Markets rediscover vulnerability – to world events

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Saving you time

The Nasdaq crossed the symbolic 25,000-point line early last week, lifted by the continued fizz surrounding AI. On Friday momentum reversed as Donald Trump threatened more tariffs on Chinese exports. Meanwhile the US government shutdown entered its tenth day, halting the release of key data such as job creations and inflation. The hazy visibility leaves the Fed in the dark ahead of its late-October meeting. Nevertheless, markets are pricing in two further rate cuts by December, convinced the Fed will prioritise pre-empting a potential recession rather than act overly cautious about inflation. Last week the 10-year Treasury yield eased from 4.27% to 4.12% while the dollar fell 1.1%. Gold broke above USD 4,015 per ounce to set an all-time record, driven by fiscal strains and geopolitical tensions.

French politics still on a knife edge

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In Europe, markets were broadly stable, with the notable exception of Paris – shaken by the resignation of prime minister Sébastien Lecornu less than a month after his appointment. The 10-year OAT-Bund spread widened to 85bp, its highest level this year. The French yield (3.57%) at this maturity now exceeds those of Greece and Italy, but this is more to do with the political mess as opposed to any risk of financial contagion. In short, investors still trust the ECB to contain any unjustified flare-ups in sovereign yields. This latest instalment in the French political saga jeopardises the 2026 budget timetable, making ad hoc spending legislation likely while also reviving the spectre of possible institutional gridlock. German industrial production fell 4.3% in August, its sharpest contraction since 2022, weighed down by automotive (-18.5%) and pharmaceuticals (-10.3%). This weakness is feeding fears of a lacklustre fourth quarter for Europe's largest economy. Elsewhere the European Commission announced a doubling of tariffs on Chinese steel, triggering a rally in steelmakers.

In Switzerland, the stability of the franc and the prospect of an updated free-trade agreement with China supported the shares of exporters. The SMI edged lower but Nestlé, Roche and Richemont outperformed owing to their defensive profiles and the current resilience of luxury goods as a sector.

China – trade under pressure but countries still keeping their heads

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Chinese stocks fell on news that of a 100% tariff from the US levied on Chinese exports, reviving the spectre of a trade war. Markets reacted differently with the CSI 300 falling by 1.8% and the Hang Seng by 3.5%. Semiconductors and rare earths fared better than the rest, supported by the prospect of public support and Beijing's push to become technologically self-reliant.

Last week the S&P 500 slipped 2.41% and the Nasdaq was down 2.27%. In Europe, the pullback was cushioned, with the STOXX Europe 600 falling by 1.10% and the SMI by only 0.21%. This week markets will track the start of earnings season with the first US banks reporting while hoping for a de-escalation in trade tensions between Washington and Beijing. Volatility will remain high until macro and political visibility can be restored.

Swiss Market Index (SMI)

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The SMI is likely to rest against support at 12400 before trying to attempt an upswing to 12710.

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	12'481.41	5'531.32	24'241.46	7'918.00	9'427.47	6'552.51	22'204.43	48'088.80	1'365.67
Trend	→	→	↑	→	↑	→	→	↓	↓	↑	→
YTD	-11.88%	-1.19%	7.59%	12.98%	21.78%	7.28%	15.35%	11.41%	14.98%	20.54%	26.98%

(values from the Friday preceding publication)