



بنك الإمارات دبي الوطني
Emirates NBD

CIO OFFICE MORNING MARKET WRAP

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Markets remain fixated on tariffs and on what Mr. Trump is doing next, even as lots of market-moving stuff is happening outside of Washington’s control room. China decided to set a bullish goal for its economy, and Europe to increase defense and infrastructure expenditure big time, that both leverage fiscal policies in a big way, and have growth and inflationary implications. At the same time, the United States is aiming for fiscal austerity, sitting for once on the other side of the fence. Markets are taking stock and performance divergence between Wall Street and the other two markets is growing wider in favor of the latter. Both policy and valuations seem to be offering justification for this new turn of events, where policy becomes the catalyst to take action. And since big fiscal decisions fall under the category of secular factors, what is happening right now would be market-relevant for the medium term. More on this below and now back to the public narrative of market performance and macro releases. Yesterday Wall Street ended a two-day losing streak on a one-month delay for tariffs on Canada and Mexico automakers. The S&P 500 climbed 1.1% led higher by materials and industrials, while the Nasdaq rose 1.5%. Ford and General Motors jumped on the temporary tariffs reprieve, while Marvell Technology fell in after-hour trading on an underwhelming revenue forecast. Investors should be inclined to think that tariffs remain a negotiating tool, rather than an end to itself. In this respect volatility should be temporary. Also, their level remains important. A general rate of 10% would not be tipping the growth balance, while something in the range of 20-30% would be highly damaging. The yield on the 10-year Treasury note ended higher at 4.265%, while German bunds tumbled amidst government plans for record spending on infrastructure and defence. The US dollar fell like a stone by 1.4% to four-month low. There is increasing chatter a weaker reserve currency is in the best interest of the Washington administration’s goal of spurring exports to address external imbalances. Ex-Treasury Secretary Larry Summers said there is the biggest dollar threat in decades from the administration’s policies. As for the economy, the ISM services survey in the United States pointed to resilient growth in the sector driven by rising new orders and an improvement in employment. The prices-paid component surged on expectation of tariffs impact on specific sub-sectors.

China went big on fiscal stimulus. On the opening day of its National People’s Congress the budget deficit was set to the highest level in three decades, that is 4% of GDP. Beijing needed first to gauge the extent of Trump’s tariffs to be able to decide on the size of the measures aimed at countering the negative effects on its exports. China has chosen the path of boosting the internal demand, rather than that of focusing only on a destructive trade war with the United States. And the setting of a 5% GDP target for 2025 indicates that China means business and will deliver what planned and more. This has implications. The stock market will react positively with a second bullish leg. There is no froth in this market, so upside is not modest. The stimulus is positive for commodity demand and global manufacturing, that is already improving. Also, China will stop exporting disinflation, which is what the Fed has taken advantage of to fight price pressures.

Europe has pulled out all the stop on the fiscal side as well. Germany took the historic decision to ramp up infrastructure and defense spending, that requires changing a constraint enshrined in the constitution, after decades of frugality. Equities powered ahead of their US peers, the euro surged, and bunds had their worst day since 1990. Chancellor-in-waiting Friedrich Merz declared Germany would do “whatever it takes” to defend itself. And the country will spend hundreds of billions of euros in transportation, energy, and housing. The European Union is looking to reform its fiscal rules as well, with EU leaders expected to discuss changes to spending when they meet on Thursday. Loose fiscal policies tend to boost the economy substantially, as well as the currency, yields, and commodity demand.

Markets this morning:

A global bond selloff is accelerating in the Asian morning session, with Japanese yields at the highest levels in over a decade amidst rising inflation and historically higher policy rates. The selloff was sparked by a drop in German bonds, that yesterday saw 10-year yields shoot 30bps higher on Germany’s historic decision to increase public spending. Asian stocks were buoyed by delays to some tariffs on Mexico and Canada, while US futures fell. Japan, South Korea and Hong Kong gained. Investors’ heightened expectations of more supportive measures by Beijing pushed the Hang Seng China Enterprises Index higher by 2.9%. Oil edged higher from the lowest close in six months and gold was steady near record highs.

Upcoming key events/data:

Today’s highlights will be the release of productivity and unit labor costs statistics, as well as of jobless claims in the United States. In the euro area focus will be on the ECB meeting and retail sales. Tomorrow all eyes will be on the US jobs report.

Have a good day!

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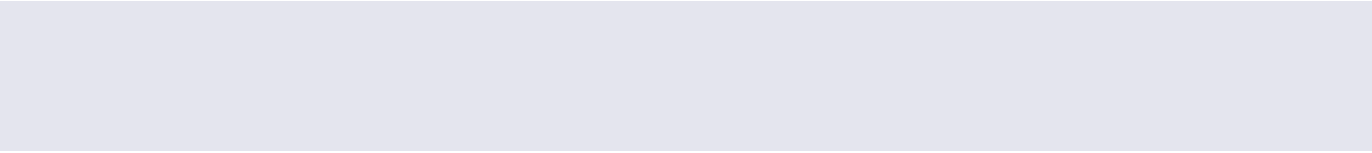
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