CIO OFFICE MORNING MARKET WRAP

10 September 2025

The market narrative is being pushed in all directions and one can hardly tell signal from noise. As of last Friday and early this week concerns were about growth and jobs market slowdown, and now, as the inflation release looms larger, focus will be shifting to price pressures and related anxiety. And financial commentaries are being adjusted accordingly. In our view, the signal is that the slowdown is real, while for now price pressures from tariffs are a one-off, so they currently constitute noise. This will change down the road, but for now the main risk factor is growth related. And a yield curve that stayed inverted for a record-long time stretch, a manufacturing sector unable to exit contraction, and consumer confidence close to record-low levels are clear signs of malaise. Real rates are plunging, one more indication that there is not much bolstering real growth. And this is happening despite a tumble in the dollar and low oil prices. We must think that bond investors would tend to agree with such a view, since the 10-year Treasury yield is trading close to 4%, a threshold level separating muted cyclical conditions from a harsher slowdown. There may well be a growth scare, and it is of course hard to gauge whether it is going to reflect hardship in the real economy, or rather to linger in investors' minds without affecting the cycle that badly. Indeed, yesterday the BLS published the results of its preliminary payrolls revisions exercise, that revealed that in the months through March this year the labor market did much worse than initially estimated. So, equity benchmarks soared merrily on data that no longer justifies such optimism. No point looking back, but for sure there is not much room for error in terms of future growth, hence why we say that's where the focus should be. The number of workers on payrolls will likely be revised down by a record 911,000. And, yes, today and tomorrow investors will be looking into inflation data with the PPI and CPI release. Inflation is really a lagging variable, so no point fretting about if negative growth momentum is building.

Yesterday equities followed the well-known pattern that bad news is good news if such news increases the odds the Fed will be cutting rates soon. So, with that in mind investors bid stocks up, though mainly the large caps, and all the more the IT ones, with S&P 500 (+0.3%, advancing to all-time highs) and the Nasdaq (+0.4%) showing middling returns, while the S&P 500 equal weighted (-0.3%), small (-0.55%) and mid caps (-0.9%) all closed in negative territory. The leading sector was communication services (+1.6%), the worst one materials (-1.6%). Google (+2.4%, record highs) boosted IT megacaps as its cloud-computing division announced a $58bn revenue boost by 2027, while materials were dragged down by tumbling lithium stocks. But the spurt of speculative frenzy was to be seen in AI infrastructure names. Oracle (+28.4% aftermarket) surged to record in afterhours on a blowout outlook for its cloud business driven by demand for AI infrastructure, while Nebius (+49.4%, an AI-centric platform) made a “transformational” deal with Microsoft to provide GPU infrastructure capacity over 5 years. Apple shares (-1.5%) on the other hand fell despite its new iPhone 17, including an already expected skinnier model, and the unveiling of latest versions of AppleWatch and AirPods. Treasuries snapped a four-day rally, with the 2-year yield closing higher at 3.55%. And in an unprecedented geopolitical escalation in the region, Brent crude (+0.6%) rebounded after an Israeli attack on terrorists in Qatar. This drew the ire of President Trump, who said he learned about it too late to stop it. Also, Donald Trump floated new tariffs on China and India to squeeze Russia and bring it to the negotiating table.

Markets this morning:
Asian stocks advanced Wednesday on renewed gains in technology shares, and on hopes the Federal Reserve will cut interest rates to curb a jobs downturn. The South Korean market was on track for a record close, while stocks in Japan and Hong Kong also moved higher. MSCI's Asia-Pacific index gained for a fifth day and was within 2% of its record set in 2021. US equity futures contracts edged higher, and oil continued to rebound (+0.6%) in the wake of yesterday's Israeli attack. China's consumer prices slipped below zero for the first time in three months, as deflationary pressures persisted in an economy at risk of a slowdown.

Upcoming key events/data:
Investors are looking forward to the release of the August PPI today, and of the CPI tomorrow, that should not build the case for a 50bps cut in September as headline CPI could run hot on discretionary services.

Have a great day.

Chief Investment Office
Wealth Management
Emirates NBD.

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