



CIO OFFICE MORNING MARKET WRAP

5 May 2025

Markets extended their advance last week as momentum built around easing macro pressures and improving clarity on trade policy. The S&P 500 climbed 2.9%, leading the MSCI ACWI to a 3.0% gain. Both developed and emerging markets participated in the move higher, supported by constructive economic data, firming corporate earnings, and tentative signs of de-escalation in US-China trade rhetoric. Attention remained centered on global trade developments. Beijing confirmed it is evaluating a resumption of dialogue with Washington, responding to backchannel overtures from US officials. The rhetoric marks the first public sign of movement since the latest round of tariffs was announced in April. Both sides have taken tactical steps to ease the strain. The US granted selective carveouts for sensitive imports and China has begun granting exemptions on a subset of American goods. Although there has been no formal agreement, the direction suggests a shift from confrontation to containment, easing the overhang on equity and credit markets.

On economic data, April payrolls showed 177,000 jobs added, with the unemployment rate holding at 4.2% and wage growth easing to 0.2% month on month. The labor market continues to cool gradually, absorbing tariff uncertainty without significant impact to headline employment metrics. However, underlying softness is building, with job openings declining and manufacturing employment contracting. Fed officials remain cautious ahead of this week's policy meeting. The central bank is widely expected to hold, as inflation remains sticky and policymakers seek more clarity on the broader economic impact of trade policy. Two-year Treasury yields remain below the fed funds rate, a signal that markets expect further easing, though Fed leadership has yet to formally endorse that view. Treasury Secretary Scott Bessent has added pressure, suggesting the bond market is already guiding the Fed toward cuts. President Trump, who has ruled out firing Chair Powell, continues to openly push for lower rates. Earnings remain central to the market narrative. In the US, with 72% of S&P 500 companies having reported, 76% have exceeded EPS estimates. This is slightly below the 5-year average but above the 10-year trend. Microsoft and Meta led results with strength in cloud and digital ad segments. Alphabet posted a solid quarter and Amazon guided to a weaker profit range amid softening marketplace and advertising trends. Apple flagged a \$900 million tariff-related cost headwind and reported declines in service revenue and China sales. Berkshire Hathaway's results added a cautious note. Operating earnings fell 14% and the firm lifted its cash reserves to a record \$347.7 billion, citing tariff uncertainty and macro strain. Warren Buffett warned that trade conflict poses a significant economic threat and urged a return to global cooperation.

In Europe, April inflation held at 2.2%, with core services inflation surprising to the upside. Despite that, ECB officials appear comfortable preparing to cut in June and again in September. Policymakers are monitoring the risk that US tariffs may distort trade flows into the eurozone or trigger retaliatory measures, both of which could complicate inflation management. Equities responded positively. The MSCI Europe Index rose 3.2%, led by SAP, Siemens Energy, and Shell. The FTSE 100 extended its record run with a fifteenth straight gain, while peripheral markets also firmed on expectations of a more accommodative policy stance from the ECB.

Emerging markets outperformed, rising 3.4% for the week. The MSCI China Index gained 2.4% as exemptions on critical US imports helped reduce pressure on sectors such as chemicals and EVs. The Ministry of Commerce acknowledged outreach from Washington and said it was evaluating trade talks, providing further relief. US-listed Chinese tech stocks rebounded, and the high-yield EM sovereign complex saw renewed inflows, particularly into frontier names like Egypt and Nigeria. In India, equities rose 1.1% amid optimism around foreign flows and speculation of a trade pact with the US. Latin American and Southeast Asian markets also rallied, particularly those with limited exposure to US-China trade dynamics. In the UAE equities continued to track global risk sentiment higher, supported by domestic earnings and stable capital flows.

Gold remained firm near \$2,340, supported by falling real yields and continued demand from global reserve managers. Copper extended its rally on Chinese stimulus hopes and tight inventories. The yield on 10-year Treasuries advanced nine basis points to 4.30%. The dollar fell 0.4%.

Markets this morning:

Today, oil prices slumped more than 3%, extending last week's losses after OPEC+ confirmed it will raise output in June. The move follows a larger than expected hike in May and reflects growing frustration with overproduction by some member states. It is also seen as politically strategic, ahead of President Trump's visit to the region, where he is expected to press for lower fuel prices. With most major Asian markets closed for holidays, including China, Hong Kong, Japan, South Korea, and India, trading volumes were light and cross-asset moves exaggerated. The US dollar edged lower against the yen and euro. Futures on US indices traded slightly softer, reflecting caution following last week's strong rally. President Trump indicated over the weekend that he has no immediate plans to speak with Chinese officials, which cooled expectations for short-term progress on tariffs. The tone remains tentative as markets await policy signals and further earnings updates to validate the recent rebound.

Upcoming key events/data:

This week brings a critical set of developments. The Federal Reserve is expected to hold rates steady, with Chair Powell's post-meeting press conference likely to be closely scrutinized for signals on the rate path amid ongoing trade risks. The Bank of England also meets, with policymakers expected to lower the benchmark rate by 25 basis points as inflation moderates. Macro data releases include US ISM services, trade balance, and jobless claims, alongside China's Caixin services PMI, forex reserves, and trade data, and Germany's industrial and factory output. A wave of earnings is also due, with results expected from 92 S&P 500 companies including Disney, Uber, Ford, AMD, and Shopify, as well as major corporates across Europe and Asia. On the political front, global attention will follow the Vatican's conclave to elect a new pope, elections in Australia and Singapore, and diplomatic movements in Moscow. The rally is holding, but follow-through will depend on validation from earnings, a supportive macro backdrop, and a stable geopolitical tone. Markets are beginning to lean into the possibility that inflation, policy, and trade risks can be managed. This week will test that thesis.

Best Regards,

Chief Investment Office
Wealth Management
Emirates NBD.

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