Perspectives
Financial Markets

SwissLife Asset Managers

October 2026

Interest rates & bonds
Global rise in bond yields

	10-year government bond yield			Investment-grade credit spread		
	Current	Sep. 2026*	Year-to-date*	Current	Sep. 2026*	Year-to-date*
US	5.2%	45 bps	103 bps	77 bps	-1 bps	-1 bps
Eurozone	3.6%	28 bps	74 bps	87 bps	8 bps	9 bps
UK	5.4%	32 bps	90 bps	90 bps	4 bps	7 bps
CH	0.6%	21 bps	35 bps	78 bps	2 bps	-1 bps

10-year government bond yield eurozone = DE, bps = basis points.
* Change as at 24 September. Source: Bloomberg

USA
- US Treasury yields moved higher in September, driven by the surge in oil prices and, above all, higher growth expectations. USD IG spreads tightened, while USD HY spreads widened slightly.
- Leading indicators point to improving growth momentum, whilst inflation remains above the central bank's target. We have revised our Fed outlook and now expect two more rate hikes.

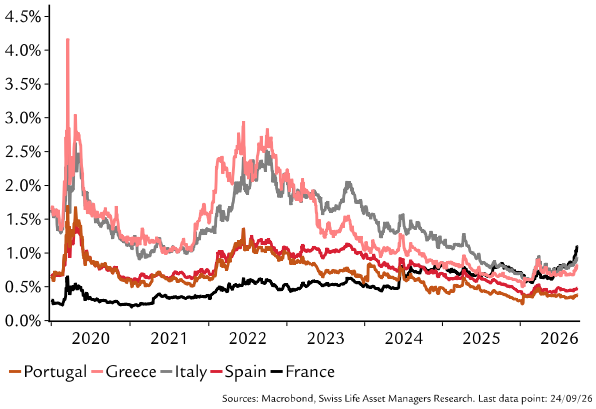
Eurozone
- German government bond yields rose across the curve in September on higher inflation and growth expectations. Both EUR IG and HY spreads widened.
- As expected, the ECB raised rates by 25bp in September. We have revised our ECB outlook and now expect one further rate hike.

UK
- Core inflation remained at 2.6% in August, while GDP growth expectations increased. 10-year gilt yields rose in September, and IG spreads widened.
- Inflation and Middle East developments remain key drivers for the BoE. We have revised our BoE outlook and now expect two more hikes.

Switzerland
- GDP growth expectations for 2026 increased and core inflation surprised to the upside in August. Swiss 10-year sovereign yields increased as a result.
- The weak CHF and improved economic data are opening up an opportunity for the SNB to normalise monetary policy to some extent. We expect two interest rate rises of 25 basis points each in 2027.

Government bonds: France underperformed Iberia
The spread between 10-year government bond yields and German Bunds is a key indicator of sovereign credit risk, fiscal sustainability, political stability, and euro area fragmentation risk. German Bunds serve as the region's risk-free benchmark due to Germany's strong fiscal position, liquid bond market, and prudent debt management. Despite higher public debt levels in many countries, fragmentation risk in the euro area is notably lower than during the 2011–12 sovereign debt crisis. This reflects strong ECB backstops (e.g. OMT and TPI), greater confidence in the euro, and better-capitalised banks. Nevertheless, markets reacted sensitively to France's fiscal deterioration and Italy's high debt burden. The corresponding widening of spreads suggests that concerns about fragmentation have shifted to broader issues such as fiscal deficits, rising debt-to-GDP ratios, ageing populations, and governments' willingness to consolidate public finances. Given the elevated uncertainty, we are neutral on 2-year and 10-year government bond yields in the US, eurozone and Switzerland over a one-month horizon. In credit, marginally supportive technicals and fundamentals are offset by tight credit spreads. At the same time, risks remain elevated, including geopolitical tensions, volatile energy prices and interest rates, disruptions related to AI adoption, and concerns about wider sovereign spreads. We are neutral on IG spreads but expect HY spreads to widen.

10-year government bond yield spread over German Bunds



Sources: Macrobond, Swiss Life Asset Managers Research. Last data point: 24/09/26

Equities

Earnings and AI hopes stronger than headwinds

Regional equity markets	Sep. 2026*	Year-to-date*
USA	0.3%	13.2%
Eurozone	-1.8%	10.9%
UK	-1.1%	10.5%
Switzerland	-2.1%	7.4%
Emerging markets	0.9%	25.2%

MSCI net total return indices in local currency.
* Performance as at 24 September. Source: Bloomberg

US

- Despite significant headwinds, the US market rose by 0.3% in September. The Fed hiked rates, while the AI segment delivered mostly negative news, including delayed IPOs, security issues and proposals to slow development.
- Both the current and forward P/E ratios of the US stock market are lower than at the start of the year.

Eurozone

- Eurozone stocks, with their lower IT exposure, lost 1.4% in September. Due to this underperformance, the European market is now also behind the US market for 2026.
- The European market is around fair value. We consider high-dividend stocks attractive, as they offer a dividend yield of more than 4% and trade at lower valuations than the broad market.

UK

- The UK market performed in line with the continental European market in September.

Switzerland

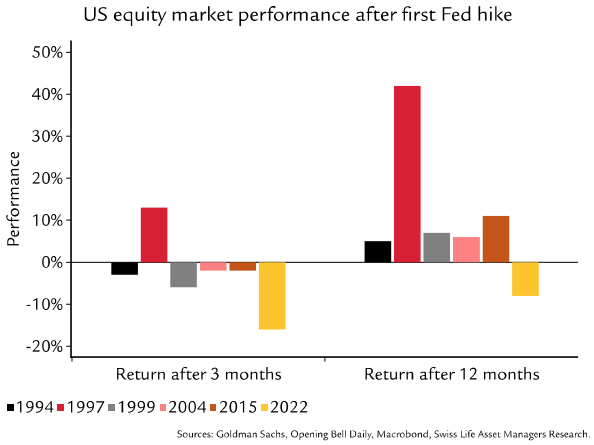
- The Swiss market continued its streak of underperformance in September and is now the weakest performer in our ranking.
- The weakness was broad-based, with only 5 of the 20 SMI stocks up in September.

Emerging markets

- Emerging markets continued to recover from the July drawdown.
- Taiwan and Korea contributed positively in Asia, while Brazil and Colombia were strong in Latin America. China and India were once again the laggards.
- Emerging markets are still attractively valued. The current P/E ratio is 15 and the forward P/E ratio is below 10. However, the index is now highly concentrated in Asia and a few AI-related stocks.

Fed rate hikes and the equity market

In September, the Fed delivered its first rate hike since July 2023. Historically, the first Fed rate hike in a cycle has been followed by negative equity market performance over the subsequent three months. After 12 months, however, average performance across rate-hiking cycles has been clearly positive (see chart below). Performance was weakest when inflation was very high at the time of the first hike and strongest when tightening was gradual. We think this cycle could be different and expect equity markets to rise over the coming three months.



Sources: Goldman Sachs, Opening Bell Daily, Macrobond, Swiss Life Asset Managers Research.

In our view, a broad-based correction is currently unlikely for several reasons. First, earnings growth is exceptionally strong, and we expect Q3 earnings to be strong once again. Current consensus estimates for the US market imply year-on-year earnings growth of 25–30% in Q3 and 20–25% in Q4. Earnings estimates are still being revised upwards, and 2026 is one of the few years in which earnings estimates have been upgraded as the year progressed. Due to this strong earnings growth, which in most cases has exceeded equity market performance, valuations are now lower than at the beginning of the year. While concerns about AI overinvestment and the viability of frontier labs' business models are well justified, we do not yet expect a significant downturn in the AI segment (see our special AI Perspectives edition, coming out soon). In addition, seasonality is strongest in Q4, and neither the US nor the global economy shows signs of weakness. However, we are cognisant of the risks: Fed hikes have often preceded recessions and bear markets, wars remain unresolved, and sentiment towards AI stocks and business models is too sanguine. Medium-term risks therefore remain significant.

Currencies

CHF depreciation has likely come to an end

	Sep. 2026*	Year-to-date*	1-month view
EUR/USD	-2.0%	-3.1%	↘
EUR/CHF	0.3%	1.2%	↘
GBP/USD	-2.4%	-1.9%	↘
USD/JPY	-0.6%	1.4%	↗

* Performance as at 24 September. Source: Bloomberg

USA

- At the time of writing, the USD had appreciated 1.3% in September on a trade-weighted basis. The policy rate hike by the US Federal Reserve, the hawkish rhetoric and surprisingly positive economic data supported the greenback.
- We maintain a positive view on the USD until year-end, supported by favourable yield differentials and the continued resilience of the US economy.

Eurozone

- The EUR lost around 1.0% on a trade-weighted basis in September. Economic data was solid and the ECB hiked as expected in September, but this was overshadowed by even stronger signals from the US economy and the Fed and consequently led to a weaker EUR/USD.
- We maintain our negative view for EUR/USD until year-end.

UK

- GBP depreciated against the USD and has remained largely stable against EUR so far in September, as the Bank of England signalled no urgency to tighten monetary policy.
- We reiterate our negative view on GBP/USD and our neutral view on GBP/EUR.

Switzerland

- The EUR's appreciation against CHF took a breather in September (see main text). The SNB left interest rates unchanged in September as expected.
- We shift our view on EUR/CHF from neutral to negative. Our view on USD/CHF is neutral.

Japan

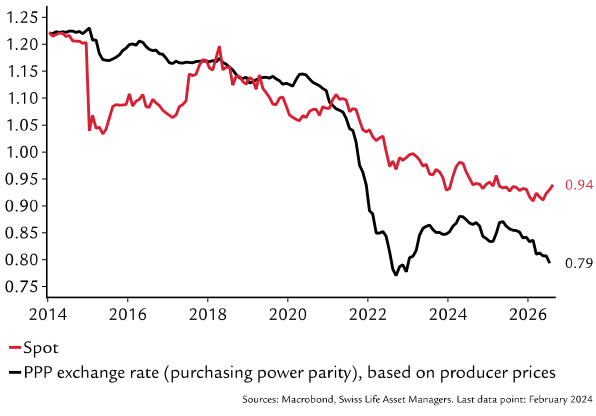
- The JPY appreciated at the beginning of September but gave back some of those gains as markets were not impressed by the interest rate hike and the cautious rhetoric by the Bank of Japan at its September meeting.
- We expect JPY weakness to continue and thus shift our view on USD/JPY from neutral to positive.

Reassuring signals from the Fed support the USD

In September, the almost continuous depreciation of the CHF against the EUR since the end of May came to a halt. Nevertheless, the CHF still appears undervalued against EUR according to a purchasing power parity model based on producer prices (see chart below). The model also indicates that the CHF is undervalued against the USD. Hence, the recent exchange rate developments, in combination with upside surprises in Swiss inflation and GDP growth readings, could open a window of opportunity for the Swiss National Bank to move the policy rate away from zero. The two policy rate hikes that we now expect for the SNB in H1 2027 are very close to financial market consensus. By contrast, we still consider financial markets' expectations for ECB rate hikes too aggressive. We therefore see scope for the CHF to appreciate against the EUR by the end of the year. The uncertain geopolitical environment and rising political risks in Europe, which have already contributed to higher long-term yields especially in France, also support the CHF. As the JPY has not played its traditional safe-haven role this year, the CHF's importance as a safe-haven currency has increased.

Regarding the USD, the policy rate hike and accompanying rhetoric by the Federal Reserve in September have reassured investors that the Fed is independent and willing to tackle the persistently high inflation in the US. In combination with somewhat stronger economic data from the US and the US dollar's favourable interest rate advantage, we believe that the greenback will remain supported until year-end.

EUR/CHF end-of-month exchange rate



Sources: Macrobond, Swiss Life Asset Managers. Last data point: February 2024

Asset allocation

When the active approach matters

September in review

- Global equities proved resilient as the US and emerging markets continued to advance despite an increasingly challenging monetary environment. However, other major markets came under pressure amid higher interest rates and escalating tensions in Iran.
- Sovereign bond yields continued to move higher across major markets, as central banks raised policy rates further.
- Spread movements in September were mixed, with US spreads tightening and European spreads widening slightly.
- The USD appreciated on a trade-weighted basis.

Current asset allocation views

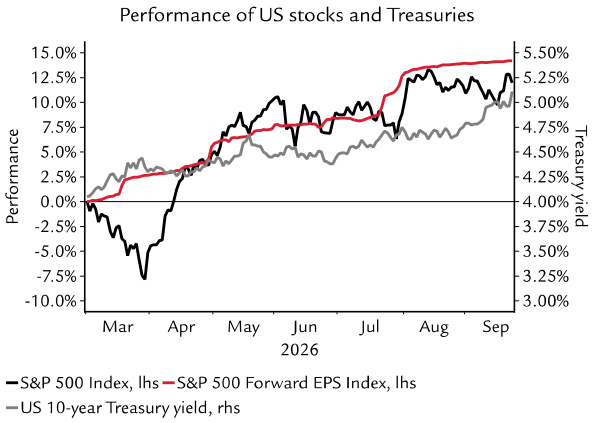
Asset class	Active weight
Global government bonds	neutral
Global investment-grade credit	underweight
Global equities	overweight

Source: Swiss Life Asset Managers

- We maintain our slight overweight in equities from last month. Continued positive earnings revisions and US corporates' ability to deliver on elevated earnings expectations provide a cushion against a more challenging monetary backdrop and ongoing geopolitical uncertainty.
- Within equities, we continue to be overweight in the US and emerging markets due to strong fundamentals. We also maintain an overweight position in Europe as a diversifier to the AI theme and a potential beneficiary of easing geopolitical tensions related to Iran.
- We remain neutral on rates overall, but with a short duration bias. Resilient growth and concerns around long-term fiscal sustainability keep us cautious on duration, despite rates already being at historically high levels.
- We maintain our underweight on credit, as we believe equities provide a more attractive risk-reward profile and greater participation in potential upside.
- We continue to favour real assets, such as gold, Swiss NAV-based real estate and infrastructure.

Powerful tailwinds versus growing headwinds

Financial markets have entered a complex macroeconomic environment characterised by powerful push-and-pull dynamics. On the one hand, corporate earnings have been exceptionally strong. Earnings-per-share forecasts have been revised upwards throughout the year, reflecting resilient corporate profitability despite higher interest rates and elevated energy costs.



Sources: Macrobond, Swiss Life Asset Managers Research. Last data point: 23/09/26

As a result, equity valuations also appear more reasonable than earlier in the cycle. Investor positioning in US large caps remains relatively cautious, which suggests there is still scope for inflows should confidence improve. At the same time, investors face a growing number of challenges. In particular, underlying inflation remains sticky, as substantial AI-related investment continues to drive demand for labour, energy and infrastructure. Against this backdrop, the strength of the US economy is becoming a double-edged sword, allowing the Federal Reserve to focus primarily on taming inflation without worrying about the labour market or economic activity. Monetary conditions could thus become tighter than expected. In addition, the beginning of a rate-hiking cycle has historically been a difficult period for risk assets, even though markets have generally absorbed higher rates over the medium term. Lastly, geopolitics remains a major source of uncertainty as earlier de-escalation efforts have made little progress.

We believe that it is precisely in challenging environments like this that a well-managed active multi-asset portfolio can differentiate itself from a passive approach. Through broad diversification, complemented by alternative strategies and the flexibility to adapt as market conditions evolve, our portfolios are well positioned to navigate the volatility that may lie ahead.

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