Sunnier mood returns — to markets

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Last week culminated in a broad-based rally. Markets were lifted by renewed hope about trade negotiations, the ceasefire in Middle East and the firmer prospect of an initial Fed rate cut in the cycle before the year is out.

Customs duties back in the spotlight

Customs duties are gradually reverting to the forefront as the 9 July deadline approaches, marking the end of the hiatus granted by Donald Trump. Against this backdrop, investors want to believe in better relations between Washington and Beijing, with an agreement on rare earth shipments, and are banking on Canada's Digital Services Tax being repealed. In other positive news, Switzerland is reportedly close to clinching an agreement with the US administration. Elsewhere, the US and the G7 group of countries have agreed to exclude US companies from a bundle of global tax rules imposing a minimum tax threshold. According to observers, this is one point that would facilitate a trade agreement between the EU and the US.

The price of oil has significantly dropped in the wake of the Iran and Israel ceasefire, adding fuel to the fire for those advocating for a Fed rate cut by the end of the year. The odds implied, in futures markets, of an initial downward adjustment as early as September have risen to 76% and 73% according to the FedWatch probability tracker. Conversely, Chair Powell again emphasised the importance of exercising caution in monetary policy. In his view, action on rates should only be considered when the effects of tariffs on economic growth have become clearer. Another remark that drew the ire of the president.

Looking at statistics, US PMIs were reported in line with the previous month, indicating an unchanged level of confidence among purchasing managers. The PCE index showed inflation gaining some traction again in May (2.3% year-on-year versus 2.2% in April) in terms of both headline inflation and core inflation (excluding energy and food prices). Consumer spending decreased by 0.1% month-on-month. Household income was down 0.4%. In contrast, the University of Michigan consumer confidence index showed sentiment holding steady.

NATO countries to increase military spending

The NATO summit in The Hague also yielded its share of encouraging news for European investors. Member countries have committed to a substantial increase in military spending (up to 5% of their GDP) by 2035. This agreement could support the outlook for the defence sector, even though spending prospects are largely priced into valuations as things stand.

In Germany, the government presented its five-year draft budget on Tuesday, breaking away from the austerity dogma as it seeks to revive its economy and bolster its military. German military spending alone is expected to rise to the colossal sum of EUR 162 billion in 2029 – more than triple its defence budget before Russia's invasion of Ukraine.

In this setting, the S&P 500 rose by 3.44% over the week, Nasdaq by 4.20% and the Stoxx Europe 600 by 1.32%. The SMI gained 0.92%.

Swiss Market Index (SMI)

A slight rebound is expected up to 12140, but weak momentum currently precludes targeting beyond 12370 in the medium term.

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	0.80	0.94	11'980.38	5'325.64	24'033.22	7'691.55	8'798.91	6'173.07	20'273.46	40'150.79	1'228.53
Trend	↓	→	↓	→	↑	→	→	↑	↑	↑	↑
YTD	-11.94%	-0.35%	3.27%	8.78%	20.73%	4.21%	7.66%	4.96%	4.99%	0.64%	14.23%

(values from the Friday preceding publication)