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BONHÔTE

Volatility surges

The week began with stocks deeply in the red but they ended the week with marginal gains. In short, it was the most volatile time of the year so far. The combination of a much weaker than expected US jobs report and another interest rate hike by the Bank of Japan (BoJ) clearly did not sit well with investors.

Initially, the rise in the US unemployment rate and the disappointing job creation figures took investors by surprise, leading them to expect a more severe slowdown in the world's leading economy. Specifically, the unemployment rate stood at 4.3%, while the private sector added only 114,000 jobs compared to a forecast of 175,000. On the other hand, Thursday's initial jobless claims figures came in lower than expected, alleviating some of the gloom.

Higher unemployment rate in US

Sentiment was already on a knife edge before the BoJ raised its short-term policy rate target from 0.1% to 0.25%. With the inflation target achieved, the BoJ felt that conditions were right to normalise monetary policy, after a decade of accommodation.

The news triggered a massive unwinding of the carry trade, whereby money is borrowed in a low-yielding currency and invested in a higher-yielding one, sending the yen up 8% in one session and plunging the Japanese stockmarket into free fall. On Monday alone it was down 20%.

Ultimately, reassuring macroeconomic data from the US and calm trading in the Japanese market allowed equities to pull back from the brink. Comments from central bankers also helped to allay fears of recession, reminding us that one month's data does not provide hard facts and that the Fed will make the right decision in due course, in other words that interest rates should soon be cut.

In the meantime, China has emerged from a long period of disinflation. Its latest consumer price index rose by +0.5% year-on-year, beating expectations for a 0.3-point increase.

China emerges from lengthy period of disinflation

Over the week, the Stoxx Europe 600 index gained 0.27% after shedding 2.92% in the previous week. The tech-heavy Nasdaq was down a modest 0.18% and the S&P 500 was down just 0.04%. The volatility index (VIX) peaked at 65 – its highest level since the pandemic, reflecting heightened volatility in financial markets exacerbated by thin summer volumes.

These gyrations are likely to continue in a milder form this week as US inflation and retail sales figures for July are released.

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	0.94	11'865.93	4'675.28	17'722.88	7'269.71	8'168.10	5'344.16	16'745.30	35'025.00	1'063.43
Trend	↓	↓	↓	↓	↓	↓	→	↓	↓	↓	↓
YTD	2.81%	1.67%	6.54%	3.40%	5.80%	-3.63%	5.62%	12.04%	11.55%	4.66%	3.88%

(values from the Friday preceding publication)

Swiss Market Index (SMI)

The SMI is facing major resistance at 11925 after testing the 200-day moving average at 11440. The nearest support is situated at 12110.

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