Interest rate forecast until end 2022

Mortgage rates expected to remain low

We expect to continue seeing very attractive mortgage rates until the end of 2022, with low volatility similar to today's levels. The global economy appears to be recovering, albeit not as rapidly as in recent months and with minor setbacks over the year due to the pandemic, which has not yet been overcome. In Switzerland the economy is proving solid, and fears of a sustained and strong inflation have subsided. These are good prospects for mortgage borrowers.

Outlook

Development of the Swiss economy

The Swiss economy has proven that it can recover quickly from pandemic-related restrictions. It performed above the European average. Easing measures quickly led to more consumption opportunities, and the export industry has been benefiting from strong demand in Asia and the USA for some months now. The SECO's economists expect Swiss GDP to grow by around 3.6 percent in 2021 and by 3.3 percent in 2022. However, the Covid crisis is still not over, meaning that the risk of second-round effects such as bankruptcies or redundancies remains. An even greater growth would be possible if the private savings of the past year and a half were invested in consumption. Demand could then even be so strong that capacity bottlenecks could arise, like the one currently observed in the construction sector, which cause inflation. However, this scenario seems less realistic at present. The inflation forecast of the Swiss National Bank (SNB) is 0.4 percent for 2021 and 0.6 percent for 2022, which is well below the upper limit of 2 percent.

Development of mortgage interest rates

Capital market interest rates were very volatile in the spring but had little impact on mortgage rates. Overall, the level remained low. The announcement by the US Federal Reserve that it might raise key interest rates as early as 2023 hasn't changed anything. From today's perspective, the SNB is likely to leave the key interest rate at -0.75 percent until the end of 2022, which will not cause any significant increase in mortgage rates. The recent decline in short-term fixed mortgage rates compared with stable long-term fixed mortgages resulted in a slightly higher interest rate yearly premium.

We view the resulting slight increase in interest rate spread between maturities as the beginning of a slow return to a more familiar yield curve with higher mortgage rates for longer maturities than shorter ones.

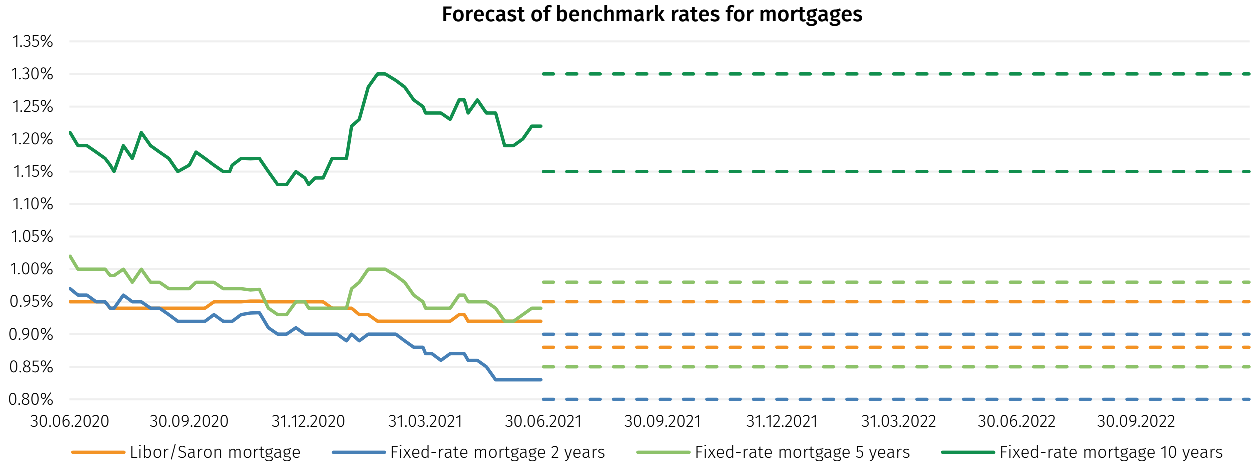
Due to several factors, we do not expect mortgage interest rates to rise significantly in the next few months:

- Acclimation to the pandemic and the impact of vaccinations are likely to lead to a flattening of the economic recovery. Although the global stock markets are volatile, they are proving relatively stable.
- Key interest rate increases in Switzerland are still not foreseeable. Inflation fears, that would threaten price stability, seem unfounded.
- The stability of the Swiss (residential) property market is likely to continue to result in low-risk premiums. Covid-related unemployment has also fallen back below the 3 percent mark in the summer of 2021.
- Due to the investment emergency, more and more alternative investors are issuing mortgages, which increases competition among providers.

House prices development

2021 brought a new all-time high in home prices due to the increased demand and the stagnant or even declining real estate supply. We do not expect the situation to change significantly in the second half of 2021. Further price increases are anticipated as a result. The value of owning a home has become even more important during the pandemic, and the rise of home office has changed the housing demand. Properties in peripheral locations continue to be particularly sought after, but it remains to be seen whether their attractiveness will decline again because of the partial return to the office, which would then tend to push up prices in the cities again.

Forecast of benchmark rates for mortgages



Mortgage product	Benchmark rate (30.06.2021)	Interest rate band up to the end of 2021	Interest rate band up to the end of June 2022	Interest rate band up to the end of 2022
Libor/Saron mortgage	0.92%	0.88% – 0.95%	0.88% – 0.95%	0.88% – 0.95%
Fixed-rate mortgage 2 years	0.83%	0.80% – 0.90%	0.80% – 0.90%	0.80% – 0.90%
Fixed-rate mortgage 5 years	0.94%	0.85% – 0.98%	0.85% – 0.98%	0.85% – 0.98%
Fixed-rate mortgage 10 years	1.22%	1.15% – 1.30%	1.15% – 1.30%	1.15% – 1.30%

Data basis: Reference rates from over 150 banks, insurance companies and pension funds on average. As of: 30.06.2021

Mortgage interest rate drivers

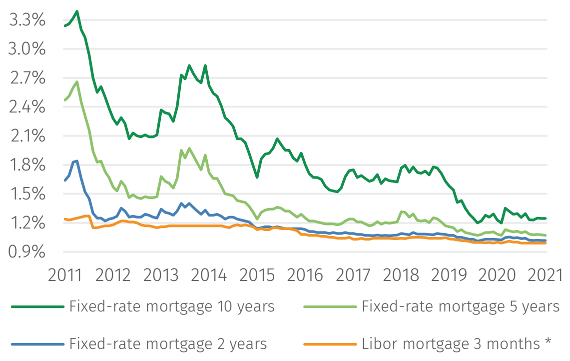
Economic and interest rate developments worldwide

As an export-oriented country, Switzerland is highly dependent on the global economy and particularly on the EU for economic development. It is our main trading partner, and the monetary policy of the European Central Bank (ECB) has a direct impact on the EUR/CHF exchange rate. For our forecast, we are therefore particularly focusing on the situation in the EU.

The following indicators are relevant:

- The monetary policy of the US Federal Reserve (Fed), the ECB and the SNB
- Political discussions (e.g., global ways out of the Covid crisis, trade war between the USA and China, Switzerland/EU framework agreement, federal elections in Germany, etc.).
- Development of gross domestic product, inflation, consumer prices and the purchasing manager index
- Development of the Swiss unemployment rate

Development of mortgage interest rates



** Mortgage rate based on the 3-month Libor with a 3-year term*
Source: SNB and MoneyPark / as per: June 2021

Speculation about an end to negative interest rates is premature

After the financial crisis of 2009, the central banks cut interest rates massively worldwide to stimulate the economy with cheap money. The interest rate increases by the U.S. Federal Reserve in recent years have been reversed since the Covid outbreak - the key interest rate in the U.S. is close to zero percent and is expected to remain so until the end of 2022. The ECB paints the same picture, which also deprives the SNB of the room for interest rate increases. After the lower limit of the exchange rate against the euro was lifted at the beginning of 2015, the SNB had to push short-term interest rates into negative territory to prevent the Swiss franc from becoming even stronger against the euro. Since then, the SNB key interest rate is -0.75 percent. Any convergence between the Swiss base rate and that of the EU will increase the value of the Swiss franc even more against the euro, which in turn would have a negative impact on our export economy. The SNB is still denied a way out of this negative interest rate situation, due to the relationship of dependency.

Mortgage models

Which mortgage should I choose?

Which mortgage model you choose depends not only on the current interest rate level and forecasts, but also on your personal situation and your risk tolerance and financial capacity. In financial terms, mortgage rates for short-term maturities have currently become somewhat more affordable than long-term ones. The term has its price again, even if long-term mortgages can still be very reasonably priced. The benchmark rate for the most popular term - the ten-year fixed-rate mortgage - is likely to hover between 1.2 and 1.3 percent for some time to come. This allows a high degree of planning and budget security at an attractive price.
As a rule, we advise against arbitrarily staggering different mortgage terms with more than a two-year difference in maturity. Because by doing so, you are tying yourself to your financing institution without having the option to change providers when you renew your mortgage tranche.

Fixed-rate mortgage

A fixed-rate mortgage is concluded at a fixed interest rate and for a certain term - usually two to fifteen years. More and more providers are also offering longer terms of up to 25 years with some attractive exit options. The interest rate remains unchanged during the entire term, regardless of the development of mortgage interest rates on the market. Very long-term fixed-rate mortgages have become increasingly popular in recent years. On the one hand because of the historically low interest rates and, on the other hand, on account of the flat interest rate curve. This trend is likely to continue.
A fixed-rate mortgage can be taken out up to two years before the start of the term at no extra charge, depending on the provider. This enables the mortgage to be fixed early at current interest rates. Taking out a forward mortgage therefore makes sense if mortgage rates are expected to rise.

Money market mortgage

With a money market mortgage, the interest rates are adjusted regularly during the term of the mortgage, usually every three months. The mortgage interest rate is made up of a reference interest rate and a margin. A money market mortgage is usually concluded in a two to five-year framework loan agreement. So far, the Libor has served as the reference rate for money market mortgages. However, as it will be discontinued at the end of 2021, the mortgage providers are now gradually switching to the Saron (Swiss Average Rate Over Night) as the basis for calculating the mortgage interest rate. In doing so, they also often change other contract provisions. With certain providers, the basic term for the Saron mortgage is much shorter than it was for the Libor mortgage, or no longer exists at all. This allows you great flexibility in terms of repaying the mortgage, shifting to a different mortgage model, or switching providers.