Markets
— in the eye of the storm

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First stab at negotiations. Equity markets rallied towards the end of the week, helped by signs of easing trade tensions. But the trend is still fragile, undermined by the simmering geopolitical tensions, cautious central bank policies and volatile macroeconomic indicators.

Conciliatory attitude from US

The trade bickering sparked by the Trump administration is still the main factor determining the direction of travel for financial assets. The week began with a further increase in stress levels as the US announced plans to slap tariffs on foreign films and pharmaceuticals. On the positive side, two significant events rekindled investor confidence. The first was the signing of a pragmatic trade agreement between the US and the UK, gesturing an openness to negotiate. Next, bilateral talks between US and Chinese representatives in Switzerland triggered a temporary reduction in tariffs. The US has cut its duties from 145% to 30%, while China has reduced its own from 125% to 10%. But note that the tariff conundrum is unresolved, and the specifics of this initial negotiation phase will be closely examined. Aside from the headline effect, compromises such as this one are being interpreted as the Trump administration's desire to forge bilateral agreements despite all the tough talk recently. What they do not represent, however, is a genuine shift back towards more liberalised trading.

On the macro front, the US economy is showing some resilience, but the pressures are mounting. The trade deficit soared to a record USD 140.5 billion in March due to direct fallout from its tariff strategy. Watching from the sidelines, the Fed has opted to hold rates within the 4.25-4.50% range as it awaits the next events. Safeguarding a robust job market and growth remain pivotal considerations, but persistently high inflation is making the Fed cautious.

In Europe, Germany's manufacturing output beat expectations with a 3% increase in March. Exports also gained ground, indicating that businesses are preparing for tougher trading conditions. Internal political tensions also came to the fore last week, as evidenced by the contested appointment of Friedrich Merz as chancellor. This fragility in the ruling coalition could well hinder reform efforts.

PBoC cuts rates

China has implemented monetary easing measures amid slowing domestic demand, just as the US has been piling on pressure with tariffs. The People's Bank of China last week cut the benchmark rate as well as the banks' reserve requirement ratio in an attempt to boost lending. These measures coincided with an 8.1% surge in exports in April, indicating that Chinese companies are adjusting their logistics in response to the trade barriers.

Equity markets, cheered by these signals of rapprochement, eked out a rally towards the end of the week, particularly in the tech sector – buoyed by speculation of looser restrictions arising under the Chip Act. But there are chances that this uptrend is merely a technical rally. Company margins remain under pressure, while political uncertainty from the US is clouding the outlook for the coming months.

In this setting, the S&P 500 and Nasdaq ended the week down by 0.47% and 0.2%, respectively. The Stoxx Europe 600 edged up 0.29%, while the SMI shed 1.36%.

Swiss Market Index (SMI)

Momentum has reverted to positive but remains at neutral levels. The SMI may retest 11950 before bouncing towards 12350, which we see as an intermediate resistance.

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	0.83	0.94	12'087.32	5'309.74	23'499.32	7'743.75	8'554.80	5'659.91	17'928.92	37'503.33	1'138.40
Trend	⬆	➡	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆
YTD	-8.39%	-0.48%	4.19%	8.45%	18.05%	4.92%	4.67%	-3.77%	-7.16%	-5.99%	5.85%

(values from the Friday preceding publication)