



بنك الإمارات دبي الوطني
Emirates NBD

CIO OFFICE MORNING MARKET WRAP

25 February 2025

Geopolitics and tariffs along with slowing economic activity (PMIs) weighing on market performance. Equity markets closed lower on Monday, with technology and consumer discretionary stocks leading to the downside, gold up and the 10 year Treasury yield lower reflecting a risk-off tone. Global equities fell half a percent yesterday, with the S&P 500 and UAE equities in line. US tariffs on Canada and Mexico scheduled to go into effect next week after the 30-day pause put in place at the beginning of February expires. Oil traded higher as new U.S. sanctions on Iran raised supply concerns. The US and Russia voted against a European-backed resolution in the UN General Assembly, and later aligned to approve a US resolution calling for a "swift end" to the conflict without assigning blame.

European equities close to flat yesterday, Germany's DAX higher, 0.6%, with domestic stocks up over a percent, France's CAC 40 index down, the U.K.'s FTSE 100. Flat. German elections end with a coalition and Friedrich Merz will take over from Olaf Scholz as chancellor. Defense spending is expected to rise.

Chinese technology stocks fell after Pres. Trump moved to restrict US investments in China and chip exports, also called for fresh scrutiny on foreign companies listed in the US and their ownership structure. Also putting pressure on US pension funds' investment in Chinese high-tech sectors. The Hang Seng Tech Index remains up 25% this year, but the straight rally seen last one month driven by optimism over DeepSeek, has been interrupted.

The 10-year Treasury yield down, near 4.38%, as markets await the PCE data for January. Forecasts are for PCE inflation to slow to 2.5% annualized in January, down from 2.6% the prior month, but still above the Fed's 2% target. The shelter component of PCE elevated at 4.7% in 2024, a key driver in the slowing pace of disinflation. The Fed may focus more on slowing economic growth data as it assesses monetary policy. The Fed's target policy rate is currently in the 4.25%-4.50% range. Recent weaker economic readings, including a survey released on Friday showing business activity fell to a 17-month low this month, keep us at two 25 bps reductions to the policy rate this year.

Global February flash PMIs showed softening growth, and rising price pressures. The US composite index fell to 50.4 from 52.7 in January. Services a large contributor to the decline, while manufacturing was flat. The Euro Area composite unchanged, services weakening to 50.7 and manufacturing increasing to 47.3. The composite was flat in the UK, services small rise to 51.1 and manufacturing weaker to 46.4. Japan's PMIs indicating contracting manufacturing yet expanding services activity.

Markets this morning:

Today, Asian markets are trading down from Japan, mainland China to Hong Kong. Alibaba plans to spend \$50 bn on AI infrastructure and development a contrast to Microsoft that is reducing data centre build out. Alibaba (US ADR) fell 10% yesterday, still +50% gains YTD. China tech is getting its version of the Magnificent 7. Tencent, Alibaba and ByteDance have significantly increased orders of Nvidia's H20 chip (Reuters). However, government influence in China's tech sector and the largely domestic focus of the tech giants have created a valuation discount relative to US peers.

Upcoming key events/data:

Key housing data, including the S&P CoreLogic Case-Shiller 20-City Home Price Index for December on Tuesday, with estimates pointing to a 4.4% rise y/y, up from 4.3% the prior month. New home sales, building permits and pending home sales for January will be released later in the week. Nvidia Q4 earnings due Wednesday.

Have a good day!

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