بنك الإمارات دبي الوطني
Emirates NBD

The week starts with geopolitical relief

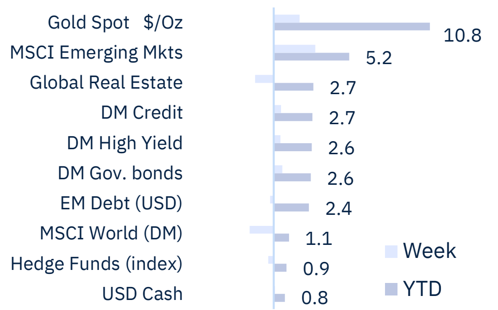
- **Last week was eventful but relatively quiet on global markets**
- **Macro data and central banks didn't surprise, while trade conversations intensified**
- **The week starts with good news on international relations and trade**

Last week was eventful and data rich, from central bank meetings to trade negotiations. Yet, global markets were relatively quiet. Stocks fell -0.3% in developed markets but gained +0.5% in emerging regions. US Treasury yields modestly bear steepened. Gold rallied, Brent gained and the trade-weighted dollar slightly strengthened.

With regards to data, April final PMIs confirmed that the first four months of 2025 are benign, if not robust, for most major regions. The composite indices are all above 50, closer to 51 for the US and China, and very strong in the UAE (54) and India (59). Interestingly, China trade data for April, released last Friday, were much better than forecast. The first month post "Liberation Day" does not look like economic devastation. Uncertainty is however high enough for the Fed to feel stuck between inflationary risk and activity risk. They kept rates on hold and will probably continue, while the Bank of England unambiguously cut. The big news was on trade. The US and the UK reached a deal on Friday, which is not extremely impressive, but most importantly, the US and China agreed on Monday morning to a pause in their (outrageous) triple digit tariffs. For 90 days, Chinese imports will be taxed at 30% and US imports at 10%, giving ample time to finalize a permanent deal.

The week thus starts with a rally in cyclical assets, from stocks to high yield and oil, and a drop in defensive icons, from gold and safe bonds to the Swiss Franc. In terms of data, the week will provide more clarity on US inflation and activity with the CPI report, retail sales and consumer sentiment. We will be holding our monthly tactical asset allocation committee to decide whether the recent market action, which has lifted the YTD returns of our three profiles between +3 and +4% even before what should be a positive Monday, justifies changes in our positioning. Have a great week.

Asset Classes USD % TOT. Return, Last Week and YTD 2025



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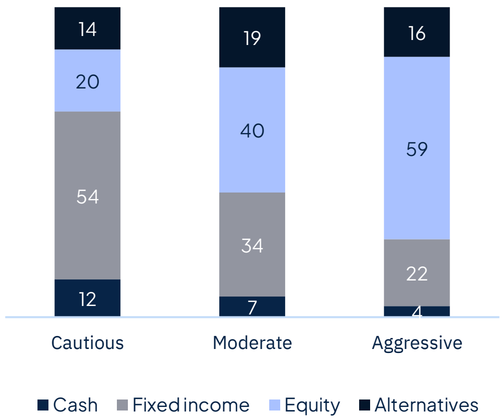
Cross-asset Update

The drumbeat of trade talks between the United States and China is reverberating across markets and affecting all the major asset classes against the backdrop of risk-on sentiment. Although investor's reaction is fairly sanguine, at some point disappointment is due to kick in, and maybe sooner rather than later. The current rally is based off the premise that tariffs will be partially rolled back, that has taken US stocks above the levels of Liberation Day, and overseas equities to record new all-time highs. The UK-US deal should serve as a cautionary note, as even with the most trusted ally the Washington administration will still be leaving 10% fixed tariffs in place, while specific sector agreements will be separately negotiated. President Trump said that that benign outcome cannot be taken at all as a template for other countries, where tariffs will be "higher". Also, it is not a matter of magnitude only, but of time first and foremost. Following introductory talks, it may take at least months for some practical results to be achieved, while markets have already discounted a pre-Liberation-Day world, that is a world unencumbered by tariffs. We still think equities will be trading in a range, and that the rally should be faded awaiting better opportunities to add to risk.

Meantime, the US economy is surprising positively according to the Citigroup US Economic Surprise Index, that should still leave room for further market upside in the shorter term. Futures are in the green both in Asia and on Wall Street, while Treasuries are selling off, as a 90-day pause to steep tariffs is announced between the US and China. Gold is beings sold as well, as investors chase risk assets and dump safe havens. EM currencies are on a tear alongside EM equities on fading trade uncertainty. Despite US soft data speaking to the contrary, US hard data remains solid, and inflationary pressures are not yet showing up, which is a positive combination for stocks. It should be only a matter of time before the effect of tariffs makes itself felt on prices and aggregate demand, for now being delayed by advance purchases in their anticipation. The dollar is also benefitting from this state of affairs, staging a rebound. Interest rate differential with the euro will continue to move in favour of the reserve currency, as the Fed is in no need to cut rates, while China will be redirecting more exports towards European markets amongst others, exacerbating deflationary pressures and pushing the ECB to cut further.

In this rally investors should take the opportunity to diversify away from concentrated positions in US risk assets. Trump's trade policies are forcing a global rebalancing, where overseas countries must stimulate their economies to make up for reduced access to the US markets. The secular outlook for growth is improving in favor of the rest of the world and investors should take notice and rebalance their portfolios accordingly.

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

Last week central banks did not surprise. The Fed as expected remained on pause. The statement mentioned “risks to unemployment” ahead of “risks to inflation.” We believe given a choice between protecting growth and tolerating higher levels of inflation, the Fed will tilt towards the former. Chairman Powell was slightly hawkish in the press conference. Powell also acknowledged that monetary policy is helpless in offsetting a price jump due to a shortage of supply, so a hike in the funds rate for that reason is not forthcoming. However, he would not like to repeat the mistakes of Chairman Burns in the 1970s. Even though the economy turned into recession in Oct 73, and the stock market was part way through a 50% drop, Burns kept raising the funds rate. The first cut came in July 1974, when unemployment hit 5.5%, nine months into the Oct 73 - Mar 75 recession. Unemployment eventually rose to 9%.

BoE as expected cut by 25 bps. The 5-2-2 decision means the BoE is more hawkish than required. Nominal average wage growth remains elevated at close to 6%. The labour market is slackening. High level of gilt yields and the recent sterling appreciation along with lower energy prices would contain inflation. We expect more rate cuts than priced in by the end of this year. The trade deal between US and UK is nothing to write home about, though it may help some credits such as JLR. The clear signal here on future US trade relations is that 10% is indeed going to stay. This basic level of implied tariff rate increase is perceived as necessary from a fiscal standpoint and for rebalancing the US economy.

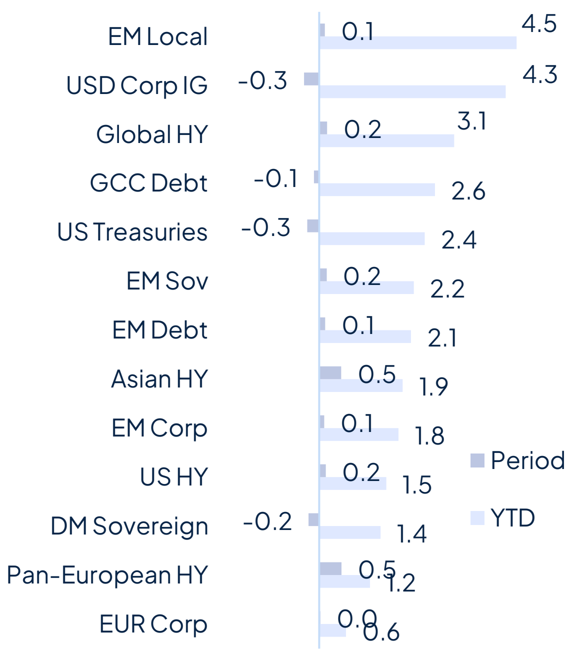
The US bond yield curve bear-flattened last week. The front-end rose around 15bps while the long-end increased around 7bps. Hawkish statement from the Fed and structurally higher term premium resulted in such a move. The 10-year treasury yield has again crossed 4.4%. This is the level we are comfortable with extending duration. OIS forwards are not pricing a full 25bps cut until the September meeting and just 56bps of easing this year. Initial jobless claims dropped, indicating labour market stability. Credit spreads continued to tighten across the rating spectrum. Fund flows into IG credit increased after a weak April. High Yield spreads are back to our fair value levels. Since we went overweight on 11th April, the HY index has returned 3.2% compared to IG return of 1.9%. With spreads back to normal levels, we believe it is time to turn neutral on the HY asset class again.

After a break of issuance during the Fed decision week, we expect more issuers to come to the market in the GCC over the next couple of weeks. Sobha is pricing its long-3 year sukuk today with issue size of $400 Mn. There has been a rally in the HY real estate sukuks from the region and we expect decent demand for the name. Warba bank from Kuwait has also issued a mandate to price $250 Mn tier 1 sukuk this week. We expect more banks to follow suit as the refinancing of Tier 1 bonds gathers pace.

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)



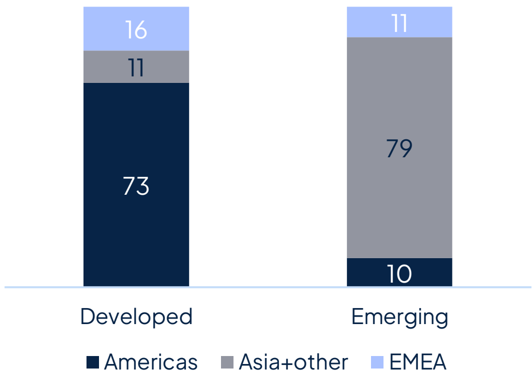
Equity Update

Global equities took a breather last week, offering a moment of recalibration after weeks of upward grind. The MSCI ACWI dipped 0.2%, weighed by developed markets, while emerging peers held firmer ground. The S&P 500 gave back 0.5%, its first weekly decline in nearly a month, as the narrative shifted from earnings resilience to trade friction. With a $6 trillion rally in the rearview mirror, markets grew wary of pushing further without resolution on one key front: tariffs. By Friday, the S&P 500 had clawed back early losses, but conviction was thin. On the earnings front, 90% of S&P 500 companies having reported, 78% beat estimates, ahead of both 5- and 10-year norms. Profits exceeded expectations by 8.5%, reflecting solid operational delivery, even if margins are now under scrutiny. Management teams flagged familiar headwinds, tariff exposure, input costs, and shifting demand patterns. Companies flagged a clear uptick in the use of "uncertainty" in earnings calls as they adjust inventory levels and reassess pricing strategies while awaiting clarity from trade negotiations.

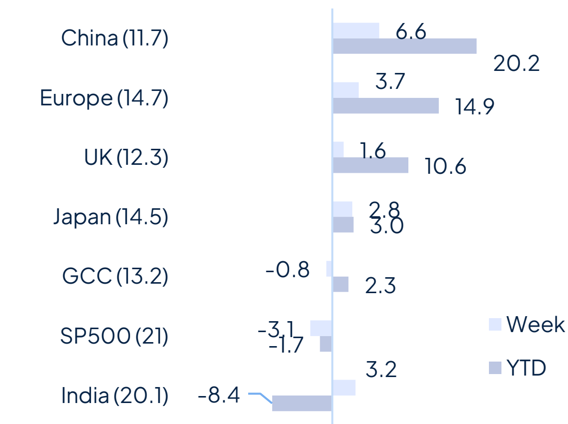
In the US, the week's standout report came from Disney, which surged more than 12% after lifting its full-year outlook. Stronger-than-expected park attendance and streaming growth helped earnings jump 20% on 7% revenue growth. AMD impressed with its AI-linked forecast but tempered enthusiasm by revealing a $1.5 billion drag from export restrictions to China. Ford beat expectations, but pulled guidance entirely, citing a similarly sized tariff hit. Shopify sold off after signaling that profit growth would slow as marketing costs rise. And Tesla's streak of declining China shipments stretched into its seventh month, underscoring regional pressure. European equities added 0.5%, a steady week led by energy, tech, and financials. Germany's DAX recaptured pre-tariff levels, and speculation around a potential BP takeover lifted UK energy names. In a region heavily exposed to global trade, companies are navigating carefully, raising guidance where possible, but lacing forecasts with conditional language.

In Asia, China ended higher, with the MSCI China Index up 0.9%. Export data surprised to the upside, and policy support continued with cuts to interest rates and reserve requirements. Still, the week ended on a more cautious note, with markets pulling back slightly ahead of the trade summit. Japan delivered its strongest weekly gain in over a year, with the TOPIX up 1.7% and breadth broadening out. Financials drove the rally as domestic yields firmed and foreign flows returned. The market interpreted Geneva as a potential turning point, however modest, and rotated back into exporters and cyclicals. Mitsubishi UFJ rose nearly 3%, and over 75% of the index advanced, an unusually wide move for the region. India on the other hand had a tough week. The MSCI India Index fell 1.5%, its steepest drop in over a month, as geopolitical tensions with Pakistan escalated. Local flows were stable, but broader sentiment turned risk-averse heading into a heavy earnings week.

Equity Recommended Regional Positioning

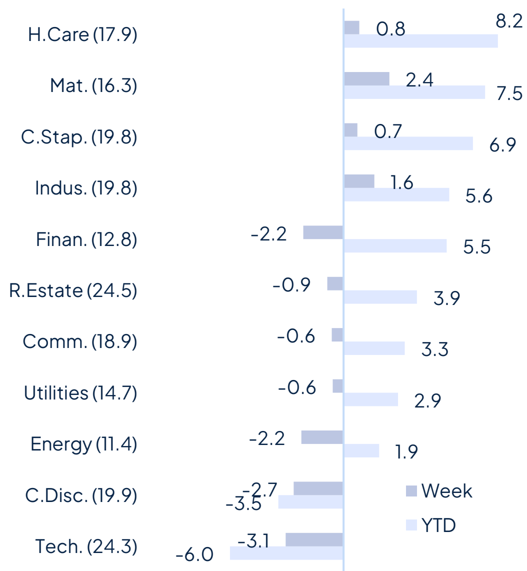


Major Indices Performance (TR, US$), P/E in brackets



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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