Gap is widening between the two sides of the Atlantic

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Equity markets gained ground last week as the lull in tensions in the Middle East and the easing of US bond yields kept the rally going.

In contrast, the economic picture in the Eurozone is still giving rise to angst. The German economy is struggling and France remains embroiled in political infighting, adding to the volatility of European indices – which once again underperformed their US counterparts.

US data still robust

US macroeconomic data is as strong as ever. Third-quarter GDP grew at a quarterly rate of 2.8%, confirming the healthy state of the economy.

Inflation, as measured by the PCE core index, clocked in at 2.8% in October, in line with expectations but edging up by 0.1 points on the previous month. As such, the Fed's 2% target is that much more distant.

Added to that, initial jobless claims were 213,000 in the week of 18 November, which was lower than forecast, indicating an orderly slowdown in the US labour market.

Finally, consumer confidence improved in November, bolstering the outlook for US spending trends.

The baseline scenario for the Fed's next rate-setting meeting on 18 December is still 25bp easing, although a policy hold is not entirely out of the question at this stage.

Worsening economic data in Europe

In Europe, it's a whole different story. The deterioration in economic fundamentals, particularly in Germany, could prompt the ECB to slash rates more aggressively than is for now expected.

However, German inflation, calculated according to Eurostat standards, stagnated year-on-year in November. The HCPI rose by 2.4% year-on-year this month following a similar rise in October, which will limit the ECB's wiggle room.

The tense political backdrop in France and the risk of a successful vote of no confidence in the newly formed government have led to renewed volatility in French bond yields. As a result, the 10-year benchmark last week climbed above 3% before easing as a range of concessions to other political formations were announced.

In the near term, the uncertainty is dampening enthusiasm for Eurozone equities. The conclusion of hostilities in Ukraine, where the conflict has reached a stalemate, could provide a boost to the region and bolster European companies that have been adversely affected by rising energy prices and the prospect of higher export tariffs.

Last week the S&P 500 and Nasdaq advanced by 1.06% and 0.74% respectively, while the Stoxx Europe 600 added 0.35%.

Swiss Market Index (SMI)

The scenario is unchanged from last week. The focal point remains 11890 followed by 11950.

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	0.88	0.93	11'764.20	4'804.40	19'626.45	7'235.11	8'287.30	6'032.38	19'218.17	38'208.03	1'078.57
Trend	→	→	→	→	↑	→	↑	↑	↑	↓	↓
YTD	4.29%	-0.91%	5.62%	-0.48%	17.16%	-2.88%	0.11%	7.09%	9.24%	14.18%	-0.69%

(values from the Friday preceding publication)

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