Midterms – dampen AI rally

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The U.S. midterm elections resulted in a landslide victory for the Democrats. Investors now anticipate growing pressure from Congress on the Trump administration to push through its legislative agenda, paving the way for increased congressional oversight.

United States: AI at the heart of the correction

After an initial positive reaction—driven in part by hopes for a de-escalation of the conflict in the Middle East—financial markets came under pressure. Technology stocks and semiconductors were particularly hard hit, as investors focused on the risk of stricter regulation of artificial intelligence and data centers. One reason for this is the significant level of U.S. investment in artificial intelligence. Some investors fear that Democratic victories could hinder the rapid development of data centers. Economic data, however, confirmed the strength of economic activity. The ISM Manufacturing Index rose to 55.5 points, compared with an expected 54.5. Industrial orders rose 1.8% in September, exceeding expectations of 1.2%. The jobs report showed 165,000 new jobs created in October, compared with a consensus estimate of 65,000, an unemployment rate of 4.1%, and upward revisions of 84,000 for August and September. Hourly wages rose 0.4% month-over-month and 3.1% year-over-year. This resilience reduces the likelihood of rapid monetary easing and keeps the Fed facing a delicate trade-off between growth and inflation.

Eurozone: relative economic resilience

European markets initially benefited from a more favorable environment before feeling the fallout from the U.S. correction. On the economic front, manufacturing indicators remain relatively resilient, with the manufacturing PMI coming in at 52.7 points in October, compared with an expected 52.4. Inflation in October reached 4.0%, in line with the consensus. Energy prices rose 20.8% year-over-year, while core inflation remained at 2.5%, demonstrating that the shock is primarily imported, even though the rise in service prices—estimated at 3.3% versus 3.2%—signals the beginning of broader-based inflation.

In Switzerland, the index's defensive composition—dominated by pharmaceutical stocks, consumer staples, and financials—helped cushion the technology-driven shock. The Swiss market remains exposed to global volatility, but its sectoral profile continues to provide relative stability. Swiss inflation reached 1.5% year-over-year in October, the highest level since December 2023 and above expectations. However, it remains within the SNB's target range; the central bank retains greater flexibility in implementing its monetary policy than its counterparts, especially as the franc has reached seven-week highs, which mitigates imported inflation.

Oil prices fell by about 13%, dropping from USD 113 to around USD 98 by the end of the week. Investors are pricing in a de-escalation, with Qatar acting as a mediator, but the risk premium remains fragile: attacks on ships continue, and Iran is making the reopening of the Strait of Hormuz contingent on concessions. Gold gained about 5% as sovereign yields fell early in the week, before losing ground on Friday, and continues to play an important role as a safe-haven asset and a diversification tool in portfolios.

The decline in oil prices, if confirmed, reduces the risk of an inflationary spiral, but U.S. employment data and European inflation continue to point toward tighter monetary policy. The New York Fed's one-year inflation expectations and a speech by Governor Bailey will be closely watched. However, ongoing discussions between Washington and Tehran remain the primary exogenous factor.

Swiss Market Index (SMI)

The SMI tested the 14,620-point level before resuming its upward trend. There is a gap at 14,947 points, which could be quickly filled before the index retests its all-time high.



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	0.82	0.91	14796.50	6170.49	25820.36	8139.00	10673.94	7376.86	24579.42	57434.77	834.16
% 5 days	0.06	-0.14	-0.10	0.64	0.01	2.13	-0.47	-2.67	-3.37	-9.25	-4.08
% YTD	3.26	-1.74	14.96	9.41	5.43	2.87	10.41	8.77	6.26	15.87	8.83

(values from the Friday preceding publication)

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