A useful dose – of pressure

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N°812
23 September 2025

The Fed has implemented its first rate cut since December 2024 – a shift contrasting with the ECB's wait-and-see stance evident the previous week and the SNB's likely policy hold this week.

Fed lowers cost of borrowing

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The Fed's decision to cut rates by a quarter-point, to a range of 4.0-4.25%, marks a monetary turning point. Jerome Powell described it as a risk-management move, emphasising that the labour market – rather than inflation – has now become the priority.

The change of stance can be explained by the weak August jobs report, showing that only 22,000 positions were added. This was well below the estimated threshold needed to absorb labour-force growth. Although weekly jobless claims have edged lower, the market remains too fragile to support robust growth. Paradoxically, the Fed simultaneously raised its 2025 growth forecasts, underscoring the delicate balance between economic resilience and labour-market strains.

Cyclical indicators offered some relief. Retail sales rose 0.6% in August, well ahead of expectations, while the Philadelphia Fed manufacturing index jumped to its highest level since January. In financial markets, monetary easing propelled US equity indices to fresh records last week, led by the tech and semis behemoths. Small caps also benefited from renewed risk appetite. Meanwhile, the dollar weakened against European currencies and the Swiss franc.

Inflation standing still in Europe

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In comparison with Europe, it's chalk and cheese. Headline inflation in the Eurozone held steady at 2% in August, in line with the ECB's target. Core inflation stayed at 2.3%, which is still too high to justify any loosening. The central bank is therefore expected to keep policy unchanged, at the risk of widening the gap with the Fed. European equity markets last week only partially benefited from the US rally.

Export-oriented stocks, particularly in automotive and capital goods, are suffering from slowing global demand compounded by persistently high energy and input costs. The tech sector continues to lag behind US peers, as there aren't many such companies over on the Continent capable of riding the AI and semiconductor wave. Energy – especially renewables – remains subject to swings in gas prices and carbon trading. This is also fuelling volatility.

The SNB is expected to keep its benchmark policy rate at zero when it meets later this week. Domestic inflation is still slack and firmly under control. Even so, external factors are weighing heavily. Washington's 39% tariff hit on Swiss good is sapping the strength of exporters, who were already having to grapple with the strong Swiss franc.

In the week under review, the S&P 500 put on 1.19%, NASDAQ 2.22% while the Stoxx Europe 600 was down 0.13% and the SMI shed 0.69%. This coming week the focal points will be final US GDP, durable goods orders and the SNB's policy decision.

Swiss Market Index (SMI)

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Support at 12150 is switching to a resistance. Trend-following indicators are neutral, signalling that the SMI could drift in the coming days between 12030 and 12210.

Key data

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	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	0.93	12'109.67	5'458.42	23'639.41	7'853.59	9'216.67	6'664.36	22'631.48	45'045.81	1'340.91
Trend	→	→	→	↑	→	↑	→	↑	↑	↑	↑
YTD	-12.34%	-0.56%	4.39%	11.49%	18.75%	6.41%	12.77%	13.31%	17.20%	12.91%	24.68%

(values from the Friday preceding publication)