Emirates NBD

Weaker dollar, **happy markets**

- **Last week was positive for all asset classes as dollar and oil weakened**
- **President Trump kickstarted his program but did not implement radical universal tariffs**
- **The week ahead will bring US big tech quarterly earnings and the Fed's first FOMC of 2025**

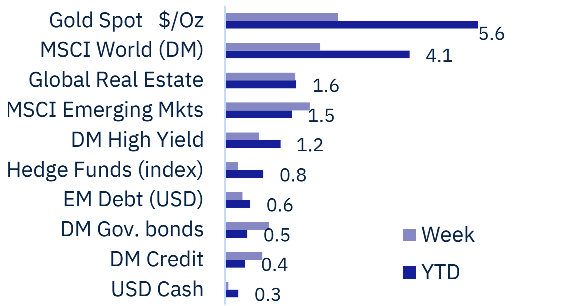
Last week was positive for all asset classes. US President Trump started his mandate by immediately signing an impressive number of executive orders to kickstart many items of the America First program, from immigration to energy and international relations. What was not there, however, was an immediate and radical implementation of universal trade tariffs. The dollar fell 2% against trade weighted counterparts, also helped by Friday's rate hike from the Bank of Japan, and oil prices also decreased significantly as President Trump wants to see more US crude production and lower global prices.

Stocks gained 2% across developed and emerging markets, with an outperformance of the non-US regions. US Treasury yields didn't move, and global fixed income indices progressed with a positive contribution from FX. Gold flew higher against a weaker dollar. It was definitely a good week.

On the bottom-up-side, the earnings season is only getting started but so far both the proportion of companies beating the consensus at almost 80% in the US, and the magnitude of the surprise, close to 8%, are very supportive. The week ahead will provide more corporate headlines, with most of US big tech reporting their numbers. This will also be for them an opportunity to comment on the spectacular start of China's AI Deepseek, which is said to be technically competitive with its US peers, at a lower cost, and with an open-source business model. The AI race is here to stay, and it seems that no position is definitely secured. The week will also see the Fed's first policy meeting of 2025. We expect rates to be held, and the communique and press conference will be relevant.

Our three profiles are fully invested and return a satisfying +1 to +3% so far in January. Our Global investment Outlook titled "Winds of Change" will be out imminently before we meet you during our roadshows in February. Have a great week.

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



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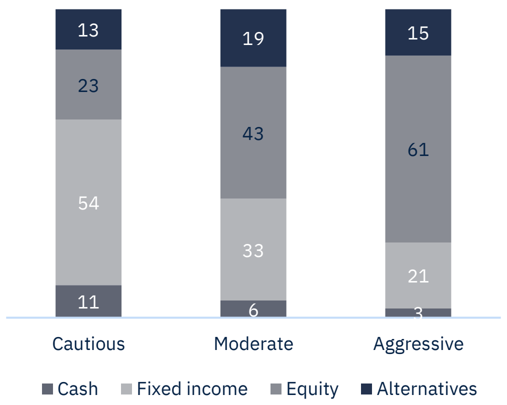
Cross-asset Update

Some short-term factors are throwing pebbles in the placid market pond, from China's DeepSeek now in direct competition with ChatGPT, to Trump's boisterous rhetoric taking investors off guard. Market breadth is deteriorating in the United States, with the NYSE Cumulative Advance-Decline Line inflecting lower even as the S&P 500 recorded a new all-time high last week. We hold the view that investors should take these factors in their stride and rather focus on the bigger picture that remains constructive. Global market performance points to resilient global growth, as more benchmarks showed uptrends last week, and the more cyclical sectors YTD are topping returns, rather than the safer IT mega-caps. Also, the manufacturing sector is improving, in particular in the United States and in Europe, though from deeply contractionary levels in the latter case. This would tie in with improving performance of cyclical stocks and non-US markets. Europe is outperforming, while the main Chinese benchmarks are getting quite constructive from a technical point of view. Investors should look to the next session of the National People's Congress to be held in early March for possible stimulus announcements.

Longer-dated yields in the United States have been rallying despite Fed cuts, with Treasuries discounting scenarios linked to stronger growth or sticky price pressures. We can read the yield on the 10-year note sitting above the Fed funds rate, currently the case, as pointing to a reflationary rather than a slowdown phase. We see yields range bound, especially at the longer end, as on the one side the US economy remains resilient providing a floor, though on the other economic surprises have inflected lower of late.

As for DeepSeek, the Chinese startup that produced an AI able to compete with ChatGPT though with minimal investment, we must say that it is early days to get alarmed about the investment case for American IT companies. Yet, DeepSeek is open source and its service costs about only 3% of what OpenAi is charging for equal effectiveness. Investors sooner rather than later will be increasingly questioning the need for huge infrastructure investments committed by the US mega-caps, and eventually demand lower pricing for similar services. The Chinese breakthrough will make it harder to create a moat around AI, that DeepSeek intends to commoditize. It seems that years and years of Chinese government support for technology are starting to bear fruits, while US efforts to thwart Beijing's progress have been less effective.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

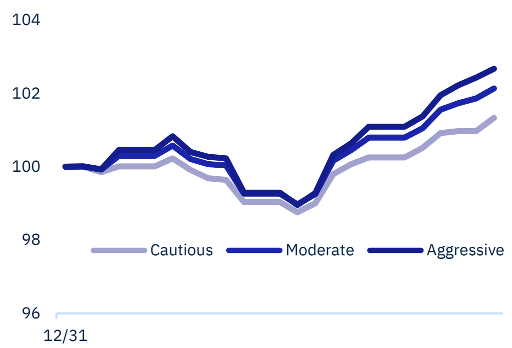


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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 first week of the new administration had a lot to offer in terms of executive action. The only piece missing was the most feared one, tariffs. There were talks of implementation of targeted tariffs, though the flip flops have convinced markets that tariffs will be used as a negotiation tool. The yields and spreads have stayed rangebound as a result, even though the 1st Feb deadline is not over. Concerns over hawkish risks faded last week, as core CPI rose 0.23% in December versus estimated 0.3%. The UST yield curve bull-flattened over the last two weeks as yields retreated from their recent highs. Meanwhile, UK Gilts look interesting and BCA research forecasts that the 10-year UK Gilts can generate a total return of 7.7% if BoE cuts rates by 100bps this year. The market currently prices 72 bps of rate cuts.

President Trump did mention in his Davos address that rates must come down worldwide immediately. Yields moved up in response as investors worried about the impact on central bank independence. However, we don't think the Fed will come under pressure this week and should stay on hold. The post-meeting Q&A remains important since it may shed some light on whether the Fed has turned its attention to stalling disinflation from the current focus on the labour market. Governor Waller suggested room for further easing as early as March, discussed the possibility of 3 to 4 cuts this year, and said that "if the data doesn't cooperate, then you're going to be back to two, maybe even one if we just get a lot of sticky inflation."

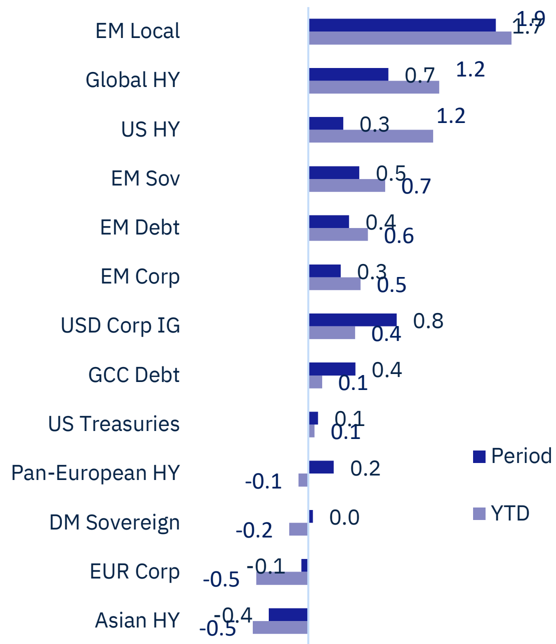
The Bank of Japan hiked rates by 25bps as expected to 0.50%, or a 17-year high. The BoJ is currently the only G10 central bank in a hiking cycle, as the hot labor market creates sustained domestic price pressures. Additionally, the BoJ signalled a hawkish bias by raising its inflation forecast. The committee remains on the lookout for a wage-price spiral, in a context where inflation has become sticky and is re-accelerating above target. Moreover, wage growth is strong and market-based inflation expectations are rising.

HY Credit has outperformed IG credit so far this year. US HY bond spreads have compressed 26 bps YTD generating 1.1% return and topping the returns charts. All-in yields remain high and uncertainty around tariffs/ tax would keep them high for some time. However, these compressions may be short lived and more volatility ahead with policy uncertainty and tight valuations. EM debt has returned 0.5% with spreads compressing by 9 bps. We expect EM issuance to slowdown this week given the Chinese New Year holidays.

FIXED INCOME KEY CONVICTIONS (2024)

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

Last week marked the beginning of Donald Trump's second presidency, and equity markets responded with optimism and resilience. The S&P 500 recorded its best start to a presidential term since 1985, rising 1.7%, while global equities gained 2.1%. Both EM and DM stocks climbed, while the global share of U.S. market cap reached a new record. Investors cheered the strong start to the earnings season and Trump's early policies, including his AI-focused initiatives and a surprisingly conciliatory tone on trade.

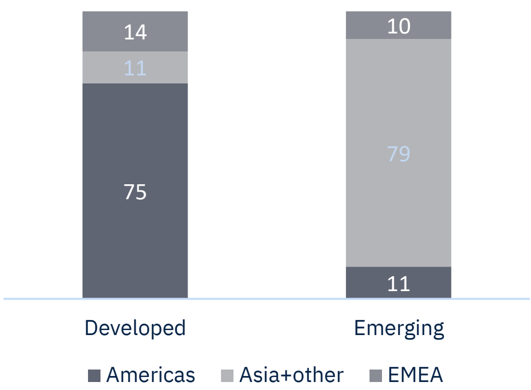
The S&P 500, which had been treading water through most of January, is now finding renewed support from earnings results that have continued to deliver positive surprises. One-fifth of S&P 500 companies have reported so far with expectations of 11.8% earnings growth for the quarter. Netflix surged 15% after reporting record-breaking subscriber growth, while Meta Platforms announced plans to invest $65bn in AI, reinforcing optimism about the sector's long-term potential. These announcements align with President Trump's $100bn Project Stargate initiative to expand AI infrastructure. Stargate is a $100bn AI-focused joint venture between SoftBank, OpenAI, and Oracle. President Trump's efforts to streamline regulatory approvals and fast-track construction underscores the administration's commitment to AI. However, not all tech names benefited. Texas Instruments fell over 7% after delivering a weaker-than-expected outlook for chip demand, highlighting challenges for non-AI chips within the semiconductor space.

European equities joined the global rally, with the MSCI Europe Index rising 1.2%. Novo Nordisk gained 14% on the back of promising trial results for its weight-loss drug, while Siemens Energy hit new highs, benefiting from rising demand for AI-related infrastructure projects. Novo Nordisk is now back in the race against Eli Lilly for next-generation treatments. The results provided much-needed momentum for Novo, following setbacks from previous trials and price-cut pressures on its flagship drugs, Ozempic and Wegovy. ASML, which remains 30% below its July peak, also faced headwinds ahead of its anticipated earnings report this week, on uncertainties around its key clients' spending plans, as well as reduced demand from Chinese buyers due to tighter export restrictions. On the flip side, TSMC's capex target may support ASML on AI-related orders.

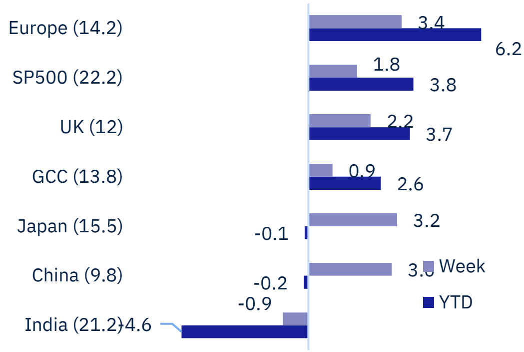
China was the standout performer, with the MSCI China Index climbing 3.1% in local currency for the week. Trump's softened rhetoric on tariffs eased fears of escalating trade tensions, providing a significant boost to Chinese equities. China's performance helped offset concerns about stretched valuations in other markets like India, where the MSCI India Index declined 1.4%. Japan also saw gains, with the TOPIX rising 2.7% for the week. Notable movers include SoftBank which jumped 11% on the Stargate initiative. Japanese indices ended flat on Friday even as the BOJ raised interest rates to 0.5%, the highest level since 2008.

Looking ahead, this week is shaping up to be critical for markets. More than 100 companies of the S&P 500 are set to report, with a focus on four of the Magnificent Seven—Apple, Microsoft, Tesla, and Meta—that are expected to set the tone for tech. Other reporting behemoths include Boeing, GM, Starbucks, IBM, Visa, Mastercard, Exxon Mobil and Chevron.

EQUITY RECOMMENDED REGIONAL POSITIONING

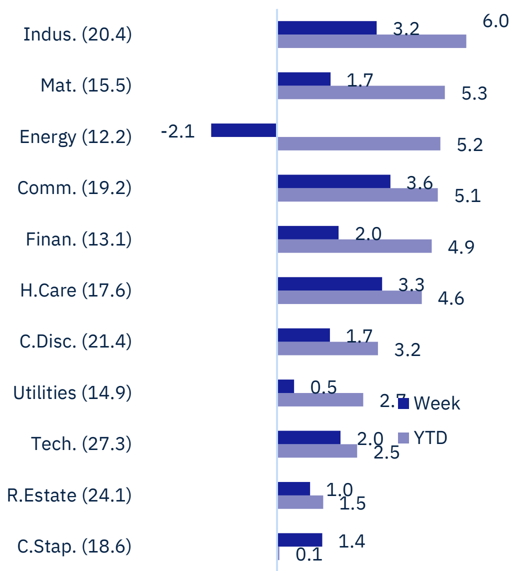


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



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$.

بنك الإمارات دبي الوطني
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