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U.S. Budget risk spills over into the markets

Ongoing tensions between the United States and Iran, and a sharp increase in bond yields have reignited fears of a resurgence of inflation, in a week marked by a rise in risk aversion and rising oil prices. Brent crude surpassed USD 94, amid the prospect of new U.S. sanctions and a lack of diplomatic progress.

United States : robust growth and pressure on long-term rates

In the United States, equity markets fell sharply. Technology stocks were particularly hard-hit by the rise in long-term rates. The yield on the 30-year Treasury reached 5.34%, its highest level since 2007, while the 10-year yield hovered around 4.70%.

The issue of U.S. debt is thus becoming a market factor in its own right. Federal debt has surpassed the USD 40,000 billion mark, while interest payments now exceed USD 1,000 billion per year. The scale of the Treasury's financing needs is exerting growing pressure on long-term maturities.

Economic indicators, however, have confirmed the strength of the U.S. economy. Initial jobless claims fell to 206,000, down from 212,000 the previous week. S&P Global's flash composite PMI reached its highest level since April 2022 in August, driven by an acceleration in the services sector. Economic activity therefore remains robust, which for now limits the case for rapid monetary easing.

In response to this tension, the U.S. Treasury announced it would double its purchases of long-term debt, up to $4 billion per transaction. The intervention led to a temporary easing of yields, but this quickly reversed: the 30-year yield returned to around 5.25% by the end of the week. The limited scale of the buybacks relative to the size of the Treasury market is insufficient to address the structural imbalance between financing needs and demand for debt.

Europe : economic recovery holds steady despite rising rates

In Europe, rising U.S. yields and oil prices also weighed on the market. The yield on the 10-year German Bund reached 3.26%, its highest level in 15 years. However, the rise in rates poses a risk less directly linked to European fundamentals than to tensions in the U.S. market. Economic indicators, in fact, remain on a more positive trajectory. The eurozone composite PMI rose from 52.0 to 52.1 in August, reaching its highest level since November. The improvement stems mainly from the manufacturing sector, while the services sector continues to grow at a more moderate pace. New orders and exports also rebounded, while price pressures eased. S&P Global now estimates that the eurozone is poised to post GDP growth of about 0.3% in the third quarter. This improvement in economic conditions is providing support to European markets, but rising oil prices and global yields are limiting the potential for multiple expansion.

This week, attention will focus on Nvidia's earnings and, above all, on the Jackson Hole symposium, which begins on Thursday. Investors will be looking to determine whether the resilience of the U.S. economy allows the Fed to maintain a tight monetary policy or whether signs of a slowdown in the labor market could justify easing.

Swiss Market Index (SMI)

The market remains unchanged, trading sideways between 14,370 points and 14,700 points. This is reinforced by a flattening of the trend indicators.

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	0.94	14456.98	6462.22	26136.56	8484.43	10816.56	7674.37	26180.46	66016.36	952.19
% 5 days	-1.25	-0.42	0.46	-1.18	-1.15	-1.76	0.67	-1.39	-2.02	-3.93	1.24
% YTD	1.02	0.45	12.17	14.26	6.72	6.82	11.62	12.93	13.07	32.26	24.22

(values from the Friday preceding publication)