

Tit-for-tat blockade — in the Gulf

Last week began with the US imposing their own blockade of the Strait of Hormuz in a high-stakes move. That was followed by a gradual shift towards de-escalation. Iran's announcement that it would reopen the Strait at the end of last week, together with a fresh round of diplomatic talks between the parties over the weekend, triggered a bounce in equity markets.

FOMO fever grips US markets

US equity markets have priced in a business-as-usual scenario, supported by three converging factors: Brent falling back below USD 100 a barrel, resilient earnings expectations, and reassuring macroeconomic data releases. March producer prices (PPI) rose by 4% year-on-year, below expectations (4.6%), signalling that the inflationary impact of the energy shock is proving more contained than initially feared. At the same time, messaging from the US Treasury endorsing the Fed's waiting stance helped anchor expectations of a continued hiatus in policy changes.

Even so, bond markets have remained under strain. Despite a pullback in yields triggered by easing geopolitical tensions, the prospect of wider budget deficits – driven by the combined effect of higher military spending and government energy subsidies – further complicates the case for a rate cut at the next Fed meeting concluding on 29 April.

In Europe, the picture is more mixed. March's inflation stat was revised up to 2.6% year-on-year (from 2.5%), in any case marking a sharp rebound from February's 1.9% – driven by the 5.1% increase in energy prices. Core inflation edged down slightly to 2.3% but remains above the ECB's target, strengthening the case for a policy hold at the 30 April meeting.

Reporting season off to a firm start

Sector performances remain sharply divergent. In the US, banks kicked off the earnings season on a firm footing,

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	0.78	0.92	13'426.72	6'057.71	24'702.24	8'425.13	10'667.63	7'126.06	24'468.48	58'475.90	1'597.13
Trend	↓	➡	↑	↑	↑	↑	↑	↑	↑	↑	↑
YTD	-1.39%	-1.26%	1.20%	4.60%	0.86%	3.38%	7.41%	4.10%	5.28%	16.16%	13.73%

(values from the Friday preceding publication)

buoyed by trading revenues and M&A activity. By contrast, Europe's luxury goods sector was hit by a sharp correction. Results from Hermès, Kering and, to a lesser extent, LVMH confirmed fears of a lasting slowdown. This segment had not been faring all that great recently and now sees its main growth driver, namely demand from Asia and the Middle East, losing momentum.

On the positive side, China's first-quarter growth beat expectations by clocking in at 5% year-on-year, supported by manufacturing. In contrast, retail sales rose by only 1.7%, underscoring the continued fragility of domestic demand.

Last week the S&P 500 gained 4.54%, while Nasdaq advanced 6.84% thanks to a thirteenth consecutive session in the green. Momentum was more subdued in Europe, although the STOXX 50 still ended the week up 2.22%, and the SMI was 1.85% higher.

Investors will remain focused on geopolitics this week, as the ceasefire is due to expire on Tuesday evening, and one never knows what to expect from the current US president. Stress levels edged higher over the weekend, with the Strait reportedly closed once more and vessels coming under fire. On the economic front, Tuesday will see the Senate confirmation hearing of Kevin Warsh, Donald Trump's nominee to succeed Jerome Powell.

Swiss Market Index (SMI)

The SMI broke to the upside of 13370 on Friday but retraced on Monday morning. If this line can be breached and held, the gap at 13700 could be filled soon afterwards.



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