

Markets Swing Between — AI and Inflationary Pressures

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Markets have been torn between persistent enthusiasm for artificial intelligence and the resurgence of inflation fears fueled by geopolitical tensions. While Wall Street was once again buoyed by AI-related tech stocks, momentum deteriorated significantly by the end of the week due to stronger-than-expected U.S. inflation data and another surge in energy prices.

A US-China summit with no concrete outcomes

On the geopolitical front, despite the highly anticipated meeting between Donald Trump and Xi Jinping in Beijing, no concrete progress emerged regarding the situation in the Middle East. Investors had hoped that Beijing would use its diplomatic influence to facilitate a lasting ceasefire agreement, but the discussions resulted in statements of principle with no immediate impact on the ground. The United States has also rejected Iran's latest counterproposal, keeping alive the risk of a prolonged disruption to global energy supplies.

Against this backdrop, oil prices have risen sharply. Brent crude approached \$110 per barrel, while WTI surpassed the \$100 mark. This energy tension continues to fuel inflationary expectations and weigh on bond markets. Sovereign yields have risen sharply, with the U.S. 10-year yield exceeding 4.5%.

US inflation significantly higher than expected

In the United States, inflation data released this week have heightened investor concerns. The Consumer Price Index (CPI) accelerated to 3.8% year-over-year, compared to the expected 3.7%, driven in particular by a nearly 18% surge in energy prices. Even more concerning for the Fed, core inflation also surprised on the upside at 2.8%, a sign that price pressures now extend beyond the oil shock alone.

The market is thus beginning to take the possibility of further monetary tightening more seriously. The

probability of an additional rate hike by year-end now stands at around 50% according to the latest data. In the absence of an immediate hike, the scenario of a prolonged status quo appears increasingly credible. This outlook triggered profit-taking in tech stocks at the end of the week, despite the overall resilience of U.S. indices.

In Europe, macroeconomic signals remain mixed. In Germany, the ZEW investor sentiment index improved more sharply than expected, suggesting a gradual stabilization of the economic climate. By contrast, industrial production in the eurozone continues to disappoint, confirming the fragility of the recovery. In Switzerland, producer prices rose faster than expected.

Overall, markets remain buoyed by the structural theme of AI, but the combination of high oil prices, persistent inflation, and persistently high interest rates continues to weigh on markets. Stability prevailed in U.S. markets, with the S&P 500 ending the week up 0.13% and the Nasdaq down 0.08%, while the picture was more mixed in Europe, with the Euro Stoxx 50 closing down 1.42% and the SMI up 0.65%.

Swiss Market Index (SMI)

The same pattern has continued for several weeks, with the SMI testing the 13,050-point level but failing to break through it. Trend indicators suggest a sideways trend.



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	0.79	0.91	13'220.17	5'827.76	23'950.57	7'952.55	10'195.37	7'408.50	26'225.14	61'409.29	1'668.17
Trend	➔	➔	➔	⬇	⬇	⬇	⬇	⬆	⬆	⬆	➔
YTD	-0.78%	-1.79%	-0.36%	0.63%	-2.20%	-2.42%	2.66%	8.22%	12.84%	21.99%	18.78%

(values from the Friday preceding publication)

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