

Powell opens door to — initial rate cut

Saving you time

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Last week was overshadowed by Jerome Powell's eagerly awaited address at Jackson Hole.

Meanwhile, investors acted cautiously, preferring defensive sectors while turning their backs on tech, knocked off its pedestal by high sensitivity to interest rates and rising doubts about the immediate payback on AI investments. The outlook is uncertain, from US monetary policy to its fragile job market. At the same time, the trade war is hurting, and attempts to resolve armed conflicts are coming to naught. This was the climate that markets evolved in last week.

Fed trapped between inflation and employment

Macro signals last week were a mixed bag. Initial jobless claims increased to 235,000 (exceeding the forecast for 225,000) while the Philadelphia Fed manufacturing index moved lower. In contrast, flash PMIs for August were solid, clocking in at 55.4 for services and 53.3 for manufacturing – pointing to continued business expansion. The US economy therefore finds itself in a paradox: a slowing labour market but growth that is still brisk.

Powell's Jackson Hole speech reflected this state of contradiction. Though acknowledging the risks now hanging over jobs, he focused on the danger arising from persistent inflation. His message, which was deliberately well balanced, left the door open to an initial rate cut as early as next month, but that will depend on the next sets of job and inflation data. Markets interpreted this signal as the starting gun for an easing cycle, which had the effect of lowering bond yields and sending equity indices higher.

Diverging PMIs and tariff damage in Europe

In the Eurozone, flash PMIs for August gave further evidence of the contrastive landscape. The composite indicator was 51.1, signalling a soft degree of economic expansion. The manufacturing index sprung a surprise by swinging back upwards of the 50 mark (50.5), while the services indicator ebbed to 50.7, suggesting dwindling consumer

spending. This divergence makes life harder for the ECB, just as there are signs that inflation may not be beaten after all. The US-EU trade deal – signed on 21 August – slaps a 15% tariffs on European exports into the US, with no carve-outs for wines and spirits. Even though these measures will not come fully into force until 2026, the news has upended monetary policy expectations. Markets now expect a more cautious ECB that feels forced to hold rates for longer.

In Switzerland, the SMI continued making gains, owing to its preponderant defensive plays. In contrast, watchmakers were again pinned down by the 39% tariff on selected imports. The Swiss franc appreciated still further, rising to a new six-month high against the dollar as a result of haven demand. The stronger franc is turning up the temperature on the SNB, which could consider another rate cut if the uptrend were to continue unabated.

On the geopolitical front line, the meeting between presidents Trump and Zelensky drove speculation about a rounds of talks that could include Moscow. While no tangible progress was made, talk of a possible roadmap gave rise to a hopeful mood in the markets.

In equity markets, the S&P 500 rose by 0.25%, the Euro Stoxx 600 by 1.32% and the SMI by 1.60%. Attention this week will focus on US jobs data and inflation numbers, plus Nvidia's results, due out Wednesday after the closing bell.

Swiss Market Index (SMI)

The SMI regained positive momentum last week, leading it higher to test initial resistance at 12305. As this was only a milestone, improvements in conditions could pave the way for retracement to 12470 during the week.



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	0.80	0.94	12'264.85	5'488.23	24'363.09	7'969.69	9'321.40	6'466.91	21'496.54	42'633.29	1'266.55
Trend	➡	➡	⬆	⬆	➡	⬆	⬆	⬆	➡	⬆	➡
YTD	-11.67%	-0.04%	5.72%	12.10%	22.39%	7.98%	14.05%	9.95%	11.32%	6.86%	17.77%

(values from the Friday preceding publication)

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