



CIO OFFICE MORNING MARKET WRAP

10 February 2025

The first week of February was volatile but positive for all major asset classes except stocks from developed markets, down a modest -0.1%. The MSCI China topped the regional hierarchy, up +4.8% in dollars, while the MSCI India fell -0.5%, and the S&P500 -0.2%. The GCC index gained +0.5%, now outperforming the US in 2025. The dollar ended a volatile week -0.3% weaker against trade-weighted counterparts, especially the yen, despite a +10bps increase in short-dated Treasury yields to 4.22% for the 1-year and 4.29% for the 2-year. The 10-year was stable just below 4.5%. Gold was up +2%, printing another all-time high of \$2,861, and the price of Brent crude oil fell \$2 to \$74.7.

Last week was rich in terms of data. Final PMIs for January confirmed a gentle global slowdown in services, and no broad rebound in manufacturing activities except an uptick in the US. Overall, the global PMI composite moderated to 51.8, from 52.6 in December. Still, the most forward-looking components of the survey such as new orders and employment remained solid. The UAE came in at a very strong 55. No surprise from PMIs, but volatility came back on Friday during the US market session. The NFP job report was a bit noisy: only 143K jobs were created in January, below the median forecast of 170k, but as previous months were revised materially higher, the US labor market remains very impressive. Unemployment rate slipped to 4%, its lowest since last May, and hourly earnings accelerated to +0.5% in January. This doesn't suggest more disinflation ahead, even if it's good news for consumption. For the latter however, 90 minutes after the job report, the Michigan consumer sentiment surprised on the downside, unexpectedly slumping to 67.8, a 7-month low, while the consensus was expecting a rise. Households are concerned about future inflation, due to the perspective of tariffs. The "most beautiful word in the dictionary" made further headlines when President Trump also announced imminent "reciprocal tariffs" that would affect "everyone". This combination explains the rise in short-dated yields as well as the reversal in risk appetite, in what could have otherwise been another positive week for US stocks, as the earnings season continues to be supportive on aggregate.

Similarly to last week's tariffs saga with Mexico and Canada, we will not take all announcements at face value before having more details— the new administration is extremely active, and communication shocks seem to be part of their strategy. Still, the new normal, which we do not see as necessarily adverse, is volatile and unpredictable. The last headline on the matter this morning is that President Trump, during a flight to the Superbowl last night, announced 25% tariffs on all imports of steel and aluminum. This sounds more specific and thus probably more realistic. If confirmed, this would partially impact the UAE which is a large exporter of high-grade aluminum.

Markets this morning:

There is no panic in Asia as we write this morning. The dollar is +0.4% stronger against trade-weighted counterparts, and commodity prices are on the rise: +0.4% for gold at \$2,875 and +0.6% for Brent crude at \$72.2. Iron ore is also up, while commodity-related currencies such as the Australian and Canadian dollars decline. Yet, US Treasury yields are stable in Tokyo trading and stock markets are flat in Japan, Korea and onshore China, and even positive in Hong-Kong with more strength from tech pushing the index +1% higher.

Upcoming key events/data:

Monthly inflation reports will dominate the top-down picture this week, including the US CPI on Wednesday. We will also look at preliminary Q4 GDP for the Eurozone and UK, and at US retail sales. Central Bankers will deliver speeches: ECB's Lagarde today to the European Parliament, Fed's Powell and BoE's Bailey tomorrow. The earnings season will continue (we are at 60% completion in the US and 30% in Europe). Of course, news from Washington will continue to be both unpredictable and important for markets.

Have a great week.

Chief Investment Office
Wealth Management,
Emirates NBD.

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