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BONHÔTE

Inflation slowdown

Equity markets moved in different directions last week with European indices heading lower on the back of political events in France. In contrast, US indices were stable.

This also led to increased pressure on bond market prices. The US 10-year yield ended the week at 4.40% and its German counterpart upwards of 2.5%.

The economic picture in the US is slowly deteriorating under the impact of persistently high interest rates. The labour market is no longer as robust as it once was, as shown by the latest weekly initial jobless claims, which now regularly exceed 230,000.

European indices undermined by French snap elections

On the inflation front, prices levelled off in May on a month-on-month basis and decelerated year-on-year. In the US, PCEs were stable, after rising by 0.3% in April. Year-on-year, this gauge slowed to 2.6%, in line with forecasts, after rising by 2.7% in April.

The uptrend in core PCEs (excluding food and energy) similarly slowed to 0.1% in May, in line with expectations, following a 0.3% rise in April. Year-on-year, core PCEs rose by 2.6%, slowing versus 2.8% in April.

Consumer spending – the driving force behind the US economy – rose by 0.3% in May after dipping by 0.1% in April. Personal incomes rose by 0.5% in May after edging up by 0.3% in April.

The Fed is likely to start lowering its policy rates some time before the end of the year to avoid too sharp a slowdown in the US economy.

Fed expected to cut rates before the end of the year

In Europe, German consumer sentiment deteriorated slightly in June, bringing to an end four consecutive months of gains against a gloomy backdrop of inflation uncertainty and a slow economic recovery after some initial encouraging signs. The consumer confidence indicator clocked in at -21.8, slipping from -21 in June.

Germany's unemployment rate for June held steady at 5.8% relative to May as businesses are still reluctant to look for new employees.

The ECB's monetary policy has not yet boosted economic activity in Europe, which is highly dependent on foreign demand. However, continued monetary easing is due to instil a more supportive economic conditions.

In all, the S&P 500 contracted by 0.08%, the tech-focused Nasdaq edged up by 0.24% while the Stoxx 600 Europe was off by 0.72%.

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	0.90	0.96	11'993.83	4'894.02	18'235.45	7'479.40	8'164.12	5'460.48	17'732.60	39'583.08	1'086.25
Trend	→	→	→	↓	→	↓	→	→	↑	↑	→
YTD	6.80%	3.65%	7.69%	8.24%	8.86%	-0.85%	5.57%	14.48%	18.13%	18.28%	6.11%

(values from the Friday preceding publication)

Swiss Market Index (SMI)

Market conditions are set to improve over the next few days. We see the SMI rising above 12050 and continuing its recovery towards 12400.

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