AZIMUT
DEFINING INVESTMENT DIRECTION

AZIMUT GLOBAL VIEW

17. 01. 22

Main Events

MARKIT PMI	FED FOMC	US GDP	EU CONFIDENCE
The preliminary PMI for January will reveal how much the Omicron containment measures have impacted businesses	Will the FOMC meeting provide additional clarity on the US monetary policy's future path?	After a lackluster third quarter, the US growth is expected to expand by 5.8% in the fourth quarter of the 2021	Despite the proliferation of Omicron variant, sentiment indicators across Europe have remained constant. Will they be able to maintain their strenght?
24.01	26.01	27.01	28.01

Azimut Global Network

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

ONE-TWO PUNCH

- **The lower severity of Omicron variant and the prospect of stronger Central Bank interventions against inflation have driven rates higher**
- **Higher interest rates and the possibility of a faster return to normalcy have led value, Europe and Emerging markets to outperform over growth and the US**
- **Because of the widening dispersion of valuations, attractive investing opportunities can be found in all markets and investment styles**

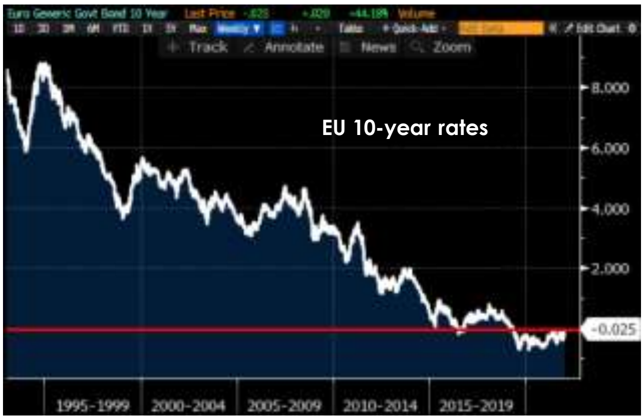
The first two weeks of 2022 have seen a significant reversal of last year's trends: value has outperformed growth, emerging markets have outperformed developed markets and rates have risen by about 20 basis points, mostly in the long-end of the developed-country yield curves.

These developments were primarily influenced by two factors. One is growing evidence that the omicron variant is much more transmissible than previous variants, but also causes symptoms that are generally considered milder. If this holds true, it is hoped that the fast spread of the Omicron variant might help in achieving herd immunity faster than previously thought, without putting undue strain on national healthcare systems. According to this assumption, the return to normalcy will give a boost to the sectors that suffered the most from the containment measures put in place since the summer, when the delta and then the omicron variants began to spread.

The second factor was the expectations of bolder action by western central banks to fight against the mounting inflation. The minutes of the most recent FOMC meeting signaled that rates could be raised sooner and at a faster pace than previously expected. More importantly, "almost all participants agreed that it would likely be appropriate to initiate balance sheet runoff at some point after the first increase in the target range for the federal funds rate".

(continued)

Source: Bloomberg



Source: Bloomberg

The possibility of a rate hike as early as March, as well as a run-off of the Fed's balance sheet already this year, was not discounted by the market, which began to adjust to the new scenario immediately after the minutes were published. Other economists and corporate executives stressed the need for more vigorous actions from the Fed in the days that followed.

Interest rates on 10-year sovereign bonds increased by about 15 basis points in Europe and 25 in the US this year, following the evidence of the Omicron's reduced severity and the Fed's hawkish minutes, both of which call for higher rates. Despite inflation rates being near the highest in four decades, 10-year rates have not yet significantly exceeded last year's high and remain at very low levels in comparison to the past.

In the short term, interest rates may have room to extend their bull run by a similar amount, reaching 2% in the US and positive territory in Europe. Following that, a consolidation around those levels may occur while waiting for more clarity on the persistency of inflation and how the Fed will react to incoming data.

The expectation of higher rates and a faster return to normalcy caused value to largely outperform growth in the equity markets. As shown in the graph on the left, there is a strong correlation between long term rates and the relative performance of the two styles: the higher the interest rates, the greater the outperformance of the value. This means that value should continue to outperform in the medium to long term, provided that the interest rate normalization process proceeds as expected. The other graph below shows that while the outperformance of the value vs growth has been remarkable in the very short term, there is still plenty of room for value to continue outperforming in the long term.

Source: Bloomberg

Source: Bloomberg

(continued)

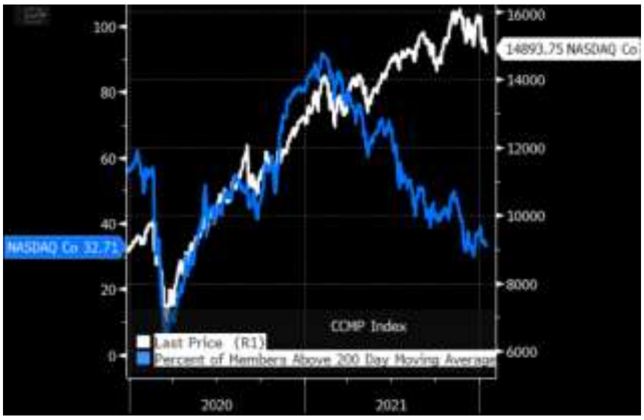
Source: Bloomberg

Source: Bloomberg

Source: Bloomberg

In terms of valuation, the MSCI World Value continues to trade at a discount of at least 50% compared to the multiples of the MSCI World Growth, as shown in the two graph above.

However, It must be highlighted that growth multiples are heavily dependent on the valuation of a handful of mega-cap stocks, which are still trading at hefty valuations. If we look at the Nasdaq Composite index, which includes over 2,500 companies, we can see that only one third of the stocks are trading above the 200-day moving average. This means that two-thirds of the stocks have already experienced significant corrections from all-time highs, and a good stock picker may be able to find compelling opportunities within growth stocks once again.



Source: Bloomberg

Source: JP Morgan Asset Management, Guide to the market

In terms of markets, both Europe and Emerging markets have outperformed the US since the beginning of the year, as the former is more exposed to value stocks than the latter, and trade at the widest discount to the US in the last two decades.

In conclusion, opportunities can be found in every equity markets and investment styles, even though the overall valuations remain quite high. The key will be to identify stocks and markets with the best relative valuations.

Asset Allocation View

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

− UNDER = NEUTRAL + OVER

Equity

Developed Markets

We maintained our **Neutral** recommendation on Developed Markets Equities. In this first half of the year, the major equity indices remained broadly unchanged but with sharp rotations in terms of countries and sectors. Rotations are likely to continue, hence the first piece of advice is to be well deversified. Considering that rates are expected to stay at these or slightly higher levels, value may continue to outperform growth in the medium term. Even within growth there is a significant performance gap between the mega-caps, which have largely been unaffected thus far, and the other companies which have already corrected substantially, creating a favorable environment for stock picking. We continue to prefer EU over the US, and advise buying any meaningful correction if presented.

US	−	**Europe**	+	**Japan**	=

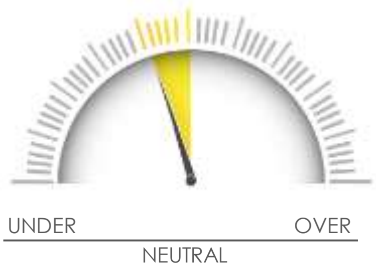
Emerging Markets

We kept our **Neutral** recommendation unchanged on Emerging Markets Equities. Following a massive underperformance in 2021, emerging markets are now trading at a significant discount to developed markets, and we continue to believe that they could represent one of the most interesting opportunities in 2022. As a result, the advice is to continue gradually accumulating them, even though they are further along in the process of raising rates. We prefer the Asian region and China within the EM space.

Asia ex-Japan	+	**EEMEA**	=	**LATAM**	=

Fixed Income

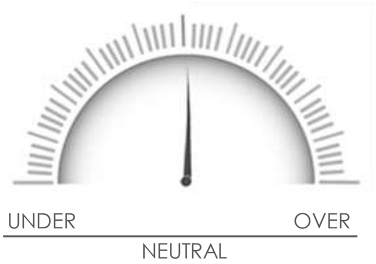
Developed Markets Sovereign



We improved our recommendation on Developed Markets Sovereign Bonds by one notch to slightly underweight. After the recent increase, rates on developed market bonds are near the highest levels in two years. The view of the committee is that the rates are nearing a peak, at least in the short term. Any additional increases in the medium term will be determined by how inflation evolves and how aggressive central banks tighten.

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

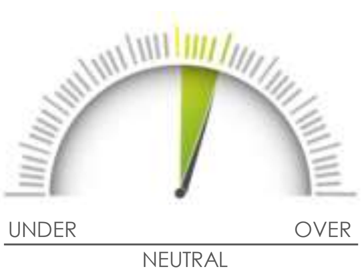
Developed Markets Corporate



We maintained our **Neutral** recommendation on Developed Markets Corporates. A faster than expected tapering and a more sustained pace of rate hikes could negatively impact both investment grade and high yield bonds. The former will be affected as IG benchmarks have a long duration but yields close to zero. The latter may be preferred in the short term as they pay a relatively attractive yield, which may allow for a faster recovery for any loss caused by movement in rates, but they are more vulnerable to spread widening. Overall, we recommend taking a cautious stance and favoring strategies that actively manage the duration and/or are focused on short maturities.

IG Europe	IG US	HY Europe	HY US
=	=	–	–

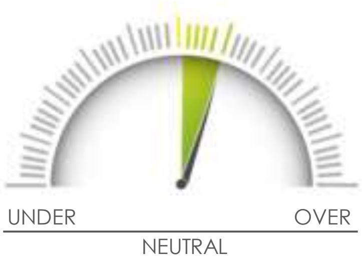
Emerging Markets



We confirmed our **Slightly Overweight** recommendation on emerging market bonds. Over the last year, the asset class has underperformed Developed Market bonds while trading at decent spreads. We are becoming more bullish on high yield bonds, particularly Asian high yields, because their spreads are close to the highest levels in decades as a result of the crackdown of the Chinese government and of the Evergrande crisis. Instead, we are growing more cautious on investment-grade bonds. Because they have fared better so far, their spreads have not widened significantly , making them less appealing than high yield bonds.

Local Currency	Hard Currency IG	Hard Currency HY
=	–	=

Commodities



We kept our **Slightly Positive** view on the Commodities. We continue to prefer precious metals, given that the real rates are still deeply negative and have lagged other commodities. Additionally, precious metals are one of the few asset classes that may serve as a hedge in the event of a market turbulence, or as an inflation hedge if inflation is not temporary. We have maintained a more cautious view on the other commodities.

Precious	Energy	Industrial	Agricultural
+	=	=	=

Currencies

The Committee's stance on the US dollar remains neutral. Central banks turned more hawkish in a coordinated fashion last time they met in December, so major currencies, including the US dollar, may remain stable among them.

The Euro is also viewed as neutral. Following a period of underperformance in recent months, the Euro is currently recovering slightly as a result of the realization that the Omicron variant may cause less damage than originally anticipated.

The outlook for the Chinese Renminbi is slightly negative. The renminbi's strength this year, combined with the weakness of other emerging market currencies, is reducing China's competitiveness in comparison to other EM. This morning, the People's Bank of China cut interest rates by a symbolic 10 basis points while also providing additional liquidity to support the market.

Other Emerging Market currencies are expected to have room for a rebound following the correction caused by the new wave of COVID-19 infection, the possibility of a faster Fed tapering, and the idiosyncratic issues affecting some countries.

Euro	=	**USD**	=	**CNY**	–	**Other EM**	+