

February 2026

Interest rates & bonds

Low recession probabilities and tight spreads

	10-year government bond yield			Investment-grade credit spread		
	Current	Jan. 2026*	Year-to-date*	Current	Jan. 2026*	Year-to-date*
US	4.3%	9 bps	9 bps	71 bps	-7 bps	-7 bps
Eurozone	2.9%	0 bps	0 bps	73 bps	-5 bps	-5 bps
UK	4.6%	8 bps	8 bps	81 bps	-2 bps	-2 bps
CH	0.2%	-4 bps	-4 bps	74 bps	-5 bps	-5 bps

10-year government bond yield eurozone = DE, bps = basis points.
* Change as at 29 January. Source: Bloomberg

USA

- US Treasury yields rose across the curve in January, led by the 2-year yield increasing more than the 10-year. With risk-on sentiment persisting, USD credit spreads tightened further and lower-quality segments outperformed.
- We expect the Fed to look through near-term inflation volatility. For 2026, we continue to forecast two policy rate cuts, bringing the Fed funds target rate (lower bound) to 3.00%.

Eurozone

- Bund yields in the 3–7-year sector rose, but by less than in the US. Credit spreads tightened, and high yield (HY) outperformed investment grade (IG) credit in terms of excess returns.
- For 2026, we expect eurozone inflation to decline to 1.8% with no further rate cuts.

UK

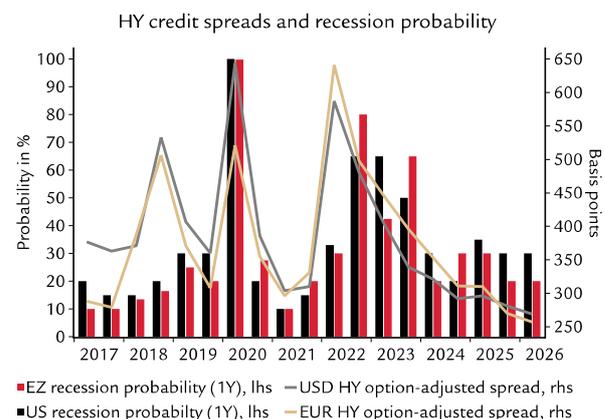
- Year-to-date, UK 10-year gilt yields have edged higher. IG credit spreads have tightened somewhat.
- As expected, the Bank of England cut its policy rate in December. We continue to forecast two additional cuts in 2026, bringing the bank rate to 3.25%.

Switzerland

- Swiss IG credit spreads and the 10-year government bond yield edged lower in January.
- Despite US tariff uncertainties, we expect solid growth this year. Even with inflation at the lower end of the range, we see no cuts in 2026, given the SNB's tolerance for a temporary undershoot.

Low recession risks support credit markets

One-year recession probabilities for the US and eurozone currently stand at low levels of 30% and 20%, respectively. HY credit spreads show a clear positive correlation with these estimates (see chart), often moving earlier and with greater volatility. Recession-probability models typically use the yield curve (10-year minus 3-month Treasury yields) and often also incorporate credit spreads. The correlation is intuitive: higher recession risk reduces appetite for risky assets and raises expected defaults. From a top-down perspective, the current tightness in credit spreads is consistent with three factors: 1. stable to improving 2026/27 GDP growth expectations in the US and eurozone; 2. the prospect of two additional Fed cuts in 2026; 3. low recession probabilities alongside steeper yield curves. Against this backdrop, we maintain a neutral duration view across the 2-year and 10-year yield segment in the US, eurozone and Switzerland. US front-end rates remain well anchored, with most of the term premium already priced in. We hold a slight bias toward lower US Treasury yields and a marginal bias toward higher EUR government bond yields, the latter due to supply dynamics. Credit spreads remain tight, but fundamentals are solid and absolute yields (e.g. above 3% in EUR IG) remain moderately attractive, supporting absorption of primary issuance. We therefore maintain a neutral stance on IG and HY credit in EUR and USD for February.



Equities

The party continues for now

Regional equity markets	Jan. 2026*	Year-to-date*
USA	1.9%	1.9%
Eurozone	2.6%	2.6%
UK	2.3%	2.3%
Switzerland	-1.4%	-1.4%
Emerging markets	10.9%	10.9%

MSCI net total return indices in local currency.
* Performance as at 29 January. Source: Bloomberg

USA

- The “equity market party” continued in January.
- Styles that had underperformed for years like equal weight, small caps and high dividend have outperformed so far this year. The Magnificent 7 and AI stocks underperformed in January.
- The earnings season delivers strong results with both sales and earnings growth above expectations.
- Valuation is rich in absolute and relative terms.

Eurozone

- The European stock market is ahead of the US year-to-date.
- The style performance is different from the US: the dividend theme is underperforming, while growth stocks are outperforming. Banks are outperforming the broader European equity index so far.

UK

- The UK market has started the year similarly to the European market.
- The UK has the lowest valuation of all important industrial country equity markets.

Switzerland

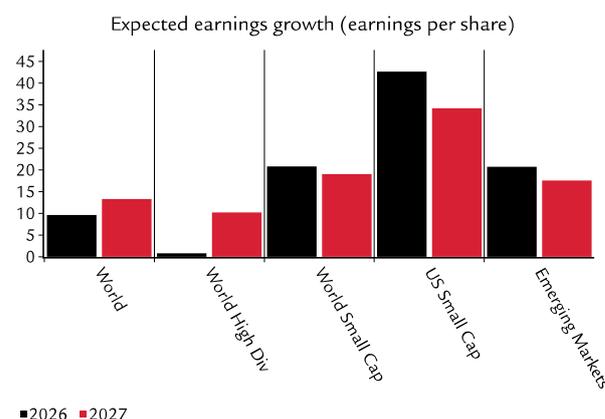
- The Swiss market has the weakest performance year-to-date mainly due to Nestlé and the insurance sector. Pharmaceuticals outperformed.
- The valuation of the Swiss equity market is higher than Europe or Japan, but lower than the US.

Emerging markets

- Emerging markets are once again outperforming significantly. The main drivers are AI stocks in Asia and the materials sector (containing commodity producers and mining companies).
- The best-performing market so far is South Korea with a performance of more than 20%. Emerging market AI stocks are still cheaper than their US counterparts. Earnings estimates have been upgraded by 6% this year.

Investment opportunities in 2026

Recently, previous laggards have staged a comeback. In the last edition of the Perspectives, we highlighted in our annual outlook that we favour dividend stocks, small caps and emerging markets. All three market segments had trailed the broader market, yet their more attractive valuation, especially vs. the US market and AI-driven stocks, have drawn renewed investor interest. We believe this rotation has only just begun and see attractive return potential across all three areas. The case for dividend stocks rests on the following considerations: 1. lower valuation (PE of 17 vs. 23 globally), 2. lower exposure to technology and AI (11% vs. 36%) and 3. reduced US concentration (55% vs. 75%). In addition, high dividend yields (3.2% vs 1.6%) offer a cushion, similar to bond yields. With no overlap in the top 10 constituents of the MSCI World and MSCI World High Dividend indices, investors also benefit from meaningful diversification. The case for emerging markets is both secular and tactical. After many years of subdued performance driven by economic challenges and significant dilution from IPOs and capital increases, emerging market equities now offer an attractive relative valuation. The AI and commodity boom coupled with a weaker dollar provides a supportive backdrop. Substantial room for interest rate cuts and improving earnings estimates further strengthen the outlook. The rationale for small caps is mainly rooted in sharply rising earnings estimates and growth. Earnings per share are projected to rise 20% this year and next, compared with expected growth of 10% and 13% for large caps. In the US, small cap earnings growth is expected to exceed 30% in 2026 and 2027. There are two key risks to the performance outlook of these three styles: a sharp economic downturn and a renewed boom in US technology and AI stocks.



Sources: Macrobond, Bloomberg, Swiss Life Asset Managers.

Currencies

The confidence crisis is back

	Jan. 2026*	Year-to-date*	1-month view
EUR/USD	1.9%	1.9%	↘
EUR/CHF	-1.4%	-1.4%	→
GBP/USD	2.5%	2.5%	↘
USD/JPY	-2.2%	-2.2%	→

* Performance as at 29 January. Source: Bloomberg

USA

- The USD lost 1.8% overall in January on a trade-weighted basis as the confidence crisis made a comeback due to the US threats related to Greenland.
- We think that the recent USD move has gone too far and thus expect the USD to strengthen in February against most major currencies (see main text in the right column).

Eurozone

- EUR gained almost 2% against USD in January, but weakened against CHF, SEK and NOK.
- We expect steady growth and inflation readings for the eurozone and thus not much impulse for EUR exchange rates from that side. The expected move lower in EUR/USD is mainly driven by the USD leg.

UK

- In line with the general USD weakness, GBP/USD strengthened in January, while Sterling was rather steady against EUR.
- As we expect USD weakness to reverse in February, we opt for a negative view on GBP/USD. Our view on GBP/EUR is currently neutral.

Switzerland

- The temporary risk-off mood in financial markets in January led to significant CHF appreciation against EUR and USD. Even though risks eased towards the end of January, the CHF remained strong.
- At these levels, we do not expect further CHF strength and therefore opt for a neutral view on EUR/CHF and a positive view on USD/CHF.

Japan

- The sell-off in the JPY was halted in January. A coordinated currency intervention by official bodies led to a sharp appreciation of JPY vs. USD.
- After the significant up and down, we expect markets to calm in February. Our view on USD/JPY is neutral for this month.

USD weakness went too far in January

The USD had a positive first two weeks in 2026 as US economic data came in strong. The Greenland dispute, however, brought the “confidence crisis” back with a vengeance. The trade-weighted USD slumped 3% as a result. Despite this troubling episode, other aspects of the “confidence crisis” have improved recently. Notably, the risks related to Federal Reserve independence have receded. First, in the case of the administration’s attempt to remove Governor Lisa Cook from the Federal Reserve Board, the hearing went poorly for the administration as Supreme Court judges voiced strong support for Federal Reserve independence. It thus appears very unlikely that the administration will win that case. Second, Rick Rieder and Kevin Warsh are currently the main contenders for the Fed Chair nomination according to prediction markets. Even though both candidates are likely to push for interest rate cuts, they are perceived as credible candidates by financial markets. Third, the re-appointment of the regional Fed presidents went smoothly in January. Lastly, while the Greenland episode reminded investors about the latent risk of a spike in volatility due to US politics, the US President’s backtracking from tariff threats has confirmed our view that the administration seems unwilling to re-ignite the trade war ahead of the midterm elections. The reason is that the still elevated inflation readings have moved the “affordability crisis” to the top of US voters’ list of concerns. Overall, we think that the recent USD sell-off has gone too far, especially when comparing the move in EUR/USD to fundamental developments such as the change in 5-year real interest rate differential between EUR and USD (see chart). We therefore opt for a positive view on the USD for the upcoming month.



Sources: Macrobond, Bloomberg, Swiss Life Asset Managers. Last data point: 29.01.2026

Asset allocation

Risk-on start into 2026

January in review

- Global equities had a strong start into 2026, despite geopolitical tensions and mixed macroeconomic signals. Trump’s highly controversial move to secure control over Greenland – initially escalating tensions before shifting to a negotiated NATO-backed framework – added to early-year volatility and imminent corrections, though stocks eventually ended higher.
- US government bond yields moved slightly higher, driven by Trump’s trade threats following his claim on Greenland, which led to concerns of higher future inflation. Eurozone yields were unchanged.
- The USD depreciated further on a trade-weighted basis in January.
- Corporate credit spreads tightened even further to historically low levels, supported by contained default expectations.

Current asset allocation views

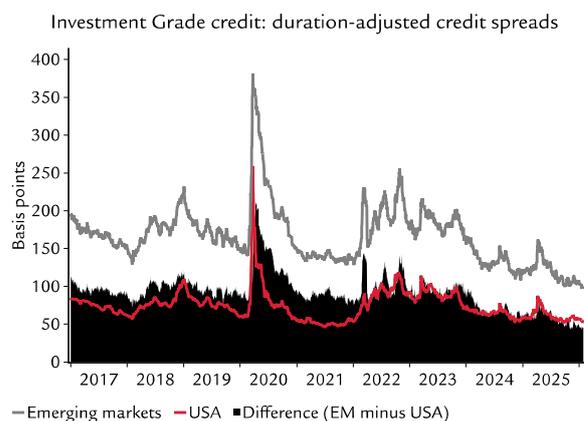
Asset class	Active weight
Global government bonds	neutral
Global investment-grade credit	underweight
Global equities	overweight

Source: Swiss Life Asset Managers

- We remain overweight in global equities, supported by solid earnings dynamics and accommodative monetary conditions. Within global equities, we prefer Japan, the US and emerging markets.
- On Swiss equities we also implement an overweight given the defensive sector composition and strong company fundamentals.
- We maintain a cautious stance on corporate bonds, which continue to trade at historically tight spreads. Such levels offer limited return potential and provide insufficient compensation for risk compared to equities.
- While all-in bond yields are generally attractive, high hedging costs for CHF-based investors reduce yields to low levels. We therefore prefer emerging market bonds, which offer an additional yield pick-up.
- For government bonds, we hold a neutral to slightly cautious view, expecting yields to remain range-bound.
- For CHF-based investors, we stay overweight on Swiss NAV-based real estate, where we anticipate continued strong market dynamics.

The renaissance of emerging market bonds

Emerging market bonds are becoming increasingly attractive as a carry opportunity within today’s multi-asset portfolios. The macroeconomic backdrop is broadly supportive: global growth remains stable, inflation is moderating and EM central banks are further advanced in their easing cycles, strengthening domestic demand and credit fundamentals. A softer US dollar improves funding conditions and has historically correlated with stronger EM credit performance. The yield premium over developed market investment-grade credit remains compelling, while the typically shorter duration of EM bonds makes EM carry more efficient. Market expectations for 2026 suggest potential outperformance of approximately 30-50 basis points vs. US investment-grade credit, underpinned by solid fundamentals, healthy balance sheets and more favourable issuance dynamics. EM IG credit has shown strong resilience over the past five years through multiple crises, including the COVID-19 pandemic, China’s property sector crisis, the Russia-Ukraine war, Middle East tensions and the inflation shock. More recently, the asset class has been less sensitive to developed-market-specific volatility, such as concerns around an AI bubble or US-EU trade and geopolitical tensions, reflecting lower exposure to the sectors driving these risks. With investors still underallocated and valuations not fully reflecting improved fundamentals, technical conditions remain constructive. Even modest reallocation flows can meaningfully impact spreads. For multi-asset investors, EM bonds offer an appealing combination of attractive carry, improving fundamentals and portfolio diversification at a time when many developed credit markets appear fully valued, positioning EM fixed income as a compelling and timely source of income and total-return potential in 2026.



Sources: Bloomberg, Macrobond, Swiss Life Asset Managers. Last data point: 27/01/26

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