Emirates NBD
بنك الإمارات دبي الوطني

Lots of news, lots of noise…

- **Last week started and ended with breaking news on tariffs, with data and events in between**
- **Bottom-line, tariffs are here to stay and their impact on growth and inflation is yet to be seen**
- **The coming days will provide important top-down data, before our monthly investment committee next week.**

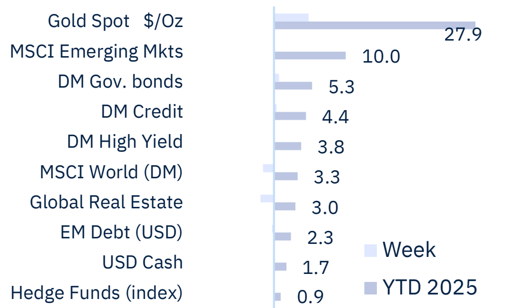
Last week was shortened by a US market holiday but was intense and extremely volatile, with markets reacting to back-and-forth headlines on trade tensions.

On Monday, the White House extended the deadline for aggressive tariffs on Europe from a few days to a full month, to July 9th. Markets rallied and it only accelerated when the US Court of International Court stated that a large majority of President Trump's tariffs were illegal and should be stopped within 10 days. Euphoria didn't last long however as the ruling was immediately challenged by the administration and as the court of appeal dismissed the 10-day delay. Trade tensions then intensified on Friday, with the White House accusing China of violating the terms of their temporary trade deal and announcing an intention to double tariffs on global steel and aluminium, from 25% to 50%.

Let's cut through the noise: there are several legal ways to impose tariffs, which are a key pillar of President Trump's policy. We will assume that a 10% universal baseline is here to stay, with most probably some additional tariffs for China and some sectors. The question is not about their occurrence, but about their impact on growth and inflation, which is yet to be seen. Indeed, between record high US consumer confidence and core PCE inflation at a 2.5% annual pace at the end of April -the Fed's preferred measure of inflation, against which their 2% target applies, the backward-looking picture looks fine. The FOMC minutes confirmed that the Fed will wait before acting, and the rich data from the week ahead (regional PMIs, US job report…) should provide clues on the path ahead.

This matters, especially as the month of May was good for markets overall. US stocks are back to where they traded before Liberation Day, helped by a solid Q1 earnings season. We will analyse data from the coming days before our monthly investment committee next week. We wish you a great week and a wonderful Eid al-Adha holiday.

Asset Classes USD % total. Return, Week and YTD 2025



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Cross-asset Update

So far in 2025, our recommended positioning has not dramatically evolved, in a context where political uncertainty exacerbates volatility. We had started the year fully invested, with an overweight in gold and government bonds (the latter being quite contrarian at the time), funded by an underweight in hedge funds as we thought that the first moves of the US administration could generate more instability than reliable trends.

Our main change was implemented 10 days after the now infamous "Liberation Day" and it was not radical. We reduced our allocation to stocks from developed markets by -2% while keeping a full exposure to emerging markets. This was more a repositioning of risk than an outright bearish call: indeed, we also increased our allocation to high yield within fixed income. The last move proved beneficial, and we closed it, back to neutral, in our May committee. We are now modestly defensive.

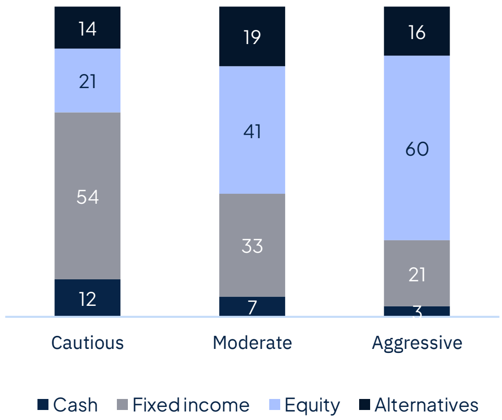
We reckon that there is no genius in our tactical allocation – we would have loved to be able to predict the massive rebound of US stocks for example. Still, in terms of results, our three profiles are all up 5% (in US$) or more over the first five months of 2025, outperforming global multi-asset benchmarks. The Emirates NBD Asset Management funds of funds that implement our strategies are also very well ranked within their international peer groups. Again, let's be humble: this is not because we were tactically excellent, as most of it comes from the quality of our strategic asset allocation (SAA).

As many of our readers know, our SAA profiles are built quantitatively, using long-term models, with a simple objective: minimizing the probability of capital loss over respectively 3,5 and 7 years while trying to deliver the best possible expected returns. The SAA is about long-term factors, from economy and inflation to asset class returns, risks and correlations. As a result, our SAA profiles are stable over time. We review their relevance every year, during our Long-Term Capital Market Assumptions exercise, but we only changed them a couple of times in the last 7 years, especially following the disruptions of 2022.

Now, looking forward, the time may come again to adjust our strategic positioning. The short-term remains highly unpredictable: political uncertainty is high, and one can assume that part of it is deliberate, as part of the negotiation tactics developed in President Trump's "Art of the Deal". The direction of travel for the long-term, however, could be more exploitable. We can forecast a different globalization, affecting the growth/inflation mix. Massive amounts of public debt and the end of "business as usual" in terms of fiscal deficits, especially in the West, will have to be fixed, another significant change. Finally, AI will boost productivity but also affect labor markets. If confirmed, the long-term backdrop could prove more favourable to alternatives and commodities than to "traditional" asset classes over the long run. Some fine tuning may be needed.

Academic studies are very clear: the strategic allocation drives at least 80% of a portfolio's returns and risks. This is what we will be working on – a lot- in the second half of 2025.

Tactical Asset Allocation: Simplified Positioning



TAA – Relative Positioning – Moderate Profile

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash			>>
DM Gov.			>>
DM Credit		=	
DM H. Yield		=	
EM Debt		=	
DM Equity	<<		
EM Equity		=	
Gold			>
Hedge Funds	<<		
Real Estate		=	

Fixed Income Update

The global bond sell-off of the previous week eased slightly last week as the yield curves across developed markets bull-flattened. The long-end of the curve went down 7 to 8 bps while front-end of the curve went down 3 to 5 bps. US 7-year bond auctions happened smoothly last week. The end-user demand at 95% is a record. This supports our duration positioning of 5 to 7 years in bond portfolios. Bid-to0cover ratio was well above average at 2.69. This week's rally was also supported by expectation that Japan could look at reducing long-debt issuance given weaker demand in recent times. US Core PCE at 2.5% and Q1 GDP growth of -0.2% added to the positive backdrop for treasuries. This week's NFP data assumes key significance.

Fed governor Chritopher Waller has mentioned that he continues to see a path to interest-rate cuts later this year amid his expectations that tariffs will boost unemployment and temporarily increase inflation. Waller had previously outlined two tariff scenarios with the high one at 25% tariff and the lower one at 10% tariff. In both scenarios, Waller expects the impact of tariffs on inflation would be temporary. He also anticipates the levies will cause an increase in the unemployment rate that will "probably linger." That said, job cuts would likely be "modest," he said, under the smaller-tariff option. He is widely considered to be one of the two top candidates in the run to succeed Chairman Powell. The market is pricing in 52 bps of rate cuts till the year end 4 rate cuts in the next 12 months.

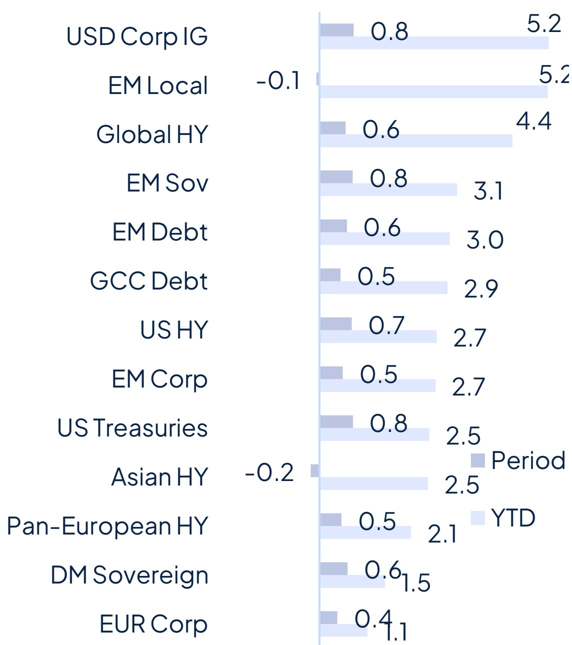
Spreads remained relatively calm last week. IG spreads traded in a tight range of 2 bps last week. Yields moving higher has not impacted the spreads much till now. Ideally, any sharp jump in yields results in widening of spreads but lower yields due to economic weakness results in prolonged wider spreads. Fund flow into IG bonds has been positive garnering $4bn per week due to high all-in yields in May. High Yield bond spreads have also come down by 9 bps last week. Moderation of the labour market and slowdown in growth would affect the spreads negatively.

Last week, the GCC bond market saw several issuances. Aramco successfully tapped the market with a multi-tranche bond offering across 5-, 10-, and 30-year maturities priced at 4.83%, 5.39% and 6.51%, raising a total of $5 billion. Mamoura Diversified Global Holding (MDGH), a subsidiary of Abu Dhabi's Mubadala, issued a $1 billion 10-year senior unsecured sukuk priced at 5.10%. In the banking sector, Sharjah Islamic Bank issued a $500 million perpetual AT1 sukuk, non-callable for 5.5 years, at a pricing of 6.125% with an order book exceeding $1 billion.

Fixed Income Key Convictions (2025)

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Neutral EM Debt
Favor quality and selectivity
Including in GCC

Fixed Income Sub Asset Class Returns (YTD, Last Week)



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Equity Update

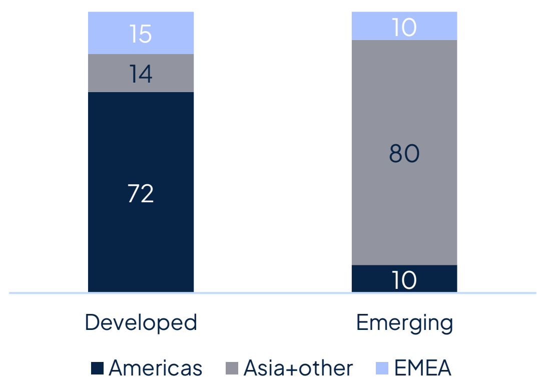
Global equities found their footing last week, with gains led by a fresh burst of enthusiasm around a rebound in consumer confidence, AI and strong showings from developed markets. The MSCI ACWI rose 1.4%, as U.S. stocks climbed and Japan extended its outperformance. The S&P 500 gained 1.9%, closing above the 5900 mark, capping off the strongest May for the index since 1990, and the tone felt distinctly risk-on once again. Nvidia posted another massive quarter, with revenue hitting $26 billion and a new forecast that pointed even higher. There was a clear message in the numbers: demand for AI infrastructure remains relentless. Even with an $8 billion drag from China, the top-line beat and margin strength were enough to reignite confidence in the AI story. Tech stocks rallied around it, and analysts wasted no time lifting price targets. Earnings outside of chips also offered support. Salesforce raised its outlook, riding a wave of enterprise interest in AI tools. Costco and Abercrombie delivered better-than-expected results, signaling that pockets of U.S. consumption remain firm. But not all names kept up. HP warned on slowing device sales, and Gap flagged tariff pressures, showing that macro headwinds haven't disappeared.

Europe edged higher as well. The MSCI Europe index rose 0.7% and closed out its best month since January. Markets brushed off soft economic data and focused on the disinflation narrative. German CPI aligned with expectations, keeping hopes alive for a June ECB rate cut. Financials and utilities led the gains, and semiconductor stocks found renewed interest after the Nvidia print. In Japan, the TOPIX rose 2.4%, continuing its run as one of the year's top performers. A weaker yen helped exporters, and chip-related names moved in lockstep with U.S. peers. There was also a shift in the policy conversation. Tokyo called on companies to do more than buy back shares and instead put capital toward growth. The idea of a more dynamic, investment-led corporate strategy is gaining traction. Markets took it in stride.

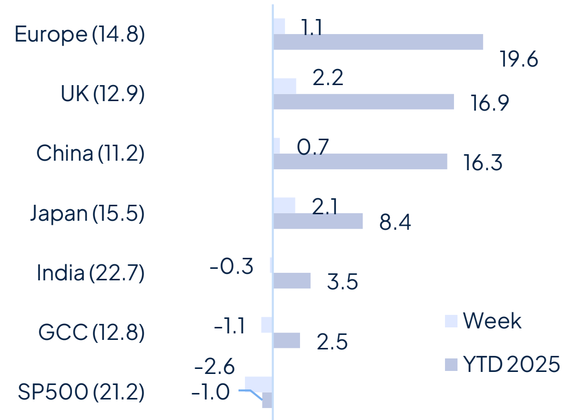
China reversed the most. The MSCI China index dropped 2.6%, giving back recent gains. Regulatory headlines resurfaced, stimulus traction remained questionable, and fresh U.S. restrictions weighed heavily. Nvidia's China revenue collapse underscored the impact. In the EV space, BYD slashed prices, triggering another round of margin worries. Sales from Li Auto and Zeekr held up, but sentiment didn't follow. Even a rush of Hong Kong IPOs wasn't enough to turn the tide. Indian markets paused. The MSCI India index slipped 0.2%, extending a quiet stretch of consolidation. While local news was supportive, monsoon forecasts and a record RBI dividend among them, investors held back, waiting for policy clarity from the central bank. In Dubai, the market saw its first IPO of the year. Dubai Residential REIT jumped 14% on debut, one of the strongest openings on the DFM in years. By its third trading day, the listing was holding firm, with foreign investors starting to take notice.

Equities have shaken off the worst of May's anxieties. AI remains the headline driver, but under the surface, markets are shifting. Earnings are no longer enough on their own. Visibility, capital discipline, and a clearer macro path are starting to matter again.

Equity Recommended Regional Positioning

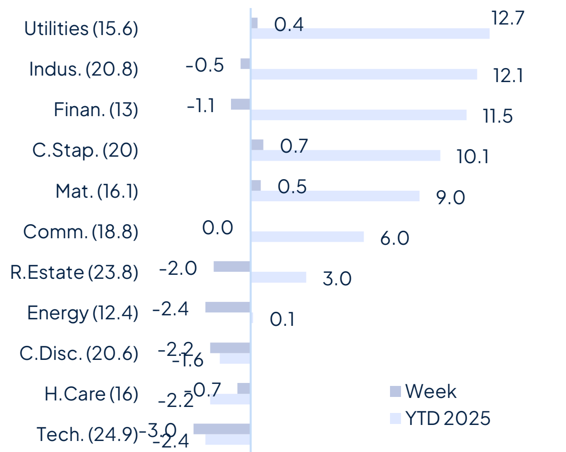


Major Indices Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

Global Sector Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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