



CIO OFFICE MORNING MARKET WRAP

14 April 2025

How do you even begin to summarise a pivotal week that could shape the destiny of not only the financial markets but the whole world for years to come!!! In our Global Investment Outlook titled “Winds of Change” we had mentioned that 2025 is not about 2025 alone but about the future. This has come true like a prophecy.

It was mayhem in the markets last week. The rout started with the US stock markets on Monday but spread to the bond markets. Within 48 hours, the 10-year treasury yield went up by 60 bps. The move up was dominated by real yields as the long-term inflation expectations remained anchored. There were rumours of the leveraged basis spread blowing up. The 3-year treasury auction on Tuesday was lackluster garnering only 79% allocation to end users, 7% less than last 3 auction averages. US Treasury market depth plunged to the lowest levels since March 2020. The full tariffs took effect on Wednesday morning. But you don’t trifle with the sovereign bond markets. It is not for nothing that Ex-U.S. President Bill Clinton's strategist James Carville had said, “But now I would want to come back as the bond market.”

Sure enough President Trump rolled-back the reciprocal tariffs except for China which now faces a 145% tariff, basically rendering the trade between the two largest economies to a halt. Whether it was preplanned, or a forced decision is up for debate depending on which side of the political spectrum one leans on. But the stock markets soared and S&P 500 notched one of its largest one-day gains climbing 9.5%. The relief though was short lived, and the next day markets crashed again. Bond markets continued to be erratic ignoring the favourable March CPI release. The Headline number came in at -0.1% dropping below 0 for the first time since May 2024. The Core printed below expectations at 0.1%. Gold touched a new record price of \$3,245. Dollar plunged against other major currencies losing 3.14% last week. Oil cratered touching a low of \$58 before recovering some of its losses. Yen regained its safe haven status rising 2.5%. Friday saw a reversal in risk sentiments as Fed’s Collins said the central bank is ready to calm down the financial markets, but rate cuts will not be the primary tool for this, referring to balance sheet intervention if required. Japan also mentioned this weekend that it will not use its US Treasury holdings as a negotiation tool.

We held our Tactical Asset Allocation Committee meeting on Thursday. It was serendipity that we had postponed the meeting by two days. It allowed us to reposition risk. We reduced DM equities while adding to High Yield to take benefit of the wider spreads and to cash to wait for market opportunities.

Q1 earnings season got underway last Friday with the big banks including JPM, Wells Fargo and Morgan Stanley reporting. Banks have benefitted from the volatility in equities as the trading desks helped the top banks beat earnings estimates. Both JPM and Morgan Stanley increased provisions for future potential loan losses. The banks have not changed their 2025 guidance in any meaningful way which is an encouraging sign for investors.

During the weekend, the US administration declared that certain sectors including chips, mobile phones and computers are exempt from the reciprocal tariffs. However, commerce secretary Lutnick within 24 hours said that these exemptions are only temporary and would be covered under the upcoming semiconductor tariffs. This uncertainty has become a hall mark of the current US administration. As of now, the 10% base line tariff is universal. Reciprocal tariffs have been put on a 90-day hiatus. However, the tariff war continues between China and the USA while Washington has signaled that Japan, Vietnam, Korea and India would be top of the queue for negotiations which would isolate and encircle China.

Markets this morning:

Markets have opened positive this morning. Hang Seng is up 2.8% while Nikkei gained 1.6%. The temporary tariff on consumer electronics most of which are manufactured in China has lifted market sentiments and signals willingness from the US for negotiation. Data released this morning shows China’s exports in March jumped by a whopping 12.4% as firms rushed to front run orders before the tariff deadline. Yen appreciated 0.5% to trade slightly above 142. European and US stock futures are also in the green. Benchmark US 10-year yields have dropped 3 bps to trade around 4.46%. Gold trades around \$3,232. Brent is hovering around \$64.5. Bitcoin is up at \$84,700 at the timing of writing.

Upcoming key events/data:

This week, we have the ECB policy meeting on Thursday where the central bank is widely expected to cut rates by 25 bps to 2.4%. German ZEW survey and European inflation print will be out tomorrow. From the US, we get the retail sales and the Industrial Production data on Wednesday. UK’s employment and inflation data will release on Tuesday and Wednesday respectively. China’s Q1 GDP data is out on Tuesday. Goldman Sachs reports its earnings today. However, investors will be tuned to policy announcements from Washington to gauge market reaction.

Have a good day!

Chief Investment Office
Wealth Management
Emirates NBD.

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