

27 October 2026

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At a glance

The European Central Bank (ECB) is widely expected to leave its key interest rates unchanged when its Governing Council meets on Thursday, 29 October. The decision should come as no surprise to markets, with the deposit facility rate likely to remain at 2.50%. The market consensus nevertheless points to a rate hike in December, followed by two further increases in 2027.

At Swiss Life Asset Managers, we also expect the ECB to raise rates in December, but then to keep them unchanged throughout next year. While caution remains essential, we believe that a resolution of the conflict in the Middle East should eventually ease the inflationary pressures caused by the surge in energy prices. Against this backdrop, interest rates should be used sparingly as a policy tool.

We will be paying close attention to the tone of Christine Lagarde’s remarks. The spread between French OATs and German Bunds recently widened to 160 basis points and could reach new highs in the coming months. Social tensions, together with political and budgetary uncertainty, are genuine causes for concern

and are making it harder for France to implement reforms. This comes as the International Monetary Fund (IMF) has cut its growth forecasts for the country from 0.9% to 0.4% for 2026 and from 0.9% to 0.7% for 2027.

The situation will need to be monitored closely in the run-up to the presidential election next April and May. At this stage, however, there is no reason for undue concern about France’s ability to finance its debt.

Turning to the US Federal Reserve, we also expect the Fed to leave its key interest rates unchanged at the next Federal Open Market Committee meeting. Markets are pricing in a rate hike in December, followed by two further increases in 2027.

In fixed income markets, wider spreads have restored the appeal of corporate credit, both Investment Grade and High Yield. More than ever, it offers a relevant alternative to equity markets for investors attracted by current yield levels and carry strategies.

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Publié et approuvé par Swiss Life Asset Managers France

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