# Geopolitics – takes centre stage again

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Financial markets are dancing to geopolitics' tune, with hopes of rate cuts in the short term relegated to second fiddle. Investors have been holding firm, clinging more to promises of de-escalation and normalisation in the US/China relationship rather than to substantive catalysts.

## US/China talks

The 9–10 June negotiations in London between officials from Washington and Beijing sparked optimism, but no major announcements were forthcoming. The discussions were described as "fruitful", but the issue of trade tariffs was not resolved. A framework agreement yet to be signed off on calls for mutual concessions, with US export restrictions on China being eased in return for easier access to China's rare earth metals.

Structural tensions are concealed beneath this apparent normalisation, however. The economic interdependence of China and the US based on China's trade surpluses and low-cost US consumption is under reeling under the current strains. The next few weeks will decide whether this fragile balance can last.

Trump, maintaining his usual aggressive rhetoric, fanned uncertainty by announcing trade letters would shortly be sent to various countries imposing new bilateral conditions.

Tensions in the Middle East were reignited by Israel's preventive strike against military and nuclear targets in Iran. Brent crude prices rocketed 11% higher, heightening the risk of imported inflation. The Strait of Hormuz, through which one-third of the world's oil passes, has become a strategic hotspot.

Amid this more tense geopolitical environment, gold prices rose 2.6% over the week, and sovereign yields were in demand. The US 10-year yield slipped below 4.5% with Bunds under 4.6%.

## Fed likely to keep its rates on hold

In the US, there has been no let-up in inflation. The CPI accelerated to 2.4% in May, with core inflation stable at 2.8%. The PPI moved higher, too, but in line with expectations. Analysts anticipate the Fed will leave its rates unchanged at its 18 June meeting, especially since the surge in oil prices may push back future cuts. It will be interesting to hear J. Powell's take on the current state of the economy in his speech on Wednesday. On Thursday, it will be the SNB's turn to talk about its monetary policy.

The US labour market is holding up, with only a modest increase in initial jobless claims. US consumer confidence recovered ground in June, lending further support to consumer spending, albeit at the price of record debt levels. The indebtedness of US households has leapt higher in recent months, and they borrowed an extra USD 18 billion in April alone. With credit card borrowing rates now above the 20% mark, the economy could falter if rates were to stay so high and if the labour market were to weaken.

In this unstable environment, the S&P 500 index ended the week down 0.39% and the Nasdaq 100 lost 0.60%. In Europe, the Stoxx Europe 600 lost 1.57% and the SMI 1.78%.

### Swiss Market Index (SMI)

Momentum indicators took a slight turn for the worse, raising the risk of a more significant retrenchment to 11995 points. Even so, we are reiterating our scenario of the SMI holding between 12030 and 12350.

## 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 | 0.81 | 0.94 | 12'146.02 | 5'290.47 | 23'516.23 | 7'684.68 | 8'850.63 | 5'976.97 | 19'406.83 | 37'834.25 | 1'190.03 |
| Trend | ↓ | → | ↓ | ↓ | ↓ | ↓ | → | → | → | → | ↑ |
| YTD | -10.58% | -0.29% | 4.70% | 8.06% | 18.14% | 4.12% | 8.29% | 1.62% | 0.50% | -5.16% | 10.65% |

(values from the Friday preceding publication)