

August 2025

Interest rates & bonds

Yield curves have steepened and normalised

Overview of bond yields and investment-grade credit spreads

	10-year government bond yield			Investment-grade credit spread		
	Current	July 2025*	Year-to-date*	Current	July 2025*	Year-to-date*
US	4.3%	11 bps	-23 bps	76 bps	-7 bps	-4 bps
Eurozone	2.7%	9 bps	33 bps	79 bps	-13 bps	-23 bps
UK	4.6%	9 bps	1 bps	94 bps	-7 bps	-2 bps
CH	0.3%	-8 bps	6 bps	72 bps	0 bps	3 bps

10-year government bond yield eurozone = DE, bps = basis points.
* Change as at 31 July. Source: Bloomberg

USA

- USD credit spreads in both Investment Grade (IG) and High Yield (HY) tightened in July, nearing all-time lows. Interest rates increased but the difference between 2-year and 10-year US Treasury yields (the 2s10s curve) flattened after mid-July.
- Based on expectations of weakening economic data in H2 2025, we continue to anticipate three policy rate cuts this year, starting in September.

Eurozone

- Following the trade deal with the US, EUR credit spreads tightened strongly in July. The 2s10s yield curve steepened until mid-July, then flattened again.
- The ECB left its rate in July unchanged. We expect one more cut this year given the disinflationary trend and a still uncertain economic environment.

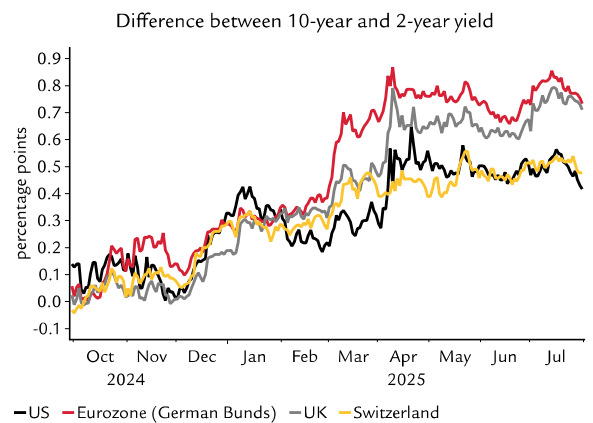
UK

- IG credit spreads in the UK tightened and have almost returned to their pre-March lows. Rates in the 2-year and 10-year bracket increased in July.
- We still expect the Bank of England to cut its policy rate three times in 2025 starting from August given expectations of a weaker job market.

Switzerland

- IG credit spreads remained stable in July. Bond yields declined slightly across all maturities, keeping the 2s10s yield curve steepness unchanged.
- We do not expect another rate cut by the SNB in 2025, as the central bank's recent communication has taken a more hawkish tone.

Shorter durations outperformed so far this year



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 31/07/2025

The 2s10s yield curve – the difference between 10-year and 2-year government bond yields – is a common measure of curve steepness. A larger difference indicates a steeper curve, while a negative one signals inversion. Since 10 October 2024, the 2s10s curves in the US, eurozone, UK and Switzerland have remained positive, meaning the curves are no longer inverted and have normalised. The eurozone currently shows the steepest curve, driven by falling short-term rates after ECB rate cuts and rising long-term yields due to increased government bond issuance. This reflects higher defence spending amid geopolitical tensions and Germany's new fiscal strategy focused on infrastructure, security and defence. Despite expectations of weaker macroeconomic data in H2 2025 and tight credit valuations, market technicals remain supportive. Elevated all-in yields and a "risk-on" sentiment among investors – supported by recent US trade deals – continue to drive strong demand for credit, likely outpacing reduced summer supply. We therefore maintain a neutral view on EUR and USD Investment Grade and High Yield credit for August, and remain neutral on duration, expecting 2- and 10-year yields to stay broadly stable across the US, eurozone, and Switzerland.

Equities

The trend is your friend, but not forever

Overview of equity market performance

	July 2025*	Year-to-date*
USA	2.6%	8.9%
Eurozone	1.9%	15.0%
UK	4.6%	14.0%
Switzerland	0.3%	5.6%
Emerging markets	2.7%	18.4%

MSCI net total return indices in local currency.
* Performance as at 31 July. Source: Bloomberg

USA

- The US market had another strong month, outperforming Europe and Switzerland in July. Since its April low, the S&P 500 has gained nearly 30%, with the Magnificent 7 up around 43%. Key drivers included a strong earnings season, with 80% of companies beating expectations, and major trade deals.
- However, valuations are stretched – especially in tech – while speculative behaviour in meme and unprofitable tech stocks suggests bubble-like dynamics.

Eurozone

- Despite a significant underperformance over the past three months, European stocks have still outperformed US stocks by around 6% year-to-date. In EUR or CHF terms, the outperformance is an additional 10% higher.
- The earnings season has been weaker than in the US, with earnings so far just meeting expectations.
- The valuation of the European market has increased and is now above historical averages.

UK

- The UK market outperformed continental European markets for the second month in a row, continuing to benefit from its relatively low valuation.

Switzerland

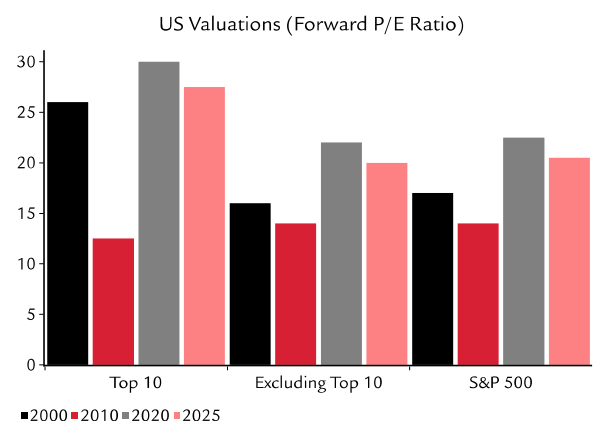
- The Swiss market has been the weakest performer in July for the third month in a row. Small caps outperformed by 2.5% in July and by 5.4% year-to-date.
- Swiss stock valuation is higher than in Europe, but lower than in the US.

Emerging markets

- Emerging markets were once again the best performing market.
- China had an excellent month, while India suffered losses. Year-to-date, China has outperformed India in USD terms by 24%.

Are we approaching bubble levels?

After brief corrections early in the year and in April, US equities – especially tech – have rallied strongly to new all-time highs. The S&P 500 trades at a price-to-earnings ratio (P/E) of 25, while the Nasdaq and Magnificent 7 average 35, marking the second-highest valuation in history after 2000. Strikingly, the 10 largest US stocks now have a higher forward P/E than in 2000, and even the remaining 490 stocks trade at higher levels than during that peak. Companies like Nvidia, Palantir, Broadcom and Tesla are expected to grow revenues by over 100% in five years, with Palantir projected at 300%. These lofty valuations and growth assumptions raise concerns over the medium-term outlook and beg the question whether it is time to begin underweighting equities.



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 2025

Over the medium term, it is clear that today's elevated valuations – particularly in the US – should translate into significantly lower expected returns. According to our five-year projections, US equities have the lowest expected returns, while emerging markets offer the highest. We believe the anticipated gains from AI adoption are already fully priced in, and many AI-related stocks appear overvalued. The short-term picture is more nuanced. US equities are clearly overbought after a strong rally, with retail investors pouring in and late-cycle indicators such as margin debt and option positioning flashing warning signs. However, recent fundamental and macroeconomic developments have been encouraging. The risk of a US recession remains relatively low, the earnings season has been strong, and trade agreements with major US trading partners has reduced uncertainty. In addition, fiscal policy remains supportive in most countries, and further rate cuts from central banks are likely.

Currencies

A turning point for the USD?

Overview of major currencies

	July 2025*	Year-to-date*	1-month view
EUR/USD	-2.9%	10.5%	↗
EUR/CHF	-0.6%	-1.1%	→
GBP/USD	-3.7%	5.7%	↗
USD/JPY	4.0%	-4.7%	↘

* Performance as at 31 July. Source: Bloomberg

USA

- In July, the USD appreciated as the Federal Reserve remained in wait-and-see mode amid solid US economic data and an uncertain outlook. Politics also played a major role. The passage of the “One Big Beautiful Bill” and trade deals with major trading partners were positive factors, attacks on the US Federal Reserve by the US President a temporary negative for the greenback (see chart and main text).
- We anticipate renewed weakness in the USD as we are cautious about declaring an end to the confidence crisis and expect the Fed to turn more dovish in coming months due to weaker economic data.

Eurozone

- In July, EUR depreciated significantly against USD and lost marginally against other European currencies despite hawkish rhetoric from the ECB.
- We reiterate our positive view on EUR/USD and our neutral view on EUR/CHF.

UK

- GBP initially continued its depreciation trend in July against EUR amid fiscal uncertainties but recovered toward the end of the month.
- We reiterate our neutral view on EUR/GBP and our positive view on GBP/USD.

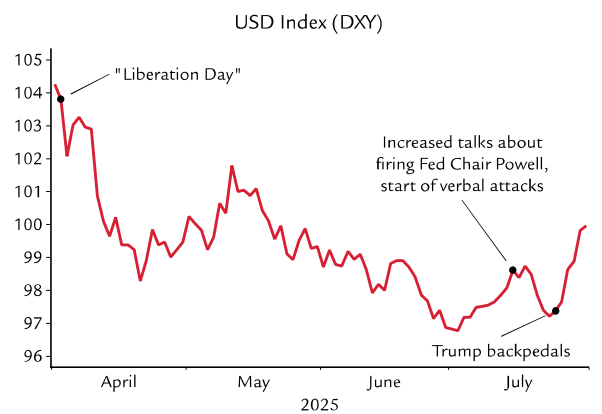
Switzerland

- CHF appreciated slightly against EUR in July.
- The market has continued to price out rate cuts for both the SNB and the ECB. We remain neutral on EUR/CHF.

Japan

- The JPY was the worst-performing major currency against the USD in July.
- Nevertheless, in line with our view of a weaker USD, we expect USD/JPY to move lower again in the coming weeks.

The USD recovers from its recent lows



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 31/07/2025

The confidence crisis has led to a USD depreciation this year that was often decoupled, at least since “Liberation Day”, from the usual developed market currency drivers such as yield differentials, growth divergences or central bank expectations. In July, however, the USD staged a rebound as we received more hawkish commentary from the US Federal Reserve and as concerns regarding the US administration’s policies apparently took a backseat. This is understandable as (1) investors gained more clarity regarding the fiscal outlook with the passage of the “One Big Beautiful Bill”, as (2) the trade war was fought in a more coherent way, resulting in some trade deals and as (3) the US President backpedalled from earlier comments that firing Fed Chair Powell would be an option. In our view, these events may have justified a reduction of the risk premium but do yet give a conclusive signal that the confidence crisis has ended. US politics is set to remain very unpredictable, and the stronger USD may by itself create a backlash, e.g. in the form of renewed verbal attacks on the Fed that rattled markets from time to time. After all, the US President himself but also his Chief Economic Advisor Stephen Miran have repeatedly made clear that they want a weaker USD. In addition, despite the hawkish tone of Chair Powell in recent comments, we still think that the Fed will move towards policy rate cuts due to softer economic data in the second half of 2025, explaining our call for renewed USD depreciation over the coming weeks.

Asset allocation

Trade deals are a relief for equity markets and the USD

Review

- Equity markets delivered strong returns in July, driven by a continued rebound in the US and Emerging Markets, while Europe underperformed. In the US, large-cap tech stocks led the gains, whereas in Europe, high-dividend stocks stood out.
- Government bond yields edged slightly higher in July, with Switzerland being the exception. Euro-zone peripheral spreads narrowed somewhat. Emerging Market yields declined, although with notable volatility.
- Corporate credit spreads narrowed moderately, while high-yield spreads tightened more sharply, in line with equity market strength.
- The US dollar strengthened in July, gaining almost 3% on a trade-weighted basis.

Current asset allocation views

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

Source: Swiss Life Asset Managers

- We have increased our equity allocation and are now overweight relative to benchmark, funded by reducing government bonds to a neutral level.
- Financial markets have responded positively to progress on tariff agreements, which, while not ideal, have reduced uncertainty and eased fears of a trade war, creating positive equity market momentum.
- Government bond yields have remained relatively stable, as central banks are expected to proceed cautiously in light of ongoing geopolitical tensions and the economic implications of tariffs.
- Credit spreads remain tight. This may reflect investors' focus on the total yield (government yield plus spread), which is historically high in the US and much of Europe (excluding Switzerland). Still, we believe current spreads do not adequately compensate for credit risk, so we remain underweight and prefer to allocate risk to equities, which offer greater upside.
- We remain cautious on currencies, particularly from a Swiss franc perspective. Despite the USD's recent rebound, we see further depreciation risk.

Playing momentum but staying alert

After months of conflicting reports and speculation, the August deadline for US tariff agreements has arrived. Several deals have been reached, although many still lack operational detail. Key agreements with China and India remain under negotiation. Markets have rebounded from their 2 April lows as uncertainty has eased. US equities, in USD terms, are trading at record highs. However, the weaker USD has offset much of these gains for European investors this year. Credit spreads are tight across all categories, and while US yields remain elevated, they are still below their December levels. Global equity markets have broadly followed the US rally, though Europe has lagged recently, partly balancing its strong performance in the first quarter. In summary, if one had slept through 2025 so far, it might appear that little has changed: valuations of risky assets remain high, momentum continues to drive markets, and US interest rates are still elevated. However, not all is well. Risky asset valuations have returned to their early-year highs, leaving markets vulnerable to potential shocks. While economic data remains solid, signs of strain are emerging in the US. Private equity firms are struggling to exit investments at fair valuations, and even high-income consumers are beginning to feel the pressure of elevated interest rates. Importantly, the economic impact of tariffs has yet to be reflected in the data. Front-loaded purchases have temporarily supported growth, but headwinds are expected to build in the second half of 2025, likely weighing on global momentum. Should the US dollar continue to weaken rather than rebound, the fallout could intensify – particularly for European exporters – and raise import costs for the US even further, especially for goods that are difficult to substitute. Nevertheless, market momentum remains strong. Central banks may adopt a more dovish stance in response to economic and currency pressures. Against this backdrop, we are leaning into the trend by moderately increasing our equity allocation to overweight. At the same time, we remain underweight in credit due to tight spreads and hold a neutral stance on government bonds. However, we remain vigilant, as fundamentals, policy developments and market sentiment are increasingly out of sync.

Swiss Life Asset Managers



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



Andreas Homberger
Head Quantitative Equities
andreas.homberger@swisslife-am.com
✕ @Homberger_A



Damian Künzi
Head Macroeconomic Research
damian.kuenzi@swisslife-am.com
✕ @kunzi_damian



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



José Antonio Blanco
CIO Third Party Asset Management
Head Multi Asset
joseantonio.blanco@swisslife-am.com

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, 153 rue Saint-Honoré, F-75001 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 VII's 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.