Stocks rally despite U.S. slowdown

— Growth slows, markets rise

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Markets received a two-pronged boost last week: easing energy prices and a marked softening of expectations regarding U.S. monetary policy. The situation in the Middle East, however, remains a major risk. Discussions between Iran and Oman on reopening the Strait of Hormuz contributed to the decline in oil prices early in the week, but the lingering uncertainty over the terms of reopening serves as a reminder that a new disruption could quickly reignite inflationary pressures. Oil thus ended the week on a significantly lower note, before rebounding on Sunday amid persistent uncertainties.

The U.S. labor market has slowed

In the United States, the main signal came from the labor market. Job creation fell short of expectations in July, with a decline of 23,000 nonfarm payrolls, while the consensus forecast had anticipated for an increase of around 80,000. The unemployment rate, however, remained steady at 4.1%, while revisions to the previous two months were also negative. The signal, therefore, points less to a sudden collapse than to a now more tangible slowdown in the labor market. This report immediately reinforced expectations of a less restrictive Fed, which simultaneously supported stocks, bonds, and growth stocks. Other indicators released during the week confirm that the U.S. economy remains resilient. Weekly jobless claims remained low at 199,000, compared with an expected 202,000, while nonfarm productivity rose by 1.4% in the second quarter, well above the anticipated 0.6%. Unit labor costs rose by only 1.3%, compared with an expected 2.1%. The ISM Services Index came in at 54.1 in July, slightly below expectations but still firmly within expansionary territory. The macroeconomic picture is therefore nuanced: economic activity remains solid and productivity gains are high, but the labor market is losing momentum. This combination has been particularly favorable for U.S. stocks. The S&P 500 rose by about 3.6% over the week and the Nasdaq by more than 5%, driven by technology stocks and earnings reports from companies in the artificial intelligence sector. The decline in bond yields following the jobs report simultaneously reduced the pressure of interest rates on valuations. However, the "bad news is good news" scenario remains fragile: a too-rapid deterioration in the jobs market would ultimately call the earnings outlook into question.

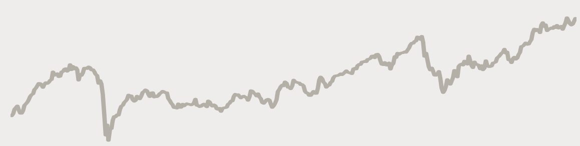
A tentative recovery in Europe

In Europe, German industrial orders provided the most significant positive sign. They rose 3.1% in June following a 0.3% increase in May, with particularly strong gains in machinery and equipment (+12.7%), computer, electronic, and optical products (+22.7%), and the automotive sector (+3.8%). Excluding one-off orders, however, orders fell by 0.5% month-over-month and remained stable in the second quarter. The European industrial recovery is real but remains fragile. In Switzerland, the market continues to be supported by the defensive quality of large-caps, but weak global economic conditions are limiting the potential of cyclical stocks.

The coming week will therefore be dominated by U.S. inflation, producer prices, and retail sales. The combination of a slowing labor market and potentially persistent price pressures will determine whether the market can extend its rally or whether the Fed must maintain a more restrictive stance.

Swiss Market Index (SMI)

If the 14,700-point level is breached this week, the next resistance level will be at 14,975 points.



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	0.81	0.93	14544.91	6523.86	26319.45	8714.93	10901.09	7757.64	26690.62	65606.71	916.18
% 5 days	-0.20	0.20	1.39	2.67	2.69	2.42	0.54	3.59	5.19	1.93	-0.43
% YTD	1.98	0.39	12.85	15.35	7.47	9.72	12.08	14.07	15.22	31.44	19.52

(values from the Friday preceding publication)

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