Cloudy skies — economically and politically

Saving you time

N°785
24 February 2025

The global economy continues to feel the heat from persistent inflation, the rising tide of protectionism and the political shake-up in Germany. The Fed is adopting a more cautious stance on inflation. In markets, after a period of hope, momentum seems to be flagging.

Political shake-up in Germany, and bickering over trade

In February, US inflation quickened to 3%, higher than the expected 2.9%. This indicates that the current calibration of interest rates is not effectively curbing the rise in prices. The Fed is adopting a more cautious verbal stance. Now only two rate cuts are slated for 2025.

The labour market remains solid, registering 219,000 initial jobless claims. In contrast, we can see that economic activity is slowing, as evidenced by the decline in services PMI indices in the US (49.7 vs. 53 expected) and Europe (50.7 vs. 51.5 expected). The University of Michigan's consumer sentiment index deteriorated in February, reflecting fears about inflation and a possible escalation in trade friction.

In Germany, the federal elections yielded a win for the CDU/CSU (28.8%), but the main news was the unprecedented breakthrough by the AfD (20%) to become the country's second-largest political force. Chancellor Scholz's SPD suffered a significant setback, receiving only 16% of the vote. This outcome has led to concerns regarding the stability of the coalition that will need to be formed and, consequently, the stability of the government itself.

The US will slap a 10% tariff on Chinese imports from 3 March, plus a 25% tariff on steel and aluminium, irrespective of export market, from 12 March. China has retaliated with taxes on USD 14 billion worth of American products, mainly from the energy and farm equipment sectors. Trump has also announced plans to slap a 25% duty on imports of motor vehicles, semiconductors and pharmaceuticals.

Battle of nerves in Ukraine

The US and Russia are pursuing bilateral negotiations, leaving Europe and Ukraine out in the cold. Europe, meanwhile, is trying to muster some clout by holding a special summit on 6 March. In this hostile atmosphere, Denmark has announced a significant increase in its military budget (+USD 7 billion), taking its spending to over 3% of GDP. The possibility of a cessation of hostilities is creating a moderate breeze of optimism in European markets, which could benefit the energy sector.

After hitting all-time highs, equity markets are taking a breather under the weight of trade tensions and the haze surrounding Ukraine. Nasdaq ended the week off by 2.26%, while the S&P 500 shed 1.66%. In Europe, the Eurostoxx 50 lost only 0.34%, while in Switzerland the SMI gained 0.85%. Bond yields remained stable, with the US 10-year yield fluctuating between 4.40% and 4.68%. Gold reached a new all-time high of US 2,954.84 an ounce last Thursday.

Among companies, Walmart (-8.9%) disappointed with cautious guidance, while STMicroelectronics (+14.66%) and Alibaba (+15.25%) showed that they are benefiting from the momentum in AI. Nvidia's results, due on Wednesday, will be closely watched.

Swiss Market Index (SMI)

A consolidation move was seen but did not go deep enough to fill the gap around 12732. Resistance is located at 12997, which corresponds to the all-time high.

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	0.90	0.94	12'948.60	5'474.85	22'287.56	8'154.51	8'659.37	6'013.13	19'524.01	38'776.94	1'147.30
Trend	→	→	↑	↑	↑	↑	→	→	↓	→	↑
YTD	-1.08%	-0.05%	11.62%	11.82%	11.96%	10.48%	5.95%	2.24%	1.10%	-2.80%	6.68%

(values from the Friday preceding publication)

Banque Bonhôte & Cie SA — Neuchâtel, Bern, Biel/Bienne, Geneva, Lausanne, Solothurn, Zurich — T. 032 722 10 00 **bohnote.ch**