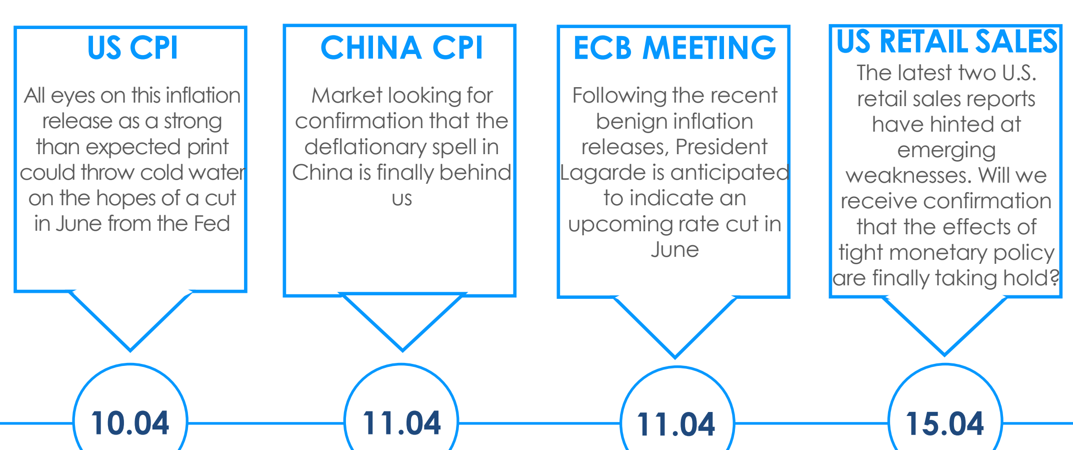
Main Events



Azimut Global Network

- Milan
- Abu Dhabi
- Austin
- Cairo
- Dubai
- Dublin
- Hong Kong
- Estoril
- Istanbul
- Lugano
- Luxembourg
- Mexico City
- Miami
- Monaco
- New York
- Santiago
- São Paulo
- Shanghai
- Singapore
- St Louis
- Sydney
- Taipei

LOOKING FOR VALIDATION

- **The Central Banks meetings which took place over the past few weeks delivered a dovish message, providing comfort to market participants.**
- **the FOMC's dot plot confirmed three cuts for 2024, shrugging off investors' concerns about a hawkish tilt from the FED.**
- **The Swiss National Bank became the first G10 central bank to lower rates since November 2020, while Bank of England hinted at delivering the first cut just before the Summer.**
- **The Bank of Japan hikes rates for the first time in 17 years, ending eight years of negative interest rates and also abandoning Yield Curve Control, a policy in place since 2016.**

The main event of the last three weeks was the FOMC meeting. Most of the focus was on the dot plot, mainly for 2024, as the upward surprises in inflation and economic data occurred since the previous FOMC meeting had sparked speculation that the number of expected cuts for this year could be revised down.

The dots for 2024 were left unchanged at three, though dots for the year 2025 and 2026 now see a shallower path of cutting compared to the last forecast in December. The other much-anticipated change - the upward revision to the median longer-run dot - finally happened, but only to a very moderate extent: up from 2.5% to 2.563%.

Core inflation (PCE) and GDP forecasts for 2024 were revised up, from 2,4% to 2.6% and from 1,4% to 2,1%, respectively, while the forecast for headline inflation was left unchanged. Changes in the 2025 and 2026 forecasts were marginal.

The statement was very much in line with the one released after the January FOMC meeting: the only change was to drop the reference to job gains having moderated since early last year.

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Source: Bloomberg, Azimut Elaboration

ECB - Implied rate cuts for 2024 (in bps)

Source: Bloomberg, Azimut Elaboration

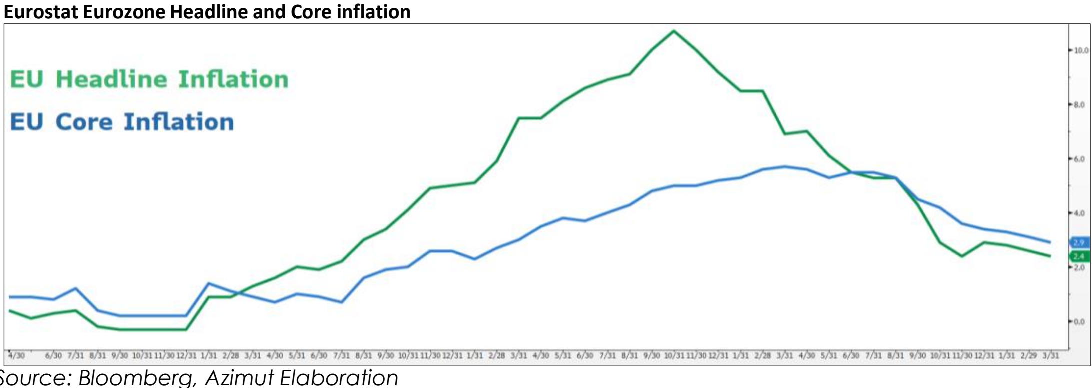
In the press conference, Chair Powell struck a relatively dovish tone, taking a relaxed attitude to the January-February inflation pop and stating that - despite those readings - the inflation "*story is really essentially the same*." Powell also said it would be appropriate to slow the pace of QT "fairly soon," which is likely to be next meeting.

The US PCE, released on Easter Friday, saw the headline deflator rose to 0.3% in February, with this measure up 2.5% YoY. The core PCE price index increased 0.26% in February, and up 2.8% YoY. The "super core" measure (core services ex. housing) had a fairly soft month, rising 0.2% in February and coming in at 3.3% YoY. The core index is still moderating on a year-on-year basis, but there has been some firming lately. Similarly, on a year-on-year basis the super core index also has shown moderation for inflation into February, although the January monthly change was quite strong (0.7%).

The other key US data point was the NFP report. Headline payroll growth of 303k was above the highest estimate on the Bloomberg economist panel, and revisions were slightly positive. A more dovish development was the surprising rise in labor force participation, which rose to 62.7%. That kept the unemployment rate in line with expectations at 3.8%, though hours worked did tick higher to 34.4. Household employment also rose by 498k. The Fed might find comfort in the increase in participation rates and the absence of wage growth acceleration despite robust job creation. However, viewed from a broader perspective, this data diminishes the immediate need for rate cuts even further.

In Europe, Eurozone inflation data for March confirmed that the trend of disinflation remains robust. The fall in headline inflation from 2.6% in February to 2.4% in March – the lowest reading since July 2021 – was slightly larger than expected and confirms that the disinflationary trend is well entrenched. Progress was also broad-based across countries, as headline inflation came in below consensus in Germany, France, Italy and Spain. While March's inflation data was a touch softer than the consensus expected, headline inflation was in line with the ECB's projections for Q1 as a whole, while core inflation was 0.1pp stronger. As a result, a rate cut at the April meeting remains highly unlikely. On the contrary, June remains the most likely start of the ECB's rate-cutting cycle. With respect to the upcoming ECB meeting (April 11) President Lagarde is expected to convey the message that rates are likely to be cut in June. The press conference should also center around the path of future rate cuts, where the market is undecided between consecutive cuts and a quarterly tempo.

Eurostat Eurozone Headline and Core inflation



Source: Bloomberg, Azimut Elaboration

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The Bank of Japan ended an era, removing all major unconventional policy measures, existing Negative Interest Rate Policy, abolishing Yield Curve Control, discontinuing ETF purchases and returning to a single–tiering system for deposit held on its balance sheet. While the plethora of changes announced was hawkish, the market was hardly impressed, probably because of the dovish guidance expressing a commitment to keep financial conditions accommodative "*for the time being*" and maintain JGB purchases at "*broadly the same amount*".

Helped by rising yields in the developed world, the JPY has continued its weakening trend, particularly against the US dollar, prompting public officials from the Government and the BOJ to step up the rhetoric and hinting at the use of counteracting measures if the weakening persists.

Looking at the week ahead, the major data point is the US CPI, due to be released on Wednesday 10th. Consensus is expecting a 0,3% increase for both headline and core inflation, taking the YoY measures to 3,5% and 3,7%, respectively.

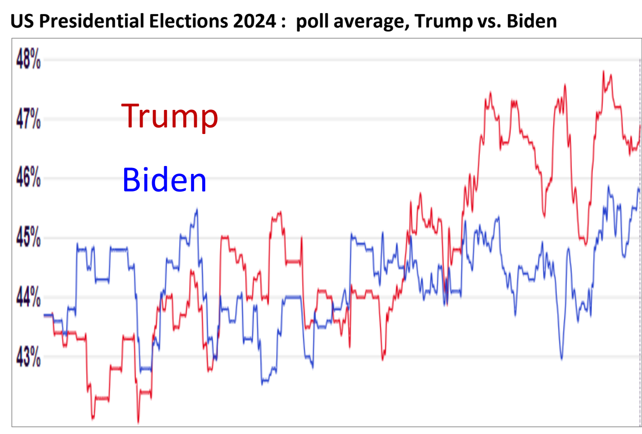
If the print aligns with or falls below expectations, Powell's relaxed stance toward the earlier inflation surprises this year will be affirmed, potentially paving the way for a June commencement of the rate-cutting cycle. On the contrary, in the event of an upside surprise, the case for a June cut is likely to recede completely, opening the doors to further upward repricing in US yields and reignitning concerns about debt sustainability, which are in turn likely to trigger negative ramifications for the broader risk complex.

Lastly, politics and geopolitics remain on the driving seat. While the intensity of the conversations about the upcoming US elections will pick up pace as we get closer to the actual US election date, for what tensions in the Middle East are concerned, the second quarter of 2024 has started with a bang. The rhetoric between Israel and Iran has seen a sharp deterioration after an Isreali strike in Damascus. The prospect of further escalation would be an unwelcome development for the stability of the world and financial markets as well.

Japanese JPY TWI: lowest in 20+ years

Source: Bloomberg, Azimut Elaboration

US Presidential Elections 2024 : poll average, Trump vs. Biden



Source: RealCLearPolitics, Azimut Elaboration

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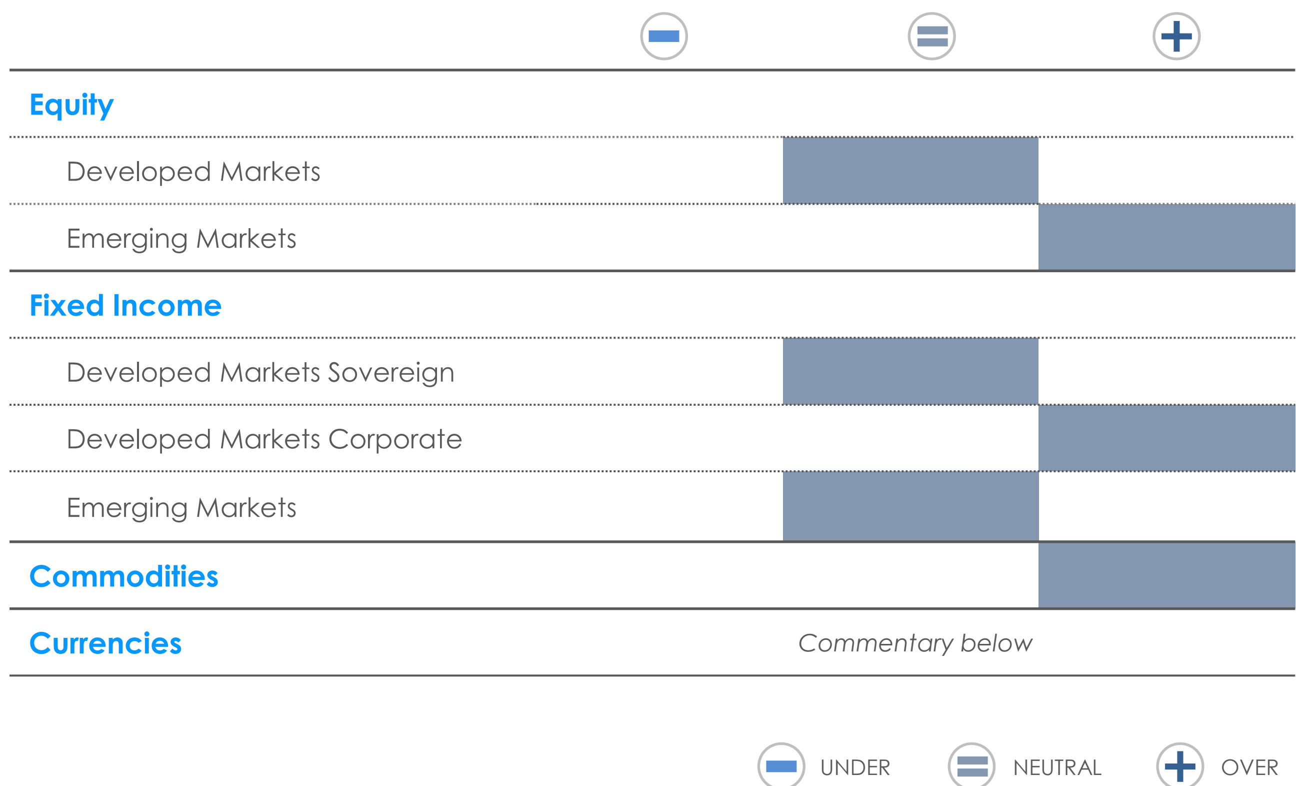
Asset Allocation View

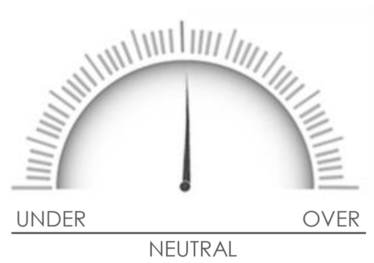


	−	=	+
Equity			
Developed Markets		■	
Emerging Markets			■
Fixed Income			
Developed Markets Sovereign		■	
Developed Markets Corporate			■
Emerging Markets		■	
Commodities			■
Currencies		*Commentary below*	

− UNDER   = NEUTRAL   + OVER

Equity

Developed Markets



We maintained our **Neutral** recommendation on Developed Markets Equities. There is no change from the last reported view. Thanks to the substantial stability in recent weeks, the overbought condition is gradually fading. Nevertheless, a neutral stance is preferred in view of valuations that remain high and increasing competition from bond yields, which continue to rise. The market is now discounting less than the three rate cuts penciled by the Fed, due to strong job data. There is no visibility of a short-term macro catalyst that might cause a correction but the relentless ride of equity markets in the last 5 months might generate quick draw downs. Geopolitical risk is on the rise with potential bumpy road ahead.

US	+	Europe	=	Japan	=

Emerging Markets

We kept our **Slightly Overweight** recommendation on Emerging Markets Equities. Macroeconomic data in China continued to improve, prompting a rebound in the domestic stock market from its January lows. Chinese stocks continue to trade at a steep discount to developed countries and other emerging markets, so there is still ample room for a continuation of the move, barring any market-unfriendly policy decisions. In other emerging markets, the view also remains positive, particularly for oil-exporting countries that could benefit from the recent rebound in oil prices.

Asia ex-Japan	=	EEMEA	−	LATAM	=

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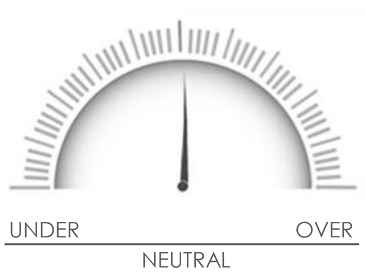
Fixed Income

Developed Markets Sovereign



We maintained the **Neutral** stance on Developed Markets Sovereign Bonds. The U.S. interest rate curve now discounts just under three rate cuts by the Fed in 2024, in line with Fed projections. The strength of the economy and especially in the job market could put more pressure on the long end of the curve. Half of the committee prefers to focus on the short end of the curve (2- and 5-years) but the other participants prefers a more barbel approach incrementing the duration also on the long end as a potential portfolio's hedge in case of a sudden risk off scenario. As for European curves, the market now takes for granted that the first cut by the ECB will occur in June, followed by at least two, if not three, more cuts in 2024.

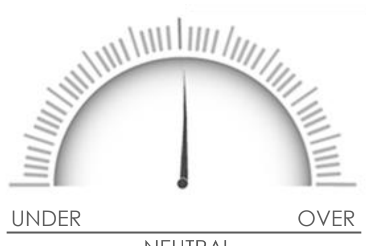
EU Core		EU Periphery		US Treasury		Japanese JGB	

Developed Markets Corporate

We kept our **Slightly Overweight** recommendation on Developed Markets Corporates. We continue to favor investment-grade corporate bonds since spreads continue to be quite narrow. As long as volatility remains low, carry trade remains the key.

IG Europe		IG US		HY Europe		HY US	

Emerging Markets



We also maintained our **Neutral** recommendation for Emerging Market bonds. Being traditionally the riskier asset class on the bond spectrum it is better to maintain a neutral stance at this stage.

Local Currency		Hard Currency IG		Hard Currency HY	

Commodities

We remain overweight one notch. The upgrade is particularly related to the positive outlook on precious metals, which could benefit from the beginning of the cycle of rate cuts (regardless of the start date). Additionally, they continue to serve as a portfolio hedge in the event of escalating geopolitical tensions, and central banks are still piling up positions on gold. We upgraded also energy commodities, and we maintain relative preference for industrial metals.

Precious		Energy		Industrial		Agricultural	

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Currencies

The Committee kept the **Neutral** stance on the US Dollar, which is fair valued based on the interest rate differential. This week's CPI print will be crucial for determining the number of rate cuts to be expected this year and, in turn, for the future direction of the greenback.

The view on the Euro is **Neutral** as well. This week's ECB meeting is expected to confirm that the first rate cut will take place in June, an assumption already widely discounted by the market.

The view on the **Chinese Renminbi** remains **Neutral,** with a bearish bias. The slightly better-than-expected economic data in recent weeks is not likely to change the scenario for the renminbi.

The outlook for other **emerging market currencies** is **Neutral.** We continue to remain relatively more optimistic about Latin American currencies.

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