azimut

AZIMUT GLOBAL VIEW

22.
04.
24

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

US GDP
The U.S. GDP is forecasted to dip to 2.5% from 3.4%, with the GDP deflator nearly doubling from 1.6% to 3.0%, highlighting persistent inflationary pressures

25.04

GERMANY CPI
Germany will lead the EU in releasing April CPI data. Any deviation from expectations could trigger significant movements on the European curve

29.04

JAPAN RETAIL SALES
Understanding the resilience of Japanese consumers is crucial in determining whether the slowdown in previous quarters was an isolated event or not

30.04

FED MEETING
Following heightened caution expressed by several governors regarding rate cuts, the upcoming press conference is anticipated to shed light on Fed's stance

05.01

FEELING THE PRESSURE OF HIGHER RATES

- **Macroeconomic data continues to surprise to the upside, both in terms of economic growth and inflation stickiness, thereby dampening expectations of rate cuts**
- **Consequently, nominal and real rates have reverted to levels not far from 2023's peaks**
- **With rising competition from rates, equity markets have initiated a physiological correction, given the considerable decline in the equity risk premium over the last six months**

The rise in interest rates that began this year has remained steadfast. Recently, several macroeconomic data as well as heightened geopolitical tensions have helped validate the scenario that central banks may have to wait to cut rates longer than previously announced.

In the United States, retail sales, which had previously shown signs of weakness, came out very strong in March. Additionally, there were significant upward revisions to readings for preceding months. CPI numbers came out higher than expected for the third consecutive month, rising 0.4% month-on-month, resulting in annualized inflation over the past three months of 4.6%. Year-on-year headline inflation rose from 3.2% to 3.5%, while core inflation remained stable at 3.8%. In Europe, business and consumer confidence indicators have risen sharply, albeit from depressed levels. In Japan, a series of wage increases well above the rate of inflation raises fears of a renewed upswing in inflation. The escalation of the conflict in the Middle East is leading to a widespread uptick in commodity prices.

Previously, the impact of rate hikes was primarily observed in the short ends of the yield curves, which are more sensitive to central bank policies. However, indications of sustained or accelerating economic growth in the U.S. and elsewhere have also propelled increases in the longer ends of the curves, reflecting heightened sensitivity to overall economic strength.

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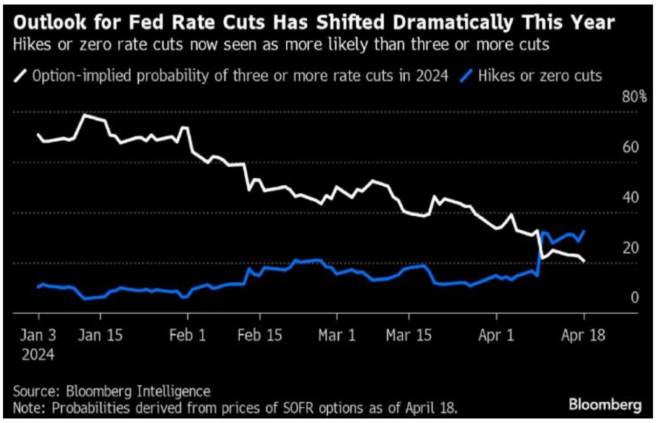
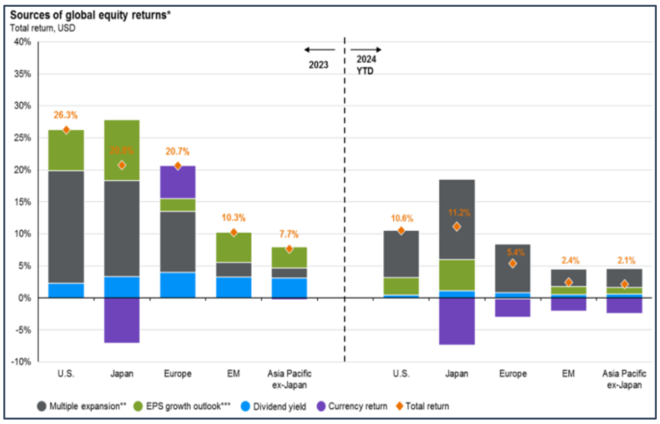


Source: Bloomberg



Source: J.P. Morgan

As a result, the number of cuts planned for this year has rapidly decreased, and some speculate that the Fed's next move may even be a rate hike.

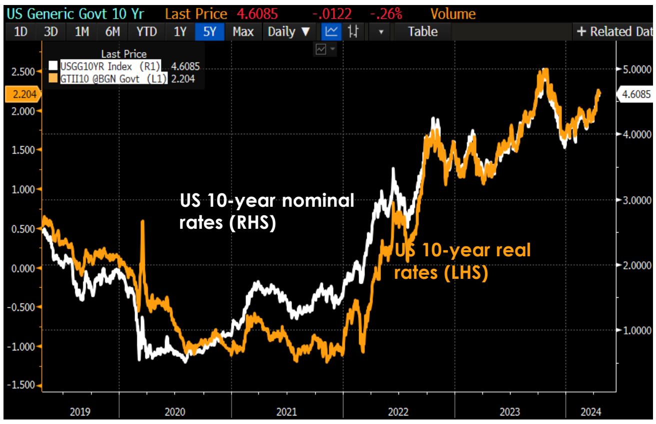
Even in Europe, the expected number of cuts by the ECB continues to decline. Despite Europe's notably weaker economic growth compared to the United States, some governors are suggesting a shift towards a more cautious approach after the rate cut promised for June, rather than a series of cuts. As a result, rates in Europe have also risen sharply, although to a lesser extent than in the United States.

Until a few days ago, it was only bonds that were suffering from this repricing in the number of expected cuts. Equities, however, have maintained their relentless ascent since November. Both last year and this year, the surge in equity markets has been primarily fueled by multiple expansion, with EPS growth only contributing to a lesser degree.

In 2024, the broadening of the bullish trend to sectors and markets that had lagged behind in 2023 led to increasingly higher equity valuations (and thus lower prospective returns) beyond the usual few names in the tech arena. As a result, at the end of the first quarter the MSCI World index was trading at nearly 19 times earnings, a level exceeded only during the tech bubble of 2000 and after the record monetary and fiscal stimulus post-Covid.

Nominal and real rates approaching the highs of last October and lower prospective equity returns due to increasingly higher equity multiples have led to a further compression in the equity risk premium, which has reached its lowest level since 2002. This dichotomy between rates and equity valuations is particularly evident in the United States, where the forward P/E ratio had reached 21 by the end of March.

Source: J.P. Morgan



Source: Bloomberg

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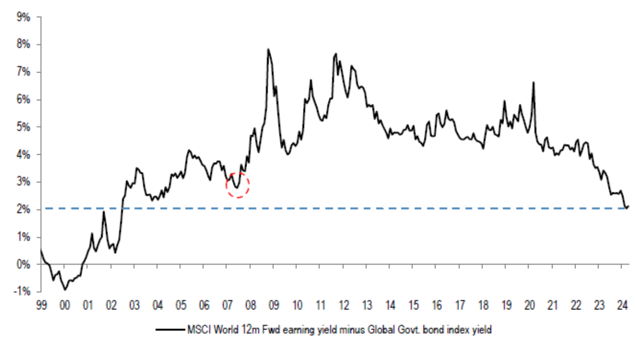
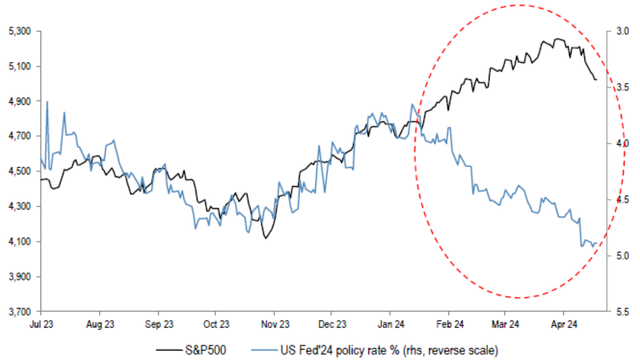
Figure 5: MSCI World 12m Fwd earnings yield minus Global Govt. bond index yield



Source: J.P. Morgan

Figure 11: SPX and fed funds futures



Source: J.P. Morgan

In the first half of April, equity markets began what for the time being should be considered a physiological correction, given the developments in interest rates. The depth of this correction will depend in the short term mainly on the financial reporting season, which will reach its peak this week, with almost all major technology companies reporting first quarter earnings. Beyond past data, it is the guidance that will be crucial. One example is Netflix, which reported quarterly profits well above expectations, but indicated lower growth in new users. As a result, Netflix more than halved its annual uptick in just two days.

From a medium-term perspective, assuming geopolitical tensions do not escalate further, the scenario of inflation slowdown remains plausible albeit delayed, and a hoped-for soft landing materializes, the ongoing correction could present a compelling buying opportunity.

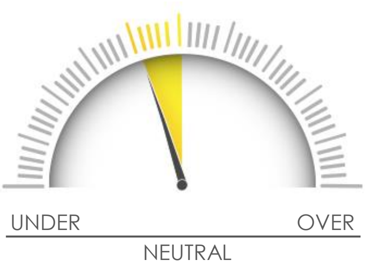
Asset Allocation View

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

− UNDER = NEUTRAL + OVER

Equity

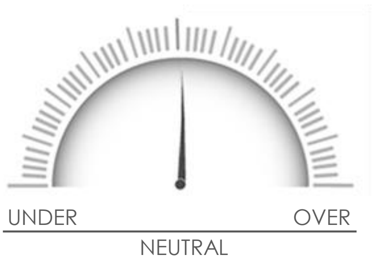
Developed Markets



We downgrade our recommendation on Developed Markets Equities to **Slightly Underweight**. Fading hopes of significant rate cuts in 2024 due to stronger-than-expected inflation and growth data have led to further increases in market rates, even in the long ends of the curves. The comeback of nominal and real rates to levels not so far from the record reached at the end of October makes equity markets more vulnerable to corrections due to the decline in the equity risk premium. While in the short term the correction could extend, in the medium term equities have room to rise further due to the strength of the economy. The trajectory of the stock market will also be influenced by the current reporting season.

US	=	Europe	=	Japan	=

Emerging Markets

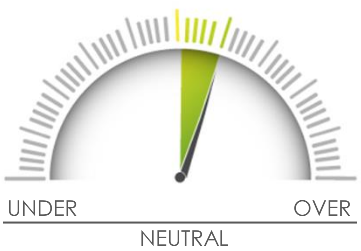


We reduced our recommendation on Emerging Markets Equities to **Neutral**. Higher interest rates, the strength of the dollar, rising geopolitical tensions and some weaker-than-expected data in China support a more cautious stance toward emerging markets. We maintain a relative preference for developed countries due to the significant discount of their markets.

Asia ex-Japan	=	EEMEA	−	LATAM	=

Fixed Income

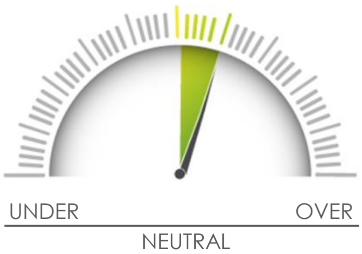
Developed Markets Sovereign



We upgraded our recommendation on Developed Markets Sovereign Bonds to **Slightly Overweight**. Interest rates have rebounded to levels near the records set in October, both in nominal and real terms. At present, the market is discounting only 1.5 rate hikes through the end of the year, less than the Fed's projections. The preference is for the short- and medium-term ends of the curves, where the possibility of further hikes seems limited. Instead, we maintain a cautious approach on the medium-to-long ends of the curves, considering that the risk of further increases is substantial in case inflation does not come down quickly or due to concerns about rising government debt and interest expenditure.

EU Core	=	EU Periphery	=	US Treasury	=	Japanese JGB	=

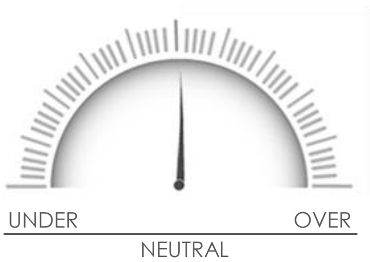
Developed Markets Corporate



We kept our **Slightly Overweight** recommendation on Developed Markets Corporates. We maintain our preference for investment-grade corporate bonds due to the persistently narrow spreads. Given the current low volatility environment, the carry trade strategy remains paramount.

IG Europe	+	IG US	+	HY Europe	–	HY US	–

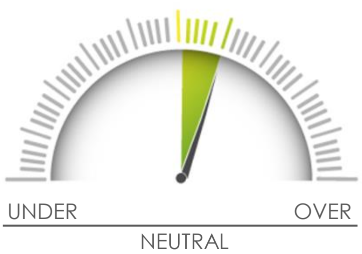
Emerging Markets



We also maintained our **Neutral** recommendation for Emerging Market bonds. The strength of the dollar coupled with rising interest rates in Western countries, and escalating geopolitical tensions, is worsening the outlook for emerging markets debt. Consequently, we offer a relatively more cautious recommendation compared to other bond strategies.

Local Currency	=	Hard Currency IG	–	Hard Currency HY	–

Commodities



We have adjusted our recommendation on Commodities to **Slightly Overweight**, downgrading it by one notch. After a strong rally in recent weeks, driven by expectations of more persistent inflation, but especially rising geopolitical tensions, it is possible that commodities may undergo a physiological short-term correction. However, we remain positive on the asset class in the medium term.

Precious	+	Energy	+	Industrial	+	Agricultural	=

Currencies

The Committee kept the **Neutral** stance on the US Dollar. The recent move has been driven by the widening gap between U.S. interest rates and those of the rest of the world following stronger-than-expected U.S. data, which further dampened the expectation of imminent Fed rate cuts. As of today, this scenario seems fully priced in.

The view on the Euro is **Neutral** as well. The ECB meeting de-facto confirmed that the first rate cut will take place in June, but downplayed the likelihood of the beginning of a rate cutting cycle. This could support the common currency going forward.

The view on the **Chinese Renminbi** remains **Neutral,** with a bearish bias. Economic data have begun to show signs of weakness again, forcing the central bank to defend the currency. In the absence of concrete stimulus measures, the Renminbi may remain under pressure.

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

Euro	=	USD	=	CNY	=	Other EM	=