USA

- The USD reversed some of its losses from the previous month and appreciated roughly 1% on a trade-weighted basis in May. The lack of a resolution in the Iran conflict and the increase of rate hike expectations for the Federal Reserve (see main text) supported the greenback.
- We keep our positive view on the USD as geopolitical risks in the Middle East are likely to remain high and as real yield differentials remain supportive.

Eurozone

- The EUR lost against the USD, but gained against GBP and JPY in May. Overall, the EUR remained unchanged on a trade-weighted basis.
- We think that the market's rate hike expectations for the ECB are too aggressive and expect USD to remain well supported. Therefore, we reiterate our negative view for EUR/USD.

UK

- After strong gains in April, GBP weakened against EUR and USD in May. Weaker-than-expected inflation numbers and lower expectations regarding policy rate hikes by the Bank of England contributed to Sterling's weakness.
- We reiterate our negative view on GBP/USD and neutral view on GBP/EUR.

Switzerland

- May was an uneventful month for CHF exchange rates, as trading was range-bound against EUR and USD.
- We reiterate our neutral view on EUR/CHF and positive view on USD/CHF.

Japan

- In May, the USD/JPY exchange rate recovered from its sharp drop that occurred at the end of April.
- The JPY remains under depreciation pressure, but the risk of currency interventions should keep the USD/JPY close to the 160 mark. We thus hold a neutral view on USD/JPY.

Monitoring the leadership transition at the Fed

As expected, many FX developments from the month of April were reversed in May. In April, the USD weakened broadly as optimism regarding the Middle East conflict rose in the wake of the ceasefire announcement. In May, however, the USD was back in investors' favour as talks between Iran and the US dragged on, with hopes of a near-term opening of the Strait of Hormuz vanishing. What also supported the USD in May was the financial markets' re-pricing of Fed expectations, from cuts in mid-April to almost one hike being priced now until December 2026. Meanwhile, the aggressive pricing of ECB hikes was somewhat reduced. The moves came on the back of hot inflation data out of the US and less concerning inflation, but more worrisome growth data out of Europe. The better medium-term US economic outlook, which is strongly driven by the ongoing AI capital expenditure boom, also led to higher US real interest rates for the 5-year horizon. We believe that the current differential against EUR rates would imply an even lower EUR/USD exchange rate (see chart), especially as the confidence crisis regarding US institutions has abated. What has prevented an even stronger USD appreciation so far? It could well be that FX investors are still cautious in the midst of the leadership transition at the Federal Reserve. There is a certain risk that the political pressure on the Fed could lead the FOMC under its new Fed Chair Kevin Warsh to engage in a too easy monetary policy. However, given mounting inflation risks, we think that the path of least resistance for the FOMC is to keep policy rates unchanged this year and to monitor the situation. The upcoming 17 June FOMC meeting and its press conference will be crucial for investors to gauge the style and the policy stance of the new Fed Chair.



Sources: Macrobond, Bloomberg, Swiss Life Asset Managers. Last data point: 29.05.2026

Asset allocation

Capturing the upside, but well diversified

May in review

- Global equities advanced despite rising Treasury yields and ongoing geopolitical uncertainty. Emerging markets and US stocks showed the strongest performance.
- Sovereign bond yields moved higher as upside risks to inflation persisted.
- US corporate credit spreads continued to tighten in May, while European spreads remained broadly unchanged.
- The USD strengthened on a trade-weighted basis over 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

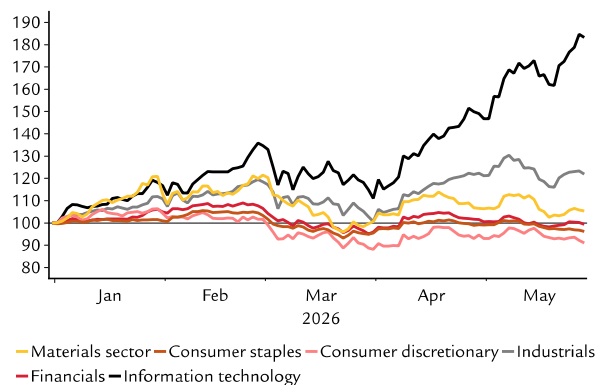
- Despite the prolonged Iran conflict, we continue to expect some form of resolution over the short to medium term, supporting our overweight stance in risky assets.
- We maintain an overweight position in global equities, supported by solid earnings dynamics, still-contained inflation, and an ongoing cyclical recovery.
- Within equities, we continue to favour the US and emerging markets, both underpinned by strong corporate earnings growth and a supportive macroeconomic backdrop.
- We retain our overweight position in Swiss equities, given their diversification benefits away from AI-driven themes and their resilient corporate fundamentals.
- In corporate credit, we remain cautious, as spreads are at historically tight levels, limiting return potential and offering insufficient compensation for risk relative to equities.
- While the recent increase in government bond yields has improved their attractiveness, we remain neutral for now.
- We continue to favour exposure to real assets, particularly NAV-based real estate and infrastructure.

Emerging markets ride the AI wave

Emerging market equities have been among the key beneficiaries of the AI investment cycle, with technology-heavy markets in Asia, most notably Taiwan and South Korea, playing a central role. Their dominance in semiconductors, hardware and supply chains has made them critical enablers of AI adoption, translating into strong earnings momentum and equity performance.

This exposure has increasingly shifted EM equity returns away from traditional macro drivers toward structural growth themes, with AI-related demand supporting both top-line growth and margin resilience. As a result, the dispersion within EM has widened, with AI-linked sectors and markets significantly outperforming more domestically oriented or commodity-driven segments.

MSCI EM indices: sector dispersion



While we view this AI-driven EM exposure positively and continue to see it as a key structural growth pillar, we also place importance on diversification. In this context, Swiss and European equities offer a complementary allocation, providing exposure to high-quality, globally diversified companies with more defensive earnings profiles and lower cyclicality. This helps balance the more concentrated and technology-driven nature of EM AI exposure within a broader multi-asset framework.

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