# The calm – before the storm?

Saving you time

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Financial markets were on an even keel last week as supportive central bank announcements were offset by uncertainty stemming from the uncertain outlook for the US economy. Specifically, markets are concerned that the Trump administration's economic policies will usher in a period of stagflation.

## Fed left rates unchanged

In the US, the Fed made a statement when announcing its monetary policy decision, confirming that it does not take orders from the presidency (which wants to see lower interest rates). As expected, the Fed left rates unchanged (with a Fed Funds range between 4.25% and 4.50%) based on the belief that uncertainty has risen two months after Donald Trump's return to power. It still expects to cut policy rates twice this year.

Overall, the Fed's outward stance shows that its officials are less confident in the health of the US economy. The Fed also downgraded forecasts for the US economy. GDP is now expected to grow by 1.7%, down sharply from 2.1% previously. The Fed also notched up its inflation forecast from 2.5% to 2.7%. It sees unemployment at 4.4%, up from 4.3%.

The economic environment is deteriorating, as reflected in the macroeconomic data released last week. Michigan consumer confidence tanked to 57.9 – the lowest level since November 2022, while long-term inflation expectations rose from 3.5% to 3.9% in a sign of nervousness. To make matters worse, retail sales for February came in below expectations, which could lead to a less stellar growth trend for the world's leading economy.

All in all, the Fed's decision to leave its target rate unchanged, despite fine-tuning its growth and inflation forecasts, suggests an accommodative stance aimed at supporting the recovery, even if the economic climate remains fragile.

This news along with a series of disappointing macroeconomic indicators last week supported the bond market, as evidenced by US 10-year yields easing back to 4.20%.

## SNB cuts benchmark policy rate

Here in Switzerland, the SNB lowered its growth forecast for the current year from 1.5% to 1.4%. However, its inflation forecast for 2025 was left unchanged at 0.3%, ruling out any recession scenario at this stage. The SNB cut its benchmark policy rate for the fifth time in a row on Thursday to 0.25%. This brings it close to zero against a backdrop of slowing inflation. This decision was prompted by weak inflation and the increased risk of a downward revision to growth. In particular, the SNB wants to avoid a run on the franc, which is seen as a safe haven. An expensive franc against the euro and the US dollar hurts the competitiveness of Swiss companies.

Last week the S&P 500 edged up by 0.51%, Nasdaq by 0.25% and the Stoxx Europe 600 by 0.56%.

### Swiss Market Index (SMI)

The SMI is struggling to overcome the 13110 resistance and has been drifting sideways for several days. Support is located in the 12930-12950 zone. The next resistance is 13167.

## 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 | 0.95 | 13'075.40 | 5'423.83 | 22'891.68 | 8'042.95 | 8'646.79 | 5'667.56 | 17'784.05 | 37'677.06 | 1'131.38 |
| Trend | → | → | → | → | → | → | → | ↓ | ↓ | → | → |
| YTD | -2.70% | 1.63% | 12.71% | 10.78% | 15.00% | 8.97% | 5.80% | -3.64% | -7.91% | -5.56% | 5.20% |

(values from the Friday preceding publication)



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