

Interest Rate Markets into May

«Inflation is misbehaving»

Last week saw a slew of central bank decisions. The Fed, ECB, Bank of England and Bank of Japan all held rates steady amid the uncertainty surrounding the ongoing Iran conflict and related shortages of oil, fertiliser, and helium, among others. The respective outlooks differed, however. While the Fed views the increase in inflation as temporary, the ECB and the Bank of England signalled more lasting implications for their respective economies. The Swiss National Bank did not hold a policy meeting this month but remained active, with members reflecting on past policy actions in various speeches.

Federal Open Market Committee (FOMC)

That was it. After eight years at the helm, Jerome Powell held his final press conference. Prior to the decision, the policy rate was kept on hold at 3.50%–3.75%, as widely expected. What was surprising, however, was the 8–4 vote, with Hammack, Kashkari, and Logan opposing the retention of the easing bias in the statement, alongside the usual dissenter voting for a cut.

The outgoing Chair left markets with several key reflections. He views clear communication as central to effective monetary policy. The press conferences — held with increasing frequency under his tenure — and the expanded dot-plot, introduced during his time at the Fed, are, in his view, indispensable tools that he hopes his successor will retain and build upon. Looking ahead, he forecasted downward pressure on rates, arguing that ‘misbehaving inflation’ is expected to be a temporary phenomenon. Tariffs are treated as one-off events, and higher energy prices are expected to feed through the system gradually. The latter, he argued, supports the case for lower growth, as consumers will reduce spending on other goods as energy costs rise. Furthermore, compared with the 1970s, the US economy is less dependent on external energy sources and has diversified significantly from manufacturing into services and technology. He also pointed to the Fed’s more sophisticated toolkit for countering adverse market developments; though, in hindsight, one might ask why that thinking was not applied earlier, in 2021...

European Central Bank (ECB)

The trajectory in Europe is markedly different. The economy remains heavily dependent on external energy sources. Analysts and strategists now anticipate up to two 25 bp rate hikes this year, with the first as early as June. Madame Lagarde herself made clear that the next move could indeed be a tightening. She was candid about the inflation risks, not shying away from the term ‘stagflation’. The press conference was a clear statement of the ECB’s unwavering commitment to its price-stability mandate.

Swiss National Bank (SNB)

There was no policy meeting in April (the next is scheduled for June). The SNB held its annual general meeting on 24 April. Chair Martin Schlegel presented, among other things, the success story of bringing high inflation under control and the effects of low and negative policy rates over the past decade. Reading between the lines, it is clear that low rates benefited borrowers broadly; though cheap funding can also be a double-edged sword, as high leverage has repeatedly demonstrated.

The various speakers provided a clear and informative overview of the SNB’s recent work. Readers are encouraged to consult the full presentations via the link below.

Market Outlook — Shaking the Eight-Ball: “Cannot Predict Now”

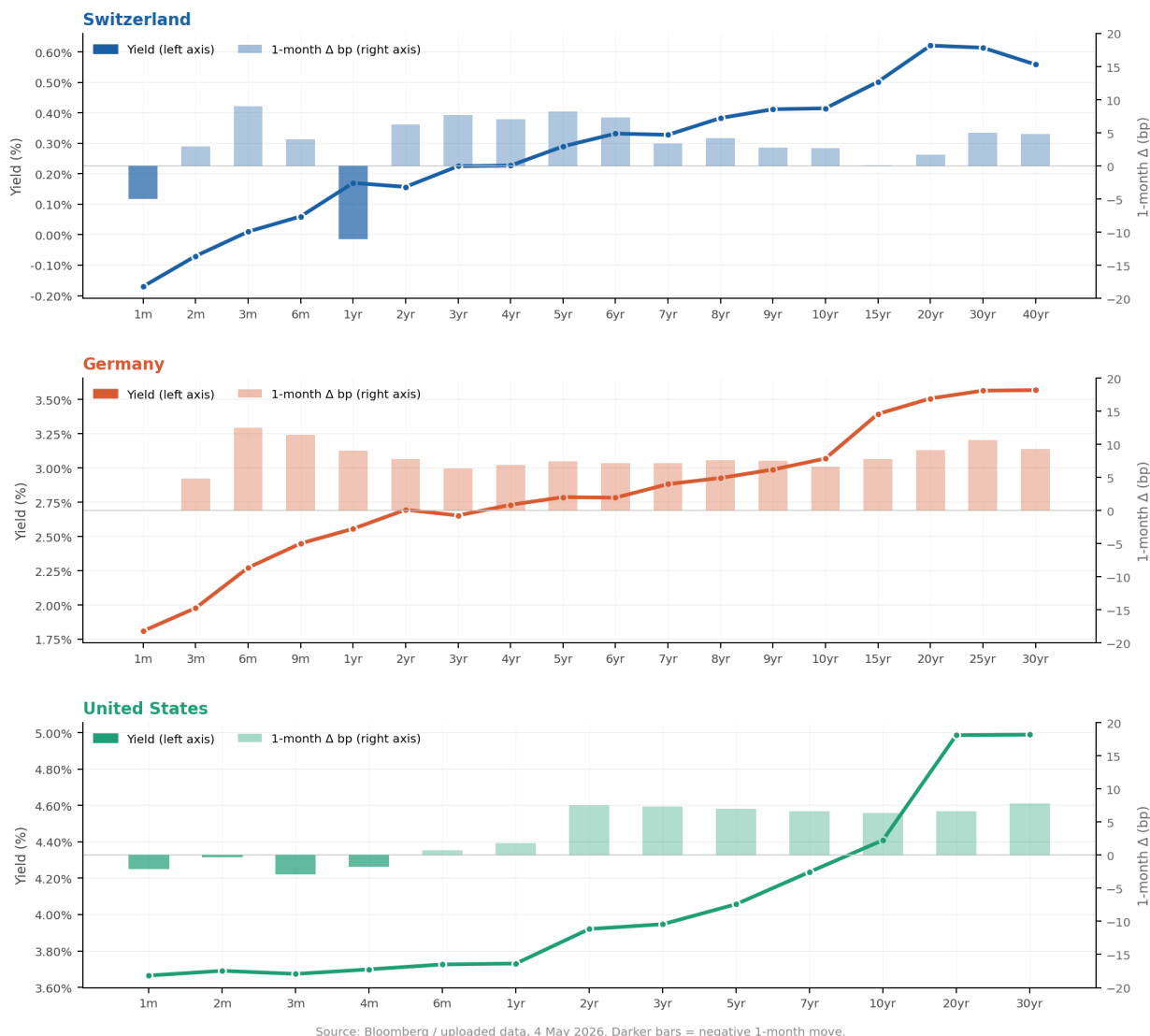
The economic path continues to be driven by geopolitical developments. Even in the United States, where the direction of travel for rates is clearly lower, markets are pricing in only a 25 bp cut as far out as December 2027. The front end of the curve is thus firmly anchored. Should the Iran conflict persist, growth would suffer and long-term rates would decline across currencies not only USD. There are multiple trade ideas in circulation to go long duration to benefit from such a scenario; for example, “Now is the time to rebalance your portfolio and snap up these bonds” (UBS via CNBC, 30 April 2026).

ESTR futures, which track ECB policy rates, currently price in three 25 bp increases from the current level of 2.00% — to approximately 2.25% in June, 2.50% in September, and 2.75% in December — with rates expected to remain near that level until early 2029 (Source: CME).

SARON futures quote above 100 until September, consistent with fixings between -0.0815% and -0.0361% so far this year. Looking at the FX market, the long-term CHF/USD picture points to stable SNB policy rates for the foreseeable future. The franc continues to appreciate steadily against the dollar in line with the rate differential. Given that the Fed funds rate is at a similar level (see above), this suggests markets expect the SNB policy rate to remain at or near 0% for some time (Source: Eurex and CME).

Current Snapshot of Government Yields

Government Bond Yield Curves — 4 May 2026



Source: Investing.com, 4 May 2026. Bars represent the 1-month change in basis points (right axis). Darker bars indicate a negative (falling yield) move.

Switzerland: Yields remain low across all maturities (range: -0.17% to 0.62%), reflecting the SNB’s ultra-low rate environment. The 1-year point fell 11 bp over the month, while the belly of the curve (3–5yr) rose 7–8 bp.

Germany: A classic upward-sloping curve, running from 1.81% (1-month) to 3.57% (30-year). The strongest moves were at the long end, with the 25-year point up 10.6 bp — the largest single move in the dataset.

United States: A notably flat curve (3.67%–4.99%), with short maturities (1–4 months) falling 1–3 bp, while everything from 2 years out rose 6–8 bp — a mild steepening signal. The 10-year yield stands at 4.41%, approximately 397 bp above Switzerland and 134 bp above Germany.

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