

# America's credit rating cut

Markets were firmly in the red last week, dragged lower by mixed corporate results and the US credit rating downgraded by Fitch from AAA to AA+.

Rating agency Fitch has stripped the US of its precious AAA rating for the first time since 2011, blaming this on a deterioration in the nation's finances linked to successive political debates over the debt ceiling. The downgrade has also drawn attention to the larger-than-expected US budget deficit. Expect a surge in Treasury debt issuance, which will have to be absorbed by investors – who have now had their wake-up call about the state of the US economy!

Against this backdrop, bond yields rose sharply, with the US 10-year sovereign climbing to 4.19% earlier in the week before falling back to 4.06% on Friday. The German Bund ended the week on 2.55%.

The bond market was also hit by mixed data out of the US, where the labour market – which is still expected to turn downwards under the effect of successive monetary tightening moves – continues to weather the storm.

## Bond yields up sharply last week

For the ninth month in a row, US manufacturing activity contracted in July, and services activity slowed. The ISM manufacturing index clocked in at 46.4, below the 50 mark pointing to a contraction in business activity. The services ISM fell from 53.9 in June to 52.7.

The unemployment rate fell again in July, this time to 3.5%.

However, fewer jobs than expected were created, with 187,000 added compared with the 200,000 forecast. In contrast, wage growth showed no signs of slowing compared with June, remaining at 4.4%. The hotel and leisure sector remains the biggest provider of new jobs. The manufacturing sector continues to shrink, according to the ADP survey.

In Europe, the slowdown in economic activity accelerated more sharply than expected in July. The composite PMI was 48.6 compared with 49.9 in June. Services activity is approaching the contraction zone, with a PMI reading of 50.9. The manufacturing PMI stabilised at 42.7.

## Economic slowdown gathering pace in Europe

In the UK, the Bank of England raised its 'bank rate' by 25 basis points to 5.25. Growth in services activity is at its lowest for 6 months, with a PMI index of 51.5 in July, compared with 53.7 in June.

In China, manufacturing activity entered a contraction phase, with a PMI index of 49.2 in July, while services activity remains expansive at 54.1. The positive surprise came from the Chinese central bank, which said it was stepping up monetary support for the private sector.

Against this backdrop, equity indices ended the week in the red. The S&P 500 lost 2.27% and the tech-heavy Nasdaq was down 2.85%. The Stoxx 600 Europe fell by 2.46%.

## 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	0.87	0.96	11'098.48	4'332.91	15'951.86	7'315.07	7'564.37	4'478.03	31'909.24	32'192.75	1'018.02
Trend	➡	➡	➡	➡	➡	➡	➡	➡	➡	➡	➡
YTD	-5.60%	-2.92%	3.44%	14.22%	14.57%	13.00%	1.51%	16.63%	32.89%	23.37%	6.45%

(values from the Friday preceding publication)

## Swiss Market Index (SMI)



As long as the SMI hovers below 11270, the chances of retracement to 10950 are high, especially as momentum indicators are either weak or in negative territory.

## Contact

### Julien Stähli

Chief Investment Officer (CIO)  
MBF Boston University

### Pierre-François Donzé

M. Sc. in Economics

### Karine Patron

MScF Université de Neuchâtel

### David Zahnd

MScAPEC Université de Neuchâtel

### Bertrand Lemattre

MScF Sciences Po Paris

Banque Bonhôte & Cie SA - 2, quai Ostervald, 2001 Neuchâtel / Switzerland - T. +41 32 722 10 00 / [contact@bonhote.ch](mailto:contact@bonhote.ch)

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