



بنك الإمارات دبي الوطني
Emirates NBD

CIO OFFICE MORNING MARKET WRAP

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An initial strong rebound on US stocks sharply reversed when the White House announced a 50% increase to tariffs on Chinese imports, as a retaliation over their retaliation. A +2/3% rally in mid-day turned into a -1.5% loss for the S&P500 and -2% for the Nasdaq. As a result, the MSCI world closed -0.4% lower with earlier positive contributions from Japan and Europe (which may also reverse today), while emerging equities were flat yesterday. US Treasury yields had another worrying bear steepening: a minor drop in the short-end, with anticipations for Fed cuts moving a bit higher, but another +11bps increase in the 10-year to 4.29%. Gold was flat and cash was the only asset class with a positive return yesterday. The price of Brent crude oil lost another \$1.4 to \$62.8 and the dollar weakened -0.3% further against trade-weighted counterparts.

An escalation from already extremely damaging tariff rates was the bad news we didn't need. It only confirms our view that the White House will not back-off, which is not just a message to China but to the world: do not retaliate or you will be hammered. The EU may think twice. Still, it's a trade war between the world's two largest economies – a threat to growth for both, and no good news for the world. And with 104% tariffs on Chinese goods, this is directly inflationary for a myriad of everyday items for the US consumer – America will not manufacture toys or toasters anytime soon. This could be an explanation for the drop in equities and the rise in long-dated yields: markets anticipate stagflation, and long-dated bonds are not the “risk-off” preferred asset they used to be. One can also think that some of the selling pressure on Treasuries comes directly from China's ample portfolio, and/or, from some liquidation of collateral of investors caught the wrong way in the recent turmoil.

On China side, taking the fight “to the end”, from the words of an official yesterday, is a bold move. However, Chinese authorities are not known to act emotionally: they are prepared. They will most probably increase the size of their stimulus and possibly couple it with some currency devaluation, without necessarily admitting it officially. At this stage they certainly don't care about being labeled a “currency manipulator” by Washington. And their goods will become even more competitive, posing another headache to Europe where Chinese cars, for example, are already extremely strong.

The most painful “reciprocal” part of tariffs will take effect at midnight Washington time, and the White House is also working on “major” tariffs on pharmaceuticals.

Markets this morning:

Asian stocks are obviously down as we write this morning but it could have been worse: only -0.2% for onshore China, -0.8% for Hong-Kong and Korea, and -2.6% in Japan but it follows a 6% gain yesterday. US Treasury yields are scarier, as the long-end continues to rise in Tokyo trading: +7 bps for the 5-year to just below 4% and +10 bps for the 10-year to 4.4%. Yet the dollar continues to weaken especially against the euro and the pound, but the offshore yuan is stable. Finally, Brent crude slumps another -3% to \$60.9 while gold regains a symbolic level at \$3,005.

Upcoming key events/data:

There won't be major economic data or corporate earnings today, and only a few speeches from central bank officials. Thursday will be richer with CPI inflation for China and the US. But as we said repeatedly during our annual Outlook, 2025 it about the future, not the present. Keep a long-horizon, make sure your asset allocation is consistent with your profile, resist the temptation of short-term trading in such a high vol/ low liquidity environment and avoid any leverage for the same reason. Have a great day.

Chief Investment Office
Wealth Management
Emirates NBD.

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