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BONHÔTE

Fed on course to win its wager

Financial markets have ebbed and flowed recently in response to several events such as the French and British elections and the debate over Biden's legitimacy to stand again as president. Then there were Powell's comments and US jobs and inflation data. The US 10-year yield has dropped by 25 basis points since 1 July and currently stands at around 4.20%.

The German Bund has likewise dipped to 2.49% while the French 10-year yield has stabilised around 3.15%. European equity markets have been in a state of turmoil this July as investors pick over the results of France's legislative elections, in which the Left achieved the highest number of seats.

Volatility stages a comeback

Even though none of the political extremes could muster a majority, France remains mired in stalemate, which has pushed up the risk premium on European stocks. Weightings in French stocks are also being reduced.

However, exporting companies should once again outperform the French market, as we have already seen. The CAC 40 is likely to be dragged down by the weak domestic economy for some time to come. In this environment, the ECB could well follow the Fed (if it makes a move) and cut rates again in September. In the UK, the victory of the Labour Party and its significant majority in the general election has cleared the political haze surrounding the UK market. The post-election calm and cheap equity market on an absolute and relative basis are likely to rekindle investor interest. UK GDP rose by 0.4% in May, and inflation figures are likely to give the Bank of England room to start cutting interest rates.

Inflation reverts to normal

Economies are entering the end of the cycle, the hallmarks of which are moderate growth and inflation returning to normal. Tight monetary policy has successfully curbed inflation and growth without triggering a recession, setting the stage for risk assets to perform solidly. In the US, Chair Powell has paved the way for an easing of monetary policy by confirming that progress is being made on inflation and jobs. The Fed is expected to undertake its first rate cut at its September meeting. Consumer prices in June pointed to further deceleration in the pace of inflation. The CPI for June showed a slight fall of -0.1% month-on-month and stood at 3.0% year-on-year, down from 3.3% in May. Services and housing, two sectors closely watched by the Fed, are cooling off. Against this backdrop, equity allocations rotated into small caps last week.

The S&P 500 ended the week slightly positive at +0.87%, the Nasdaq at +0.25% while the US small cap index, the Russell 2000, put on a massive +6%. The Stoxx Europe 600 was up by 1.45%.

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	0.89	0.98	12'365.18	5'043.02	18'748.18	7'724.32	8'252.91	5'615.35	18'398.45	41'190.68	1'123.56
Trend	→	↑	↑	↑	↑	↑	→	↑	↑	↑	↑
YTD	6.30%	5.01%	11.02%	11.54%	11.92%	2.40%	6.72%	17.73%	22.56%	23.09%	9.75%

(values from the Friday preceding publication)

Swiss Market Index (SMI)

The SMI resumed its uptrend, ending the week at 12365. This week ought to be quieter. Resistance is located at 12475..

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