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BONHÔTE

Equity markets in the red

Investors 'saw red' last week as concerns over the state of the Chinese economy and the possibility of a Fed rate hike in September turned up to spoil the party.

Bond yields steepened sharply after the release of minutes from the latest Fed policy meeting, which raised questions about whether the tightening cycle in the US was really over. The 10-year Treasury yield ended the week at 4.25% and the equivalent German Bund at 2.62%.

In the US, not only did the latest Fed minutes dampen hopes of an end to the tightening cycle, but July retail sales – which came in much stronger than expected (+0.7% vs. +0.4% forecast) – also reinforced the idea that the Fed is not finished with rate hikes.

Fed now more likely to lift rates again in September

Amongst the other indicators, industrial production was up 1% in July after two consecutive months in a negative trend, driven by utilities such as power provision for air conditioning during the heatwave. Year on year, this metric was down 0.3%.

Initial jobless claims in the week ending 12 August dropped to 239,000, down 250,000 relative to the previous week. The solid state of the labour market is likely to influence the Fed, which could now take a more hawkish stance in September.

In Europe, figures for industrial production in June and second-quarter economic growth (+0.3%) were reported in line with expectations. Inflation was also in line in July, at 5.3% on a 12-month basis, slowing from 5.5% in June.

By contrast, UK inflation slowed sharply to 6.8% year-on-year in July, down from 7.9% in June. But despite this sharp drop, strong wage growth and the resilience of consumer prices for services are setting the scene for two additional rate hikes by the Bank of England.

Chinese property sector in a state of crisis

Last but not least, China is spooking the markets because of its ailing property sector – a key component of the country's growth trend. At the same time, growth in consumer spending and industrial production has both been slowing. Specifically, retail sales in July were up 2.5% compared with a forecast of 4%, while industrial production in the same month rose by 3.7% versus a forecast of 4.3%. The People's Bank of China recently cut its benchmark interest rate to 2.50% from 2.65% in a bid to encourage lending and support the economy, but the move failed to reassure investors looking for more decisive action from authorities.

In short, equity indices ended the week sharpy lower. The S&P 500 was down by 2.11%, the tech-heavy Nasdaq – which is more exposed to the rate outlook – by 2.59% and the Stoxx 600 Europe by 2.34%

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	0.88	0.96	10'839.06	4'212.95	15'574.26	7'164.11	7'262.43	4'369.71	13'290.78	31'450.76	964.44
Trend	→	→	↓	↓	↓	↓	↓	↓	↓	↓	↓
YTD	-4.56%	-3.09%	1.02%	11.05%	11.86%	10.66%	-2.54%	13.81%	26.98%	20.53%	0.84%

(values from the Friday preceding publication)

Swiss Market Index (SMI)

Technicals surrounding the SMI are still bearish. For now indicators are not pointing to a reversal. The nearest support is 10750.

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