



بنك الإمارات دبي الوطني  
Emirates NBD

## Macro uncertainty takes a toll on cyclical assets

- A few softer activity datapoints alongside fresh tariff announcements raise macro concerns
- Last week saw a regain of interest in bonds, though was negative for most other asset classes
- The week ahead will be rich in economic data and China's National People Congress will start

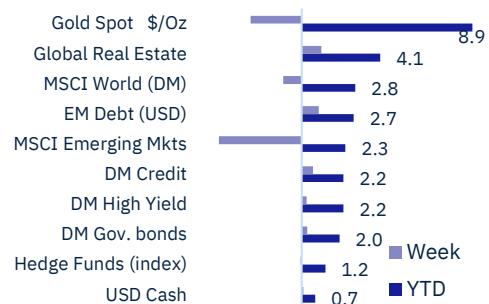
The picture from recent US economic data from the US is not engaging. Retail sales, consumer confidence, services PMIs disappointed, with no positive surprise from inflation. Markets do not enjoy macro uncertainty. Last week, US Treasury yields fell by more than 20 basis points on all maturities from 2-year, signalling growth concerns. Since the short end didn't move, the dollar regained a bit of traction, which in turn affected gold prices, with quite a rare negative weekly return. Cyclical assets from stocks to oil prices were logically down, with a particular underperformance of emerging markets. Of course, questions on both competition in artificial intelligence and some unpredictability on geopolitical developments also don't help.

Bottom-line, markets are concerned about the risk of a US downturn, with limited response from the Fed as inflation is still sticky. It is possible, but the real question is whether this would be a temporary activity "air pocket" or the beginning of something more sinister. To that extent, given the health of the private sector, from employment to wealth and balance-sheet, we remain reasonably optimistic. We had always thought that market uncertainty in 2025 would be higher than the strong consensus for a "happy late cycle" configuration, but not going in a straight line doesn't mean that we're going nowhere.

For the time being, we will focus on the week ahead, with monthly PMIs, a US job report, and the beginning of an important session of China's National People's Congress which could provide details on stimulus measures. Geopolitical developments around the conflict in Ukraine could also affect European markets in particular. Our positioning is unchanged, still fully invested with a an overweight in long duration bonds, and our three profiles are up around +2% year to date.

Finally, we wish you and your family a joyful, peaceful, blessed Holy Month of Ramadan.

ASSET CLASSES USD % TOT.RETURN, LAST WEEK AND YTD 2025



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### Cross-asset Update

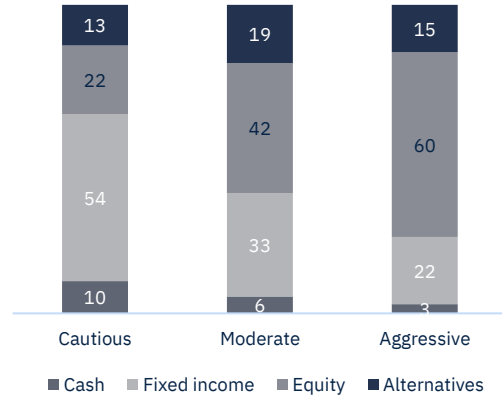
There is a lot of geopolitical noise nowadays and despite more chaotic signals on that front macro variables still have dominated markets. The derailed rare earth deal between President Trump and President Zelenskiy, as well as the diverging stance taken by the European countries following that, has added further smoke to the fire of the Russia-Ukraine conflict. This morning European asset markets were rebounding on the news that a peace deal between America and Russia seems to be closer than ever. Although the road to a final agreement is still long and winding, the outperformance of European equities since the start of the year conveys the clear message that markets are pretty convinced about the final outcome.

Although politics took center stage, asset classes have continued to respond to a worsening US growth-inflation trade off like clockwork. US treasuries tumbled across the curve as economic surprises fell further into negative territory. And if tightening financial conditions are anything to go by, more negative surprises should be in store, hence Treasury yields are likely to remain capped. At the same time, soft data ranging from business to consumption surveys on top of sustained wage growth pointed to smoldering inflationary pressures. The Nasdaq and the high-growth, megacap stocks like the Magnificent Seven took a beating alongside the consumer discretionary companies as more exposed to inflation risks. Overall, growth worries trumped the inflation signal. Investors are taking the latter in their stride, since price pressures have not yet turned up in the broader inflation gauges. A whiff of stagflation will not stop the bull market, yet it represents a drag that will keep stocks in a range.

Investors are looking to the Chinese National People’s Congress to get a positive indication for the growth of the economy. Expectations are running high that Beijing will be announcing fresh stimulus measures, specifically on the fiscal side, following plans for more tariffs by President Trump. Central to the policy push should be a larger budget deficit as against monetary measures that would be taking a backseat.

Gold is a favored asset class in stagflationary conditions. Though it is pulling back on profit taking following the latest bull run, we hold the view that the macro backdrop will remain favorable in the medium to longer term. In the post-pandemic period central-bank reserve managers have reduced Treasury purchases to go for more gold buying. This trend should continue driven by de-dollarisation and the necessity to diversify away from bonds as inflationary pressures linger.

### TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

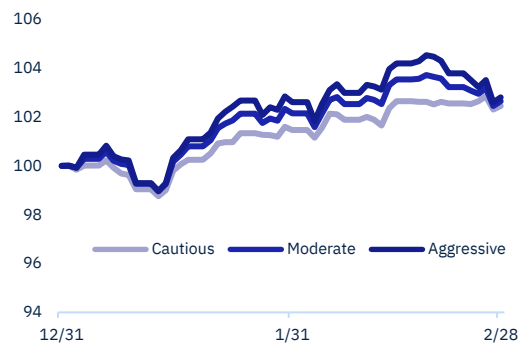


### TAA – RELATIVE POSITIONING – MODERATE PROFILE

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		=	

### TAA – 2025 INDICATIVE PERFORMANCE



Source: Bloomberg. CIO Office calculation based on TAA applied to market indices, net total return in USD.

### Fixed Income Update

Our long duration call has worked beautifully in the last 2 weeks as the yield curve has moved down by 20 to 30 bps depending on the tenure. The 10-year has dropped below our year-end fair value of 4.3%. This rally in treasuries has been a result of weak macro data from the US alongside tariff uncertainty and inflation data printing in line with expectations. January PCE inflation was in line with expectations, with headline and core rising 0.3% m/m, leaving the respective annual growth rates at 2.5% and 2.6%, near the Fed's projection for 2025. This week's ISM and Jobs report will be the key to give short term directions to treasuries.

European government bonds have not kept pace with the rally in the US treasuries. Traders are worried about the impact of increased defense expenditure on the stretched balance sheets of Euro Area sovereigns. We like the UK Gilts that we think offer value at the moment. Investors are overestimating inflation risks in Britain and underestimating growth risk. The labor market is cooling rapidly in the UK, which should bring about lower wage growth and underlying inflationary pressures. This will lead the BoE to cut rates by more than the 57 basis points currently embedded in the curve.

Credit spreads have widened slightly across all the segments. EM debt topped the weekly returns chart as spreads increased by 8 bps but the long duration nature of the asset class mitigated the effect. Global High Yield spreads increased by 10 bps and Investment Grade spreads for the Bloomberg Barclays Index are now 4 bps higher at 83 bps.

Turkish annual inflation slowed to 39.1% in February, the lowest in almost two years. Monthly inflation was 2.27%, slowing from 5% in January. The downside surprise is likely to strengthen expectations of another sizable rate cut by the central bank on Thursday. Meanwhile Turkish economy grew 3% in Q4 beating predictions of a 2.5% growth. The Turkish lira has depreciated 3.16% since the start of the year. We have a positive view on the Turkish Lira carry trade as an idea to get additional yield pick-up.

GCC debt issuance has slowed down in recent weeks after a strong start to the year dominated by issuers from the KSA. YTD a total of more than \$40 Bn of USD bonds have been issued from the region with KSA contributing close to \$27bn. We expect a slowdown in bonds issuance in the Holy month of Ramadan. This week, RAK has announced a 10-year sukuk which should price slightly tighter to the existing A rated sukuks from the GCC.

### FIXED INCOME KEY CONVICTIONS (2025)

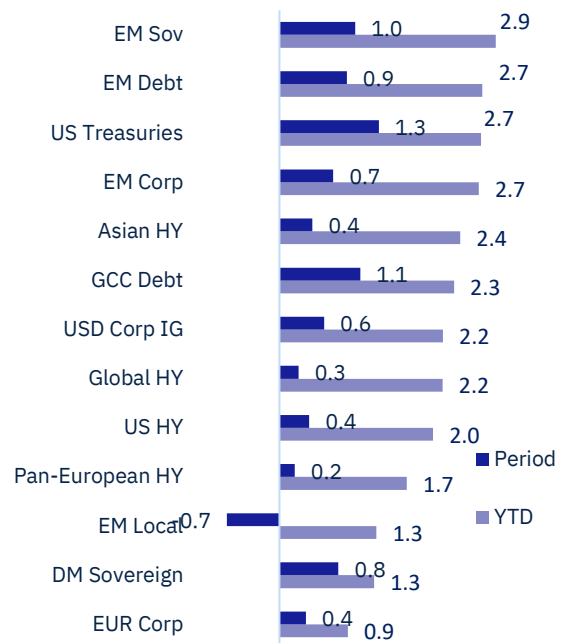
#### DEVELOPED MARKETS

- 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)



Source: Bloomberg

## Equity Update

Global equities took a hit last week as cracks in the tech rally deepened, trade tensions resurfaced, and markets shifted toward safer ground. The MSCI ACWI slipped 1.3%, with developed markets down 1.0%, while emerging markets suffered a steeper 4.3% drop, their worst weekly performance in months. The S&P 500 struggled as tech stocks lost their grip, with Nvidia tumbling 7% after an earnings report that, despite record revenue, failed to clear the sky-high expectations built around AI. But it was the latest move from Washington that truly rattled markets. Trump's unexpected announcement of fresh tariffs on Chinese imports erased months of optimism that trade tensions had cooled. Asia felt the brunt of the shock, with heavy selling in China and India, while Japan's export-heavy sectors added to the declines. Across the Atlantic, European markets found footing where others slipped, as banks and defense stocks quietly extended their winning streaks.

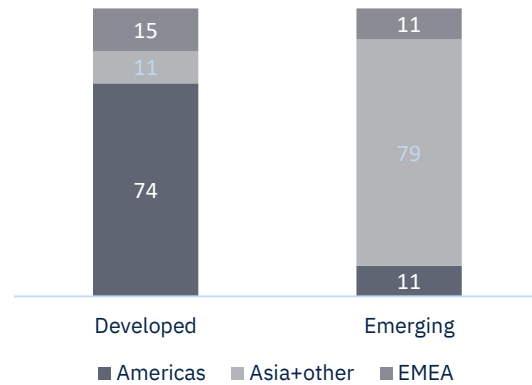
The unwinding in tech became more pronounced, with the S&P 500 giving back more of its post-election gains. The once-unshakable Magnificent Seven saw their worst month since December 2022, with Nvidia leading the decline. Despite delivering record-breaking \$39.3 billion revenue, the company's guidance didn't have the explosive upside markets had come to expect. Margins tightened, data center spending showed signs of leveling off, and concerns over AI chip exports to China grew louder.

Europe, however, held its ground. The MSCI Europe index rose 0.7%, marking a tenth straight week of gains for the region. Banks posted their strongest month in two years, fuelled by steady earnings and capital returns, while defense stocks continued to attract buyers betting on higher government spending. Chipmakers struggled, but the broader market remained far more stable than its U.S. and Asian counterparts.

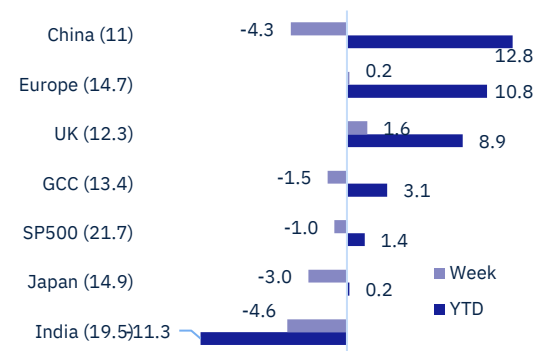
Asian markets saw a wave of selling pressure, rattled by renewed trade concerns and fading momentum in key sectors. The MSCI China index tumbled 4.2%, with the Hang Seng China Enterprises Index logging its worst session in months. Fresh tariffs from the U.S. forced a reassessment of expectations for a stable trade backdrop, triggering a rush to reduce exposure. The MSCI India index followed closely behind, down 3.7%, as foreign capital exited at an accelerating pace. Valuations that once seemed justified now appeared stretched, while earnings growth concerns deepened, sending mid- and small-cap stocks into sharper declines. Japan's TOPIX dropped 2.0%, weighed down by falling semiconductor stocks and signs of cooling demand for AI hardware. The early-year optimism that had lifted Asian equities gave way to a more cautious stance, with capital rotating toward less volatile areas.

But beneath the surface, a shift was already taking place. The equal-weighted S&P 500 is now rising at twice the pace of its cap-weighted counterpart, a sign that leadership is broadening beyond a handful of mega-cap tech names. As capital moves and volatility picks up, the rally's foundation is evolving—less reliant on the giants that carried markets last year and increasingly supported by a wider range of sectors.

## EQUITY RECOMMENDED REGIONAL POSITIONING

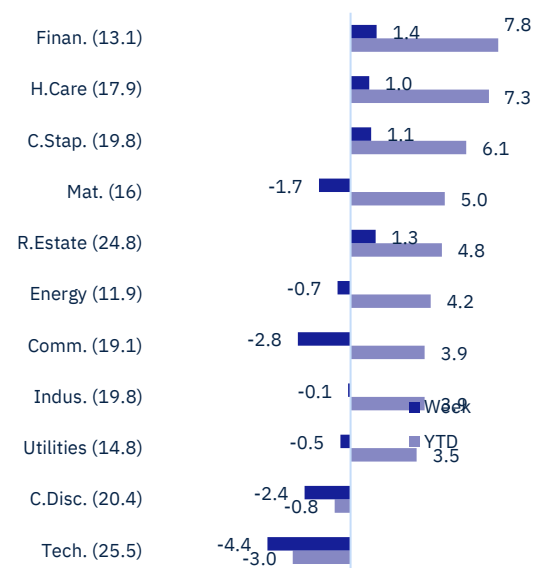


## MAJOR INDICES PERFORMANCE (TR, US\$), P/E in brackets



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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