

September 2026

Interest rates & bonds

Geographical government bond yield divergence

	10-year government bond yield			Investment-grade credit spread		
	Current	Aug. 2026*	Year-to-date*	Current	Aug. 2026*	Year-to-date*
US	4.7%	-6 bps	51 bps	78 bps	0 bps	0 bps
Eurozone	3.3%	5 bps	40 bps	78 bps	-1 bps	0 bps
UK	5.0%	-2 bps	55 bps	86 bps	-3 bps	3 bps
CH	0.4%	-5 bps	9 bps	77 bps	1 bps	-2 bps

10-year government bond yield eurozone = DE, bps = basis points.
* Change as at 27 August. Source: Bloomberg

USA

- US Treasury yields fell in August after inflation figures for July declined from June and retail sales disappointed. USD IG spreads were stable, while USD HY spreads tightened.
- Middle East-related energy risks remain a concern for inflation, but second-round effects are not our base case. We expect the Fed to remain on hold this year despite elevated headline inflation.

Eurozone

- As in the previous month, German government bond yields rose across the curve in August as higher oil and gas prices lifted inflation expectations. EUR IG and HY spreads tightened again.
- Inflation remains above target, but weak growth and soft momentum should limit tightening beyond the well-telegraphed September ECB policy rate hike.

UK

- Core inflation remained at 2.6% in July but was again above expectations. 10-year gilt yields rose in August, while UK IG spreads tightened slightly.
- Given recently mixed data, we now expect one policy rate hike in November, rather than September as previously assumed.

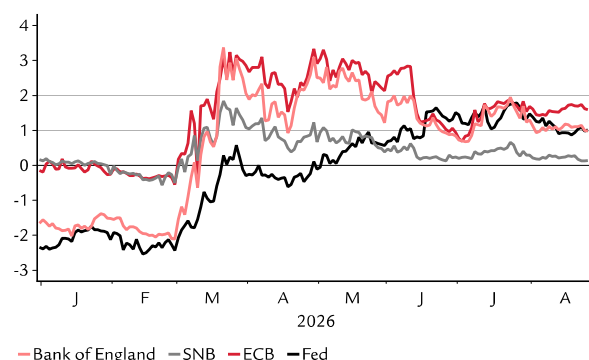
Switzerland

- Core inflation was stable at 0.3% in July and in line with expectations. Swiss 10-year sovereign yields declined, and Swiss IG spreads widened only slightly.
- With little domestic inflation to tame, we expect the SNB to stay on hold unless the ECB starts, or markets price in, a sustained hiking cycle.

Government bond yields went up in 2026

Year-to-date, 10-year government bond yields in the eurozone and the US rose by 40-50 bps. In the US, three factors were decisive. First, rising fiscal deficits, higher US Treasury supply and changed communication under the new Fed chair pushed long-term interest rates higher. Second, market expectations that the Fed will keep interest rates higher for longer strengthened after the Iran war began at the end of February. Third, strong growth reduced recession fears and safe-haven demand for US Treasuries. In the eurozone, three similar drivers were at work. First, fiscal expansion and higher sovereign issuance lifted term premia, as investors focused more on rising government borrowing needs due to defence and infrastructure spending. Second, concerns regarding sticky inflation rose as Iran-war-related energy price rises lifted short-term inflation expectations. Third, the ECB turned hawkish, raising its deposit rate by 25 bps in June 2026 and maintained a tightening bias thereafter. Tight credit spreads leave limited room for excess returns versus government bonds and imply correction risk. Bond issuance is likely to pick up, and larger deals could weigh on market conditions, especially in European credit markets, as the US market appears saturated. We are therefore neutral on IG USD spreads but expect wider spreads in IG EUR and HY. For 2-year and 10-year government bonds in August, we expect lower yields in the US and eurozone but remain neutral on Switzerland.

Estimated number of interest rate moves (25 bp) priced in by the end of 2026



Sources: Bloomberg, Macrobond, Swiss Life Asset Managers Research. Last data point: 26.08.2026

Equities

Strong earnings season lifts markets in August

Regional equity markets	Aug. 2026*	Year-to-date*
USA	3.4%	13.5%
Eurozone	1.1%	13.1%
UK	-0.3%	11.5%
Switzerland	0.4%	10.6%
Emerging markets	3.6%	24.3%

MSCI net total return indices in local currency.
* Performance as at 27 August. Source: Bloomberg

USA

- Strong earnings results, particularly from AI-related stocks, helped the US market rebound in August.
- The earnings season delivered the strongest results since 2021, and 2026 is one of the few years in which earnings estimates have been revised upward as the year progresses (see article on the right).
- There is a wide gap between the current P/E-ratio (around 26) and forward P/E (around 20).

Eurozone

- Eurozone stocks underperformed the US market in August, but only in local currency terms.
- As in the US, the eurozone experienced one of its strongest earnings seasons in many years. Unlike the US, however, this was not primarily driven by AI-related stocks.

UK

- The UK market once again demonstrated its defensive features and underperformed in August.

Switzerland

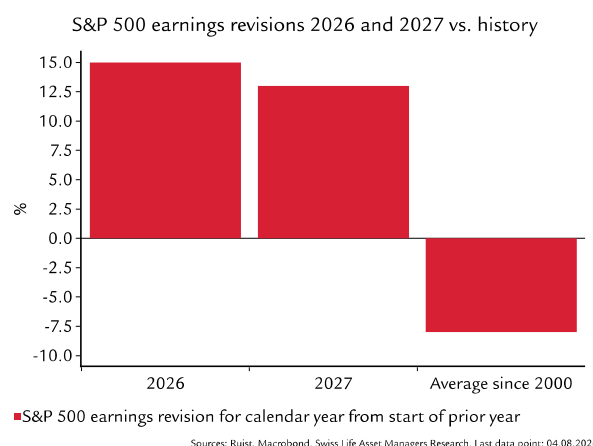
- Similar to the UK, the Swiss market underperformed in August, mainly due to weaker performance from Nestlé and insurance stocks.

Emerging markets

- As in the US, AI-related stocks recovered in August (USD terms), helping the broader market gain 3.6%.
- A very strong earnings season has left emerging markets trading at very low valuations. The current P/E ratio is around 15.0, while the forward P/E ratio is only 9.2.
- It is notable how low the valuations of key companies such as SK Hynix, Samsung and Taiwan Semiconductor remain. SK Hynix is trading at a current/forward P/E ratio of 7.4/3.6, while Samsung is trading at 11.3/4.0. Taiwan Semiconductor is trading at 28.0/18.5. These valuations suggest that investors have doubts about the sustainability of margins and earnings among Korean AI-related stocks.

Earnings season update and market outlook

The Q2 earnings season was exceptionally strong. In the US, earnings rose by almost 50%, with nearly 90% of companies exceeding expectations. Even excluding the (unrealized) valuation gains on stakes in private AI companies, earnings growth remained well above 20%, while median earnings growth exceeded 10%. AI-related companies are estimated to have contributed 30% to 50% to total US earnings in Q2. European earnings were also very strong. Although the share of AI companies is small, earnings still grew by more than 20%. In emerging markets, earnings rose by more than 80% and exceeded expectations by 30%. This outstanding performance was largely driven by Asian AI-related stocks and the South Korean market. At the same time, earnings forecasts for the broad US market for 2026 and 2027 have been revised upward since the start of the year, a rare development (see chart below). Once again, much of this improvement reflects increasingly optimistic expectations for AI-related companies.



Strong earnings and optimistic profit expectations for the next one to two years appear largely reflected in current market pricing and, without further positive surprises, are unlikely to drive markets materially higher. Several factors could weigh on markets this autumn: 1. The Iran war remains unresolved. 2. Markets appear sceptical of some earnings projections, as reflected in the low P/E ratios of several memory-chip stocks, which are trading below 10. 3. Higher debt and equity issuance combined with lower share buybacks are changing the supply-demand patterns we saw in the past 15 years. 4. Seasonal patterns are typically weak in September and October. Overall, we maintain a rather cautious stance for September.

Currencies

Focus returns to interest rate differentials

	Aug. 2026*	Year-to-date*	1-month view
EUR/USD	1.1%	-0.8%	↘
EUR/CHF	0.7%	0.7%	→
GBP/USD	0.8%	0.9%	↘
USD/JPY	1.3%	1.7%	→

* Performance as at 27 August. Source: Bloomberg

USA

- At the time of writing, the USD had depreciated by 1.2% in August on a trade-weighted basis in July. The Treasury announcement to boost purchases of long-dated bonds was a major reason for the weakness (see main text).
- We maintain a positive view on the USD due to favourable yield differentials and the continued resilience of the US economy.

Eurozone

- The EUR strengthened again vs. CHF and USD in August. A string of better-than-expected activity and survey data contributed to the positive performance.
- Nevertheless, yield differentials suggest that EUR/USD is above its fair value of around 1.10, and we thus continue to expect a lower EUR/USD over the coming month.

UK

- GBP appreciated against the USD and remained largely stable against EUR in August.
- We are reiterating our negative view on GBP/USD and our neutral view on GBP/EUR.

Switzerland

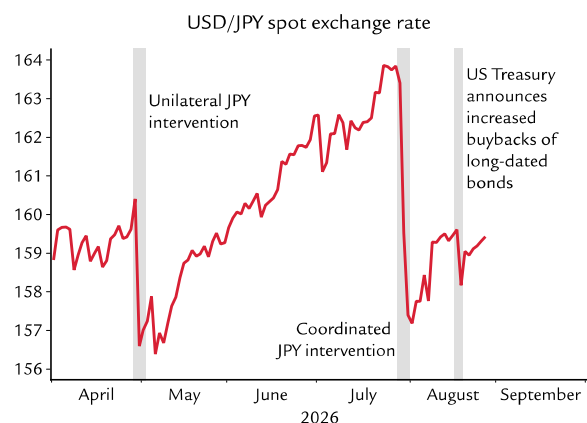
- CHF had another relatively weak month against EUR, with EUR/CHF briefly touching the 0.94 mark in August. Investors turning to CHF instead of JPY as a funding currency may have played a role (see main text).
- After three months of appreciation, we expect EUR/CHF to take a breather in September. Our view is neutral on EUR/CHF and positive on USD/CHF.

Japan

- The upward move in USD/JPY resumed in August after the sharp drop due to the coordinated currency intervention at the end of July (see chart).
- We are neutral on USD/JPY as the risk of currency interventions should cap the upside.

Interventions in the US and Japan driving FX markets

Under normal circumstances, we deem the yield differentials to be one of the most important drivers for currency markets. This was certainly the case for CHF in August, as EUR/CHF likely benefitted from the carry trade, i.e. cheap funding in CHF to invest in higher-yielding EUR. The safe-haven properties of CHF were apparently not in demand in August despite continued geopolitical uncertainties. The yield differential and the related carry trade have also led to structural JPY weakness, although the depreciation has occasionally been (temporarily) reversed by currency interventions – the last time at the end of July in the first coordinated US-Japanese intervention since 1998. The risk of currency intervention might be a reason for speculative investors to have turned to CHF instead of JPY as a funding currency in August. Despite continued expectations of further rate hikes by the Bank of Japan, the pace appears to be too slow to remove the depreciation pressure on the JPY. After the sharp appreciation due to the currency intervention, USD/JPY has moved up again somewhat over the course of August. Meanwhile, another intervention has shaken FX markets in August, namely the US Treasury's announcement to boost purchases of long-dated bonds to break the relentless upward move in yields, notably in the 30-years segment. This move, which does not contribute anything to fix the underlying cause of higher real yields – namely structural budget deficits – has likely again dented the confidence of some investors in US institutions and contributed to the USD weakness in August. Nevertheless, yield differentials in the relevant shorter segment of the yield curve – notably two years – remain substantial vis-à-vis most major developed market currencies, which is why we are retaining a positive view on the greenback.



Sources: Macrobond, Swiss Life Asset Managers Research. Last data point: 27.08.2026

Asset allocation

Change is the only constant

August in review

- Following a challenging July, global equities advanced in August, supported by resilient economic data and strong Q2 earnings. The rally was broad-based, led by AI-related Nasdaq and emerging markets while Canada and Asia Pacific ex Japan continued to turn in a strong performance.
- Sovereign bond yields once again moved higher across major markets, driven by persistent fiscal deficits, heavy corporate borrowing and solid growth.
- Investment-grade credit spreads remained broadly stable as corporate issuance was well absorbed by strong demand.
- The USD depreciated on a trade-weighted basis.

Current asset allocation views

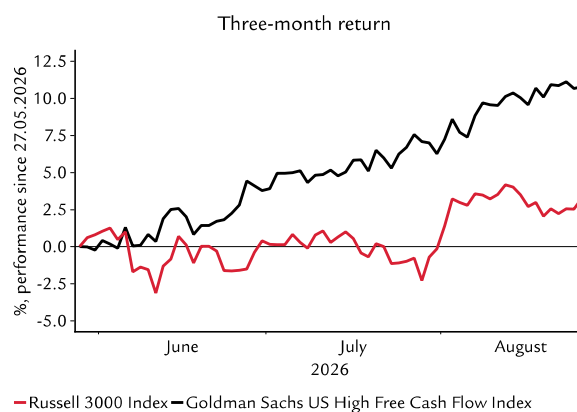
Asset class	Active weight
Global government bonds	neutral
Global investment-grade credit	underweight
Global equities	overweight

Source: Swiss Life Asset Managers

- Within risky assets, we still prefer equities and real assets over credit due to the more attractive risk/reward profile. We thus have a slight overweight in equities and an underweight in credit for September.
- We believe that monetary conditions may become less tight than expected. Policy rate hikes are largely priced in, and recent economic data point to a softer macroeconomic environment which may even allow the Fed to remain on hold. Additionally, although high long-end rates are historically a headwind for equities, the recent increase has been gradual rather than disruptive, unlike the sharp move seen in 2022.
- Within equities, we remain overweight in the US and emerging markets due to strong fundamentals. We also upgraded Europe to overweight on the back of an improving economic backdrop.
- We remain neutral on government bonds overall; however, we strongly prefer short-end rates over long-end rates.
- We continue to favour gold, Swiss NAV-based real estate and infrastructure.

Investing through narrative shifts

The US economy continues to display many characteristics typically associated with a mid-cycle environment. Growth remains resilient, supported by a solid labour market, and consumers remain in relatively healthy financial condition, although signs of weakness are emerging. Meanwhile, inflation is elevated, and uncertainty around its future path continues to fuel debate regarding the outlook for monetary policy. Against this backdrop, markets are constantly reassessing the balance between growth and inflation risks. Incoming economic, corporate and consumer data tend to prompt sharp shifts in investor sentiment, contributing to elevated volatility across asset classes. In some months, the economy appears to be achieving a near-perfect "Goldilocks" scenario, characterised by solid growth and moderating inflation. In others, concerns are arising that the economy may be transitioning toward a more challenging phase of the cycle. We believe the investment landscape is becoming increasingly selective, reminiscent of 2021. Investors are placing a growing premium on companies with strong balance sheets, durable earnings growth, and robust free cash flow generation. In an environment where the cost of capital remains high and economic visibility is limited, quality is still a key differentiator.



Sources: Bloomberg, Macrobond, Swiss Life Asset Managers Research. Last data point: 27.08.2026
The GS US High Free Cash Flow Index targets companies in the Russell 3000 with high free cash flow as a % of their enterprise value

As a result, we prefer high-quality equity markets and segments that are well positioned to withstand frequent shifts in market narratives. At the same time, we see catch-up potential in select cyclical sectors and regions that have lagged the broader market and could benefit from improving fundamentals and attractive valuations. Within fixed income, we continue to favour short-duration bond exposure, as interest rate volatility is likely to remain elevated.

Swiss Life Asset Managers



Sven Kreitmair
Portfolio Manager Fixed Income
sven.kreitmair@swisslife-am.com
in sven_kreitmair



Andreas Homberger
Head Quantitative Equities
andreas.homberger@swisslife-am.com
in andreas_homberger



Damian Künzi
Head Macroeconomic Research
damian.kuenzi@swisslife-am.com
in damian_künzi



Florence Hartmann
Economist Developed Markets
florence.hartmann@swisslife-am.com
in florence_hartmann



Stephanie Zwick
Head Multi Asset
stephanie.zwick@swisslife-am.com
in stephanie_zwick



If you have any questions or if you would like to subscribe to this publication,
please send an e-mail to: info@swisslife-am.com.

For more information visit our website at: www.swisslife-am.com/research



Released and approved by the Macroeconomic Research Department, Swiss Life Investment Management Holding Ltd, Zurich

Swiss Life Asset Managers may have acted upon or used research recommendations before they were published. The contents of this document are based upon sources of information believed to be reliable, but no guarantee is given as to their accuracy or completeness. This document includes forward-looking statements which are based on our current opinions, expectations and projections. We undertake no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in the forward-looking statements.

France: This publication is distributed in France by Swiss Life Asset Managers France, 122 Rue La Boétie, F-75008 Paris to its clients and prospects. **Germany:** This publication is distributed in Germany by Swiss Life Asset Managers Deutschland GmbH, Clever Strasse 36, D-50668 Köln, Swiss Life Asset Managers Luxembourg, Niederlassung Deutschland, Darmstädter Landstraße 125, D-60598 Frankfurt am Main and BEOS AG, Kurfürstendamm 188, D-10707 Berlin. **UK:** This publication is distributed by Swiss Life Asset Managers UK Ltd., 55 Wells Street, London W1T 3PT. **Switzerland:** This publication is distributed by Swiss Life Asset Management Ltd., General-Guisan-Quai 40, CH-8022 Zürich. **Norway:** This publication is distributed by Swiss Life Asset Managers Holding AS, Haakon VIIs gt 1, NO-0161 Oslo. **Italy:** This publication is distributed by Swiss Life Asset Managers Luxembourg, succursale Italia, Via San Prospero 1, I-20121 Milano. **Denmark:** This publication is distributed by Swiss Life Asset Managers Danmark, filial af Swiss Life Asset Managers Luxembourg, Luxembourg Frederiksgade 11, 1. tv, 1265 København K.