Fed recalibrates – the market rotates

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Events last week centred on the Fed rate decision, consisting of a quarter-point cut in the Fed Funds range to 3.50-3.75%. While this was expected, the accompanying commentary had a sting in its tail.

Fed loosens by a quarter-point

The FOMC vote revealed an unusual split – nine votes to three. Among the dissenters, two governors wanted to hold policy, while an extremely dovish dove advocated for a whole half point. The FOMC is clearly at a turning point in the cycle, torn between persistent inflation and a rapid deterioration in labour-market conditions.

Economic growth projections were revised higher (+1.7% in 2025; +2.3% in 2026), while expectations for PCE inflation were lowered (2.9% in 2025; 2.4% in 2026). But the main message of the week was that Powell explicitly acknowledged that official labour statistics may be overstating job creation by nearly 60,000 positions per month, suggesting that the US job market may in fact already be close to a downturn.

This assessment was corroborated by the sharp rise in weekly initial jobless claims to 236,000 – the biggest single increase since 2020. In response to mounting liquidity strains, the Fed announced purchases of Treasury bills with maturities of less than three years, amounting to USD 40 billion per month. While procedural in nature, this measure should be taken note of, as it marks a discreet shift towards a more accommodative balance sheet.

Markets reacted logically, with the US 10-year yield easing towards 4.15%, the 2-year benchmark towards 3.54%, while the dollar gave up ground. US equities posted fresh highs, but there was clearly some rotation among sectors. AI-linked tech megacaps consolidated in the wake of Oracle's earning report – a sign of heightened sensitivity to multiples among investors.

SNB holds policy rate at 0%

In the Eurozone, data confirmed the pedestrian but resilient growth trend. Third-quarter GDP rose by 1.4% year-on-year and 0.3% quarter-on-quarter, driven by Spain (+0.6%), France (+0.5%) and the Netherlands (+0.4%). German GDP remains at a standstill.

The most positive signal of the week came from Germany, which saw a 1.5% increase in factory orders in October, especially in aerospace and defence. The upswing remains sector-specific, however, insufficient to reverse the broader weakness in manufacturing.

Softening US yields last week supported equities, while the absence of a major inflation catalyst is curtailing expectations for any fast easing by the ECB.

The SNB kept its policy rate unchanged at 0% amidst a continued accommodative stance. Inflation forecasts were revised downwards (0.2% in 2025 and 0.3% in 2026), well below the official target. The SNB expects growth at around 1.5% in 2025 and 1% in 2026. In its view, the Q3 GDP contraction (-0.5%) was largely due to pharmaceutical deliveries to the US having been brought forward in anticipation of possible tariffs. The positive impact expected from the reduction in US tariffs on Swiss exports was also highlighted. The SNB stated that it will intervene in the forex market as needed, but considers a return to negative rates unlikely at this stage.

Last week the S&P 500 was off by 0.63%, and Nasdaq by 1.62%. In Europe, the Stoxx 600 was unchanged (-0.10%), as was the SMI (-0.07%).

Swiss Market Index (SMI)

The SMI tested 13000 twice last week but was unable to break past this resistance. Our target is still 13100.

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	12'887.48	5'720.71	24'186.49	8'068.62	9'649.03	6'827.41	23'195.17	50'836.55	1'389.99
Trend	→	→	→	↑	↑	→	→	→	→	↑	↑
YTD	-12.28%	-0.60%	11.09%	16.85%	21.50%	9.32%	18.06%	16.08%	20.12%	27.43%	29.24%

(values from the Friday preceding publication)