Heading for a slowdown across the board?

Saving you time

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The mood in markets remains one of uncertainty on geopolitical and economic fronts, made worse by the ugly face of protectionism and its risks.

The focal point is still 4 July, which is when the 90-day moratorium on the tariffs unveiled by Donald Trump ends. The worsening political climate, especially between Trump and Musk, last week led volatility higher, as illustrated by the Tesla share-price slump amid a broadly declining Nasdaq. This news temporarily overshadowed the resumption of trade talks between China and the US.

Stagflation looking likely in US

The US economy is sending clear signals of slowing growth. Doubts about the trajectory for economic policy are putting capex decisions on hold, hindering recruitment and dampening business confidence. Factory orders are contracting once again, after a runaway phase connected with the impending tariffs. Input costs are still rising, which is having a detrimental effect on corporate margins.

Job trends are backing up this diagnosis. Only 37,000 private-sector jobs were added in May as per the ADP survey, which was far less than expected (110,000). The government's version also indicated a lower number, with 139,000 net jobs added and an unchanged rate of unemployment at 4.2%. Consumer spending is slackening, especially for discretionary items as households cautiously sit on the fence.

At the same time, inflation is still moderate, but the deferred hit from newly introduced tariffs is likely to show up in the numbers by the end of the northern hemisphere summer. The needle on the baseline scenario is gradually moving towards stagflation.

The US budget, as it currently stands, suggests a deficit held steady around 7% of GDP, despite it being stated policy to cut back on expenditure. The extension of tax cuts, coupled with recently introduced higher tariffs (c. 1% of GDP), are another hurdle for the growth trajectory in 2025. Confidence in the US is slipping and this in turn is hitting the dollar, which is down 9% against the Swiss franc year to date.

ECB cuts rates

The ECB last week cut its policy rate by 25 basis points, resulting in a rate on the deposit facility of 2%. This was largely expected, reflecting the transition from inflation targeting to price stability. For evidence of this, inflation is back around the 2% target. But with global trade in such as fragile state, the ECB is talking cautiously.

Germany embodies this dichotomy quite well. On one hand, factory orders were up in April (+0.6% m/m, +4.5% y/y). But at the same time, industrial production fell (-1.4%), as did exports (-1.7%) – especially to the US (-10.5%). The trade surplus has narrowed sharply, to EUR 14.6 billion versus EUR 21.3 billion in April.

The OECD's downward revisions to its global growth forecast (2.9% for 2025-26) and profit outlook (S&P 500 +9% versus +14% back in January) merely made prospects seem even more hazy. In fixed income, wrangling over the US budget continued to put upward pressure on yields.

Major stockmarkets rose across the board last week. The S&P 500 gained 1.50%, the Nasdaq 1.97%, the EuroStoxx 600 0.92% and the SMI 1.14%.

Swiss Market Index (SMI)

This week, the SMI is expected to continue drifting between 12030 and 12350 on the basis of virtually unchanged indicators. The short-term target is still 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	0.94	12'366.17	5'430.17	24'304.46	7'804.87	8'837.91	6'000.36	19'529.95	37'741.61	1'182.93
Trend	➡	➡	➡	➡	⬆	➡	⬆	⬆	⬆	➡	⬆
YTD	-9.38%	-0.27%	6.60%	10.91%	22.10%	5.75%	8.14%	2.02%	1.13%	-5.40%	9.99%

(values from the Friday preceding publication)