A historic interview — but more form than substance

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Markets rose last week, buoyed by expectations of a Fed rate cut, the extension of the Sino-US trade truce and the Trump-Putin summit.

Rate cuts looking more likely

On the geopolitical front, President Trump's decision to suspend tariffs on Chinese goods for a further 90 days temporarily eased tensions and disruptions to global supply chains. Since January, the US has collected USD 115 billion in customs revenues, but this has done little to plug the budget deficit (USD 291 billion in July). Hopes of a ceasefire in Ukraine were meanwhile dashed at Friday's Russia-US summit in Alaska.

Staying in the US, inflation surprised on the downside. CPI for July was stable at 2.7% year-on-year versus the forecast 2.8%. Core inflation (excluding food and energy) quickened to 3.1%, in line with estimates. In contrast, producer prices rose by 0.9% month-on-month, busting expectations (+0.4%) and signalling upward price pressure in services. These figures have bolstered expectations for a Fed rate cut. Some cabinet members, including Treasury Secretary Scott Bessent, are now pressing for a larger cut (50bp in September and up to 175bp in total for the whole of 2025). Yet the robust labour market would argue against such a sweeping move. In economic activity, retail sales rose by 0.5% in July, driven by automotive and real estate, down from +0.9% in June. Industrial production dipped by 0.1%. These mixed figures confirm that while the economy remains solid, momentum is fading.

Growth has stalled in the Eurozone, with Q2 GDP rising by only 0.1%. In Germany, investor confidence has deteriorated amid the uncertain trade outlook. Even so, European companies have been more resilient, with 81% beating consensus EPS estimates. In aggregate, earnings increased by 11.8% (versus the 4.9% forecast).

In Switzerland, negotiations with Washington are now focused on reducing the 39% surtax on exports, though markets have largely shrugged off the news. On the macro front, the GDP growth forecast has been lowered to 1.3% for 2025, with inflation flat or thereabouts. The Swiss franc remains firm, increasingly pressuring exporters. The SNB could lower rates again in September, boosting the appeal of defensive domestic stocks.

Chinese economy still fragile

In China, July retail sales and industrial production disappointed, underlining the impact of the trade war. The economy remains mired in deflation. The latest PPI fell by 36% year-on-year, while inflation is zero. The property sector remains in a rut, as illustrated by Evergrande's delisting. Despite these weak points, the extension of the tariff truce has lent temporary support to markets, with the CSI 300 stretching to a 10-month high. Yet the recovery remains superficial, reliant on intermittent state support.

Global indices performed well last week. The S&P 500 ended up 1.23%, the Nasdaq 0.80%, the Stoxx Europe 600 1.35% and the SMI 1.72%.

This week's headlines will be dominated by President Zelensky's White House visit and the Jackson Hole Symposium.

Swiss Market Index (SMI)

We continue to project drift on the SMI with significant resistance at 12150 and support at 11810.

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	12'074.33	5'448.61	24'359.30	7'923.45	9'138.90	6'449.80	21'622.98	43'378.31	1'272.43
Trend	➡	➡	⬆	⬆	⬆	⬆	➡	⬆	⬆	⬆	⬆
YTD	-11.12%	0.42%	4.08%	11.29%	22.37%	7.35%	11.82%	9.66%	11.97%	8.73%	18.31%

(values from the Friday preceding publication)

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