



بنك الإمارات دبي الوطني
Emirates NBD

CIO OFFICE MORNING MARKET WRAP

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The magnitude and sweeping extent of President Trump’s tariffs announced on ‘liberation day’ was unexpected, scared investors, and roiled markets. The average duty on US imports was raised to a level last seen in the 1930s, in an attempt to reshape the global trade order that could actually backfire by impacting both growth and inflation very unfavorably, if left untouched. Odds of a sharp economic slowdown have increased significantly, alongside the speed of liquidation of key US assets. Year to date US stocks have underperformed, and the US dollar has weakened at an accelerated pace, no longer functioning as a safe-haven currency. The major indices across the globe fell from low to mid-single digits ending close to their lows for the day, as investors flocked to the safe haven of government bonds. Gold wavered, while the dollar slumped. The S&P 500 fell 4.8%, the Nasdaq 6%, the Euro Stoxx 2.9%, the FTSE 100 1.5%. In the Asian morning session, the Nikkei was down 2.8%, the Hang Seng 1.5%. In the region the MSCI GCC ended 1.4% lower. Overall, EM stocks (-0.8%) fared much better than their DM peers (-3.7%). Global HY bonds weakened the most since March 2020. Concerns about economic growth prevailed, with the yield on the 10-year note dipping below 4% for the first time since October, settling at 4.07%, while the 2-year closed at 3.8%, both at least 10bps lower. Money-market wagers on future monetary easing were revised higher, with a 50% chance of four Fed cuts by year-end. Yields on European and UK bonds also plunged, and the number of cuts expected by the ECB and the BOE was raised to three. Projections for the next rate hike by the BOJ were dialed back. The US dollar tumbled by 1.7%, seeing one of its steepest intraday falls, with the onus of safe-haven currency taken on by the Japanese yen, that spiked over 2% higher. Brent crude crashed by almost 7%, hit by the double whammy of overwhelming tariffs and the unexpected OPEC+ decision on Thursday to increase supply by three times the planned amount in May. Copper lost 3.6%, and gold succumbed to some minor profit taking after reaching a new all-time high.

The 10% universal tariff on all countries will take place from April 5. This is clearly meant to guarantee revenue generation for the Treasury, avoid the arbitrage from the rearranging of global supply chains to circumvent trade duties, and as per our understanding is not subject to negotiation. The reciprocal tariffs, with specific rates by country, on the other hand will be enacted only a week after the announcement, suggesting room for negotiation in the meantime. This kind of brinkmanship carries a high degree of risk, as there is not much time, once tariffs are implemented, before the global economy decelerates harshly to then be hit by rising inflation sometime down the road. Recession and further on stagflation would be in sight should tariff rates be enforced and left as they are. Currently, the best-case scenario is that most of the reciprocal tariffs are lifted following negotiations. There seems to be consensus that it would be a surprise if Trump in the end did not walk back at least partially, though this still leaves us with huge uncertainty. In summary, the macroeconomic effects of this tariff system could be the following: increased inflation volatility, unintended consequences on growth from policy uncertainty, selling of dollar assets and repatriation of capital on growing mistrust amongst allies. There are rising odds that ‘liberation day’ could be remembered as the moment marking the end of globalisation, as well as peak US exceptionalism.

Markets this morning:

Following yesterday’s seismic event driven by the announcement of exceptionally steep tariffs futures markets are as of the time of writing extending losses. Asian shares fell to a two-month low, with futures in Japan shedding 3.8%, the Hang Seng just in negative territory, and other major markets on average down less than 2%. Contracts on the S&P 500 were 0.7% lower, on the Euro Stoxx 50 down by 0.6%. The US dollar was weaker, and the yield on the 10-year US Treasury hovered around the 4% mark. Investors will be looking to the release of today’s US jobs report, as well as to a speech by Fed chair Powell to find their bearings. Trump said he was open to reducing his tariffs if trading partners would offer something “phenomenal”, indicating willingness to negotiate. The European Commission President said “countermeasures” will be taken “if negotiations fail”. The Chinese Ministry of Commerce urged the US to “immediately cancel tariffs” and resolve differences through dialogue.

Upcoming key events/data:

The main highlight for today will be the US jobs reports, expected to see 200,000 payrolls growth for March. A speech by Jay Powell is also scheduled and will be closely followed for market cues.

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