EMIRATES ISLAMIC الإمارات الإسلامي

WEALTH MANAGEMENT

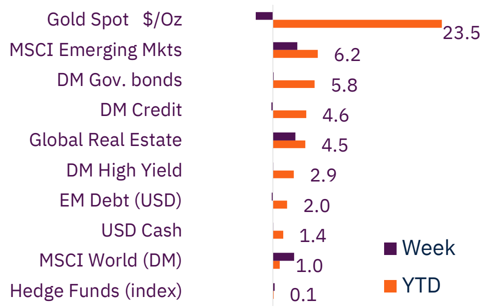
The **sunny** side of volatility

- **Global markets had a “risk-on” week with improvements on trade negotiations and overall benign data**
- **Cyclical assets got a boost from marginally better news meeting defensive positioning from investors**
- **Volatility is here to stay. Watch PMI Services and central banks’ meetings in the week ahead.**

Last week was very positive for cyclical assets, in a “risk-on” mode that took many pessimists by surprise. It didn’t take much. On the trade front, the US administration announced that several major trade deals were about to be signed, and China is now officially open to consider bilateral talks with the US. With regards to macro data, US GDP contracted in Q1, but this was accounted for by companies frontloading their imports before tariffs hit, while inflation remained under control. Most importantly, the April monthly jobs report released on Friday highlighted a still very solid US labour market. Finally, the Q1 earnings season continued to be robust, with very strong numbers from Microsoft and Meta in particular. Everything wasn’t positive, as manufacturing PMIs were overall not bright and as US consumer confidence continued to fall. In all fairness, the good news were not even total surprises. Still, as a large number of market participants was positioned very defensively, leaning towards a “worst-case” scenario, cyclical assets got a massive boost. Stocks from both emerging and developed markets, as well as listed real estate, gained 3% last week while gold gave back a bit of its spectacular gains and US treasury yields rose.

In all fairness, our own positioning is also defensive, although with measure and selectivity. Volatility works on both sides. We still overweight cash, gold and bonds, but also high yield. We underweight hedge funds and DM stocks but have a full allocation to the emerging regions. This explains why our three tactical asset allocation profiles are all up between +3% and +4% in US$ so far in 2025. Interestingly, this is a bit faster and better than our initial expectation, before seeing the shocking details of “Liberation Day”. The reason is a wide diversification across asset classes and geographies. This is paramount as we strongly believe that volatility is here to stay, with the spectacular month of April being probably just the beginning. Have a great week.

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



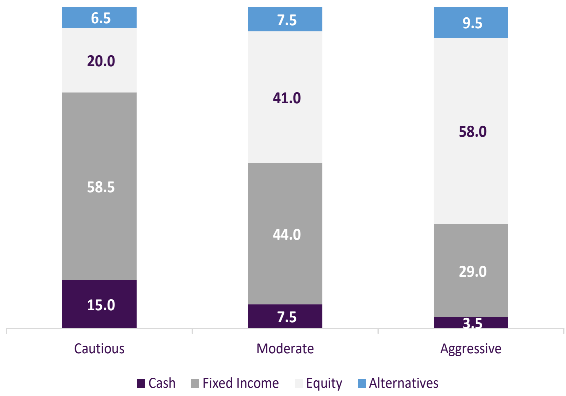
May 5th, 2025

Cross-asset Update

Investor sentiment is currently very depressed on US equities judging from the major surveys. The high volume of puts versus calls, as well as the depressed percentage of bulls versus bears suggest market participants were spooked by recent developments. Intuitively it makes perfect sense, as very high tariff rates at some point will be depressing the US economy, even under the best possible scenario that the reciprocal tariffs are fully rolled back for all countries, with the exception of China that is likely to negotiate indeed for long with the United States. Yet, US economic surprises are bottoming, while the disinflation process remains on track for now. A weakening dollar and the bull-steepening of the Treasury yield curve suggest further positive economic surprises ahead, at least in the very short term. And the ratio of crude oil to gold, one of the best real-time proxies for the US CPI, has been making new lows for the year, boding well for the next few inflation readings. A resilient economy against a non-inflationary backdrop is positive for risk assets at the shorter time horizons, while trade uncertainty has peaked for now. US equities are likely to remain range bound, while overseas markets should maintain their margin of outperformance. We need to see more exuberance for a top to be in place and volatility to spill over across markets. Meanwhile, investors should take the opportunity of diversifying away from dollar-centric assets. The stimulus impulse in relative terms will be stronger in Europe and in China than in the United States. The US government aims to slash expenditure, while the Fed is currently less dovish than other central banks on the stagflationary outlook driven by the trade war. Also, the IT theme that was benefitting from once unchallenged US dominance and ongoing stimulus seems now to be mostly exhausted. And the US dollar, very expensive in real trade-weighted terms, will be weakened by the US administration in the attempt to boost domestic growth, ceasing to be a source of returns for foreign investors. Overall, drivers for US equity our performance are fading one after the other.

Investors spooked by the recent turmoil must have piled on gold. While we remain structurally positive on the yellow metal, we think it is running short of catalysts in the shorter term. Trade uncertainty has peaked, and inflation expectations embedded in the consumer and Fed surveys have bene fully discounted. We would be expecting some weakness withing a range-trading pattern before new all-time highs are recorded.

Tactical Asset Allocation: Simplified Positioning

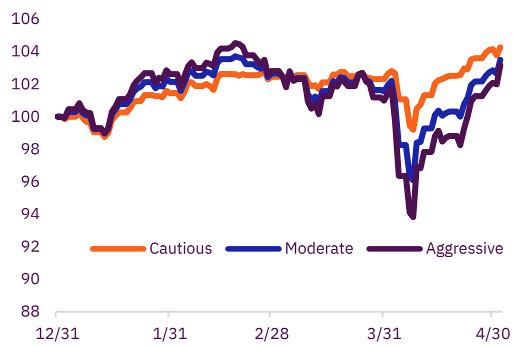


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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. Performance assessed on the conventional portfolio.

Fixed Income Update

US Treasury yields were volatile last week due to mixed economic data and changing views on interest rates. The week started with a drop in yields after weaker US GDP figures and low consumer confidence, with the 10-year falling by 1 bp and the 2-year by 5bps only as the term premium is structurally higher. Later in the week, stronger ISM manufacturing numbers and renewed geopolitical tensions, especially around Iran, pushed yields higher, leading to a bear-flattening of the curve. On Friday, yields briefly moved lower after the April nonfarm payrolls showed moderate job growth and slower wage increases, but the reaction didn't last. By the end of the day, the 2-year was up 10bps and the 10-year up 6bps. Overall, markets are still expecting around three Fed cuts this year but remain very sensitive to economic updates and global developments.

Credit markets were mostly steady last week. Investment-grade spreads narrowed slightly, while high-yield spreads saw little change. At the start of the week, weaker US GDP and low consumer confidence supported hopes for interest rate cuts, helping spreads tighten. Later in the week, stronger manufacturing data and rising tensions in the Middle East made investors more cautious. On Friday, the US jobs report made markets feel more confident that inflation is under control. This supported investment-grade bonds, while high-yield stayed stable. Emerging market spreads also held steady, helped by lower US rate expectations. Overall, credit markets stayed calm but reacted to economic news and rate outlooks.

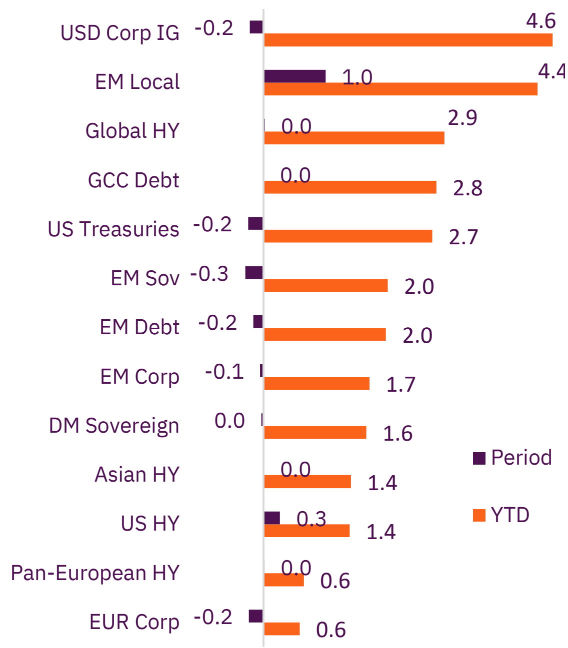
Emerging markets had a mixed week. Bond performance was supported by falling US Treasury yields and a weaker US dollar, which helped investor appetite for emerging market debt. Investment-grade bonds in the region performed well, while high-yield bonds were mostly flat. However, signs of economic slowdown are becoming clearer. Growth in key economies like China and Mexico slowed, and lower commodity prices are putting pressure on government revenues. As a result, fiscal deficits in emerging markets are expected to widen, and the outlook for credit rating upgrades has weakened. While emerging markets are still expected to grow faster than developed markets this year, rising risks may weigh on investor confidence going forward.

The GCC primary market was active last week, with the UAE leading the region and accounting for 55% of total issuance. In April, total GCC bond supply reached $10.9 billion, of which $9.8 billion was issued in the final week alone. UAE issuance totaled $6.4 billion during the month, primarily driven by investment-grade names. Last week also saw notable perpetual issuance from BFS, priced at 6.375%, and Omniyat Holding—a high-yield issuer—priced at 8.375%, both offering attractive yields. Additionally, DP World issued senior unsecured sukuk, which increases the likelihood of it calling its outstanding perpetual sukuk in October this year

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

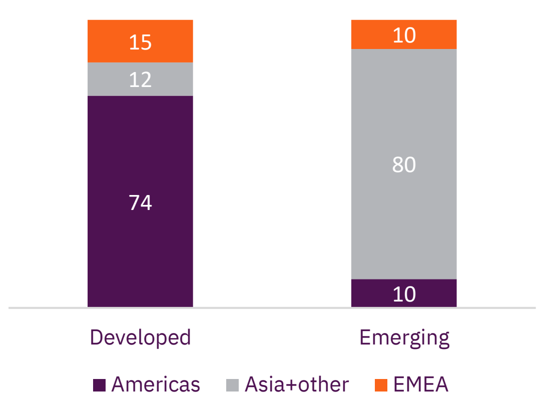
Global equities rallied sharply last week, retracing losses tied to April's tariff escalation and renewed trade tensions. The MSCI ACWI advanced 3.0%, with strength across both developed and emerging markets. The S&P 500 climbed 2.9%, marking its longest winning streak since 2004 and recovering from the drawdown sparked by escalating U.S.-China trade frictions. Momentum was supported by robust earnings from U.S. tech majors, a softer labor report that eased rate concerns, and signals from Beijing suggesting a willingness to reengage in dialogue with Washington. Markets refocused on earnings and positioning, with risk appetite strengthening across equity benchmarks. In the U.S., first-quarter earnings continued to exceed expectations. Microsoft and Meta delivered strong results, driven by cloud infrastructure and digital ad momentum. Alphabet posted a constructive quarter. Apple declined on weaker service revenue and falling sales in China, coupled with guidance that tariffs would increase costs by $900 million this quarter. Amazon highlighted growing macro pressure, guiding toward softer profitability as tariffs weigh on third-party commerce and advertising. With 72% of S&P 500 companies reporting so far, 76% have beaten earnings estimates. This figure is modestly below the 5-year average, but above the 10-year trend. Looking ahead, 92 companies in the index are scheduled to report this week, which will be critical for confirming breadth and earnings durability beyond mega-cap growth.

Within Europe, the MSCI Europe Index rose 3.2%, led by strong gains in France and Germany. The FTSE 100 notched its fifteenth consecutive gain, the longest streak on record. Markets responded to improving macro signals as eurozone inflation held steady and PMIs edged higher. Corporate earnings contributed as SAP and Siemens Energy rose on solid execution, and Shell gained following commentary favoring continued buybacks. In Japan, the TOPIX added 2.3% as trade optimism, a weaker yen, and dovish signals from the Bank of Japan supported exporters and rate-sensitive sectors.

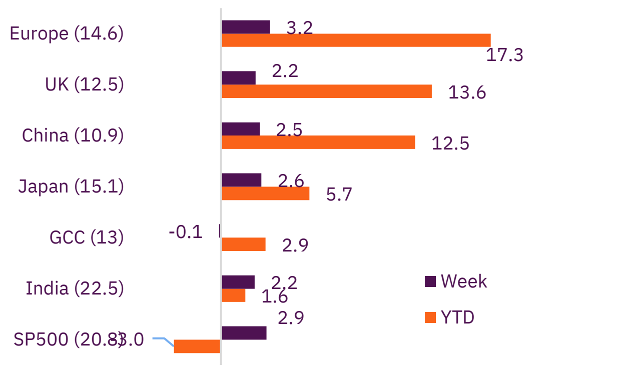
Emerging markets also outperformed. The MSCI EM Index rose 3.4%, driven by a rebound in Chinese and broader Asian equities. The MSCI China Index advanced 2.4% after Beijing indicated it is evaluating renewed trade engagement with the U.S., helping stabilize sentiment following weeks of elevated policy risk. Chinese EV makers gained on strong April deliveries. U.S.-listed Chinese tech shares also recovered, supported by short covering and improved volume.

With dialogue beginning to shift from confrontation to engagement, markets will be monitoring developments closely. The coming week brings another critical stretch for earnings, with 92 S&P 500 companies reporting. Attention will also turn to progress on trade negotiations and the tone of the upcoming Federal Reserve meeting. As policy clarity and corporate results continue to evolve, direction will depend on whether early signals of stability translate into sustained momentum.

EQUITY RECOMMENDED REGIONAL POSITIONING

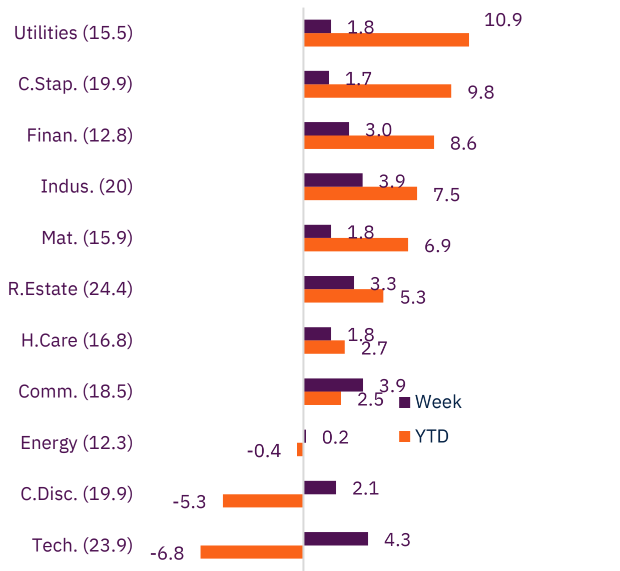


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



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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