بنك الإمارات دبي الوطني
Emirates NBD

CIO Office Morning Notes

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Stocks fell -1% yesterday in developed markets, with US tech being the worst contributor as concerns on valuation and spending came back. Emerging markets gained as most of Asia had a positive session. US Treasury yields were stable, but the dollar strengthened +0.2% against trade weighted counterparts. This didn't trouble commodities with gold up +0.8% to $4,338 and Brent crude gaining +1.3% to $59.7. Bitcoin continued to suffer, briefly dipping to $86,000.

Concerns on the rapid build of AI infrastructure, with exorbitant spending but little visibility on returns, are not new. They will most probably persist until the economics become clearer. Yesterday's headlines were about a prominent private asset manager declining to back a $10bn deal from Oracle for another giant data center. In parallel, reports of a potential Amazon investment in OpenAI, with the latter committing to buy chips from the former in return, didn't do much to address skepticism about some creative "circular" financing. Open AI is said to be seeking equity funding at a value of $750bn. The company currently features around $20bn of revenues and a commitment to spend hundreds of billions in the years to come. Our stance on AI is unchanged: the tech is incredibly real, there is no valuation bubble when it comes to (solvent) listed megacaps, but the possibility of overinvestment exists, with most of the risk currently sitting in private markets. It's an unfortunately classic case of markets exaggerating the short-term while potentially under-estimating the long-term. It means volatility, including potential shocks that could in turn generate massive opportunities.

In other news, November CPI reports were overall positive in Europe, softer than expected in the UK and in line in the Eurozone, where core inflation is now close to the ECB target if we annualize the last three month. Germany's IFO business climate index slightly declined, mostly due to future expectations. The survey was conducted before the EU's turn on internal combustion engines. Finally, President Trump said he will announce his Fed chair pick "soon" (if we had to bet we would say Kevin Warsh).

Markets this morning

Risk aversion is unsurprisingly high in Asian markets as we write. Stocks are down -1.8% in tech-heavy Korea, -1.2% in Japan and around -0.4% in both Hong-Kong and mainland China. Bonds are sought after with US Treasury yields trading a couple of basis points lower, to 4.14% for the 10-year. Gold is marginally lower, but Brent crude just regained the $60 mark, up +0.5%.

Upcoming key events/data

Today will see policy meetings from the Bank of England, which will most probably cut by 25 basis points, and the ECB, which should be a non-event. The data of the day is the US CPI for November where core inflation is expected at +3% year over year. We will also have a look at the weekly jobless claims.

Have a great day.

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