



بنك الإمارات دبي الوطني
Emirates NBD

CIO OFFICE MORNING MARKET WRAP

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The keyword is “tariffs” in these days and that was the case on Tuesday as well, as markets retreated across the board on an expected growth scare related to a possible trade war. The major benchmarks ended the session in negative territory, as well as all of the S&P 500 sectors except technology, that staged a rebound. A flight to safety followed, with Treasuries in the end wiping out their gains, gold keeping them, while the US dollar slumped and crude edged lower. The Washington administration imposed the largest set of tariffs since the protectionist Smooth-Hawley Tariffs Act in 1930, with China, Canada, Mexico hit, and Europe expected to come next. Worries about growth transpired in the money markets as traders discounted three rate cuts for 2025. The S&P 500 (-1.2%) fell to levels where it had started the year, while the Nasdaq (-0.35%) outperformed. Treasury yields rallied from the lows of the session, with the 2-year climbing back by 15bps. The yield curve steepened in outright contrast to the growth concerns of the stock market.

In a more than 90-minute address to Congress President Donald Trump vowed to keep up his campaign of “swift and unrelenting action” aimed at changing the nation’s economy, and the foreign and immigration policies. Democratic legislators expressed their dissent in multiple ways. Trump said democracy must be reclaimed from “unaccountable bureaucracy”. He tried to ease concerns about price increases induce by import levies and said that “whatever they tariff us, we tariff them”. He also called for an extension of his first tax cuts and additional funding for his border crackdown. He mentioned his proposals to foster peace in Ukraine and the Middle East .He said he “ended a weaponised government” and ended the “tyranny” of diversity, equity and inclusion policies. It was a defiant Trump, in Congress as well.

Despite all the noise about the negative fallout from a trade war, it seems too hasty to link market movements to tariff distress, at least if we consider the year-to-date performance of asset classes. Issues about trade wars, well advertised by President Trump, have been known for weeks, and should have been discounted by asset returns. We find it easier to explain year-to-date returns as a rotation out of US assets into overseas markets. But let’s assume that price volatility stems from global growth concerns related to tariffs. As per textbook we should have seen the following happen. The currency of the country enforcing tariffs should have appreciated alongside its stocks, the markets hit by tariffs should have weakened, commodities should have underperformed, cyclical stocks should have weakened, IT megacaps outperformed being cash rich. Now, the opposite happened: the US dollar weakened, US stocks fell to middle of the pack, commodities outperformed, some cyclical sectors topped returns, the Magnificent Seven lagged. It is much easier to connect the dots by concluding that investors ditched US assets to shift, amongst others, to Europe and China. And that is where there is most hopes for stimulus: from infrastructure and defense expenditure in Europe, to fiscal measures in China. The US government is leaning towards an austerity mode, while the Fed is not prone to serial cuts on lingering price pressures.

Markets this morning:

Markets are in relief-rally mode this morning after Trade Secretary Lutnick said the administration may walk back some tariffs hinting to a compromise between Canada and Mexico. A deal-making attitude seems to be prevailing aimed at extracting concessions, rather than inflicting pain. At the same time, Hong Kong led gains as the newly affirmed growth targets at today’s National People Congress spurred bets of more stimulus. The GDP rate for 2025 was 5%, while the budget deficit was set to the highest in thirty years, and the inflation goal was lowered from 3% to 2%. Both US and European futures gained, while the main Asian benchmarks rebounded from early losses. Treasuries held to the previous day’s losses. Animal spirits were also bolstered by yesterday’s Germany historical decision to ditch the fiscal shackles to boost defense spending. Hundreds of billions of euros would be unlocked for defense infrastructure investments. Also, an EU proposal to extend €150bn in loans to boost defense spending is to be discussed at an emergency meeting scheduled for Thursday.

Upcoming key events/data:

Today the macroeconomic schedule is rich, with the release of the services business surveys in the US and in Europe, the durable goods orders and the Beige Book in the United States, the PPI in Europe, and the Caixin manufacturing PMI services in China.

Have a good day!

Chief Investment Office
Wealth Management
Emirates NBD.

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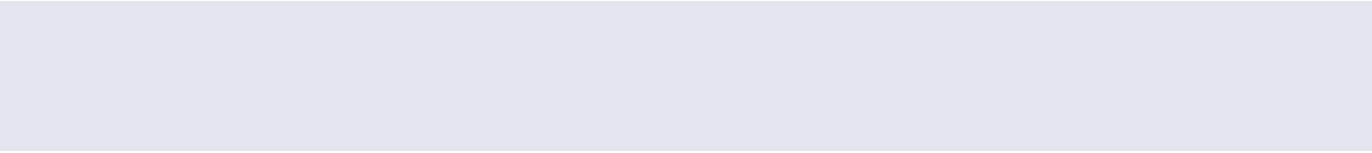
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