

Markets grappling with — rising tensions

Saving you time

A climate of uncertainty prevailed last week as political tension mounted in Europe and questions about the timing of rate cuts came to the fore in the US.

The macroeconomic backdrop remains mixed. Growth in the US is solid but under threat from tariffs and political concerns, European inflation is close to the target level, albeit with certain components straying off course, and economic indicators for Switzerland show moderate activity levels.

Sector rotation

The market indices paused for breath in the US last week. Sector rotation was plain for all to see, with investors taking profits on AI infrastructure stocks, while energy and utilities stocks pushed ahead. This shift points to greater selectiveness in trading flows after an AI-powered rally that has lasted for several months.

Macroeconomic data continue to paint a picture of a robust economy, but one not entirely free of vulnerabilities. The second-quarter GDP growth estimate was revised up to an annualised 3.3%, after a marginal contraction in the first quarter. Brisk consumer spending and lower imports underpinned growth. The inflation numbers are not as clear-cut. The headline PCE remained at 2.6%, but the core price index accelerated to 2.9%, illustrating the slow disinflation in services. Consumer spending moved up 0.3% in July, after rising by 0.1% in June, while personal income moved up 0.4%. Unemployment benefit claims decreased to 229,000, a larger than expected fall reflecting a still resilient jobs market.

The backdrop to these economic statistics was a fairly turbulent political environment: Donald Trump attempted to oust Fed Governor Lisa Cook, accentuating fears about the Fed's independence. As a result, the yield on 30-year US Treasuries headed towards 5%, reflecting budget worries and the uptrend in risk premiums on US debt. The dilemma facing investors is clear: the Fed is still on track for a rate cut in the short term, but political and tariff-related uncertainties are driving up the risk premium over the long 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	12'187.58	5'351.73	23'902.21	7'703.90	9'187.34	6'460.26	21'455.55	42'718.47	1'258.44
Trend	➡	➡	⬆	➡	⬇	⬇	➡	➡	➡	➡	➡
YTD	-11.78%	-0.48%	5.06%	9.31%	20.07%	4.38%	12.41%	9.84%	11.11%	7.08%	17.01%

(values from the Friday preceding publication)

Political uncertainty in France

The uptrend in European equities came to a halt. France, where the government faces a vote of confidence on 8 September, was the central concern. The OAT-Bund yield spread reached its highest level since April, reflecting worries about the budget sustainability.

The ECB minutes revealed major differences between governors. Some believe the weakness of demand will suffice to bring inflation back down towards 2%, while others point to the rigidity of service prices and the knock-on effects of US tariffs. The consensus view is the flash HICPI estimate for August will be a headline figure of around 2.1% and a core figure of 2.3%, which would strengthen expectations of an unchanged monetary policy.

European banks have come under pressure as a result of curve flattening and the political risk, while the energy sector received a boost from the rebound in oil prices.

The KOF leading indicator for Switzerland dipped to 97.4 in August, after peaking at 101.3 in July, pointing to slower manufacturing levels. These numbers should keep the SNB in a wait-and-see stance, carefully watching the Swiss franc without any immediate need to raise rates. Defensives and particularly pharma stocks helped moderate the decline, while luxury groups and exporters were again fragile.

The S&P 500 moved 0.10% lower, while the Nasdaq slipped 0.19%, the Euro Stoxx 600 slid 1.47% and the SMI was flat.

Swiss Market Index (SMI)

The SMI index remains in a recovery phase. And after a week of consolidation, we expect a move up towards its resistance level at 12470.



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