Fed and BoJ – pulling in different directions

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Markets kicked off December on a cautious footing, confronted with a run of US data pointing to flagging economic momentum. It has also looked increasingly likely that the Fed will cut rates at this week's meeting. Global yields remained the main source of volatility, especially amid the upward pressure on Japanese yields.

Clearing the stats backlog in the US

The labour market flashed its weakest signal in months. According to Wednesday's ADP report, the private sector shed 32,000 jobs in November, against expectations of a 10,000 decline. The picture is not one-way, however. Initial jobless claims fell to 191,000, their lowest since September 2022. The divergence underlines how fragmented the labour market has become, complicating any reading of the economic cycle. Inflation matched expectations, with PCEs up 0.2% month-on-month, helping steady bond yields. The US 10-year yield was again confined to its 3.95-4.17% channel, showing that the market is waiting for the Fed to move before recalibrating its rate outlook.

Consumer behaviour still looks resilient on the surface. Americans spent USD 23.6 billion online in the three days after Thanksgiving – a record driven by steep discounts and more prevalent use of buy-now-pay-later schemes. Even so, most of the performance stemmed from higher-income households, raising questions over how long the spending spree can last even as the labour market cools.

Eurozone inflation ticked up to 2.2% in November from 2.1% in October. This was enough to entrench the view that the ECB is unlikely to deliver another cut any time soon. Germany's manufacturing woes deepened, while politically, the Merz coalition won a knife-edge vote on pension reform on 5 December, facing down objections from a group of young conservative MPs. The bill – a key plank of the government's programme – was passed even without help from the far-left opposition, which had agreed to abstain to help get the bill over the line. End result: the coalition remains intact. Automotive was among the week's winners, buoyed by Donald Trump's proposal to relax US fuel-efficiency standards and by Brussels' rumoured plans to postpone the phase-out of combustion engines to beyond 2040.

Excitement around Japanese yields

Japanese yields moved sharply higher last week. The 10-year yield hit 1.95% – its highest level since 2007. The 30-year climbed to 3.45% before easing after a heavily subscribed auction featuring the highest demand since 2019. Markets now expect a Bank of Japan rate hike in December, as widely reported in Japan's business press. This is seen as politically tolerable so long as the yen stays weak. The steepening of the Japanese curve fed into broader pressure on long-term yields, amplifying volatility across global markets.

In the first week of December, the S&P 500 gained 0.31% and the Nasdaq 0.91%. In Europe, the Stoxx Europe 600 rose 0.41% and the SMI 0.80%. All eyes this week are on the pivotal Fed and SNB decisions. Markets will be testing central-bank credibility against the backdrop of ambiguous data. Upward pressure on Japanese yields will also remain a key risk factor.

Swiss Market Index (SMI)

Momentum is still intact on the SMI. We reiterate our target at 13100 pts.

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	12'936.30	5'723.93	24'028.14	8'114.74	9'667.01	6'870.40	23'578.13	50'491.87	1'385.48
Trend	→	→	↑	↑	↑	→	→	↑	↑	↑	→
YTD	-11.32%	-0.29%	11.51%	16.91%	20.71%	9.94%	18.28%	16.81%	22.10%	26.56%	28.82%

(values from the Friday preceding publication)