Energy crisis reshapes — outlook for monetary policy

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Geopolitical escalation in the Middle East and an increasingly cautious stance by the world's major central banks proved too much of a double whammy for markets last week. In an environment defined by the energy crunch, policymakers now face a delicate balancing act between inflation and growth.

Central banks hold policy
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An intensification of strikes between Israel and Iran, targeting major energy infrastructure in Qatar and the South Pars/North Dome gas field, triggered a fresh surge in hydrocarbon prices last week. Brent crude rose above USD 113 per barrel, rekindling fears of prolonged disruption to global supply. The strategic importance of the Strait of Hormuz (a critical artery for global energy flows) remains undiminished despite diplomatic efforts led by Donald Trump to tack an international coalition together.

The supply shock comes at a sensitive juncture for central banks. The Fed, alongside the ECB, the Bank of England and the Swiss National Bank, have opted to keep policy rates unchanged. Yet behind this apparent stability, the rhetoric has clearly hardened. Jerome Powell, like his counterparts, stressed the difficulty of anticipating the macroeconomic fallout from the conflict, and he acknowledged that higher energy prices will feed through into inflation in the near term.

All major central banks have revised their inflation projections upwards. Markets have interpreted this shift in tone as more restrictive, with expectations of rate cuts scaled back sharply. Yields have moved higher accordingly, with the US 10-year Treasury approaching 4.40% and the German Bund rising above 3%.

Europe especially vulnerable to global energy crisis
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In Europe, the outlook appears even more fragile. Germany's ZEW investor sentiment index has fallen sharply, highlighting the direct impact of the energy crunch on economic prospects. The ECB has raised its inflation forecast to 2.6% while lowering its growth projection to 0.9%, fuelling expectations of renewed monetary tightening this year. Europe looks particularly vulnerable, in contrast to the US, which remains largely self-sufficient in fossil energies.

Equity markets logically corrected in this setting, weighed down by rising yields and a renewed bout of risk aversion. Th S&P 500 fell 1.90%, while the Nasdaq declined 2.07%. In Europe, losses were more pronounced, with the Euro Stoxx 50 down 3.77% and the SMI sliding 4.04%. Basic resources and precious metals also retreated, signalling expectations of a broader economic slowdown and tightening conditions in bond markets.

Swiss Market Index (SMI)
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The SMI officially shifted into correction mode with the next support at 11950.

Key data
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	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.79	0.91	12'320.99	5'501.28	22'380.19	7'665.62	9'918.33	6'506.48	21'647.61	51'515.49	1'463.33
Trend	→	→	↓	↓	↓	↓	↓	↓	↓	↓	↓
YTD	-0.62%	-2.11%	-7.13%	-5.01%	-8.62%	-5.94%	-0.13%	-4.95%	-6.86%	2.34%	4.20%

(values from the Friday preceding publication)

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