



بنك الإمارات دبي الوطني
Emirates NBD

CIO OFFICE MORNING MARKET WRAP

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Risk aversion continued to dominate on Monday. Stocks fell -2.7% in the US, -2.4% in developed markets, and -1.4% in emerging regions. Tech and consumer discretionary are the most affected sectors, deepening their 2025 underperformance. Quality bonds were sought after. US Treasury yields fell across the curve: yields on maturities from 1 to 5 years are now below 4% while the 10-year shed -9 basis points to 4.21%. Real estate and high yield bonds were in the red but the dollar benefitted from the flight to quality, up +0.1% against trade weighted counterparts. Oil prices fell further with the Brent now trading below \$70, while gold saw profit taking, down \$20 to \$2,889.

There was no particular data to trigger the sell-off. It's a risk-off wave born from anxiety about the impact of US policies on economic growth – a clear recession fear. As we pointed out, from February leading indicators to the job report of Powell’s statement on Friday, the US economy is currently “in good shape”. Still, the combination of disruptions from tariffs and demand compression from firings in the government is a threat. Fed funds futures are now pricing-in 40 basis points of cumulative cuts from the Fed this year. It was also a particularly bad day for Elon Musk: Tesla shares tumbled 15% on downgrades from Wall Street analysts, and X, formerly known as Twitter, was targeted by a massive cyberattack.

Macro anxiety is real, and it’s not baseless. As we highlighted in our 2025 Outlook, the impact of a material cut in US government spending is recessionary in the short-term, which is a sinister backdrop for expensively priced equities. Still, the long-term benefits would be considerable, with a probable relief on inflation in the meantime before renewed strength from the private sector. At this stage however, we do not know how the US administration will react to market pressure. The coming months will provide answers and be filled with uncertainty and volatility. Recession concerns are not rooted in an actual deterioration of current data, but this can to some extent be self-realizing through consumer and business behaviors. Finally, from a technical point of view, investors’ bearishness is reaching levels where the probability of a short-term rebound becomes very material.

Markets this morning

Risk aversion extends to Asia as we write. It’s a sea of red in stock markets, with Japan, Korea and Hong-Kong down around -2%. US Treasury yields are -5 basis points lower on average across the curve in Tokyo trading. The 2-year is at 3.83% and the 10-year at 4.16%. The dollar index is marginally lower, gold is steady at \$2,888 and Brent is down to \$68.9. Bitcoin confirms its correlation to global risk appetite, down -2% to \$77,500.

Upcoming key events/data

The final estimate for Japan’s Q4 GDP growth was just released at a relatively disappointing +2.2% (annualized, quarter on quarter). We will hold our monthly asset allocation committee later today.

Chief Investment Office
Wealth Management,
Emirates NBD.

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