



CIO OFFICE MORNING MARKET WRAP

19 June 2025

Markets held their ground Wednesday as geopolitical tensions and monetary policy signals collided in a day that revealed growing strain beneath the surface. Israeli strikes intensified around Tehran, prompting missile retaliation from Iran aimed at Tel Aviv. In Washington, President Trump gathered his national security team in the Situation Room but stopped short of committing US forces. Tehran responded with defiance. Supreme Leader Khamenei warned that any US involvement would trigger irreparable consequences. Elsewhere, the Federal Reserve kept rates steady and reiterated projections for two cuts this year. But the tone was more hesitant. Seven officials now see no cuts in 2025, up from four in March. Chair Powell leaned heavily on the need for patience. New tariffs have yet to work through the economy, and inflation forecasts were marked higher. Growth expectations were trimmed. The committee is now clearly divided, and policy paths remain blurred.

In the US, the S&P 500 finished flat after oscillating in a tight range. Treasury yields held near session levels. Policy direction remains the key variable, and the Fed's latest messaging added little clarity. Broader equity participation has picked up slightly in recent weeks, but gains remain concentrated. Caution is starting to show in positioning, and the dollar firmed into the close. In Europe, the MSCI Europe Index fell 0.4%, led lower by weakness in rate-sensitive sectors. UK inflation came in at 3.4% for May, the same as April and above the consensus forecast. Energy and food were the main culprits. Services inflation moderated but not enough to shift expectations for the Bank of England. Markets still anticipate no rate change today, though pricing for further cuts this year has eased. The pound rose modestly and gilt yields edged higher as rate relief was repriced.

China remained under pressure. The MSCI China Index dropped 1.0%, weighed down by continued selling in tech and consumer discretionary names. The Hang Seng China Enterprises Index lost 1.2%, its second straight decline. Headlines out of the Lujiazui Forum failed to lift sentiment. The PBOC's announcement of a digital yuan hub and targeted policy tools was seen as more structural than stimulative. Market participants were also reacting to the European Union's refusal to restart high-level economic dialogue with Beijing. That move signaled broader alignment with Washington's strategic posture, deepening concerns over capital flows and trade. Onshore equities were more stable, but conviction was low. Japan stood apart. The TOPIX rose 0.8% as domestic sectors caught a bid and exporter shares rallied on further yen weakness. The BOJ maintained its supportive tone, suggesting no near-term shift in policy. That backdrop, coupled with external uncertainty, has pushed capital into Japan-focused trades. Equity flows into Tokyo have remained resilient, with local buying offsetting global jitters. Within commodities, Brent crude rose 0.3% to \$76.7 per barrel on continued geopolitical escalations. Gold slipped 0.6% to \$3,369 an ounce, easing from recent highs. The yield on 10-year Treasuries was little changed at 4.39%, and the dollar ended the session broadly flat, reflecting cautious positioning.

Markets this morning

Today, sentiment turned more cautious. US equity futures slipped 0.3% in early trading, and Asian stocks broadly declined, led by a 1.4% drop in Hong Kong. A Bloomberg report indicating the US is preparing for a possible strike on Iran added to the tension already reverberating from Fed Chair Powell's inflation warnings. MSCI's Asia gauge fell 1.0%, and the dollar strengthened against major currencies. Treasuries are closed for the Juneteenth holiday. Market focus remains on whether the White House will authorize military action. Trump told reporters the decision would come at the last second. Markets may begin to price in the potential for another wave of inflation shock if the conflict escalates further.

Upcoming key events/data

Key events and data today bring decisions from the Bank of England, the Swiss National Bank, and Bank Indonesia. China's loan prime rate and Canadian retail sales data are due Friday.

Best Regards,

Chief Investment Office
Wealth Management
Emirates NBD.

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