Markets — facing headwinds

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The macroeconomic backdrop improved last week, but also an increasingly caution mood was felt as the corporate earnings season got started and geopolitical tensions were re-energised.

Fed facing political pressure

European equity indices set new intraday record highs before easing slightly by the time of the weekly close, buckling under the weight of profit-taking. Renewed appetite for tech stocks – underpinned by strong results from TSMC and sustained AI demand – helped offset the politically and commercially uncertain business conditions.

On the geopolitical front, Donald Trump's more conciliatory tone towards Iran was interpreted as a signal of de-escalation, triggering a marked pullback in oil prices. By contrast, tensions surrounding Greenland continued to fuel outperformance by the European defence sector. Arctic military exercises and the threat of new US tariffs on several European countries have kept political risk premiums elevated, reinforcing volatility in sectors exposed to global trade.

In the US, attention remains firmly on the Fed, which is facing heightened political pressure. Jerome Powell has been targeted by unprecedented legal threats. The White House has also taken its meddling to the next level, most notably through a proposal to cap credit-card rates.

December inflation clocked in at 2.7% year-on-year, confirming reports of a sharp slowdown in price growth during the latter part of 2025. This improvement, however, has done little to shift market expectations, which continue to dismiss any further rate cuts before Powell leaves in June. The labour market is resilient, with latest jobless claims at their lowest level since late November.

Germany reverts to growth

In Europe, Germany staged a modest return to growth in 2025, eking out growth of 0.2% and thus bringing two years of recession to an end. The recovery remains fragile and largely driven by consumers and government spending. External trade continues to face strong headwinds. Current-year prospects appear more supportive, underpinned by substantial investment in infrastructure and defence. German inflation, pinned back at 1.8%, reinforces the case for less restrictive monetary conditions in the Eurozone.

In Asia, the contrast is striking. In Japan, the prospect of a fresh, large-scale stimulus package backed by strong political support propelled the Nikkei higher, highlighting the primacy of liquidity support over concerns about public debt. In China, the release of a record trade surplus and annual growth of 5% underscored its ability to redirect trade flows in the face of US tariffs. Industrial upgrading (in semiconductors, automotive and heavy equipment) remains a central pillar of this resilience.

Finally, the first manifestations of earnings season delivered mixed signals. While major US banks reported higher profits, lofty expectations and regulatory risks weighed on share prices. The S&P 500 ended the week down 0.38%, Nasdaq fell 0.66%, while the Stoxx Europe 600 gained 0.77% and the SMI was broadly flat at -0.06%.

Swiss Market Index (SMI)

Our target at 13500 was reached in the week, but consolidation is looking likely. Retracement into 13175-13120 would be salutary, laying the foundations for a renewed upswing.

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	13'413.59	6'029.45	25'297.13	8'258.94	10'235.29	6'940.01	23'515.39	53'936.17	1'484.97
Trend	↑	→	↑	↑	↑	→	↑	→	→	↑	↑
YTD	1.27%	0.00%	1.10%	4.11%	3.29%	1.34%	3.06%	1.38%	1.18%	7.14%	5.74%

(values from the Friday preceding publication)