



CIO OFFICE MORNING MARKET WRAP

6th May 2025

U.S. equities paused Monday after an extended rally, as trade uncertainty and renewed commentary from the Trump administration signaled a more transactional stance on upcoming deals. The MSCI ACWI fell 0.4%, dragged by developed markets (-0.5%) while emerging markets gained 0.6%. The S&P 500 slipped 0.6% after notching its longest winning streak in two decades. Comments from President Trump suggested trade deals could be finalized with select partners this week, but no breakthrough with China appears imminent. The dollar continued its decline, pressured by trade friction and shifting capital sentiment. Taiwan's currency posted its largest intraday move in more than 30 years, amplifying market chatter around a regional currency accord or soft dollar policy. U.S. ISM services rose to 51.6 in April, with prices paid jumping to the highest since 2023. Industry comments portrayed tariff-related cost increases and reduced procurement flexibility, particularly in health care, utilities, and logistics. Orders and inventories improved, but employment remained subdued. Treasury yields climbed and markets continued to pare back rate-cut expectations ahead of this week's Fed meeting. Still, equity sentiment softened late in the day after Ford pulled its full-year outlook and flagged a \$1.5 billion earnings hit from auto tariffs. The company's CFO warned of persistent cost uncertainty, and CEO Jim Farley said the firm would need "patience" as it navigates the shifting regulatory and supply chain landscape. Broader industrials came under pressure as corporate leaders at the Milken Conference expressed growing concern over the chaos of tariff policy, even as many backed the long-term direction of trade restructuring.

In Europe, equities extended their gains, with the Stoxx 600 rising for a tenth consecutive session, the longest stretch since 2021. The MSCI Europe Index gained 0.2% despite oil-related underperformance in energy names following OPEC+'s output decision. M&A activity supported sentiment, led by Erste Group's acquisition of Santander's Polish unit, marking one of the region's largest bank deals in recent years. European earnings continued to surprise positively, with MSCI Europe constituents posting average EPS growth of 3.8% so far this season, compared to expectations of a 1.4% decline. The European Commission moved closer to finalizing a proposal to phase out Russian gas imports by 2027, starting with a ban on new contracts this year. The shift opens more ground for US and Qatari LNG to replace residual pipeline flows. Spot gas futures fell modestly in response, though tight inventories remain a concern heading into the second half.

In Asia, the MSCI Asia Pacific ex-Japan Index rose 0.5% as markets positioned for a softer dollar and potential de-escalation on trade. In Taiwan, equities fell sharply as the local currency surged on speculation of a pending trade or currency deal. Japan, China, and Korea were closed for holidays, leaving regional volumes thin. The rally in Asian currencies caught markets off guard and stoked debate around central bank coordination. FX strategists noted that a synchronized strengthening of Asia's currencies could reflect deeper policy shifts if trade diplomacy progresses. The dollar's decline, now nearing 7% year-to-date, has already begun to impact Treasury demand dynamics, with reduced foreign participation in the latest short-end auction and growing concerns of spillovers into US rate markets.

Within commodities, Brent oil declined by 1.7% to \$60.2 per barrel after OPEC+ confirmed it will raise output in June. The move added to concerns around oversupply and softer demand as global trade slows. Gold rose sharply by 2.9% to \$3,334 per ounce, supported by ongoing dollar weakness and demand from reserve managers. Agricultural markets were broadly lower, with wheat and corn under pressure from favorable weather and strong planting conditions across the US Midwest. The yield on 10-year Treasuries advanced three basis points to 4.34%.

Markets this morning:

Today, Chinese equities rose as markets reopened from a five-day holiday, supported by strong domestic consumption data. The CSI 300 gained nearly 1%, led by strength in technology and telecom. Optimism grew after Treasury Secretary Scott Bessent hinted at substantial tariff relief if negotiations progress. Consumption indicators from the holiday period, including retail sales and travel figures, exceeded expectations and reinforced policy confidence. The dollar snapped a two-day drop, rising 0.2% on the back of firm US services data. Asian currencies saw a partial pullback from Monday's surge. The yuan fix was held steady, suggesting China's central bank is not looking to overextend gains. US equity futures traded marginally lower, with markets preparing for Wednesday's Fed decision.

Upcoming key events/data:

This week's calendar remains dense with macro and corporate reports. On Tuesday, markets will parse eurozone producer prices, and US trade balance. France reports industrial production, and Fed officials begin their two-day policy meeting as ECB policymakers convene in Porto. Wednesday brings Germany factory orders, Taiwan CPI, and China's FX reserves, followed by the Federal Reserve's rate decision and Powell's press conference. Thursday features UK industrial production and the Bank of England's rate announcement, along with Germany's factory output, Taiwan trade, and US jobless claims and productivity figures. On Friday, China's April trade data, Japan household spending, and US consumer credit round out the macro picture. Across the week, more than 90 S&P 500 companies are scheduled to report corporate earnings, including AMD, Disney, Uber, Shopify, Ferrari, Palantir, Novo Nordisk, and Toyota. Results will test the durability of earnings momentum and guide positioning as markets navigate the intersection of monetary policy and trade recalibration.

Have a good day!

Chief Investment Office
Wealth Management
Emirates NBD.

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