

Between a rock and a hard place

- Once again, hopes for positive geopolitical developments did not turn into factual breakthrough last week
- Most asset classes were under pressure from rising energy prices, interest rates, and inflationary risks
- We didn't change our positioning and are prepared for more volatility ahead



Markets held their breadth last week ahead of the China-US Summit, with hopes for a geopolitical breakthrough which didn't happen. The Summit was not a failure and showed a constructive relation between the world's two superpowers. But not much happened to address the world's most crucial concern: the Hormuz crisis is damaging activity and pushing inflation higher, and each day of status quo has a serious cost.

Higher price pressures are obviously the main risk, as the disruption of energy and petrochemicals spills over across the goods sector as well as to a number of services. Global activity is not yet in a concerning state, but it's worth noting that the current main source of growth, that is capex, is not helping on the inflation front either.

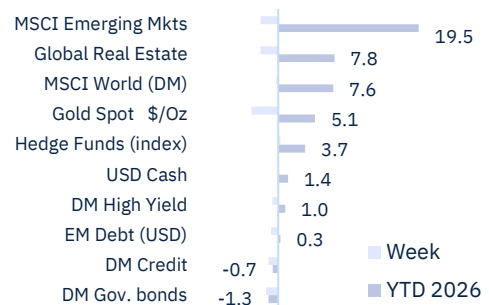
No surprise then that global interest rates materially rose last week, with a strengthening dollar, putting combined pressure on all asset classes, especially the most sensitive to these factors such as emerging markets, real estate or gold.

There is no easy fix for this predicament, complex and unpredictable in nature. Central banks can act to squeeze demand with rate hikes, but the current issue is not excess demand. Monetary policy cannot create molecules or open the Strait of Hormuz. As markets are increasingly expecting tightening, they may soon fear its consequences on activity.

It's also a conundrum for asset allocators. We didn't change our positioning last week and intend to stomach the volatility while keeping a reasonable active overweight on our medium-term fundamental convictions such as gold and stocks from emerging markets. But we could see serious volatility.

The week ahead will provide numbers on inflation in Europe, some colour on the global economy with the flash PMIs, a glimpse into the Fed board mood with the FOMC minutes, as well as Nvidia's quarterly results. But geopolitics are definitely the single most important factor for now. Have a great week.

Asset Classes USD % total. Return, week and YTD 2026



MAURICE GRAVIER
Group Chief Investment Officer
MauriceG@EmiratesNBD.com

GIORGIO BORELLI
Head of Asset Allocation
GiorgioB@EmiratesNBD.com

SATYAJIT SINGH, CFA
Head of Fixed Income Strategy
SatyajitSl@EmiratesNBD.com

NAWAF ALNAQBI
Head of Equity Strategy
NawafALNA@EmiratesNBD.com

Cross-asset Update

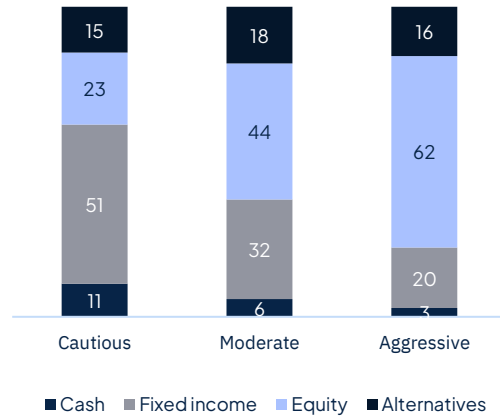
It is the time to talk about inflation, with the underwhelming data release in the United States a good reason to tackle the topic. The April U.S. CPI YoY%, and all the more the PPI, were above expectations, the PPI being more relevant, as today's PPI feeds into tomorrow's CPI. Price pressures will go up. Commodities have recorded new highs for the year. The unprecedented closing of the Strait of Hormuz will put a premium on crude prices. And bond yields have started to respond globally, rising both at the shorter and at the longer end of the curve in the major developed countries. They will be a temporary drag on the equity rally. This is signal, though it seems to be confined to the here and now.

Indeed, we have many years of rising price pressures ahead of us. It is Scarcity, the new regime, taking over from Efficiency. This is the lasting signal. Countries compete for resources and are willing to confront each other for that. Competition for basic materials is driven by the AI race and the arms race. We are all wondering if hyperscalers will keep on investing, while we are less concerned about the US consumer. We have shifted from a consumer-driven economy and Fed-inflated market to an investment-driven economy that also supports markets alongside government expenditure. More investments and government, less consumption and Fed. This is the hallmark of high-pressure economies. Investments and deficits are higher growth multipliers than consumption. No wonder inflation will go up. This will last for years, insofar as heavy investments continue. They will. We mentioned AI and rearmament. And we have not even mentioned global fracturing, "just in case" versus "just in time", tighter labor markets, and what more. And, yes, the AI enthusiast will say that it doesn't matter, as AI has disinflationary pressures. Even the internet had, yet the Y2K bubble was followed by a decade of rising commodity prices. And, by the way, AI itself is contributing to energy supply bottlenecks with the building out of energy-hungry data centers. It is all about how many factors are stacked in favor of inflation or against.

Gold failed to impress for the week despite higher inflation readings. The tightening of financial conditions due to the global supply shock took its toll across asset classes, and the yellow metal was no exception in this regard. Yet rising Treasury yields will eventually force a decision on the Washington administration: either a softer stance in its geopolitical calculations or the Fed will have to intervene to reestablish more market-friendly liquidity conditions.

We can squint at any data release. But the regime has changed, price pressures will increase. The main asset allocation implication is that equities and bonds will underperform commodities in the current secular cycle. And they already are.

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, the fixed income landscape was dominated by the persistent US-Iran conflict, which continued to fuel concerns about inflation. Brent crude prices remained elevated above \$110 per barrel after the Trump-Xi summit in Beijing failed to resolve the Strait of Hormuz standoff, leading to the most significant bond market downturn seen in a year. Macroeconomic data added to the strain, with consecutive US inflation readings showing CPI accelerating to roughly 3.8%, well above the Federal Reserve's 2% target. This reinforced expectations that the Fed will maintain higher interest rates for an extended period. In fact, OIS swaps price in a full rate hike by March 2027, a view we don't subscribe to. We changed our year-end fair value for the 10-year US Treasury yield to 4.3% as ENBD Research now anticipates the Fed to be on pause for the year.

Sovereign yield curves saw marked upward shifts across almost all major markets by Friday, with the long end of the curve experiencing the most pronounced selloff. The US 30-year Treasury yield closed at 5.13%, the highest since October 2023, while the 10-year yield climbed to 4.59%. The UK gilt market was particularly impacted, with the 10-year gilt yield jumping 16 basis points on Friday to reach 5.15%, its highest level since 2008. Domestic political uncertainty, notably surrounding Prime Minister Starmer's leadership, added an extra risk premium to gilts on top of global inflation concerns. The US 10-year Treasury yield breached the 4.5% mark. The bulk of the increase in yields stemmed from rising real yields, as inflation expectations have remained stable. We continue to believe that a resolution to the ongoing Middle East conflict will be crucial for short-term bond yield movements; any positive developments could trigger a strong rally in government bonds.

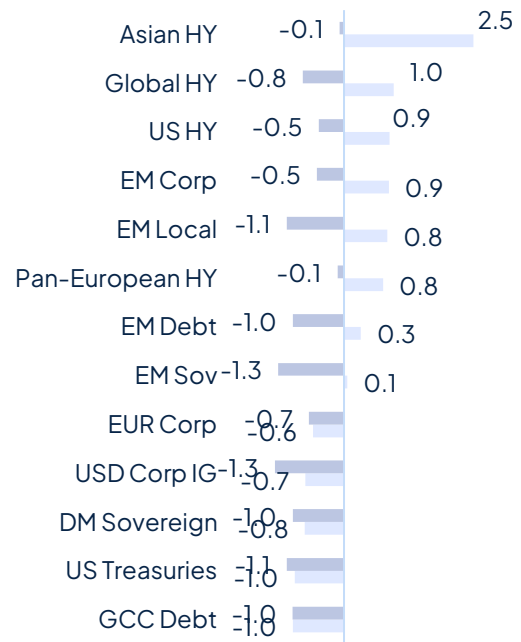
In contrast to the government bond selloff, corporate credit spreads generally tightened last week. Investors rotated into credit, drawn by higher all-in yields and solid corporate earnings. However, the catalyst in the form of robust earnings is over and credit's global rally continues to underprice war risks. Despite Asia being an energy importer, Asia credit trades inside the US and underprices energy and stagflation risks. Venezuela, on Wednesday, announced the start of a comprehensive public debt restructuring, appointing Centerview Partners as financial advisor to ensure the process complies with all legal and regulatory requirements.

MENA IG credit remains resilient. However, Bahrain continues to face constraints from elevated debt levels and negative rating pressures, while Egypt's widening spreads reflect concerns over FX liquidity and high real rates. Dar al Arkan has mandated the issuance of a new five-year US dollar sukuk, intended to refinance its outstanding \$400 million obligation due in February 2027. For the first quarter of FY26, the company reported revenues of \$310 million (up 5.9% quarter-on-quarter), EBITDA of \$128 million (up 36% quarter-on-quarter), and net profit of \$69.3 million (down 39% quarter-on-quarter).

Fixed Income Key Convictions

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 (US\$ TR, week, YTD 2026)



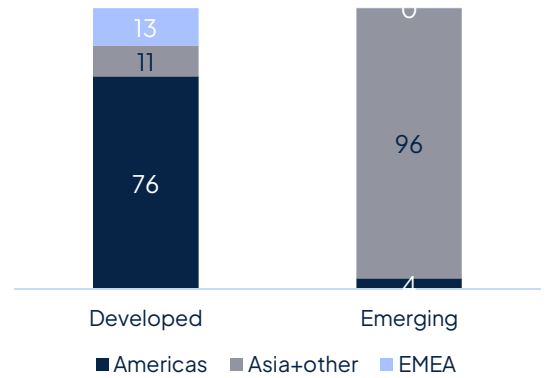
Equity update

Global equities had actually been having a good week for most of the period, but Friday changed the final shape of the performance. The S&P 500 moved above 7,500 for the first time, Nvidia's rally brought its market value close to \$6 trillion, Cisco jumped after a strong outlook, Cerebras surged on debut, and Applied Materials gave a strong forecast after the close. The problem came at the end of the week, when higher oil prices, rising bond yields and the unclear outcome of the Trump-Xi summit forced markets to reassess how much good news was already priced in. The summit produced some positive language around US-China engagement, but it did not deliver a clear breakthrough on Hormuz, tariffs or export controls, which mattered because markets had been hoping China could help move the Iran situation toward a more stable outcome. Even with that, the S&P 500 still finished the week slightly higher at 0.2%, but the broader global picture was weaker, with MSCI ACWI down 0.5%, developed markets down 0.3% and emerging markets falling 2.5%.

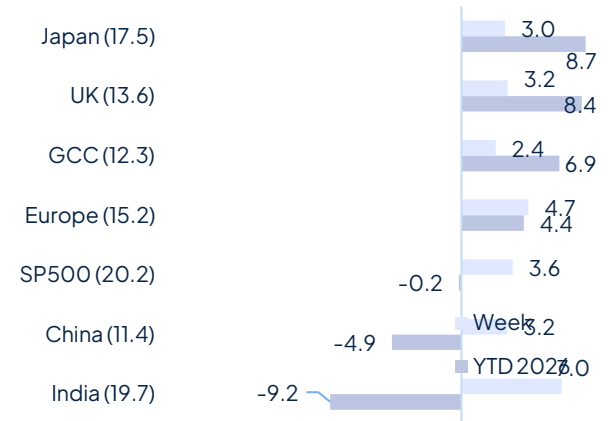
The US still looked better than most regions because the earnings story remains very strong. With 91% of S&P 500 companies having reported actual Q1 results, earnings growth is running at 27.7% versus expectations of 13.0% at the start of the season. That is the main reason markets were willing to look through a lot of the noise earlier in the week. But the AI trade, which has been the biggest driver of the rally, started to look more vulnerable once oil and yields moved against it. The issue is that after such a sharp rally, especially in chip stocks, valuation and positioning became more important. On Friday, the semiconductor index fell around 4%, and names such as Nvidia, AMD, Arm and Intel weakened as markets took profits in the parts of the market that had moved the most. Nvidia's results this week on the 21st now become the key event for the whole AI trade. The stock has been one of the biggest engines behind the recent move in US equities, so markets will be looking not just at the headline numbers, but also at data-center demand, forward guidance, margins, supply constraints and whether the company can still justify the scale of the recent rerating.

Outside the US, the weakness was clearer because most regions had less AI support and more exposure to the parts of the story that deteriorated late in the week. Europe fell 0.6%, with the region still struggling to turn selective earnings strength into a broader rally. China fell 2.5% after the Trump-Xi summit failed to excite investors. There was discussion around trade, Boeing orders and better engagement, but no major concrete policy shift, and that disappointed a market that had opened the week hoping for more. Emerging markets fell 2.5% as China weakened and Asian technology saw profit-taking after the previous week's strong AI-led rally. Japan was the relative bright spot, with TOPIX up 0.9%, although the week ended softer as rising domestic yields, BOJ warnings about broader summer price increases and weakness in AI-linked stocks weighed on sentiment. Dubai fell 3.3%, reflecting the renewed regional risk premium around Hormuz and higher oil volatility. ADNOC's listed companies delivered resilient Q1 results with \$11.8 billion in revenue, \$3.7 billion in EBITDA and \$2.2 billion in net profit. So, the week was not really about equities breaking down. It was more about a strong AI and earnings-led rally meeting a tougher Friday test, and now the next test is Nvidia.

Equity Recommended Regional Positioning

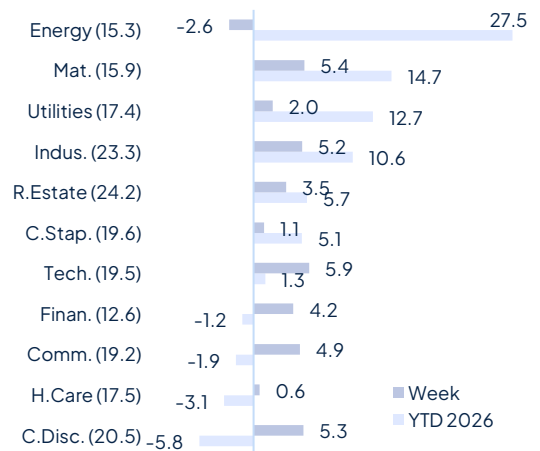


Major Indices Performance (TR, US\$), P/E in brackets



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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