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BONHÔTE

A resilient economy

Overview

Equity indices gained ground last week, driven by tech and banking sectors and helped by the Fed Chair's comments on the US economy and the chances of a let-up in monetary tightening.

In contrast, bond yields edged up slightly, with the US 10-year yield back at 3.70% and the German equivalent at 2.40%.

Hiatus in monetary tightening likely

In US economic activity, the Empire State Manufacturing Survey for New York State showed a marked decline in May, clocking in at -31.8, compared with +10.8 in April. This indicates that economic activity is slowing in this important area.

By contrast, US industrial production rose by 0.5% last month according to the Fed. Economists were generally expecting no change. In detail, manufacturing output advanced by 1%, supported by a sharp acceleration in the automotive sector. Utilities output contracted by 3.1% due to lower demand for heating.

On a household level, retail sales rose less than expected in April, increasing by only 0.4% after a 0.7% decline in March. However, if the automotive and oil sectors are left out, retail sales rose by 0.6% versus a forecast of 0.2%.

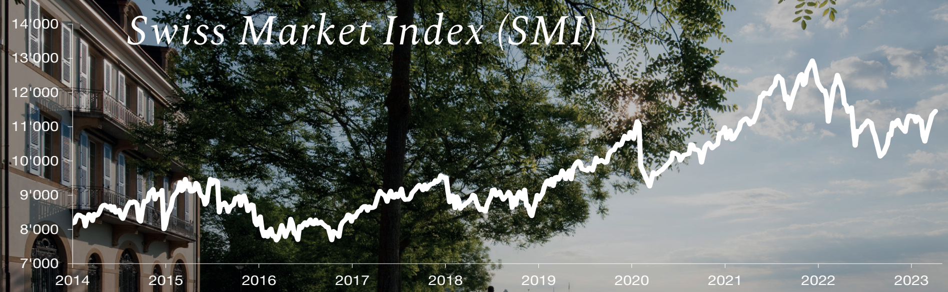
The labour market remains strong. Initial jobless claims fell more than expected last week, to 242,000 from 264,000 the previous week. Economists on average were looking for 254,000 new claimants.

Inflation continues to ebb in Europe

Concerning inflation in Europe, Germany's industrial producer price index rose by 4.1% in April year-on-year, indicating a marked slowdown from the 6.7% increase in March. The main factor driving the rise in producer prices in April was capital goods, the price of which rose by 6.8%. Energy prices increased by only 2.8% year-on-year. Excluding energy, the headline index rose by 4.8%.

The S&P 500 ended the week ahead by 1.65% while the tech-heavy Nasdaq swung upwards by 3.04%. The Stoxx 600 Europe index added 0.72%.

Swiss Market Index (SMI)



The 11750 mark has still not been reached as momentum dries up. At the moment, the SMI is trading around 11500 amid low volatility.

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	0.90	0.97	11'571.16	4'395.30	16'275.38	7'491.96	7'756.87	4'191.98	12'657.90	30'808.35	977.24
Trend	→	→	→	↑	↑	→	→	↑	↑	↑	→
YTD	-2.71%	-1.80%	7.85%	15.86%	16.89%	15.73%	4.09%	9.18%	20.94%	18.06%	2.18%

(values from the Friday preceding publication)

Chinese equities lose momentum

CSI 300 Index

Share prices in China are struggling to recover after macroeconomic figures showed that the world's second-largest economy is not growing as briskly as hoped, despite the strong recovery in household consumption. The CSI300 index handed back all its gains from April, which had been fuelled by advances from companies close to the state and or working in AI. Trading volumes are down, signalling a change in sentiment towards Chinese equities even though the government has pledged to improve the valuations of state-owned companies and encourage them to invest.

Tense relations between Washington and Beijing, combined with political risk, continue to stoke fears and add to the prevailing chill blowing through the Chinese market. Daily net foreign fund flows have fallen below CNY 10 billion (USD 1.4 billion) since mid-February – a far cry from January's record high of CNY 141 billion on the back of hopes for a strong Chinese recovery at the time.

This lack of enthusiasm is also reflected in the tech-heavy ChiNext Index, which is 20% off its July 2022 peak. Only a quarter of the stocks in the index are trading above their 200-day moving average.

Investors currently lack a catalyst to be long the Chinese market. For that to happen, China needs to deliver firmer economic activity figures – if indeed it cannot mend relations with the US administration.

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