

Cautious Market Outlook for The Year-end:

How Rising Geopolitical Tensions & the Unwinding Yen Carry Trade Are Impacting UAE Equities & CBUAE Decisions

After the yen carry trade triggered a spike in the VIX index, global equities, including those in the UAE, rebounded significantly. This recovery came in line with the positive expectations of a 25 basis points rate cut by the Federal Reserve in September.

Recent U.S. inflation data shows a slight uptick in the core Consumer Price Index (CPI) month-over-month from 0.1% to 0.2%, with the overall monthly CPI also increasing from -0.1% to 0.2%. This rise, driven by higher services inflation, suggests a 25-bps rate cut is more likely in September than a 50-bps cut. Meanwhile, the annual CPI decreased from 3% to 2.9%, revisiting 2021 levels. These developments have strengthened expectations for a rate cut by both the Fed and the Central Bank of the UAE (CBUAE).

The impact of the yen carry trade on global markets and the surge in the VIX index also caused the UAE MSCI Index to experience a sharp decline, nearing the lows of 2024. However, it rebounded strongly as the VIX and global markets recovered from their yearly extremes.

During the first half of 2024, the UAE MSCI Index leaders, particularly in the financial, real estate, consumer discretionary, and communication services sectors, reported record revenue levels. The financial and real estate sectors led this growth, reflecting strong demand and market share gains. The UAE saw its status as a premier destination for international businesses and entrepreneurs strengthened, with capital driving this positive performance and further revenue growth expected in the coming years as noted by leading industry chairmen.

“Despite the challenges posed by the yen carry trade, which briefly pushed the UAE MSCI Index near its 2024 lows, the index rebounded sharply alongside global equities. The potential for a 25-bps rate cut in September by both the CBUAE and the Fed has increased bullish sentiment”, confirms Razan Hilal, Market Analyst, CMT at FOREX.com. She adds: *“The risks associated with further unwinding of the carry trade along with rising geopolitical tensions increase risk aversion and make the market outlook cautious for the year-end.”*

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