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BONHÔTE

Trust seeps back into markets

The market recovery that began at the end of the previous week continued unbroken last week, supported by US stats in line with expectations. The mood of panic dominating in early August has been superseded by a renewed wave of optimism. Losses resulting from the earlier correction were recouped in the space of 10 days. The VIX has also receded to average levels for the current year. This unsettling episode reminds us that it does not take for the machine to be thrown off kilter.

With things back to normal, investors refocused on the US stats released at various points last week, which reassured investors and supported the return to a risk-on mood. In the US, both producer and consumer prices echoed the downtrend in inflation. Monthly retail sales, which saw their strongest growth since January 2023 (1% compared with an expected 0.4%), also attest to resilient consumer spending. There was news supporting the economy, as the number of new jobseekers, though slightly higher than expected (235,000 versus 227,000), was the lowest figure since early July.

US inflation decreases

These latest statistics all but guarantee a rate cut when the Fed next meets on 18 September. The market-assigned odds lean towards a quarter-point reduction in the interest rate. A half-point is no longer discussed and would not necessarily make sense in current conditions. The year-end baseline scenario is back at 100 basis points, compared with 130 points last week. The prospect of a US recession, accompanied by suggestions that the Fed may have acted too late, has dwindled as the possibility of a soft landing for the world's leading economy has gained ground.

Europe has been slow owing to the Olympics, with a much lighter economic calendar. The only big news has been Eurozone GDP growth, which pointed to the sluggishness of the European business climate after clocking in at 0.3% quarter-on-quarter and 0.6% year-on-year. At the same time, GDP trends are weakening. The German ZEW survey also showed a significant decline in investor sentiment in terms of both current conditions and the outlook – a further sign of the economic hole which the Eurozone finds itself in. The ECB is increasingly having to walk a tightrope between supporting a slowing economy and preventing inflation from getting out of control.

European business climate still gloomy

Over the week the S&P 500 pulled back by 3.98% (6.7% in seven consecutive sessions of gains) while the Nasdaq finished up 5.1% and the Stoxx Europe 600 up 2.48%. In Japan, the sell-off on 5 August was more than offset after the Toppix gained 7.86%. Gold rose by 2.6%, ending the week on a new all-time high.

This week minutes from the Fed's latest policy meeting on Wednesday and the flash August PMI on Thursday will hopefully bolster the case that Jerome Powell will make in his inaugural speech on Friday at the Jackson Hole Symposium, the annual powwow of central bankers.

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	12'188.73	4'840.52	18'322.40	7'449.70	8'311.41	5'554.25	17'631.72	38'062.67	1'093.65
Trend	➡	➡	⬆	⬆	⬆	➡	⬆	⬆	⬆	⬆	⬆
YTD	2.92%	2.82%	9.44%	7.06%	9.38%	-1.24%	7.48%	16.45%	17.46%	13.74%	6.83%

(values from the Friday preceding publication)

Swiss Market Index (SMI)

The short-term trend on the SMI is once again positive. Resistance will be encountered above 12300, a level which could mark out a distribution area. In which case, expect its support line at 12200 to be tested.

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