بنك الإمارات دبي الوطني
Emirates NBD

Market optimism builds as we enter an uncertain second half

- **Markets celebrated last week's geopolitical appeasement**
- **The first half of the year has so far been very volatile but also unambiguously positive for financial markets**
- **We will enter H2/2025 with more questions than answers**

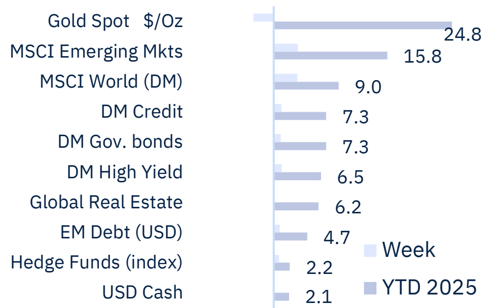
Last week was all about geopolitics. Our base case scenario for a reasonable, low damage, "acceptable" response from Iran to the US materialized, but not exactly in the way we thought, and with a more enthusiastic response from markets than we expected. We enjoyed the good news, especially as our portfolios were well positioned (as we restrained from any emotional reaction), but we remain a bit perplex.

As of this Friday 27th of June, our three profiles are up between +7% and +9% year-to-date in US dollars. This is great in absolute, and also materially better than most of our international competitors. We owe to our generous allocations to both gold and emerging markets' stocks. Still, these 6-months returns are already close to, if not higher than, what we were expecting for the entire year. While the outperformance is explainable, especially as a weaker dollar supported gold and non-US assets, we can't help thinking that it looks too good to be long lasting, as we enter an uncertain summer.

First, the suspension of US's "reciprocal tariffs" should end on July 9th. Will trade deals be signed in the coming days? Will the pause be extended? Or will disproportionated tariffs hit the global economy? Second, there is Washington's own unknowns, from the fate of the budget bill to the succession race starting at the Federal reserve. Third, there are signs of growth downshift, inflation resilience, and an upcoming earnings season (which can bring either bad or good surprises). Finally, the geopolitical landscape is better, but an unstable equilibrium. The backdrop is uncertain, valuations are not low, so the key factor could be about investors' positioning. Are they really under exposed to risk?

We will try to address these questions this week during our monthly investment committee. We will look at global PMIs and at the US job report in particular to get a better understanding on the macro picture. Have a great week.

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



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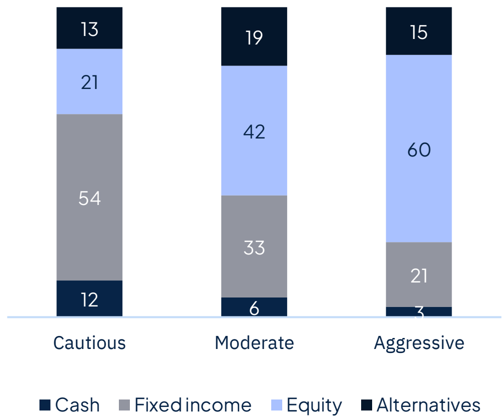
Cross-asset Update

Geopolitical tensions and tariffs anxiety are likely to have peaked. Geopolitical tensions on President Trump's determination to see low oil prices that help cap Treasury yields, tariff anxiety on probable extensions to the forthcoming trade-truce deadline. So, investors will go back to the macro outlook to best gauge where risks sit and how to manage portfolios. A sort of Goldilocks scenario is making its way through the persistent political uncertainty. Globally, growth has held in positive territory while inflation remains well-behaved, even in the United States where the burden of tariffs is highest. So far, growth surprises have overpowered inflation surprises, which is all that is needed for equities to keep advancing. Will this continue to hold, or are price pressures going to come back unexpectedly? While the major economies are in a slowdown phase, chair Powell expressed concerns about the impact of tariffs on the business cycle down the road, justifying a wait-and-see approach to rate cuts in his testimony before Congress. Views are split, and getting clear-cut guidance from the Fed is no easy job nowadays. The latest Summary of Economic Projections, the quarterly release of the official Fed economic forecasts, clearly pointed to stagflation, and Powell let transpire stagflation anxiety in his testimony, though he expressly denied that that was the Fed's base case, while other high-calibre officials, Bowman and Waller, dare said that they would be even cutting rates in July already, dismissing inflation concerns all together.

Data can help solve the riddle. The US CPI has roughly followed across decades an almost 11-year cycle, whereby price pressures, that peaked in June 2022, should be bottoming in 2H25 to then rise next year to peak the subsequent one. There is no claim to precision in the analysis of financial time series, yet the prognostication seems plausible. On the one hand the major economies are slowing down accommodating lower inflation in the immediate future, on the other both the US and Europe are embarking on fiscal stimulus, and China could join along, in a rare case of concerted fiscal intervention that could be quite inflationary. On top of this, the Fed is expected to be cutting rates starting at latest from December this year. Such outpour of liquidity can hardly be neutral for price pressures, confirming the direction the cycle is headed towards.

A Goldilocks scenario with moderate inflation and positive growth should still hold into early 2026, that would be enough for risk assets to grind higher and in general for the 60-40 equity-bond portfolio to continue to perform. Outperformance of ex-US equities, a fall in the dollar, and stable bond markets should be expected in the absence of growth scares. But the deeper we look into 2026, the more heightened our concerns about rising odds of stagflation. For now, Goldilocks should dominate, under the expectation that trade deals are agreed on apace and stimulus flows in as expected.

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 Treasury yield curve bull-steepened. Less than a week after Powell told the world the Fed was in no hurry to cut rates, two of his fellow voting members openly floated the possibility of doing just that as soon as July. Bond yields and the dollar have fallen in recent days, in part on speculation that Trump could soon announce Powell's successor, possibly within the next few weeks. Fed's future rate path could be decided by factors other than economic fundamentals. Bowman and Waller have already floated the idea of cutting rates as soon as July. While the market is not convinced that July is in play, OIS swaps now price 64 bps rate cut by end of this year. This week's Jolts and Jobs data remain important for the short-term direction of yields.

However, EUR DM govvies have bear-steepened driven by the release of the updated German fiscal/issuance numbers and the NATO agreement on a minimum 5% of GDP in defence spending by 2035. In Germany, with the large deficit increase, 2025 net issuance is now estimated to be around ~€85bn. We won't be surprised to see the German 10-year yield near 2.8%. Hence, we will wait before initiating a long-duration Euro call. Gilt yields rallied over the week led by the front end of the curve reflecting the rally in front end USTs on increased Fed easing expectations and modestly dovish BoE commentary, particularly from Governor Bailey on declining wage growth.

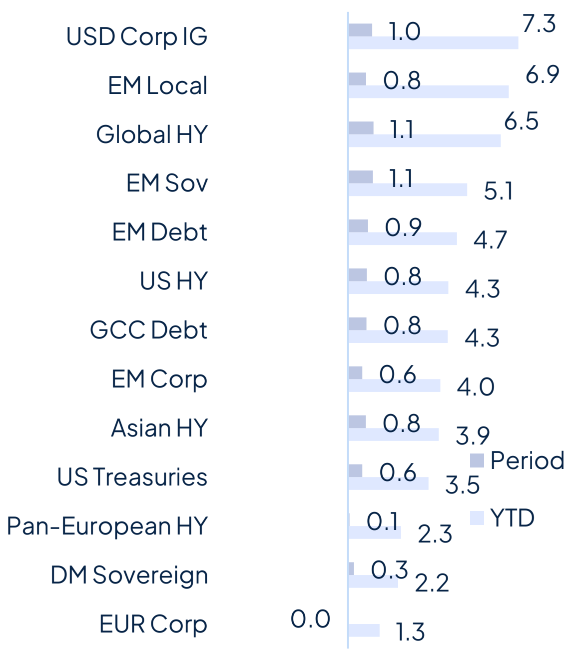
The IG index has traded in a tight range of 3bps for the last three weeks. High local yields and hedging costs has reduced the attractiveness of the USD corporates to overseas investors. However, low issuance volumes still provide support to the asset class. Upcoming macro data and the July 9th deadline in the tariff relief could push spreads wide. High Yield spreads compressed by 11 bps last week providing +0.94% return. The asset class continues to be supported by a strong technical (accelerating inflows and limited net issuance) and the past 9 weeks' inflows totalling $14.6bn fully recoups April's exodus according to a JPM analysis. Meanwhile, capital markets remained active with $9.1bn of HY bonds pricing this week, which raised June's issuance to a 9-month high $32.2bn.

GCC bonds continued to be resilient despite the escalation in the middle east conflict at the start of the week. Sovereign spreads were range bound. Qatar spreads had widened by 1% on the long end. However, spreads tightened as ceasefire was announced. Dar Al Arkan issued 5-year sukuk yielding 7.375%. The tranche size was $750Mn with an order book size of $2.6Bn indicating robust investor demand for the sukuk. This week several mandates are announced as issuers take benefit of lower yield and a calm environment in the region. QIC has announced a mandate today for NC6 Tier 2 $ notes expected to be priced this week. Similarly, RAK bank and NBK have also announced their perpetual $ bond mandates which should price this week.

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, YTD, Last Week)



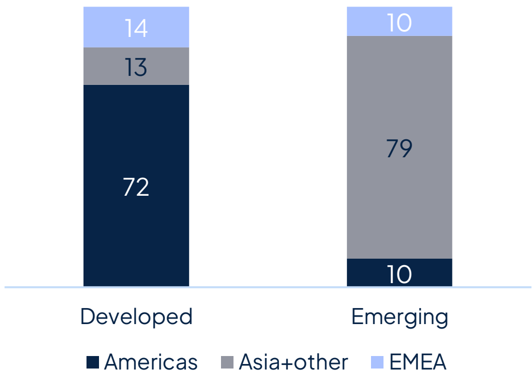
Equity Update

Global equities rallied broadly last week as markets regained confidence amid easing geopolitical tensions, progress in US-China trade negotiations, and renewed momentum in technology shares. The MSCI ACWI rose 3.3%, with developed and emerging markets advancing almost in lockstep. The S&P 500 climbed 3.5% to fresh record highs, carried by an almost uninterrupted bid for large-cap tech and AI-linked names. The Nasdaq 100 reclaimed its February peak, with Nvidia's leadership continuing to anchor sentiment across semiconductors and adjacent sectors. European benchmarks delivered their strongest weekly performance since mid-May. The MSCI Europe Index added 1.3% as automakers roared back on optimism about tariff reprieves and more resilient demand in China. Porsche and BMW rose sharply after analysts upgraded delivery forecasts. Schneider Electric surged more than 6% after confirming its outlook, igniting a rally in industrials and electrification stocks. Nike's positive update filtered through to the consumer complex, lifting Adidas and Puma as confidence returned to discretionary spending. Utilities and defensives lost ground as capital rotated decisively into cyclicals, adding depth to the rally's narrative.

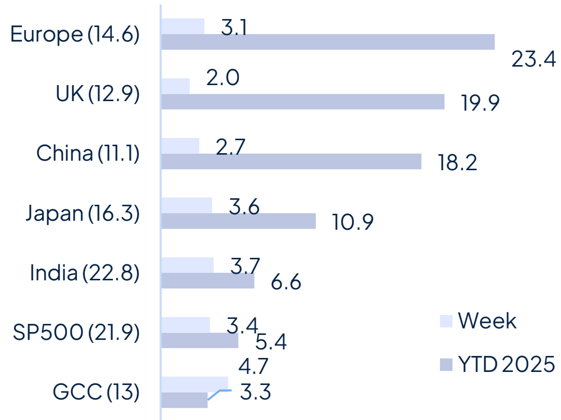
Asia generated some of the most visible momentum. The MSCI Asia Pacific Index gained over 3%, its best week in nearly two months. Japan's Nikkei 225 crossed 40,000, propelled by a powerful combination of AI enthusiasm, a softer yen, and a global bid for high-quality growth. SoftBank, Tokyo Electron, and Advantest were among the names that set the pace. Xiaomi stole headlines in China after orders for its new electric SUV exceeded expectations, signaling a strong appetite for next-generation mobility even in a crowded market. The announcement of a September military parade added another layer of support for defense stocks, creating a distinctive blend of policy-driven flows and speculative positioning. Hong Kong lagged as profit-taking emerged in property and travel shares, but robust IPO pipelines and secondary offerings continued to attract capital. India's MSCI index rose 2.4% and remained near all-time highs, though the story turned more cautious as valuations stayed rich and earnings momentum slowed. Several strategists highlighted the absence of incremental catalysts in technology and the reality that Indian equities now trade at a premium to most regional peers. The market tone became more muted as flows cooled after years of steady outperformance.

The combination of resilient earnings expectations, incremental clarity on trade, and a powerful bid for AI exposure created a sense that markets are again willing to lean into risk. Valuations remain elevated, positioning is increasingly selective, and volatility has the potential to return as earnings revisions and policy signals come into focus. For now, the path of least resistance remains higher, as the narrative shifts from defensive caution to a story of disciplined optimism.

Equity Recommended Regional Positioning

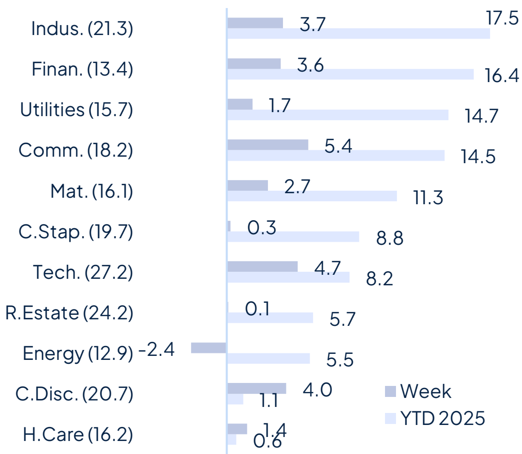


Major Indices Performance (TR, US$), P/E in brackets



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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