Markets rise despite – US shutdown

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America has officially entered its 16th government shutdown since 1981, after yet another failed round of budget negotiations between Republicans and Democrats. Some 750,000 federal employees have been furloughed, disrupting the functioning of government and delaying the release of key economic data, including the monthly non-farm payrolls report. This deadlock (the first in seven years) has muddied the political outlook. Yet financial markets remain unruffled as Wall Street continued last week to notch up record highs.

16th shutdown in US

Investors are clinging to one conviction: the Fed will soon start cutting rates. The ADP survey showed a net loss of 32,000 jobs in September, against expectations for a 51,000 gain, providing another sign that the labour market is slowing. Market pricing now assigns a 98% probability to a quarter-point cut in October and 85% odds of another one in December. Bond yields eased slightly last week despite the institutional deadlock.

Sector wise, the week was marked by a spectacular rebound in pharmaceuticals. Pfizer jumped 6.8% after reaching an agreement with the Trump administration to cut the price of selected drugs, averting the threat of a 100% tariff on imported products. Although the details of the deal remain vague, the news rekindled investor interest in healthcare stocks.

In Europe, the week was broadly positive, supported by further news that the ECB will keep rates on hold. Inflation clocked in at 2.2% year-on-year, up slightly from 2% in August, representing a modest uptick after several months unchanged. Christine Lagarde struck a balanced tone, saying the central bank remains watchful but is confident that inflation has been beaten.

Stocks cheered the clearer outlook, with the EuroStoxx 50 reaching a new current-year high on the back of tech and healthcare gains. In contrast, banks edged lower, weighed down by the prospect of a prolonged squeeze on margins.

Manufacturing squeezed but services recovering in Switzerland

In Switzerland, economic indicators painted a mixed picture. The UBS manufacturing PMI fell to 46.3 in September, underscoring the ongoing weakness in industry, which has been hit hard by US tariffs. Nearly 47% of manufacturers report being directly affected – the highest proportion since the start of the trade tensions. By contrast, services surprised on the upside, with the index climbing from 43.9 to 51.3 and back into expansion territory thanks to strong new orders. Inflation was stable at a moderate 0.2% year-on-year. The SNB can therefore bide its time.

Despite the shutdown, stocks gained in most marketplaces around the globe. The S&P 500 rose 0.82% and Nasdaq 0.71%. In Europe, the STOXX Europe 600 advanced by 2.69% while the SMI shot up by 4.17%.

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Swiss Market Index (SMI)

Trend-following indicators turned slightly better over the week. The SMI is challenging the resistance at 12575. If this is breached, our target will be 12710.

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	0.93	12'507.17	5'651.71	24'378.80	8'081.54	9'491.25	6'715.79	22'780.51	45'769.50	1'373.89
Trend	➡	➡	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆
YTD	-12.30%	-0.59%	7.81%	15.44%	22.47%	9.49%	16.13%	14.18%	17.97%	14.73%	27.75%

(values from the Friday preceding publication)