Healthy correction or **unchartered territory**?

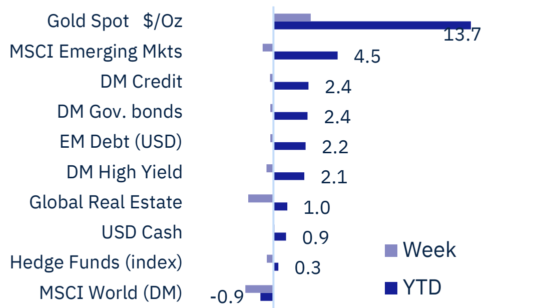
- **Market anxiety hit again last week, but it ended better than the initial spike in risk aversion**
- **Policy uncertainty fuels growth concerns, even if actual data remains resilient**
- **We have decided to keep our positioning unchanged, and even slightly increase our US equity allocation**

Anxiety continued to take a toll on risk assets last week with, again, an underperformance of US stocks compared to others. The narrative did not change: policy uncertainty, especially from tariffs but also probably from the magnitude of future cots in government expenses, raises concerns about the future trajectory of US activity. Meanwhile, the rest of the world is doing better, as countries respond quite vigorously to the "America First" shockwave, which is one of the themes of our 2025 Global Investment Outlook. Germany's ruling coalition reached an agreement with the greens to relax the country's spending rules, while China is about to release more details on their stimulus measures.

Now, growth concerns. First, we haven't seen yet a massive flight to quality on long-dated bonds, which is usually the case with recession fears. Positive surprises on US inflation could even have amplified this. Second, data so far shows some moderation, but also resilient, including on the labor market. Anxiety is real, visible in the latest consumer sentiment survey, but so far, it is not confirmed by facts. Finally, we point out that the underperforming equity segments are mostly the most expensive ones: the US in developed markets, India in emerging regions, and sectors such as technology or consumer discretionary. In summary, this is not necessarily the beginning of something sinister. At this stage it looks like a simple correction, triggered by a legitimate anxiety, and centred on the most vulnerable, over owned, richly valued segments.

Our investment committee thus didn't change our positioning last week (with heated debates however). We remain fully invested, and even increased US stocks weighting within our unchanged allocation to developed markets stocks. We also continue to be contrarian with an overweight govies and duration. The week ahead should see the Fed on hold, and will provide an interesting US retail sales release.

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



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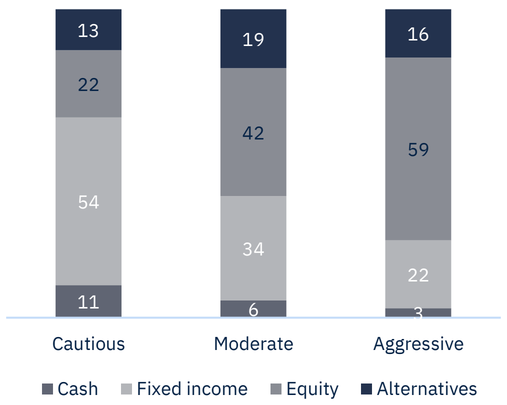
Cross-asset Update

Since Donald Trump has taken office times have been changing fast amidst a flurry of executive orders aimed at shaping US society, as well as the global geopolitical role of the United States. The falling of US markets is nowadays all too easily blamed on the new presidency that is trying to enforce a new order too fast. Yet, while the public narrative is following this direction, we are following a different one, as Mr. Trump inherited distinct economic and market conditions from his predecessor, that represent a constraint for his policies, rather than being the end-result of them. The Magnificent 7 stocks have been amongst the most expensive globally, inflating the multiples of US equities alongside the tech sector. At the same time, US debt has reached unprecedented levels at an accelerating pace that has concerned investor, though they still have little choice as to where to allocate their dollar proceeds. Our end conclusion is that high US equity valuations combined with the new Washington Administration's resolve to rein in government expenditure was too much to bear even as President's Trump stance on tariffs became more confrontational. Concerns about a possible trade war became the excuse to sell out of an expensive asset class, US equities, to buy into less expensive stocks, mainly in Europe and in China where stimulus is being ramped up. Now, with no recession in sight and oversold equities, the outlook for Wall Street looks brighter.

Also, although the dollar's fall year-to-date is not an unwelcome development for the new administration, something more concerning has taken place since 2024, well before Donald Trump's stepping into office. The US dollar is considered a safe-haven currency, and has behaved as such, for instance by moving broadly in line with credit spreads. With widening credit spreads by and large, the dollar has tended to appreciate, while improving credit conditions have more often than not seen the dollar lose value. This relationship has reversed since 2024, to become more pronounced in the current year. The dollar is behaving in a more procyclical fashion. Is this a first subtle symptom of some loss of confidence in dollar-centric assets? While we cannot draw steadfast conclusions from an intermarket relationship that could reverse once more, the dollar losing some of its defensive features is not boding well for its role as a reserve currency. And actually, such developments are in line with the rising role of gold as the neutral reserve asset. Meaning that since 2022 gold has had a growing role in central bank foreign reserves at the expense of US treasuries.

Overall, while current developments are complex and cannot be pinned down to a single cause, they all have to do with the evolving role of the United States on the geopolitical scene and equally fast changing allocation choices of institutional investors in relation to US financial assets.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

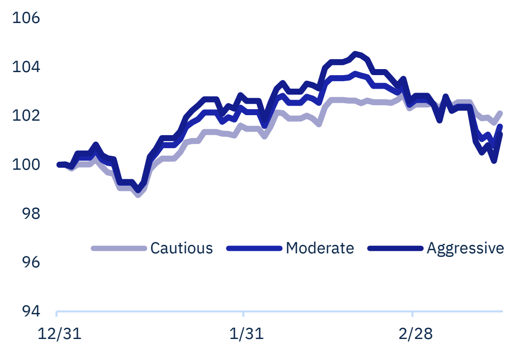


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

The US Treasury yields dropped early last week amidst a flight to quality and general weakness in risk assets. However, yields bounced back due to firmer inflation expectations and rising term premium across the developed market government bonds universe. The US CPI printed below expectations. The softer core print was due to a larger than expected 4% drop in airfares and softer 0.3% increase in auto insurance. Both do not indicate any trend. Moreover, TS Lombard's heat map indicates that compared to mid of last year more segments show a hotter and stickier inflation print. Even the core goods inflation remained firm, at 0.22%. The US 10-year Treasury yields gained 10 bps, and the curve bear flattened. 2-year yields went up by 13 bps. We must mention that currently the bond markets do not show any recession fears.

Credit spreads widened in an orderly fashion last week and consistently in the last two years credit markets have correctly priced in lower recession risk than the equity markets. Lower oil prices, weaker US Dollar and deregulation should provide impetus for credit spreads to remain tight whereas growth drag due to tariff uncertainty and higher EUR rates acts as headwind. Supply in the IG space has remained steady and well-absorbed. The yields remain higher than the last six-month average resulting in steady flows to credit. We believe the decompression between IG versus HY would continue as HY spreads remain biased towards wider. Current HY spreads have entered our range for fair value estimates and are no longer as tight as they were at the beginning of the year.

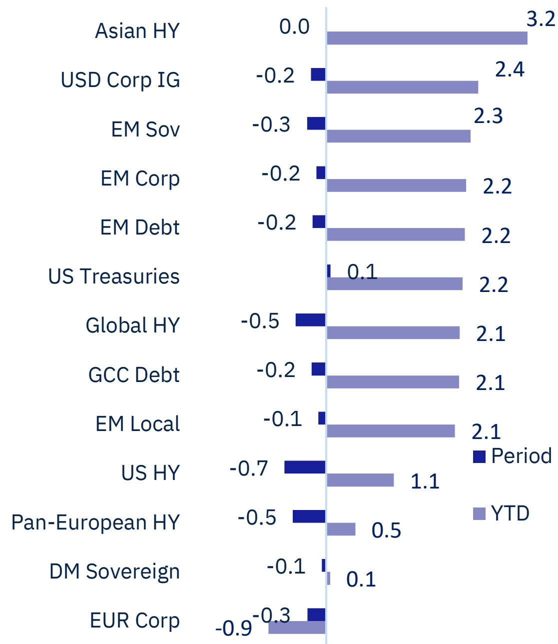
There is a host of central bank meetings this week. It starts with the BoJ this Wednesday which is anticipated to be on pause after increasing rates in January. Fed comes out later Wednesday with expectation to remain in pause though the tough task for Chairman Powell will be to convince the markets that the US economy remains robust despite the recent policy uncertainties. We don't expect any major changes to the Dot Plots which should still show a 50-bps rate cut till the end of the year. BoE is expected to hold the policy rate steady at 4.5% on Thursday.

KSA's credit ratings have been upgraded by S&P to A+ from A driven by the nation's economic diversification efforts, improved governance, and institutional reforms under Vision 2030 giving the GCC region its first upgrade for the year. Despite a widening fiscal deficit, medium-term growth prospects remain strong, supported by rising oil volumes and strategic investments in key industries. Moody's rates the country one notch above both S&P and Fitch at Aa3. Moody's upgrade had come last year in November. Within the UAE, real estate bellwether Emaar got upgraded to BBB+ by S&P due to steady operating performance and low leverage. In terms of primary issuance, Emirates Islamic announced a 5-year senior $ sukuk to be priced this week.

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

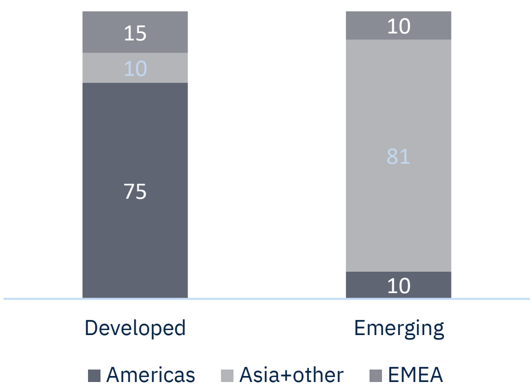
Equity Update

Equity markets struggled through a volatile week, with a late Friday bounce offering some relief but doing little to erase earlier losses. The S&P 500 closed the week down 2.2%, slipping into correction territory as megacap technology stocks extended their drawdown. Nvidia, Tesla, and Apple remained under pressure. Valuations across the Magnificent Seven dropped to their lowest levels in months, dragging the Nasdaq 100 down 2.5% and pushing its decline to 11% from February highs. European equities also finished lower for the week by 1.1%. Luxury stocks were among the hardest hit— Kering suffered its steepest weekly loss in over a year as Gucci's leadership transition failed to convince markets. A shift came late in the week as Germany's government approved a €500 billion spending package, lifting industrials and defense stocks and helping the DAX rally nearly 2% on Friday. European financials also found support, with BlackRock increasing its exposure to banks, and London's FTSE 100 managed to pare some of its earlier declines.

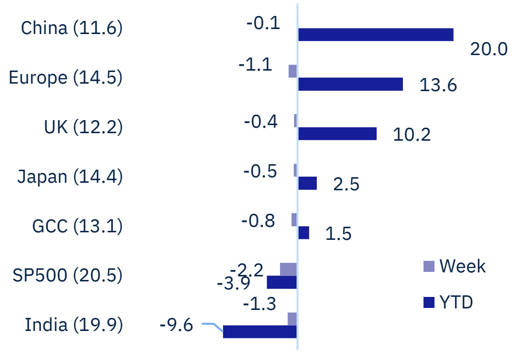
Asia traded with more resilience, managing to shake off much of the weakness seen in U.S. and European markets. The MSCI China index barely moved on the week, down just 0.1%, but a strong Friday session shifted sentiment. The Shanghai Composite surged 1.8% to close at its highest level of the year. Markets positioned ahead of a government briefing on measures to boost domestic consumption, while speculation grew that the PBOC would announce a reserve requirement ratio cut to increase liquidity. Sectors most sensitive to policy support rallied—tech, financials, and consumer names led gains, while baby and childcare-related stocks surged as local governments rolled out childbearing subsidies in response to Beijing's push to boost birth rates. Japan's markets remained steady, with the TOPIX closing 0.3% higher, supported by a weaker yen and expectations of wage-driven growth. India continued to see outflows, with the MSCI India index falling 1.1% as IT and auto stocks extended their recent declines. UAE equities largely tracked the broader global trend, with Dubai's DFMGI slipping 1.2%. Alpha Data debuted on the ADX, raising AED 600 million in its initial public offering, the first listing of the year. The company commenced trading and closed 6% higher for the week.

Despite the Friday rebound, equity markets remain in a fragile state. Buyers stepped back in to stabilize prices, but whether this marks a turning point or a brief pause in the selling remains to be seen. Against this backdrop, we have adjusted our tactical asset allocation, increasing our U.S. overweight as we do not see the scope for a deep or prolonged bear market especially as we do not expect an imminent recession in the U.S. while funding it through an underweight in Japan and the UK. We have also moved to an overweight position in China, where policy momentum is building. In Europe, we have closed our underweight, shifting to neutral as fiscal support measures and capital flows show signs of stabilizing the market.

EQUITY RECOMMENDED REGIONAL POSITIONING

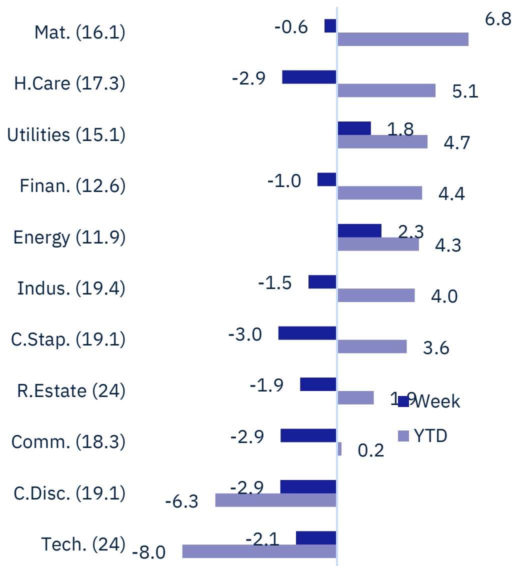


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



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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