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Further monetary easing

Equity markets recovered last week, buoyed by reassuring inflation and other macroeconomic data. The prospect of lower interest rates also fed into the rebound.

The US 10-year yield was stable at 3.65% while the German Bund eroded towards 2.10%.

Core CPI was 0.27% in August, against expectations of 0.20%. Year-on-year, inflation last month was in line with expectations at 3.2%, mirroring July.

The inflation spike now appears to be over. At its next meeting (18 September), the Fed is likely to acknowledge this news and cut its benchmark policy rate sharply (by “sharply” we mean “50 basis points”) as it begins to normalise its monetary policy.

Fed expected to cut rates sharply

Meanwhile, the US labour market is emitting negative signals. The Labour Department recorded 230,000 initial jobless claims in the week beginning 2 September, up 2,000 on the previous week (figure revised upwards from 227,000 to 228,000).

Finally, the number of people receiving regular benefits rose by 5,000 to 1,850,000 in the week beginning 26 August (the latest period available for this statistic).

In Europe, the ECB cut its benchmark rate by a quarter-point, as expected, easing monetary policy in the face of a treacherous economic environment. Specifically, the ECB deposit facility rate will rise to 3.50%.

ECB cut benchmark rate by a quarter-point

Christine Lagarde confirmed that the ECB would keep a close eye on macroeconomic data, suggesting that the next rate cut will take place in December.

The S&P 500 recovered by 4.02% last week while the Nasdaq ended up 5.95%. The Stoxx Europe 600 recovered by 1.85%.

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	0.84	0.93	11'908.24	4'738.06	18'301.90	7'352.30	8'181.47	5'408.42	16'690.83	36'391.47	1'074.89
Trend	↓	↓	↓	↓	→	↓	↓	↓	↓	↓	↓
YTD	-0.19%	-0.61%	6.92%	-1.86%	9.25%	-1.30%	-1.17%	-3.99%	-5.12%	8.75%	-1.02%

(values from the Friday preceding publication)

Swiss Market Index (SMI)

The SMI shot up last week but this should be seen as a technical rally, as trend-following indicators are still pointing downwards. To gain momentum, it needs to break past 12085 with a focal point at 12310. Support is situated at 11900.

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