

How to interpret current seasonal volatility in markets

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September has arrived with the usual midterm-election-year baggage and volatility. Seasonality suggests that nerves should be on the rise, and market internals are not entirely reassuring. Currently, there are mixed sentiment signals and even fears of the controversial 'Hindenburg Omen'. For now, investors may be best served by listening to the masters of money: the European Central Bank and the US Federal Reserve.

Seasonal volatility is on the rise, amid a shaky market backdrop. In particular, Hindenburg Omen signals have been spooking bourses lately. Named after the tragic 1937 airship disaster, this term refers to a technical breadth indicator that is triggered when an unusually high number of stocks reach fresh highs while others hit new lows.

It's important to note that, in May and June, these signals failed to highlight a major reversal, which underpins their limited use in forecasting a market crash. However, they do indicate a market that is being pulled in opposite directions.

And in bond markets, recent sovereign routs have put vigilant investors on edge. Until the next earnings season provides a corporate reality check, the simplest compass may be the masters of money, namely central banks.

The ECB takes centre stage this week, with a 25-basis-point rate hike. Will this be a one-and-done move, or is Frankfurt still pondering further tightening? Meanwhile, the US Fed follows next week. The unexpectedly strong job growth in August has fuelled expectations of an interest-rate rise at the Federal Open Market Committee meeting on 16 September. Current inflation trends are now of even greater significance when deciding whether to keep rates unchanged or raise them further.

The consumer price index (CPI), a measure of how prices paid by households change over time, will provide the next important signal. Members of the FOMC, including Fed Chair Kevin Warsh, have recently emphasised that the current inflation rate of 3.3% is far too high. Should it fail to move closer to the 2% target, a tighter monetary policy stance may become unavoidable.

A further increase in petrol prices in August is a key driver of inflation. At the same time, however, there are signs that the underlying inflation trend is easing. Underlying inflation refers to broader price pressures after excluding more volatile components such as energy. If this trend is confirmed, a wait-and-see approach at the next interest-rate meeting becomes more probable.

Switzerland: inflation surprise and growth rebound

Swiss consumer-price inflation surprised to the upside in August, rising 0.4% month-on-month and lifting the annual rate to 0.8%. The increase was driven primarily by higher oil prices, while a softer franc also contributed to rising import prices after a prolonged period of import-price deflation. Nevertheless, outside of energy, price pressures remain modest, suggesting underlying inflation dynamics are still broadly contained.

At the same time, GDP data confirmed exceptionally strong growth in the second quarter. Sports-event-adjusted GDP expanded by 1.5% quarter-on-quarter, marking the strongest pace of growth since the post-pandemic recovery in 2021. Alongside solid domestic demand, a substantial part of the strength was driven by a likely temporary surge in pharmaceutical and chemical exports, suggesting that second-quarter growth overstates the economy's underlying momentum.

Even so, improving leading indicators point to an economy that is on a firmer footing than earlier in the year. Reflecting the strong Q2, we have revised our 2026 growth forecast up to 2.0%.

For the Swiss National Bank, inflation moving away from the lower end of its 0%-2% inflation target range and stronger growth are welcome developments. However, policymakers are likely to seek clearer evidence that underlying inflation is stabilising at higher levels before considering any policy tightening. The SNB has previously expressed comfort with its expansionary policy stance, suggesting that no policy move is expected in the near term.

Oil: Rising hostility in Middle East conflict

Meanwhile, the images of attacked and capsized oil tankers have had an impact on energy markets. Hostilities in the Middle East have lifted oil prices beyond USD 95 per barrel. The key question is whether the latest tensions will evolve into a more serious escalation and threat to global energy supplies.

So far, developments seem to be following the pattern of previous clashes, which proved temporary and left no lasting consequences. The oil-price reaction appears at odds with the oil market's surprisingly stable functioning. Ships continue to enter and exit the Persian Gulf, and trade through Hormuz has resumed along safeguarded routes outside Tehran's control.

While the flows are somewhat erratic and covert, overall exports out of the Middle East appear to have recovered to around 75% of pre-crisis volumes. Storage levels reinforce this observation. Oil supplies are holding up much better than feared. Storage remains ample in Europe and Asia, while deficits in the US are narrowing. Strategic storage has been drained less than expected.

Oil appears to be in a phase where conflict-related uncertainty and recurring hostilities regularly awaken a risk premium embedded in prices. A risk premium is the additional value markets place on an asset because of uncertainty surrounding future events. Today, that premium appears exceptionally bloated and potentially vulnerable to reversal unless the ongoing clashes result in serious infrastructure damage.

Political headlines, market technicals and geopolitical events will continue to influence sentiment, but inflation trends, economic growth and central-bank policy remain the key forces shaping the broader outlook.

The US Fed's interest-rate decision remains highly uncertain, and the ECB has prepared markets well for an interest-rate rise. The main uncertainty lies in what happens next. Inflationary pressures are expected to ease, and second-round effects (where higher prices feed through into broader wage and

price increases) are expected to remain absent.

As markets move through a seasonally challenging period, the underlying message remains straightforward: distinguish carefully between noise and signals.

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