From trade war to deals: a material boost to sentiment

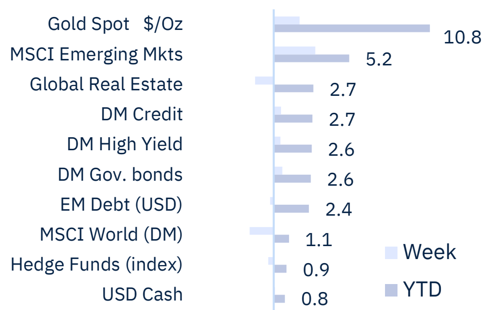
- **Risk assets rallied last week with good news on the trade front**
- **A 90-day agreement with China was followed by massive deals between the US and Gulf countries**
- **Our positioning remains modestly defensive, we took profits on high yield to replenish corporate IG**

Last week started with the surprise announcement of an agreement between the US and China on trade, an unambiguous de-escalation from the objectively ridiculous situation of triple-digit tariffs between the world's largest consumer and the world's largest manufacturer. For 90 days, the tariff rate on imports from China will be 30%, while the rate in the other direction will be 10%. On the US side, this can be seen as the sum of the 10% baseline rate plus the 20% "security/fentanyl related" announced before Liberation Day. The agreement is temporary, but both its timing and its magnitude surprised markets positively. The take-aways are that first, as we always thought, Liberation Day was mostly the starting point of a negotiation, and that agreements could potentially remove most of the "reciprocal" tariffs on top of the apparently non-negotiable 10% base rate. Second, and it matters, the US is open to partnerships even with rivals.

The latter was confirmed by the US decision to remove all sanctions on Syria, while President Trump's Gulf tour in Saudi Arabia, Qatar and the UAE saw an astonishing number of commercial contracts, from technology to defence, aviation, and financial services, for hundreds of billions of dollars.

No surprise that stock markets enjoyed it, led by the US and China. During our monthly investment committee, we debated at length on the sustainability of such a rally and couldn't form a conviction – between irreconcilable equity bears and bulls. We thus kept our positioning unchanged, apart from taking profit on our successful overweight on high yield, and closing our underweight on quality credit. We remain overweight cash, government bonds of neutral duration and gold. We are fully invested in stocks from emerging markets but underweight in the developed regions. We are also underweight on hedge funds and neutral on the rest. Our three profiles so far are up +5% on average in 2025. The week ahead will provide activity data on China as well as flash PMIs for most regions.

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



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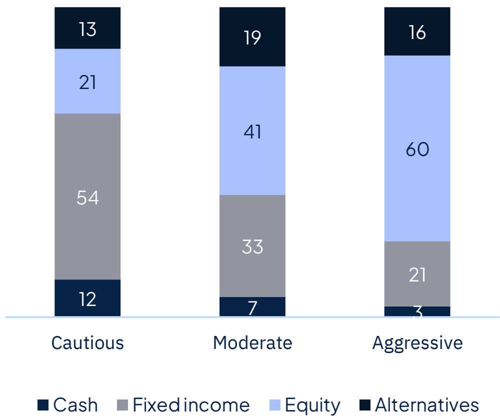
Cross-asset Update

The trade truce between the United States and China that saw tariff rates drop from triple to double digits was the main event for the past week and set the tone for markets. On Monday, following the meeting during the weekend between Washington and Beijing's representatives, the S&P 500 closed 3.3% higher, the MSCI EM Index ended +2%, while the yield on the 10-year note climbed by 10bps. Safe-haven assets sold off in the five days through Friday, while equities continued to gain. It was a positive surprise indeed to see the parties come to an agreement, and President Trump cave in, rather than negotiate toughly. Quite a few constraints contributed to the softening of his stance, the main one being related to the high debt burden weighing on the US economy. As per the latest surveys, while Americans gave thumbs up to the DOGE and immigration policies, they also turned more pro-trade and failed to consider the trade deficit as a pressing issue. But first and foremost, the stubbornly high level of Treasury yields has continued to be a source of concern for the administration. Despite resurfacing recession concerns and softer macroeconomic data, longer-dated yields have refused to budge, and indeed are now climbing again after Friday's news that Moody's downgraded the credit rating of the country by one notch. Markets are quite pessimistic about the outlook for inflation as well. Equity baskets and ETFs that are sensitive to rising price pressures have outperformed the S&P 500 year-to-date, that is not boding well for future CPI readings. Tariffs have so far failed to show up in hard data via higher pricing, but this is most likely due to importers and manufacturers absorbing the shocks to avoid passing over higher prices at a time when consumer sentiment is depressed. Overall, given the high interest cost the US is facing and the inflation aversion of consumers, President Trump cannot afford a prolonged standoff, and less so with China, that with triple-digit tariffs would be translating into empty shelves and higher prices. The general mood may even be that, if the administration caved in to China, they may well cave in to the other major trading partners. Overall, if the average tariff rate is still high in absolute terms, it may end up being bearable. So much so, that growth rates of both countries have been revised higher by the major investment banks, with a call of no recession for the United States and a projected growth rate of about 4.6% in 2025 for China.

Yet, averting a recession or the worst case may not be enough in the end. Damage has been done and eventually tariffs should be fostering stagflation. It is only a matter of time before the higher levies feed through into the economy, even as uncertainty holds back consumers and businesses capping economic growth.

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 US lost its final triple-A rating last Friday as Moody's downgraded the country to Aa1. The first time it happened in 2011 by S&P, equities lost 20% and the Fed had to come to the rescue with operation twist. Post Fitch's rating action in 2023, term premium went up and the curve bear-steepened. We expect a similar reaction to 2023 but with smaller moves as the rating decision was not entirely unexpected. Moody's had kept the US on a negative outlook for the last one year. Overall, investors can expect a higher yield at the longer end of the curve. The yield curve has bear-steepened with the 30-year a tad above 5% at the time of writing. We find the 10-year attractive above 4.5%. We did not change our fair value estimate of 10-year yield, which remains at 4.3%. We currently prefer a neutral duration stance.

Meanwhile, the House Budget Committee approved President Trump's tax and spending package on Sunday after Republican hardliners won agreement from party leaders to speed up cuts to Medicaid health coverage. Deficit worries and long-term interest rates approaching 5% remain a cause for concern for the Hardliners. Once the House does pass a version of their bill, more obstacles await in the Senate from moderate Republicans who oppose Medicaid cuts and want a slower phase out of clean energy incentives.

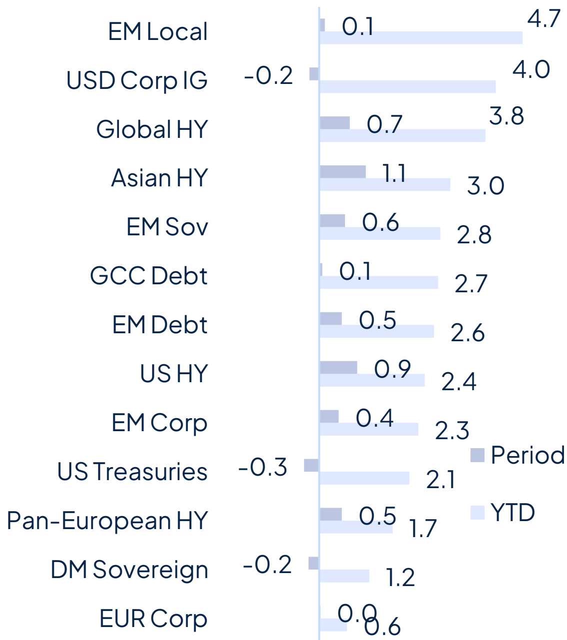
We held our Tactical allocation committee meeting last week. On 11th April, we had initiated an overweight positioning on High Yield which had generated 3.6% till our TAAC meeting compared to Investment Grade where we had initiated an underweight, returned 0.6% during the same period. The High Yield spreads had compressed by 100 bps and currently trade lower than our year-end fair value estimates. We thought it was prudent to book profit on the trade and hence went back to neutral across the various credit segments. We have not changed our year-end fair value estimates for the credit spreads.

The GCC issuance bandwagon kept rolling last week. It began with the issuance of a $500 mn long 3-year senior unsecured sukuk by Sobha Realty, priced at 7.9%. In addition, two perpetual AT1 sukuk were issued by prominent GCC banks. Warba Bank raised $250 mn at a yield of 6.25%, while Albilad Bank raised $650 mn at 6.50%. Masdar also came to the market with a $1 bn dual-tranche bond offering, including 5- and 10-year maturities priced at 4.875% and 5.375%, respectively. This week, a new perpetual sukuk from Alinma Bank non-callable for 5.5 years is expected. The bank's existing AT1 sukuk, non-callable until 2029, is currently trading around 6.10%.

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 surged last week due to easing trade tensions and cooling inflation. The MSCI ACWI advanced 4.1%, marking its strongest weekly performance in 2025. The S&P 500 climbed 5.3%, its best week this year, supported by a 90-day tariff truce between the United States and China and rising expectations of potential Federal Reserve rate cuts. With inflation showing signs of moderation, market sentiment improved notably across regions and sectors.

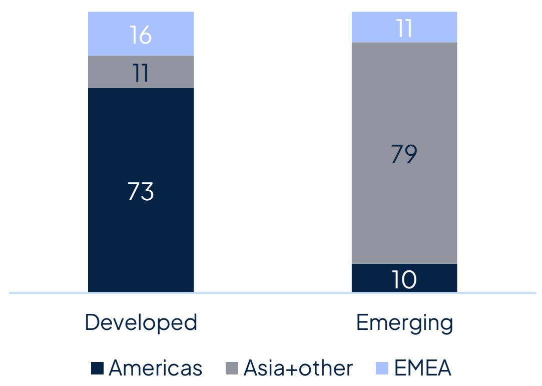
In the Middle East, President Donald Trump's visit provided a significant catalyst for regional markets. Shares in AI-focused names surged after the announcement of a landmark deal between the United States and the UAE to establish the world's largest AI data center in Abu Dhabi. Presight AI Holding rose 7.1%, while Space42 jumped 10.0%. The DFM Index gained 2.7% for the week. The project, involving OpenAI and G42, will be supported by a major easing of U.S. export restrictions, including an agreement to allow the UAE to import 500,000 of Nvidia's most advanced AI chips annually. This move is expected to further cement the UAE's ambitions to become a global leader in AI infrastructure and analytics.

Luxury stocks staged a notable rebound, rising 9% over the week as markets responded to marginally improved macroeconomic signals. Richemont was the biggest beneficiary: gaining 13.2% last week after reporting strong performance in its jewelry segments and strong cash generation. However, the rally contrasts with still-weak underlying fundamentals. Revenue trends in the sector deteriorated versus the first quarter, with tourism-related spending showing clear signs of fatigue in Japan, China, Europe, and the U.S.

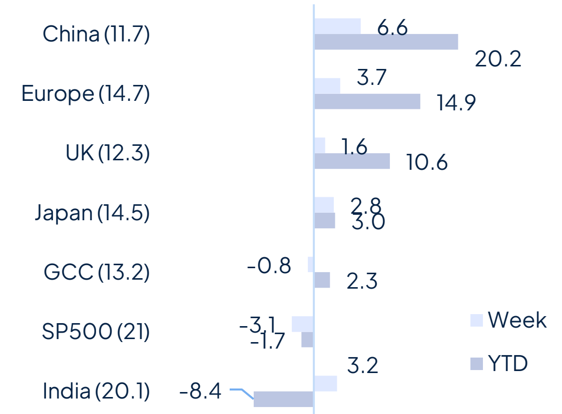
In corporate news, UnitedHealth Group rebounded 6.4% after announcing a leadership reshuffle aimed at restoring confidence in its Medicare operations. The Wall Street Journal also published a report alleging that the healthcare giant is being investigated for insurance fraud. UnitedHealth swiftly issued a statement denying the accusation of any ongoing investigation. Walmart rose 2% following a solid earnings release, but today should be interesting for the stock price, as President Donald Trump warned the company on Truth Social not to raise prices as a reaction to tariffs and to instead "eat the tariffs". Novo Nordisk declined 5% after its CEO unexpectedly resigned, raising questions about leadership continuity and its ability to continue its expansion into the U.S. against the likes of Eli Lilly, which gained 3.3%.

European equities posted steady gains. The MSCI Europe Index rose 2.3%, led by strength in energy and financials. Germany's DAX added 1.1%, and the UK's FTSE 100 rose 1.8%. In Asia, the MSCI China Index gained 2.7% on the back of strong export data and further stimulus. Japan's TOPIX edged 0.3% higher, while India's MSCI Index jumped 5.0% following easing geopolitical tensions with Pakistan.

Equity Recommended Regional Positioning

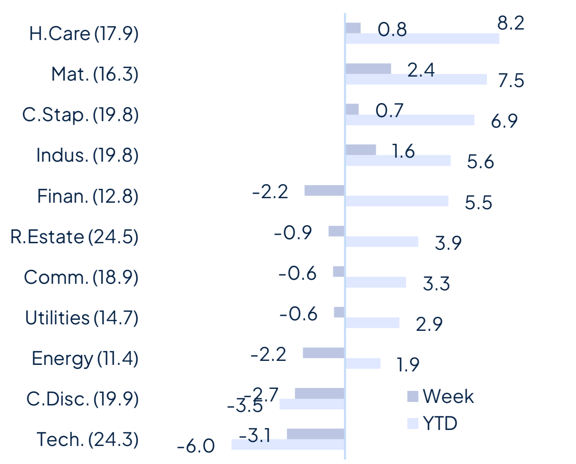


Major Indices Performance (TR, US$), P/E in brackets



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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