بنك الإمارات دبي الوطني
Emirates NBD

Geopolitics move markets but without panic

- **Last week was eventful again and ended with Israel unexpectedly attacking Iran**
- **Oil, gold, currencies adjusted to the situation but markets are leaning towards a contained conflict**
- **We held our TAA Committee last Tuesday and decided to keep our positioning unchanged.**

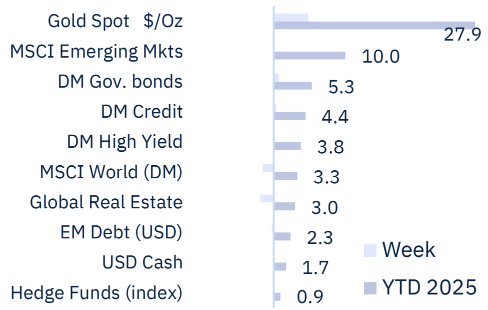
2025 looks like a continuous chain of disruptive events. Last week was no exception, with the unexpected air attacks from Israel into Iran, striking military and nuclear facilities among others. Iran responded from Saturday with a series of air attacks, involving hypersonic missiles, which reportedly were able to hit their targets despite Israel's air defences.

The conflict is serious, and kinetically very intense. However, both countries so far seem to have carefully chosen their targets. Apart from military and nuclear related objectives, the main energy site hit by Israel was Pars field (shared with Qatar), which is immense but mostly used for Iran's domestic consumption. The export oriented Kharg island was spared. Similarly, Iran's retaliation was intense but targeted exclusively on Israel: no US asset or "global" energy infrastructure was hit. This explains why global markets do not panic. Oil and gold prices logically gained, and GCC stock markets were very volatile on Sunday. Still, global stocks were resilient, implied volatility didn't really spike, and Asian markets start the week quite positively. In essence, market reaction is for a limited campaign, in both time and geography.

Looking forward, the question of US involvement is key. There are reasons to expect some restraint there: the Trump administration, its MAGA electoral base, its allies from the Gulf, are to some extent "antiwar", while the current US domestic situation with street protests is probably a priority. Of course, the situation is fluid and a shocking event could "force" the US into the conflict but for the time being, markets could be right in hoping for some de-escalation in the coming days.

Meanwhile the fundamental picture was not adverse, with benign US CPI and PPI inflation, some agreement between the US and China on trade and an improving consumer sentiment. The week ahead will see the Fed and BoE meetings as well as provide retail sales and industrial production.

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



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Cross-asset Update

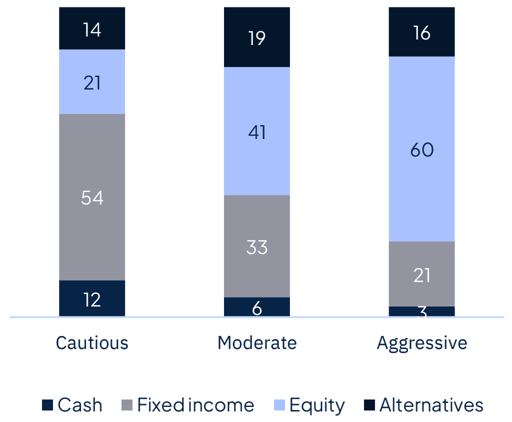
Who amongst our readers was expecting heightened market volatility in response to the Israel-Iran conflict may be surprised by the muted reaction in the main asset classes. As of the time of writing Brent crude and gold are in negative territory for the day, and US futures are up. We can infer from the reaction the kind of scenario the consensus of investors is expecting. Most likely it is that no side is able to get the upper hand on the other, and the superpower may be unwilling to get involved. As long as the confrontation remains confined and limited in time, crude should not spike higher, and gold's rebound may soon be aborted as geopolitical risks are not seen to be blowing out of proportion. The US dollar still has failed to behave as a defensive asset by barely rebounding, while the yen is not looking bullish at all.

From a macroeconomic point of view the Washington administration's major concern would be the upward pressure that persistently elevated crude prices could exert on long yields. This would work as a pressing incentive to pour cold water on the conflict. As much as the dollar is now shunned at times of crisis, so are Treasuries. On Friday the yield on the 10-year note ended almost 4bps higher, and today the direction of travel is the same. Concerns about potential price pressures from higher crude prices are overpowering any kind of geopolitical concern, that as mentioned the major asset classes seems to be currently not pointing to. So, the cold-blooded calculation is that the shorter the conflict, the better it is for US finances. OPEC+ has already increased crude production by bringing it more in line with the quotas some cheating member countries where in practice adhering to, and it is unlikely that in particular the KSA would be able to make up for the whole of Iranian production. All roads, even the geopolitical ones, seem to be leading to the US Treasury market, the cornerstone of the financial stability of the dominating superpower.

The fact that risk assets in the region are relatively resilient and the Swiss franc is not rallying either reinforces our conviction that markets are looking through the current conflict, and this would imply it would not be long-lasting. So, continuing along the current lines the crude spike would be temporary as well.

Overall, the backdrop of muted inflationary pressures, resilient macros, and strong earnings is putting a floor under prices alongside the fading tariff risks.

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 recent geopolitical tensions have shown another example that the US treasuries are not behaving as a perfect hedge for risk. The week started with a strong bid in treasuries following the lacklustre UK Jobs data. Thursday's 30-year Note auction was very smooth. It had impressive bid characteristics. 11.4% primary dealer award was lowest since November as indirect award increased to 65.2%. The 2.43 bid-to-cover ratio was in line with average for the past six reopenings. Moreover, macro data was supporting with Wednesday's CPI providing a positive surprise. Weekly jobless claims increased to 248k while US PPI data came below expectations with the Core PPI increasing 3%. Since Thursday, the long-dated yields have gone up 9 to 10 bps despite the intensifying conflict. The key reason for this is that markets think increasing energy prices could fuel higher inflation.

This week, we have the FOMC meeting and the consensus estimate is that the recent spate of weak inflation numbers is not enough to move the Fed. They will keep the policy rate steady at 4.25%-4.5%. No FOMC official has been advocating for a change in policy. The Fed will also update the Dot Plot and the economic projections this time. Since the last FOMC, Fedspeak has been more hawkish but given the recent uncertainties we may not find any hawkish tilts in the Dot Plot. The statement would point to an increase in "risks". Core PCE forecast could move towards 3% and the GDP growth forecast may be cut below 1.5% according to JPM analysts. BoE will also hold its policy meeting this week on Thursday. Despite the weak employment numbers, economists expect the central bank to hold rates at 4.25%. UK Govvies have underperformed other DM counterparts recently while investors of Gilts have generated positive returns due to currency movements YTD. SNB, the central bank of Switzerland is widely expected to cut rates by 25 bps to counter the recent strength of Swissie. Turkey is expected to keep the overnight rate steady at 46% on Thursday as well.

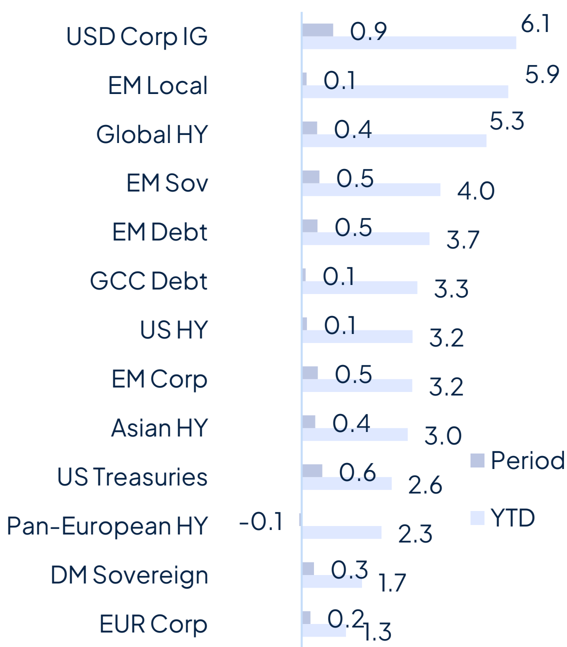
The credit spreads have been very resilient. IG spreads have traded in a tight range of 1 bps throughout the week. The index has returned 0.7%, the highest in the last week. In the IG space BBB Vs A spreads have compressed significantly and show no more room for compression ion the non-financial space whereas for financials the spread remains at 2022 levels according to a GS report. High Yield spreads have widened by 6 bps generating +0.3% and EM Debt spreads widened by 3 bps giving +0.4% returns. Within HY BBs have outperformed B and CCC since April. The trend might have run its course. Carry is the only source of return for credit now.

GCC credit has shown robustness unlike last periods of geopolitical upheaval. We have 410 bonds from GCC issuers on our recommended list. Out of those only 3 bonds have lost more than 1% in the last three days, and that can be attributed to the rise in 30-year US treasury yields rather than any large spread widening. Currently, we have only one open mandate from GCC region, i.e. Saudi National Bank (SNB) which announced mandate on Thursday for its inaugural 10NC5 tier-2 bond. We believe this and other debt pipeline may shift as issuers wait for a calmer environment to prevail.

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)



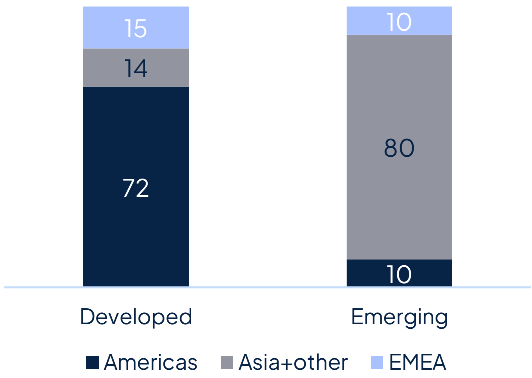
Equity Update

Global equities drifted lower last week as sentiment shifted from stability to caution. The MSCI ACWI slipped 0.2%, with developed markets down 0.3% and emerging markets gaining 0.8%. The tone turned sharply on Friday following Israeli strikes on Iranian military sites, triggering a broad rotation across sectors. Oil surged, defense shares rallied, and capital rotated away from cyclicals and global exporters. In the US, the S&P 500 dipped 0.4%. Energy stocks rose sharply into the end of the week, supported by the spike in crude. Defense names also outperformed as tensions escalated, with notable gains in Lockheed Martin and General Dynamics. Semiconductors lost steam, with Nvidia and AMD trading lower after a multi-week rally. Consumer discretionary underperformed, led by weakness in autos, apparel, and travel-related stocks. The shift in tone came late but was decisive. European equities came under heavier pressure. The MSCI Europe Index fell 1.6% as participants reduced exposure to global trade and policy-sensitive sectors. German automakers reversed course and luxury names rolled over. The FTSE 100 rose 0.2%, lifted by oil majors and materials. UK-listed defensives found steady bids throughout the week.

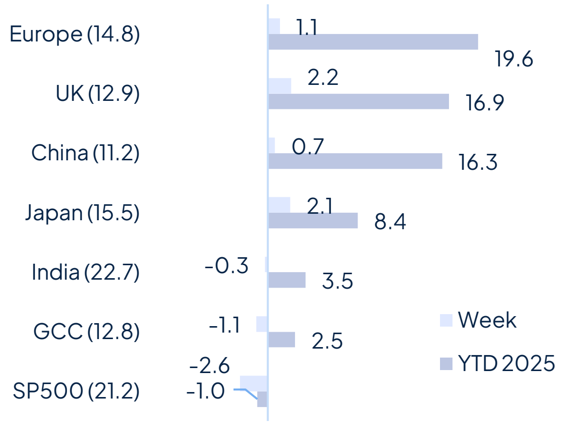
Asia delivered mixed results. The MSCI China Index rose 0.7%, led by biotech and defense-related industrials. Hong Kong benchmarks outperformed the mainland as capital flowed into select sectors benefiting from national security policy support. Valuations between A-shares and offshore listings continued to converge, with IPO activity adding some traction to sentiment. Japan's TOPIX declined 0.5%. Exporters including autos and electronics gave back early-week gains as yen appreciation and geopolitical risk weighed on risk appetite. Domestic shares were relatively more stable, with retail and services names closing flat or modestly higher. Gulf equities recorded the sharpest losses globally. Dubai's DFM dropped 4.1% between Thursday and Friday, Abu Dhabi's ADX fell 2.4% with broad-based declines across sectors. Saudi Arabia's Tadawul slipped 2.5%, and Kuwait's Premier Index plunged over 5% between Thursday and Sunday, marking its steepest single-day fall in months. Regional investors cut risk exposure aggressively into the weekend. Only energy-related names such as Aramco managed modest gains, sustained by higher crude prices, though overall breadth was negative across the board.

Corporate headlines added texture to the week's equity narrative. Tesla finished higher despite renewed scrutiny over its zero-emission credit revenue model. The stock was supported by growing anticipation around its AI and robotaxi event set for later this month. Apple shifted iPhone export flows from India to the US, signaling ongoing adjustments in global supply chain alignment amid trade uncertainty. Visa and Mastercard both dropped more than 4% after reports emerged that Walmart and other large retailers are piloting stablecoin-based payment systems. The news revived concerns over long-term disruption in traditional card networks. Equity markets are hovering close to their highs but the leadership is narrowing. Markets are rotating into defensives, paring back exposure to volatile sectors, and responding more acutely to geopolitical headlines. The risk-on tone has softened.

Equity Recommended Regional Positioning

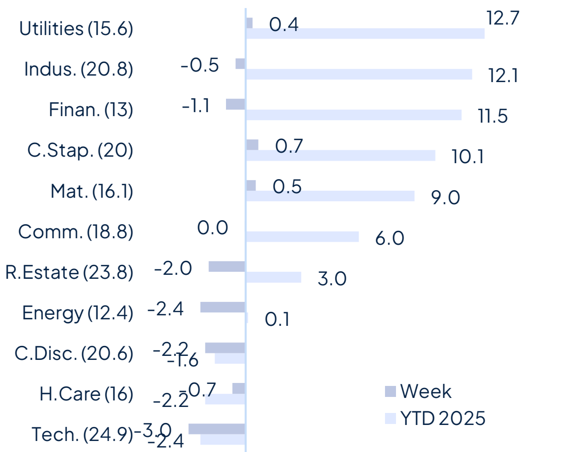


Major Indices Performance (TR, US$), P/E in brackets



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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