Markets — on tenterhooks

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Financial markets faced a week under pressure, knocked off balance by growing doubts about America's fiscal position and more protectionist noises emanating from the White House.

Long-term yields rising

Shaking and stirring the market last week was President Trump's "big, beautiful bill" on the US budget, in which he aims to fulfil several campaign promises – including tax cuts coupled with increased public spending. However, this budget stance is raising serious concerns about the viability of the federal debt trajectory (with the debt pile currently at USD 36 trillion). In response, Moody's sounded the alarm by downgrading the US credit rating, joining the ranks of S&P and Fitch. The US is not looking insolvent any time soon, but the message to investors is clear: persistent fiscal indiscipline within Congress and mounting deficits are jeopardising the long-term standing of the federal financing apparatus.

The revised assessment of US sovereign risk is exerting significant pressure on long-term rates. The 30-year Treasury yield rose above 5.15% last week, to its highest level since October 2023, while the 10-year yield climbed above 4.60%. This upward drift in yields not only signals investor distrust but also points towards higher borrowing costs for the US. It is undermining Treasuries, which have customarily been considered safe havens, and weakening the dollar, which has lost ground against most major currencies except the yen.

In this setting, the Fed has struck a cautious tone. Several FOMC members have again stated that price stability remains the priority while stressing the need to bide their time on rate cuts. Markets are not expecting significant easing this side of September, leaving investors even more bereft of signals.

Europe's economic backdrop has been a mix of good and bad. Inflation held steady in the Eurozone last month. But the private-sector activity shrank for the first time in five months. These mixed signals show that the Eurozone's recovery is still shaky, weakened further by transatlantic trade tensions.

Transatlantic trade tensions

For evidence, simply look to Trump's announcement on Friday that the US would be slapping a 50% tariff on all EU imports from 1 June, which reignited fears of a full-blown trade war. A reprieve was finally granted on Sunday (until 9 July) to allow time for further negotiations. Another sign of just how unpredictable US trade policy has become.

In corporate news, Apple faces a potential 25% tariff on iPhones not assembled in the US.

The only significant bright spot has been first-quarter earnings season. S&P 500 members have as an aggregate reported a 13.6% profit increase, surpassing initial expectations. Tech giants reported 28% year-on-year growth. Even so, concerns over whether it is actually possible to make money from AI are rising.

Markets are facing a double cliff edge, with on one side US fiscal uncertainty and on the other geopolitical tension. All in all, the S&P 500 ended the week down by 2.61% and Nasdaq by 2.39%. The SMI fell 1.11% while Stoxx Europe 600 was down by 0.75%.

Swiss Market Index (SMI)

The intermediate resistance at 12350 remains intact. We continue to project consolidation towards 12225. Support is located at 12030 and resistance at 12575.

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	0.82	0.93	12'198.69	5'326.31	23'629.58	7'734.40	8'717.97	5'802.82	18'737.21	37'160.47	1'170.98
Trend	↓	→	→	→	↑	→	↑	→	↑	→	↑
YTD	-9.50%	-0.71%	5.15%	8.79%	18.71%	4.79%	6.67%	-1.34%	-2.97%	-6.85%	8.88%

(values from the Friday preceding publication)