Haze continues – to cloud the markets

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Markets last week didn't know where to look. On one hand, the stress surrounding France's debt burden and its political backdrop loomed large. At the same time, US job figures disappointed, while the lawfulness of customs duties is due for review by the Supreme Court.

Political climate hotting up in Europe

Figures last week showed that the US services sector remains resilient, but impetus from the job market is slowing. The ADP survey for August surprised on the downside with only 54,000 jobs added in the private sector. This came on the heels of non-farm payrolls, which indicated the creation of only 22,000 jobs – mainly in services – with unemployment rising to 4.3%. Based on these numbers and the ISM services index rebounding to only 52, the narrative in favour of a Fed rate cut is gaining traction.

Futures markets are now assigning 98% odds of a quarter-point cut when the FOMC meets on 17 September, and this has triggered a sharp easing in the bond market. Last week we saw US 2-year yields dip by 20bp to 3.50%, while the 10-year counterpart sunk to 4.10%, down from its peak of 4.35% on Tuesday.

A legal episode added to the volatility, with an appeals court invalidating some of the tariffs introduced. The bond market briefly interpreted this signal as a risk of a widening budget deficit (owing to lower tariff revenues) before returning to a more neutral kilter. This accounted for the temporary surge in the 30-year yield to 5.0%.

In Europe, tensions over sovereign debt resurfaced in the face of mounting fiscal pressures here and there. Political uncertainty in France continues to drive volatility, with today's confidence vote weighing on peripheral spreads. The 30-year OAT crossed the 4.50% mark for the first time since 2011. As a result, the Bund is in demand (10-year at 2.35%). Meanwhile the OAT-Bund spread has widened to 80bp.

Inflation in the Eurozone clocked in at 2.1% for August (1.9% in July), reminding us that the disinflationary cycle is not proceeding in linear fashion. The currency union is approaching the ECB meeting on 11 September facing a dual constraint, namely monetary credibility but also fiscal sustainability. A policy hold is expected, but the official messaging will be scrutinised for reports of persistent supply-side shocks. A more hawkish tone could prolong the pressure on yields, while accommodative noises could drive renewed narrowing in spreads.

Beijing attempts to rebalance alliances

In Asia, the spotlight was on diplomacy rather than markets, as Beijing hosted Vladimir Putin, Narendra Modi and Kim Jong-Un in succession at the heavily publicised summit of the Shanghai Cooperation Organisation. The meetings came amid global tensions, with Trump's tariffs upending trade flows and regional skirmishes still flaring up. Xi is looking to shore up ties and rebalance his alliances, thereby positioning China as the axis of stability in North-East Asia.

Against this backdrop of political uncertainty in Europe and hopes of lower interest rates in the US, equity indices performed differently on either side of the Atlantic during the week. The S&P 500 ended up 0.33% and the Nasdaq gained 1.01%, while the Stoxx Europe 600 fell slightly by 0.17%. In Switzerland, the SMI gained 1.50%. Gold continued to appreciate, breaking through USD 3,600/oz market after putting on 3% over the week. Investors are piling in to shield against fiscal and geopolitical uncertainties.

Swiss Market Index (SMI)

Resistance at 12470 points remains intact. If punched in, the next market benchmark would be 12575. But the index could first consolidate around 12300 before resuming its uptrend.

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	12'370.57	5'318.15	23'596.98	7'674.78	9'208.21	6'481.50	21'700.39	43'018.75	1'276.05
Trend	→	→	↑	↓	↓	↓	→	→	→	→	→
YTD	-12.06%	-0.45%	6.63%	8.62%	18.54%	3.98%	12.67%	10.20%	12.37%	7.83%	18.65%

(values from the Friday preceding publication)