Companies report solid earnings – but macro context uncertain

BONHÔTE

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N°841

4 May 2026

Inflation risk returned to the fore last week, driven by higher energy prices against the backdrop of the geopolitical tinderbox in the Middle East. The shift weighed on monetary policy expectations, particularly in the US, and exposed the growing cyclical divergence between the US and European economies.

US: growth resilient but inflation could soon pose a problem

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Latest data point to an economy that remains robust but is once again grappling with inflationary pressures. First-quarter GDP rose by an annualised 2%, accelerating from 0.5% in the previous quarter, but this was still slightly below market expectations. The labour market continues to hold firm. Weekly initial jobless claims fell to 189,000, which was well below the consensus. All in all, the cycle remains intact at this stage. Inflation was the main surprise. Headline CPI bounced to 3.5% in March (from 2.8%), driven largely by higher fuel costs. The average gasoline price's upswing above USD 4.30 a gallon marks a key threshold for both inflation expectations and household consumption. In contrast, Michigan sentiment eased only modestly to 49.8, which was better than expected.

The soft-landing narrative is coming under strain. Equities are still supported by growth and earnings, but the repricing of long-dated yields is becoming an increasing risk, particularly for growth sectors such as tech.

Europe: cyclical downturn amid inflation

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Signals from the Eurozone are more concerning. Economic sentiment dropped sharply to 93 in April (from 96.2), which was well below expectations. The deterioration is broad-based, spanning both services (0.9 vs. 4.1) and manufacturing (-7.7), reflecting weakening domestic demand. At the same time, inflation has edged higher again. Headline CPI rose to 3% year-on-year (from 2.6%), largely driven by energy (+10.9%). Core inflation remains contained at 2.1%, but the overall trajectory complicates the ECB's policy roadmap. A mildly stagflation outlook is gaining traction, capping upside for European equities – particularly in cyclical sectors.

Earnings season: solid trends continue

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Corporate results continue to point to solid underlying fundamentals, especially in the US. Energy and datacentre-related infrastructure are emerging as key growth drivers, underscoring the depth of the AI-linked investment cycle.

The past week again highlighted the divergence between US and European equity markets. The S&P 500 and Nasdaq rose 0.91% and 1.12%, respectively, while the Euro Stoxx 50 was broadly flat (-0.03%) and the SMI declined by 0.845.

Swiss Market Index (SMI)

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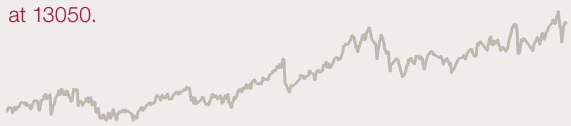
The outlook is unchanged with the SMI set to continue drifting. Resistance has shifted to 13430 while support is still at 13050.



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	0.78	0.92	13'136.27	5'881.51	24'292.38	8'114.84	10'378.82	7'209.01	24'892.31	59'284.92	1'600.21
Trend	➡	➡	➡	➡	⬆	➡	➡	⬆	⬆	⬆	⬆
YTD	-1.46%	-1.59%	-0.99%	1.56%	-0.81%	-0.43%	4.51%	5.31%	7.10%	17.77%	13.95%

(values from the Friday preceding publication)