AZIMUT
DEFINING INVESTMENT DIRECTION

AZIMUT GLOBAL VIEW

20.
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Week 4

Main Events

ECB MEETING	MARKIT PMI	FOMC	BoE
Market looking for more details about how Mrs. Lagard will lead the future path of monetary policy in the EU	Will the preliminary readings manufacturing and non-manufacturing PMI confirm the global recovery?	How will the Fed react to the early signs of recovery, and which path should be expected for policy rate in 2020?	Will the Bank of England react with more dovish monetary poicies to falling CPI and retail sales?
01.23	01.24	01.29	01.30

Azimut Global Network

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

Macro Commentary

After 18 months of disputes and tensions between China and USA, they eventually reached a partial trade deal. This is called "phase one deal" because it is supposed to be followed by further agreements in the future. The agreement signed between China and USA on January 15th will see Beijing increase its purchases of U.S. goods and services over the next two years by $200 billion compared to 2017 levels. Total exports to China would increase to around $260 billion in 2020, and $310 billion in 2021 if the deal goes smoothly.

Agricultural goods will be a big part of new purchases. China is supposed to buy an additional $12.5 billion of agriculture goods the first year, and then $19.5 billion in second year. Furthermore, China has promised to provide more protection for American companies' intellectual property and to stop requiring U.S. companies to share their technology as a condition of doing business in China. The deal also lowers some trade barriers in China and it opens a door for US financial services that want to operate in China; moreover it imposes penalties should China fails to fully implement the terms of the deal.

In exchange, the US administration agreed not to impose tariffs on some $160 billion in Chinese imports in consumer goods such as cellphones and laptops that were supposed to come into force on December 15th. It also reduced the tariff rate on another $120 billion worth of goods from 15% to 7.5%. However, 25% tariffs remain in place on many goods the U.S. buys from China.
However, if China imports $200 billion more goods and services from the US over the next two years, it will probably be obliged to reduce imports from elsewhere warning disruptive effect on global trade flows.

Financial markets reacted positively, but the following questions are still outstanding:

1) What countries will likely see lower exports to China to compensate higher imports from the USA?
2) What possible reaction Trump might have if China won't follow the rules?
3) Will Trump be tempted to follow the same strategy with other countries, especially in an electoral year like 2020 to gain more traction with voters?

Macro Commentary (continued)

Switching to politics, president Donald Trump hinted to a possible further tax cut to be announced during the summer. This was clearly an electoral campaign move, but caught the market participants by surprise as all were expecting expansive fiscal policies from the EU and the EM, not from the US.

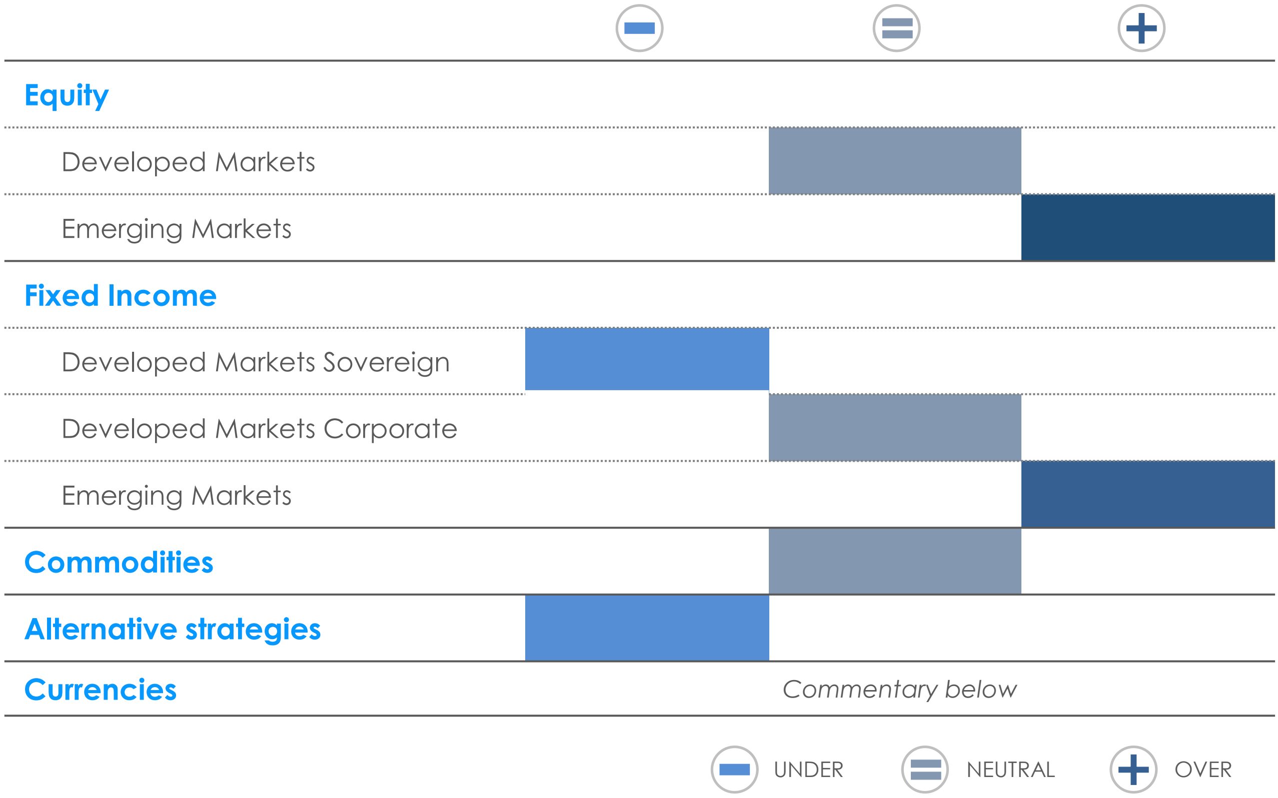
As a consequence, the US managed to outperform EU quite significantly and the EM over the last days.

Looking at macro data since the beginning of the year, non-manufacturing ISM index and retail sales data from both EU and US showed signs of strength and provided boost for the rally. This could also be viewed as a confirmation, after the usual lag of around 6 months, that the economy is starting to react to the monetary easing undertaken from most of the CBs worldwide.

As central banks are expected to remain dovish at least for the first half of the year, thanks to the lack of any evidence of price pressures, it could be possible that in the short term, markets could maintain an overall positive tone.

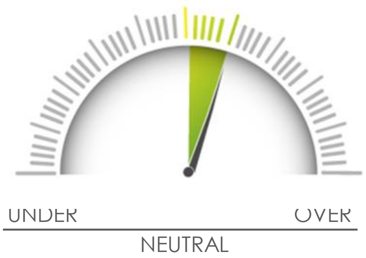
Over the longer term, the future is more uncertain and valuations could start to matter again.

Asset Allocation View



Equity

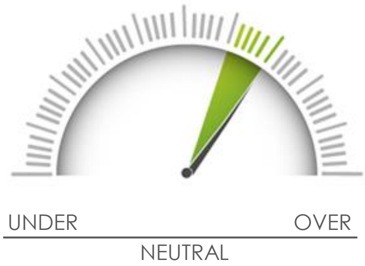
Developed Markets



On average there is a slightly positive view in the short-mid term, but with some diverging views among participants. Better macroeconomic data, central banks expected to be supportive in the short term, and no major risk in sight are all factors underpinning equities. On the cautious side, valuation are quite high from an historical point of view. European stocks are still considered a better value compared to US equities. Over the long term, equities are still the preferred asset class.

US	**Europe**	**Japan**

Emerging Markets

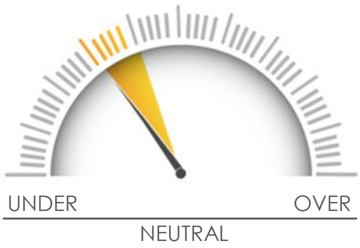


There is a generalized positive view on the asset class. Emerging market equities are enjoying the same positive factors supporting DM equities, but have much more compelling valuations. Diminished uncertainties related to the trade war are also supportive. Among region, Asia ex Japan and Emerging Europe are currently preferred to Latin America.

Asia ex-Japan	**EEMEA**	**LATAM**

Fixed Income

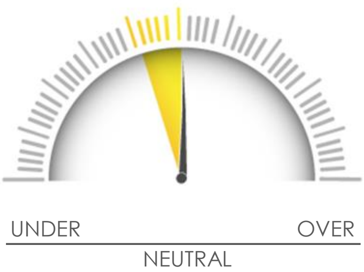
Developed Markets Sovereign



We have a generalized neutral view with an underweight tilt, due to the preference for equities. Central Banks' easing cycle is almost over, even if in some countries there's still some rooms to cut rates, mostly in US and UK. Short term rates are expected to remain rangebound in Developed Markets, whilst long-end rates could steepen. Within developement government, the only place where we can still see upside (or less downside) are US Treasury.

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

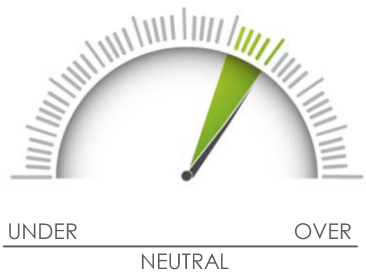
Developed Markets Corporate



We have a generalized neutral view with an underweight tilt, due to the preference for equities. The view is slightly more positive than on government bonds as the low/negative yield environment support the hunt for yield. The preferred region is Europe, where ECB's QE will probably lead to a further compression in spreads.
Within corporate bonds investment grade (better if hybrid or subordinated bonds) are preferred to high yield.-

IG Europe	+	**IG US**	=	**HY Europe**	−	**HY US**	−

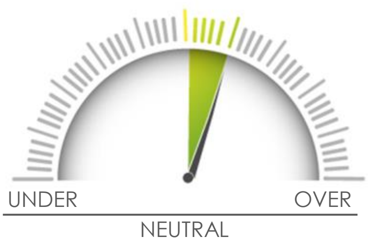
Emerging Markets



We have a generalized positive view on the asset class. After large outflows over the past months due to trade war and global slowdown, EM bonds trade at relatively attractive levels on an absolute basis, and also on a relative basis vs high yields. The current low/negative yield environment and DM central banks still on the dovish side support the hunt for yield, which eventually should lead to narrower spreads. The only segment of EM bonds to avoid are the high yields.

Local Currency	+	**Hard Currency IG**	+	**Hard Currency HY**	−

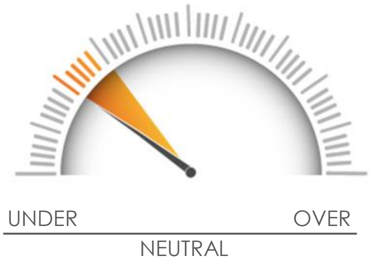
Commodities



We have a neutral stance with a positive bias. We continue to prefer precious metals not only because of the low yield environment, but also and more importantly as an hedge against geopolitical tensions and unexpected turbulence.

Precious	+	**Energy**	=	**Industrial**	=

Alternative Strategies



We have a negative outlook as low volatility strategies continue to suffer in the current environment. Among Alternative strategies, better the low volatility strategies rather than the medium- and high-volatility ones as an alternative to fixed income strategies.

Low Volatility	=	**Medium Volatility**	=	**High Volatility**	−

Currencies

We have a slightly positive view on the Euro, due to the expectation of implementation of fiscal policies in Euro, and the dimished risk of Brexit. Medium to long term view is also sligthly positive on average, but with substantially different views amongst the committee's participants.
Likewise for the US dollar the committee has a slightly negative view, mostly because of the diminished risks and the increased propensity to risks.
The view on Japanese Yen in slightly negative. Upside potential seen only in case of a sharp and unexpected increase in the risk aversion on financial markets.
On emerging market currencies, the view is generally positive. Some emerging currencies appear undervalued and could offer an interesting entry point. DM CBs in easing mode and negative yields support the demand for higher yielding securities.

Euro	=	**USD**	=	**Yen**	−	**Emerging**	+