Emirates NBD
بنك الإمارات دبي الوطني

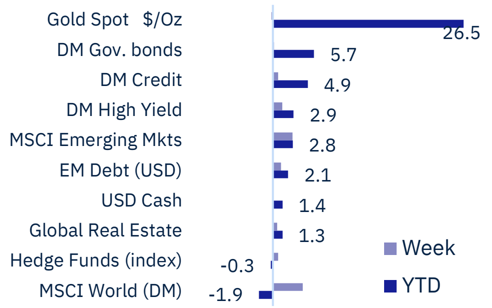
Between a **soft** and a **hard** place…

- **Last week started with risk aversion but ended positively for most asset classes, led by US stocks**
- **Hard data continues to be positive but forward-looking soft data reveals increasing anxiety**
- **Markets enjoyed the softening of the US administration positions… But uncertainty is here to stay**

Our previous weekly publication was titled “The Art of the Deal meets the Art of War”, and it wasn’t too wrong. As we approach the 100 days of President Trump’s administration, their modus operandi has become clearer: an initial shocking statement, followed by negotiation – and some backpedalling if needed. Last week started with the White House “floating” the idea of firing Fed chairman Powell, which rocked markets -again. One day later, the President said he had no such intention but just a strong desire for rate cuts. It didn’t take long for Fed Governor Waller to say he would support this. On tariffs, China seems to have understood the modus operandi and plays with it impressively well. The White House adopted a conciliatory tone, promising to be “very nice” with the world’s second largest economy, and alluding to actual talks that China denied. The Art of War is about preparation, patience, and targeting the weaknesses of the other side, which now include poor approval ratings for President Trump. Still, we continue to think that the objectively crazy three-digit tariff rates between the two economic superpowers will be drastically cut.

The week was thus positive again most markets, with investors sentiment shifting from very pessimistic to concerned. Data was also supportive, between benign flash PMIs and overall positive earnings so far. But again, 2025 is not about 2025, it’s about the future. We can now assume a few things: the “reciprocal tariffs” announced on Liberation Day were just a starting point for negotiation, they should normalize, probably around 10% as a base and maybe another 20% for sensitive sectors and countries. This is not great, but this is not a worst case. “Soft” data and sentiment suggest that we may see pressure on US growth before we see tension in inflation, which suggests that the Fed may cut rates before being too concerned about prices. Finally, nobody wants the US 10-year to exceed 4.5%. Our slightly defensive positioning works fine so far, and we haven’t changed it. Have a great week.

ASSET CLASSES <u>USD</u> % TOT.RETURN, LAST WEEK AND YTD 2025



MAURICE GRAVIER
Chief Investment Officer
MauriceG@EmiratesNBD.com

GIORGIO BORELLI
Head of Asset Allocation
GiorgioB@EmitatesNBD.com

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

NAWAF ALNAQBI
Head of Equity Strategy
NawafALNA@EmiratesNBD.com

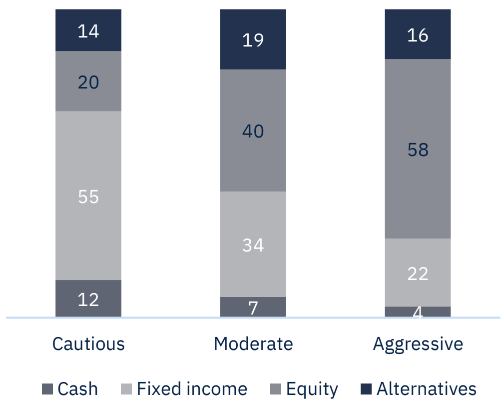
Cross-asset Update

Markets rebounded from oversold conditions on changing rhetoric from the White House. Donald Trump said on Tuesday that tariffs on China could come down “considerably”, and Treasury Secretary Bessent observed that at current levels they are not sustainable and may be reduced “in a mutual way”. Thursday’s claims by the administration of ongoing trade talks with China were denied by Beijing, that rebutted Washington should rather drop all levies, showing to be in no rush to negotiate. Overall, Trump’s shifting tone left investors relieved and under the impression that there is a limit to the extent the president is willing to put growth at risk to rebuild US manufacturing. Since the April 9 tariff-pause US equities have rallied 10% and are now sitting 10% off the February highs. Further significant market progress will require the tailwind of successful negotiations with some of the major trading partners. And that would be key, as meantime soft data across the DM countries is pointing to a deteriorating outlook. A struggling manufacturing sector with slowing services does not make for a solid mix, considering that consumer confidence is also quite soft. The concern is that soft data weakness could carry over to hard data, so far holding up nicely possibly on order front-loading due to impending tariffs. The other positive catalysts represented by Fed interventions with further deteriorating macros, and a shift to a more pro-growth agenda of tax cuts from the White House, do not belong in the very short-term horizon.

The 90-day tariff-pause alongside the change in rhetoric by the White House are marking a peak in trade uncertainty. This is currently being reflected in gold’s profit taking, with the yellow metal unlikely to record new all-time highs unless that uncertainty comes back. The mirror image of this is the US dollar, now oversold and overdue for a rebound. We hold the view that volatility should subside across dollar-centric assets in the 90-day tariff break, with the reserve currency and US equities finding an interim bottom. We continue to maintain a positive view on gold, and we see weakness as a buying opportunity.

One more read across from the dollar is for US stocks. Usually, dollar strength and US equity outperformance versus ROW go hand in hand. The Washington administration is interested in a weaker dollar to drive both manufacturing reshoring and economic growth. And the reserve currency is historically very expensive against the major currencies in real trade-weighted terms. A weaker dollar would not bode well at all for continued US outperformance. Prominent investors have already remarked that Trump’s policies may be marking the end of US exceptionalism.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

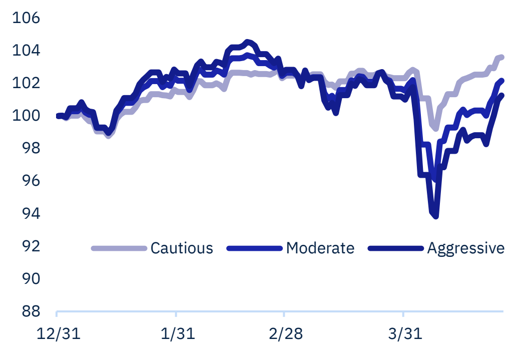


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

US Treasury yields came down and the curve bull flattened last week. 10-to-30-year US Treasury yields decreased by 7 to 8 bps. Front-end yields remained anchored with the movement limited to 2 to 3 bps despite increased Fed rate cut bets. According to JPM, the long positioning in treasuries is slightly above one standard deviation considering the last one-year positioning and the market depth is around 30% lower than pre “liberation day” levels. Markets now price in 3.5 rate cuts by the end of this year with the first full rate cut priced in July. When the Fed started its rate cut cycle last year, chairman Powell had mentioned that the rate cut would have started in July itself if they had access to the employment data. This time the odds don’t seem very different as the Fed grapples with its dual mandate. We believe they would move to support the economy in case we see cracks in the jobs data and tolerate slightly higher inflation numbers. This week’s NFP numbers gain prominence before next week’s Fed decision on 7th May.

Since 11th April, the date we went overweight, High Yield has been the best performing segment returning 3% while Investment Grade bonds have returned 1.9% in the same time frame. High Yield spreads have compressed more than 60 bps since that day while IG spreads have come down by around 7 bps. Total flows out of IG bonds according to analysts are nearing 1% AUM. Historical analysis shows that aside from rate hike cycles, we generally don’t see sustained outflows from IG segment.

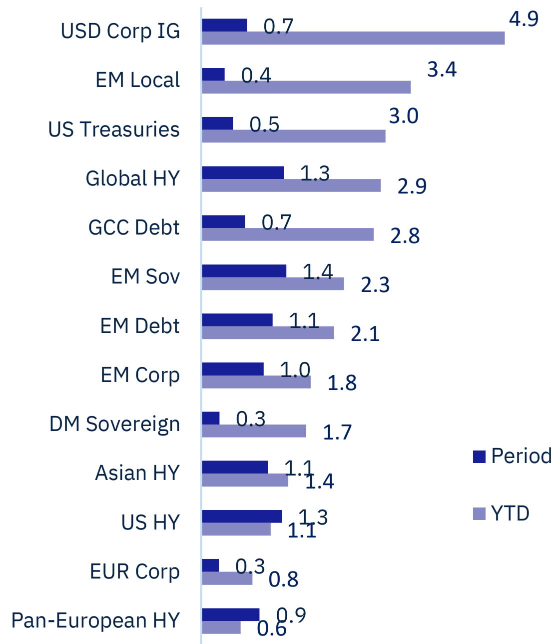
At current level of spreads, credit is underpricing the risks of recession. Risk premium should rise again as the markets start to focus on the durability of the current cycle. The recent reconciliatory tone from the US administration leads us to believe that the peak tariff uncertainty is behind us. This justifies the recent tightening in spreads. The magnitude of economic impact of the policy uncertainty presents a dilemma for the investors. Meanwhile, the strong Q1 earnings provide support to the spreads, and we expect the spreads to be range bound. If they retrace towards the lower range of our fair value estimates, we would be looking to reduce our credit exposure.

The week started with strong issuances from GCC after a slowdown over the past 2-3 weeks. We have seen a sukuk issuance from ADNOC Murban for 10-year senior unsecured transaction that is expected to be priced around 4.85%. Furthermore, Omniyat Holding, BB- rated entity based in Dubai, has opened the books for 3-year senior unsecured sukuk offering yield in the mid 8s. From the KSA, we had received a mandate announcement from Banque Saudi Fransi for its debut perpetual bond that is expected to be priced wider to the existing Al Rajhi and Alinma Tier 1 sukuks.

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

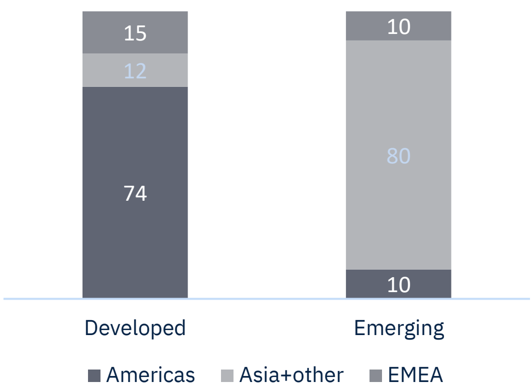
Global equity markets roared back last week, shaking off early-month jitters and delivering a powerful rally that lifted the MSCI ACWI index by 4.0%. Strength was broad across sectors, with technology and cyclicals leading gains as trade tensions eased and corporate earnings surprised positively. The S&P 500 surged 4.6% back to the 5,500 level, reclaiming lost ground and posting its longest winning streak since January. Q1 earnings season has delivered solid results so far. With 36% of the S&P 500 having reported, 73% have posted positive earnings surprises and 64% have beaten revenue expectations. The blended year-over-year earnings growth rate stands at 10.1%, positioning Q1 2025 for the strongest profit expansion in over a year if the pace holds. On the corporates front, Alphabet posted stronger-than-expected results, Cloud and AI-linked businesses like Microsoft and ServiceNow extended their momentum; semiconductors rallied despite lingering supply chain concerns. Industrials caught a bid with Boeing surging after reporting a surprise free cash flow beat.

In Europe, equities followed global momentum: the MSCI Europe Index climbed 3.1%, marking a second weekly advance. Strong earnings beats across technology, autos, and selected financial names helped offset ongoing macro softness. SAP's better-than-expected cloud revenue fueled a tech sector rally, providing some insulation after another weak round of PMI data. Cyclicals outperformed defensives, with industrials and autos gaining as markets priced in a higher probability of ECB easing later this year. German equities underperformed slightly, with PMI data confirming continued contraction in the private sector. Luxury names lagged broader indices after Kering warned on softer demand from Chinese and U.S. consumers. Financials showed initial weakness following BNP Paribas' results but rebounded later in the week as ETF inflows into European equities resumed.

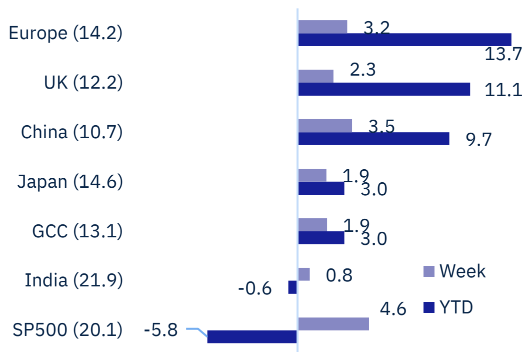
In Asia, the MSCI China Index rose 3.4% driven by tentative stabilization in key economic sectors and signs of incremental stimulus. Property developers rallied midweek after officials signaled potential easing in mortgage policies. Export-oriented sectors benefited from delayed tariffs announced by Washington, easing near-term trade risks. Valuations across major indices remained compressed, encouraging selective buying across sectors. Southbound connect volumes into Hong Kong picked up materially, with state-linked funds helping to provide a floor under equity markets. Japanese equities outperformed last week with the TOPIX Index rising 3.9%, lifted by exporters as the yen weakened earlier in the week before partially retracing. Automakers and electronics firms gained strongly on the absence of new trade restrictions.

Focus turns to a critical slate of earnings this week, with Microsoft, Apple, Meta, and Amazon reporting alongside 180 companies representing over 40% of the S&P 500's market capitalization. Forecast risk remains elevated, with even small misses likely to challenge the breadth and resilience of last week's rally. Uncertainty is expected to stay at least in the medium term; the next move may be defined not just by what companies deliver, but whether they can live up to the market's newly restored optimism.

EQUITY RECOMMENDED REGIONAL POSITIONING

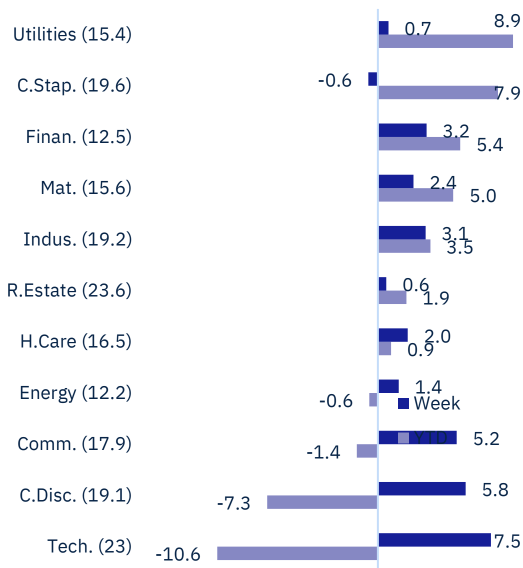


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



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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