The return — of interest rate risk

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After several years of accommodative monetary policy, major central banks are now embarking on a broad-based tightening cycle. The Fed raised rates on Wednesday, September 16; the Bank of Japan continued its rate-hiking cycle on Friday; and the rise in sovereign yields has spread to major markets. At the same time, oil prices remained above $100 per barrel, fueling the risk of more persistent inflation. Equity markets held up nonetheless, supported in particular by the technology sector, but rising cost of capital is gradually reducing their upside potential.

The Fed moves toward tightening

The Federal Reserve therefore unanimously raised its benchmark interest rate by 25 basis points to 3.75%–4%, marking the first hike since 2023. Kevin Warsh justified this decision by citing “too high” and persistent inflation, as well as an economy that remains strong—particularly driven by AI-related investments—and the risk of renewed energy pressure stemming from geopolitical tensions. FOMC projections indicate that a majority of members still anticipate at least one more rate hike by the end of 2026. The market reaction was relatively muted, with the 10-year Treasury yield returning to around 4.97% immediately after the decision. The labor market remains robust: initial jobless claims fell by 10,000 to 196,000. U.S. stocks ended the week on a mixed note: the S&P 500 remained virtually unchanged, while the Nasdaq rose 0.4%, driven by technology and semiconductor stocks.

The Bank of Japan joins the trend

On Friday, the Bank of Japan raised its policy rate by 25 basis points to 1.25%, a 31-year high. This decision confirms the gradual normalization of Japanese monetary policy in the face of persistent domestic inflation (+1.7% in August) and a weak yen. However, the rate hike did not lead to a strengthening of the yen.

Rising costs are spilling over into European industry

Rising yields and energy-related inflationary risks weighed on European stocks. German producer prices rose 4.6% year-over-year in August, confirming the pressure from energy costs. The ECB, which had already raised rates, adopted a cautious tone: Vice President Boris Vujcic emphasized that future rate moves could not be determined by energy prices alone, as growth and consumption must also be taken into account.

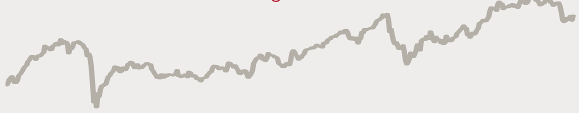
Will the SNB join the fray?

Although the key interest rate is expected to remain at 0%, the probability of a 25-basis-point hike by December is now estimated at 50%. This outlook is supported by robust growth: GDP rose by 1.5% in the second quarter, and the forecast for 2026 has been revised upward to 1.7% (from 0.9% in June). The interest rate differential (i.e., the tightening by the Fed and the ECB) now gives the SNB room to raise rates without triggering an excessive appreciation of the franc, thereby limiting the risk of imported inflation.

The coming week will revolve around the U.S.-China summit, the SNB’s decision on September 24, the preliminary September PMIs in the United States, and, as always, geopolitical developments in the Middle East.

Swiss Market Index (SMI)

After rebounding from a significant pullback at 13,678 points, the SMI could return to test that level, especially since the trend indicators are declining.



Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.82	0.94	13956.58	6318.20	25575.01	8138.94	10739.01	7764.70	27122.09	65018.95	960.37
% 5 days	0.28	-0.38	0.70	0.94	0.53	0.26	0.39	1.93	3.59	1.58	2.18
% YTD	3.46	1.14	8.44	11.73	4.43	2.47	10.88	14.38	17.21	30.34	25.29

(values from the Friday preceding publication)