بنك الإمارات دبي الوطني
Emirates NBD

CIO Office Morning Notes

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The US government shutdown earned a temporary relief last week as eight democrats separated from the main party line. However, markets remained volatile based on stretched AI valuation concerns and hawkish Fed sentiments. S&P 500 remained almost flat while Nasdaq dropped 0.7%. Russell 2000 lost 1.8% last week. EM equities returned -1.7% led by sell-off in Chinese tech stocks. Long-end US treasury yields rose barring a small blip on Friday with 10-year climbing above 4.1%.

The resolution of the government shutdown paves the way for the staggered release of previously delayed economic data, commencing this week. Notably, the September employment report is scheduled for publication this Thursday, although there remains a risk that the shutdown may have resulted in gaps or anomalies in the data set. Market sentiment will likely be influenced by the forthcoming US macroeconomic releases, alongside quarterly results from Nvidia Corp. on Wednesday, a key indicator for the AI sector. Nvidia's shares have climbed 42% year-to-date, significantly outperforming both the S&P 500 and Nasdaq 100 indices.

Several Fed officials have recently voiced doubts about the likelihood of a rate cut in December, with some flat out opposing the idea. It's worth noting that less than a month ago, Chair Jerome Powell himself cautioned that a December cut shouldn't be seen as a given. FOMC minutes of the October meeting are scheduled to release this Wednesday shedding light on Reserve Purchase plans and the three-way vote split. From our perspective, it's going to be tough for long-term yields to drop much from where they are now, especially considering the current valuation pressures and some technical factors in positioning.

President Donald Trump has just given his clearest nod yet to Senate legislation targeting countries that continue to do business with Russia. The bill in question would empower the president to slap tariffs as high as 500% on imports from nations buying Russian energy and not actively backing Ukraine. This is clearly aimed at heavyweight buyers like China and India—potentially a game-changer for global energy markets and trade flows.

On the AI front, there's been an interesting shift in investor sentiment out of China. As Bloomberg notes, investors are broadening their search for the next big AI winners, looking past the usual chipmakers. Instead, they're eyeing the utilities and metal producers underpinning the sector—the so-called "picks and shovels" approach we discussed last week. This pivot towards the supply chain, from energy providers to materials for data centres, speaks volumes about concerns over sky-high valuations in the pure-play AI space. Over in South Korea, some of the country's biggest names—Samsung, SK, Hyundai and LG—have just pledged a massive $550 billion investment domestically over the next five years, following a meeting with Lee Jae Myung.

Markets this morning:

Asian shares have started this week on a weak footing. Nikkei is down 0.7% whereas Hong Kong and Chinese mainland stocks are down 0.8% and 0.6% respectively. Japanese tourism-related stocks have dipped this morning after China issued a travel warning for its citizens. On the diplomatic front, Japan is sending Masaaki Kanai, a senior Ministry of Foreign Affairs official, to China today. Meanwhile, Japan's GDP has contracted for the first time in a year and a half printing -1.8%. Bitcoin trades around $95,200 after giving back the impressive 30% rally it had chalked up since the start of the year. US 10-year yield trades at 4.14%. Gold trades slightly below $4,100 and Brent Crude is at $63.8.

Upcoming key events/data:

In addition to the release of the September employment figures on Thursday, Nvidia results and FOMC minutes on Wednesday there are several key data releases scheduled. S&P Global's US manufacturing, services and composite PMIs, and the University of Michigan's sentiment and inflation expectations will provide further insights into the economic landscape on Friday. UK's CPI release is scheduled for Wednesday with economists expecting a cooler number compared to last month. Notable central bank speakers include Fed's Kashkari and Barkin.

Have a good day!

Chief Investment Office
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