



Market Commentary

Swiss cheesed

Motivated to fire

Key points:

- Weaker U.S. jobs data has increased market expectations for Fed rate cuts, with futures pricing in 2-3 cuts by year-end. Risks lean toward more easing, especially if inflation remains subdued. Upcoming data, and the Jackson Hole meeting may signal further monetary policy adjustments.
- Switzerland faces the highest US tariffs among developed nations (39%), with potential new tariffs on pharmaceuticals being discussed. This has impacted Swiss assets and the Franc.
- The Bank of England has cut rates to 4.0% despite persistent inflation (3.7%). Fiscal vulnerabilities remain, with tax increases worsening deficits and economic strain. This underpins a negative outlook for UK assets.
- Softer U.S. payrolls reversed recent dollar strength, though Fed easing expectations may rebuild short positions. U.S. equities and tech continue to perform well, while yield curve trades offer opportunities amid quiet credit markets. CPI data next week will be pivotal for investor sentiment.

8 August 2025 (London) – Since last Friday's payrolls report in the US, shorter dated Treasury yields have been supported on prospects for Fed easing. Arguably, if Fed officials had had sight of the soft jobs numbers over the past three months, then this could have merited a decision to cut rates at the July FOMC.

The three-month moving average of payrolls growth now averages only 35,000 jobs. This compares to 82,000 last September, when the FOMC judged that an abrupt slowing in the labour market justified a 50bp easing. However, it should be noted that the unemployment rate had been on a rising trajectory at that time, compared to a stable rate at 4.2% today.

In light of this, markets discount a 25bp cut at the next Fed meeting, though it seems that the market will be much more sensitive to signs of more broad-based slowing in activity, should this start to show up in more data releases, in the coming several weeks.

With futures markets pricing between two and three cuts between now and the end of the year, this pricing appears reasonable to us. However, risks are probably skewed towards more, not less policy easing, should inflation data prove more benign than economists have been predicting in the wake of tariff passthroughs.

It remains uncertain whether the bulk of the burden from tariffs will ultimately fall on US consumers, or whether it is exporting companies, who will absorb the bulk of the hit, through margins and earnings. This uncertainty lies at the heart of the Powell's desire to wait and see, when it comes to adjusting interest rates.

Yet, the weaker jobs numbers means that the number of voices dissenting to Powell, is set to grow. At a time when the Fed finds itself under considerable political pressure, there will be an understandable desire to circle the wagons and agree a more unified position, come the September FOMC.

The upcoming Jackson Hole meetings at the end of this month may thus offer an opportunity for Powell to nod towards monetary easing, as long as next week's CPI report does not show a nasty acceleration in prices.

All this said, we don't think that there is too much to fear in the US economic outlook at the current time. We have flagged a slowing in the pace of activity below 2% in the second half of 2025, though deregulation, in addition to policy easing, could point towards a more upbeat outlook for the US economy as we move through 2026.

In assessing recent corporate earnings, we continue to be struck by the brisk pace of US investment in technology, driven by AI, which remains an underlying driver of growth and future productivity, and subsequently would be wary of turning too negative on the US outlook or a continuation of growth exceptionalism.

The case for more material US rate cuts through 2026 rests more on a perceived dovish pivot in US monetary policy, under a new Fed Chair. Yesterday's appointment of Stephen Miran to the Federal Reserve Board on an interim basis may demonstrate the intent within the Administration to challenge thinking within the Fed.

As someone who has been sceptical of any inflation passthrough from tariffs, he might be expected to argue for sizeable cuts in interest rates and although he will only be one voice at the table, it is likely that he will be forthright with his views and offer a foreshadow of the direction the Fed may move in 2026.

From a bond market perspective, we continue to favour a 2/30 yield curve steepening stance. More broadly speaking, it may seem that 10-year yields remain in a trading range for the time being and there is not such a strong case to express a directional view with respect to 10-year bonds in the US, or in the Eurozone, for that matter.

With Europe in the midst of holiday season, Switzerland has found itself the centre of unwanted attention, with the country subject to the highest US tariffs of any developed market nation, at 39%.

In the past week, Swiss president, Karin Keller-Sutter travelled to Washington in an attempt to renegotiate this outcome, but left having failed to make progress on an improved deal. This news has weighed on Swiss assets, with the Franc also weaker.

However, the greater significance relating to the stance on Switzerland could portend towards what can be expected with respect to upcoming tariffs, on the pharmaceutical sector. In this context, Trump has floated the idea of an initial tariff of 25-50% on pharma imports, with this potentially rising to 150% or more over the next 18 months.

We think an announcement of a section 232 tariff is probably due in the next couple of weeks and this could be the driver of some market volatility, in an otherwise quiet month.

Meanwhile, the spotlight in Europe has been back on the UK, with the BOE cutting rates to 4.0% and holding out the prospect of further reductions in the quarters to come. Notwithstanding core inflation at 3.7% remaining well above the Bank of England inflation target, Bailey and colleagues appear confident that price growth should moderate as the jobs market stalls and wage growth slows.

BOE models rely on a growing output gap to bring inflation down. However, a de-anchoring of price expectations means that workers continue to show appetite to strike for higher wages, as real incomes lag behind individuals' true experience of higher prices.

In this context, we think that a dovish BOE may continue to lower short-term rates but do little to benefit longer dated borrowing costs. This means that Rachel Reeves may be pushed to raise taxes quite materially at the next Budget in order to adhere to the OBRs fiscal rules.

Yet, pretty much every tax rise that the Labour government has implemented to date seems to have made the deficit worse, not better. Attacking non-doms has seen a flight of wealthy individuals quit the UK.

Taxing public schools has meant that schools are shutting, and putting more of a strain on the state sector. Meanwhile, an increase in NI taxes has led to a reduction in employment and an increase in inflation, as employers need to pass on increased payroll costs.

All this highlights underlying vulnerability within the UK economy and government finances, unless the benefits and welfare culture can be properly addressed. As a result, we retain a negative assessment with respect to UK assets at this time.

In FX, the softer US payrolls report has helped to reverse the recent trend towards a firmer US dollar. Hedge fund and CTA positions in USD shorts appear to have been trimmed between 30-50% in size, as the dollar strengthened in July.

With renewed focus back on Fed easing ahead, at a time when other central banks are on hold, there may be scope for these positions to rebuild. However, we are somewhat wary of chasing a weaker dollar.

On the basis that the US growth outlook in 2026 remains healthy, US equities and tech continue to outperform and fears around an irrational Trump upending US policy credibility have waned. Consequently, we continue to hold modest positions in Korean won and Norwegian krone longs, thinking that if short-term interest rates are the main driver in FX, then it may be better to exploit such moves in terms of yield curve trades instead.

Looking ahead

Next week, the US CPI provides the principal focal point for macro investor attention. Consensus estimates are for a 0.3% gain in core prices over the month of July, taking the annual rate to 3.0%.

We think that the risks sit to the high side on this particular data print. However, if the consensus number is confirmed, we think this will add to calls that the Fed has room to cut rates and is wrong to worry too much about temporary inflation impacts that may result from one-off changes in prices linked to the imposition of tariffs.

In discussion with White House officials, they argue that there is a strong case to lower the Fed Funds rate by 100bp immediately on the basis that restrictive monetary policy is no longer justified, that the Fed is behind the curve and rates, and, at most, should be no higher than the neutral R^* rate.

There are also calls from some in the administration to demand that the FOMC acknowledges that the decision to not cut rates in July was a mistake based on bad information. They go on to highlight that there should be a case for a 50bp cut in September, on this line of thinking.

There is an ongoing concern that the Fed may be relying on bad economic models and bad quality data. In that light, the firing of BLS chief, Erika McEntarfer, partly reflects a sense of frustration within the White House.

Additionally, this is fed by paranoia that elements of the establishment exhibit an anti-Trump bias. On this basis, Trump has been motivated to fire those who he judges are not delivering in their roles. This could create scope for volatility ahead.

With that in mind, it may seem that along with the Swiss, Jerome Powell also have plenty to be cheesed off about this summer.

Notes to Editors

Lydia Cambata: +44 7578 252 424
LCambata@BlueBay.com

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