AZIMUT
DEFINING INVESTMENT DIRECTION

AZIMUT GLOBAL VIEW

25.04.22

Main Events

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

US GDP — 28.04
The US GDP in the first quarter of 2022 is expected to grow at an annualized rate of only 1.1%

EU CPI — 29.04
After the shockingly higher-than-expected reading in the previous month, European inflation is expected to remain unchanged at 7.5%

CHINESE PMI — 30.04
The confidence of Chinese companies may further deteriorate due to the zero-Covid policy and the lack of adequate monetary and fiscal measures

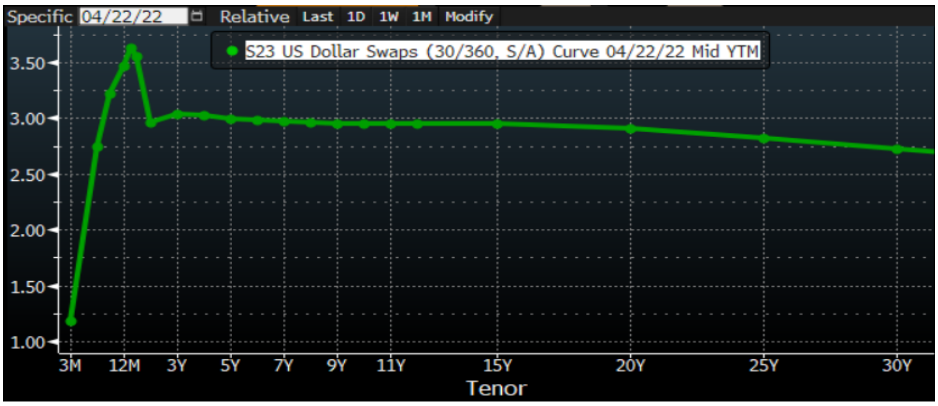
FOMC — 04.05
The Fed is expected to deliver the first 50 basis point hike in over two decades and shed light on the future path of U.S. rates

AFTER THUNDER COMES RAIN

- **Financial markets have finally begun to discount that central banks will raise rates aggressively in the short term to tame inflation**
- **The extreme oversold on bonds together with the possibility of more benign inflation readings suggest that rates may consolidate in the short term**
- **Interest rates are expected to continue to rise in the medium to long term**

As elaborated in previous commentaries, over the past weeks central banks around the world, particularly the Federal Reserve, have been outspoken in warning markets that they would raise interest rates substantially in the near future. However, until recently the market has continually snubbed such warnings, so much so that market rates have remained at subdued levels despite the increasingly explicit language of central bankers.

In the last few weeks the wind has changed and the market has capitulated in the face of such insistence, and last Friday the US dollar swap curve was pricing in four 50-basis-point rises at the next FOMC meetings.



Source: Bloomberg

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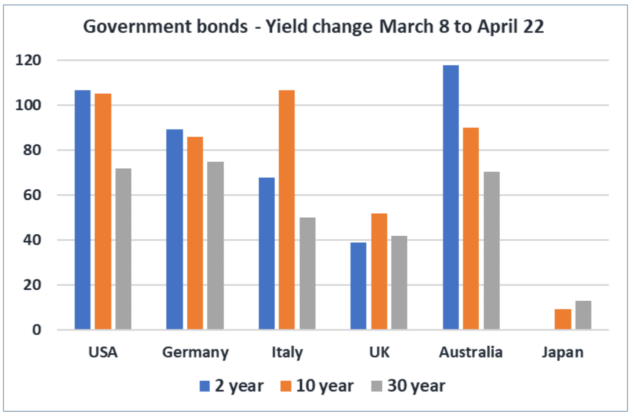
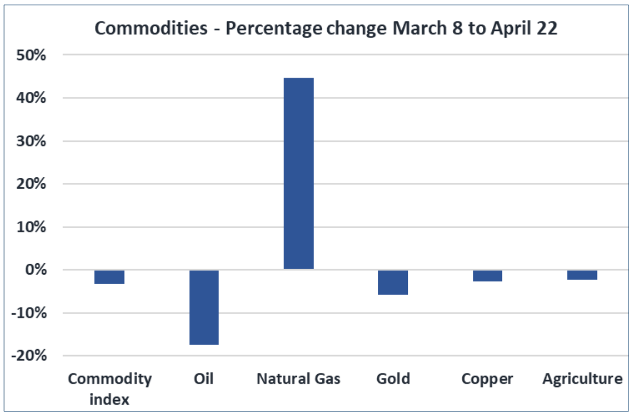


Source: Bloomberg, Azimut elaborations



Source: Bloomberg, Azimut elaborations

With the notable exception of Japan, between March 8 and April 22, interest rates around the world have risen between 40 and 120 bps in the short-end of the curves, and between 40 and 75 bps in the ultra-long end at a pace not seen in recent decades.

Ironically, this increase in rates occurred simultaneously with a retracement in the commodities' prices, many of which peaked around March 8, the same day interest rates began to rise. Only natural gas has continued to increase since then while all other major commodities have fallen, with oil being the worst-affected.

These declines in commodity prices will realistically help ease inflationary pressures in the coming months, particularly on the headline figure that also includes volatile components such as food and energy.

It's also worth noting that the YoY inflation figure will be subject to a considerable base effect beginning in March. As can be seen from chart below, in the three months between March and May 2021, consumer prices rose by just over 0.6% each month. This means that if inflation rises by less than 0.6% MoM in the next three months, the YoY figure will fall from the current 8.5%, reinforcing the belief that inflation may have already peaked in this cycle.

Source: Bloomberg

We are therefore in a phase where, on the one hand, bonds are extremely oversold in the short term and market participants have begun to discount the possibility that Fed will raise rates even more aggressively than communicated by its more hawkish members, while, on the other hand, there is the potential for positive surprises in inflation data, as well as the risk of an escalation of the conflict in Ukraine or negative surprises from the reporting season.

(continued)

This is a mix of factors that in the short term could trigger a reversal in the upward trend of interest rates, allowing for a healthy consolidation phase after such a swift and extended movement.

We emphasize that this is a short-term trading call. In the medium to long term, we continue to believe that the rate hike cycle is far from over. Although inflation is expected to moderate in the next months, it is nevertheless expected to stay higher than it has been in recent years, causing interest rates to rise above recent levels.

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 **Underweight** recommendation on Developed Markets Equities. Outspokenly restrictive central banks, elevated valuations, surprisingly strong EPS expectations, increases in nominal and real rates, geopolitical tensions, lockdowns in China and supply chain disruptions are the main reasons for why the Committee is particularly cautious on the equity markets. The current reporting season will help determine whether or not earnings expectations are realistic. In terms of the strategies, we prefer minimum volatility and high dividend.

US	=	**Europe**	=	**Japan**	=

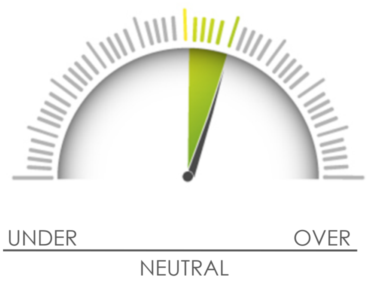
Emerging Markets

We kept our **Underweight** recommendation on Emerging Markets Equities. Hawkish central banks, increases in nominal and real rates in developed countries and geopolitical tensions warrant a cautious stance on Emerging Markets. We remain cautious on China among emerging markets, not just because the zero-Covid policy appears too aggressive given the scope of the contagion, but also because the monetary and fiscal actions stated so far are too restricted to be truly effective.

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

Fixed Income

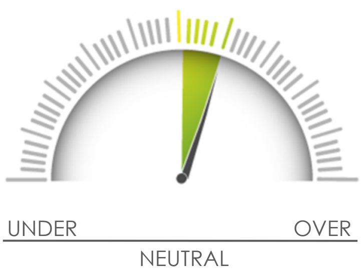
Developed Markets Sovereign



We increased our recommendation on Developed Markets Sovereign Bonds to **Slightly Overweight**. Interest rates have increased substantially around the world in recent weeks, as discussed in the report's prologue, and have reached levels from which at least a short-term retracement is possible. We are only temporarily turning bullish on the long-end of the curve, as we expect higher rates in the medium to long term. As a safe haven, we continue to favor government bonds with short residual maturities, as they offer a limited downside.

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

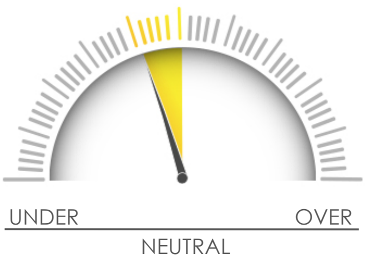
Developed Markets Corporate



We kept our recommendation on Developed Markets Corporates to **Slightly Overweight**. The decision to keep the recommendation stems mostly from the fact that spreads have not yet reached sufficiently attractive levels in light of the numerous concerns we are currently confronted with (potential economic slowdown, hawkish central banks, and geopolitical risks). Within corporates, our preference goes for short-dated, high-grade corporate bonds as they are less exposed to duration and/or spread risks. We remain cautious on high-yield bonds.

IG Europe	=	IG US	=	HY Europe	−	HY US	−

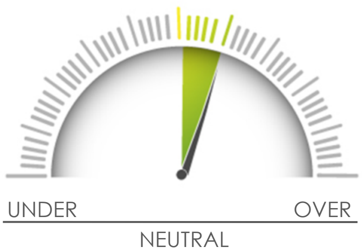
Emerging Markets



We maintained our **Slightly Underweight** recommendation on Emerging Market bonds. Despite spreads reaching high levels, it is reasonable to expect developing market bonds to remain under stress as long as Western central banks continue to release progressively hawkish statements. We prefer local currency bonds issued by commodity-exporting countries.

Local Currency	=	Hard Currency IG	−	Hard Currency HY	−

Commodities



We maintained our **Slightly Positive** view on the Commodities. We continue to prefer precious metals, particularly because of their safe haven status amid the current developments in Ukraine. Additionally, the precious metals may serve as an inflation hedge if inflation proves to be not temporary. We have a positive view also on agricultural commodities, whose prices should continue to remain strong in view of the supply disruptions caused by the war in Ukraine. We have maintained a more cautious view on the other commodities.

Precious	+	Energy	=	Industrial	=	Agricultural	+

Currencies

The Committee reaffirmed its positive view on the US dollar, owing primarily to its status as a safe haven, which typically outperforms during periods of market turbulence. Additionally, the greenback should be supported by the wider rate differential against the other currencies and the US economy's relatively limited exposure to Russia.

The view on the Euro is negative, considering that Europe will be the hardest hit by the war in Ukraine due to higher commodity prices, disruption in the supply chain, greater exposure of financial companies to Russia, geographical proximity to the area of conflict and an increased risk aversion towards Europe.

The view on the Chinese Renminbi continues to be negative due to the expectation of looser monetary policies, and the ambiguous position of China with respect to the conflict in Ukraine.

We maintain our Neutral recommendation for other emerging market currencies, as commodity exporters in emerging markets will benefit greatly from the significant increase in raw material prices. On the contrary, commodity-importing countries' currencies remain vulnerable to further depreciation.

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