AZIMUT
DEFINING INVESTMENT DIRECTION

AZIMUT GLOBAL VIEW

17.02.20

Week 8

Main Events

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

19.02	21.02	25.02	29.02
FED MINUTES	**MARKIT EU**	**US CONS CONF**	**MARKIT CHINA**
Looking for insights about how the FOMC sees the current economic environment	The first reading of manufacturing and services survey in the EU after coronavirus outbreak	Consumer confidence is expected to remain robust in the US	How bad will the manufacturing and non-manufacturing confidence data be?

Macro Commentary

Unstoppable. No other adjective seems more appropriate to describe the relentless advance of all asset classes since the end of the summer.

Even the outbreak of the coronavirus in China has been regarded as an insignificant event. Developed Equity Markets have fully recovered the marginal losses incurred at the end of January, when the markets initially worried about the potential economic disruptions of an almost complete halt in the Chinese economy. Even in China, where many estimates affirm that the economy is running at around 40% of its full potential due to the quarantine measures, the index of Mainland Chinese stocks has rebounded by more than 10% from its 2020 lows and it's almost flat YTD.

In fixed income, the story isn't different. Sovereign bond yields have come back from the lowest levels touched in 2019, whilst in corporate bonds, anything that offers a decent return is bidded in size. New issuances are oversubscribed multiple times, and on the secondary market the prices of those bonds continue to increase sharply, in few cases even by more than 5% over few days.

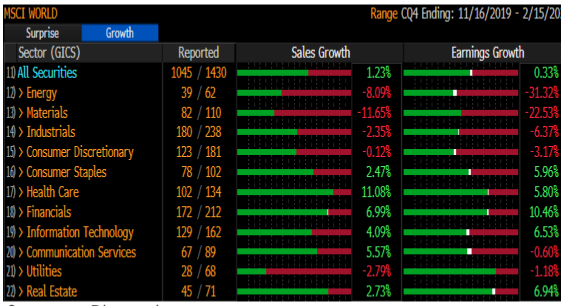
The reason behind these moves is always the same: more central bank easing. Ten days ago, Powell acknowledged that the coronavirus could impact global growth, but he was also keen to say that the Fed is monitoring the evolving situation and will act accordingly. The People's Bank of China injected a record amount of cash just after the end of the Chinese new year, and yesterday China pledged more fiscal and monetary support for the economy.

If liquidity is granted, nothing else seems relevant. In this environment, and without any major macro data to focus on, better to focus on micro data.

Looking at MSCI World index, almost 3/4 of the companies already reported their 4Q19 profits. To assess the results, there are two main metrics to look at: one is the "growth" rate of sales and earnings, the other one is the "surprise" (i.e.: the number of companies reported better and worse than expected). Those metrics are reported in the two Bloomberg charts on the next page, respectively on the left hand side and on the right hand side.

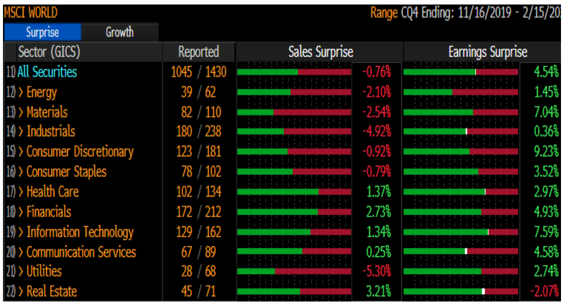
Macro Commentary (continued)

MSCI World – QoQ Earnings and Sales – Reporting season Q419



MSCI WORLD — Range CQ4 Ending: 11/16/2019 - 2/15/20 — Surprise | Growth

Sector (GICS)	Reported	Sales Growth	Earnings Growth
11) All Securities	1045 / 1430	1.23%	0.33%
12) > Energy	39 / 62	-8.09%	-31.32%
13) > Materials	82 / 110	-11.65%	-22.53%
14) > Industrials	180 / 238	-2.35%	-6.37%
15) > Consumer Discretionary	123 / 181	-0.12%	-3.17%
16) > Consumer Staples	78 / 102	2.47%	5.96%
17) > Health Care	102 / 134	11.08%	5.80%
18) > Financials	172 / 212	6.99%	10.46%
19) > Information Technology	129 / 162	4.09%	6.53%
20) > Communication Services	67 / 89	5.57%	-0.60%
21) > Utilities	28 / 68	-2.79%	-1.18%
22) > Real Estate	45 / 71	2.73%	6.94%



MSCI WORLD — Range CQ4 Ending: 11/16/2019 - 2/15/20 — Surprise | Growth

Sector (GICS)	Reported	Sales Surprise	Earnings Surprise
11) All Securities	1045 / 1430	-0.76%	4.54%
12) > Energy	39 / 62	-2.10%	1.45%
13) > Materials	82 / 110	-2.54%	7.04%
14) > Industrials	180 / 238	-4.92%	0.36%
15) > Consumer Discretionary	123 / 181	-0.92%	9.23%
16) > Consumer Staples	78 / 102	-0.79%	3.52%
17) > Health Care	102 / 134	1.37%	2.97%
18) > Financials	172 / 212	2.73%	4.93%
19) > Information Technology	129 / 162	1.34%	7.59%
20) > Communication Services	67 / 89	0.25%	4.58%
21) > Utilities	28 / 68	-5.30%	2.74%
22) > Real Estate	45 / 71	3.21%	-2.07%

Source: Bloomberg

Overall sales and earnings growths were almost flat (+1.22% and +0.06%, respectively). Cyclical sectors (materials, energy, and industrials) were the worst reporting sectors with contracting sales and EPS. Healthcare, tech and financials lead the advance. Mixed results for utilities, which missed on sales but behaved decently in terms of profitability. We get the same indication, if we look at the "surprise" indicators.

In light of this evidence, markets behaved in a rational way over the past months, as cyclicals were left behind in the recent rally that was instead dominated by tech, healthcare and utilities.

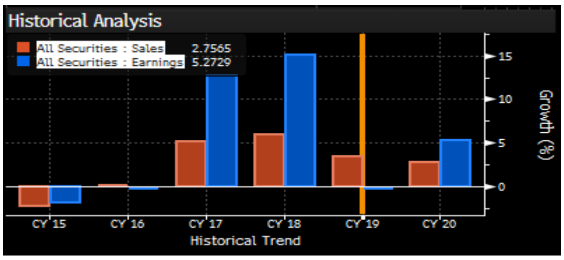
In the US, 74% of the companies beat EPS estimates by 5% showing an EPS growth of +1%, the first quarterly growth rate since Q418. Commodity sectors dragged on the aggregate results: without the energy sector, EPS growth would have been +5%. For the whole S&P500, sales increased by 4%, with companies beating estimates by 1%. Large cap outperformed sensibly small and mid-cap. Despite better Q4 results, EPS '20 consensus estimates nudged down to $175 per share, with a growth rate of +8% YoY from previous expectation of +9%.

In Europe, 51% of the StOXX 600 companies reported so far. Of them, 58% beat EPS estimates by 4%, with a growth rate of +1% YoY (+7% ex-Energy). On revenues, 57% of companies beat estimates with 2% YoY growth. EPS estimates for 2020 nudged down slightly to +8% YoY from +8.5%, despite the Q4 beat.

Japan was by far the worst market. With 88% of reports out, just 49% of TOPIX beat EPS, with an overall "growth" of -5% YoY. Top line growth also decreased at a 4% annual rate.

Coming back to the MSCI World index, the graphs below show earnings and sales growth data for the past and coming years/quarters. For the whole 2019, earnings growth has been slightly negative, whilst sales increased less than 4%. In the last quarter, earnings were also flat and sales growth around 1%.

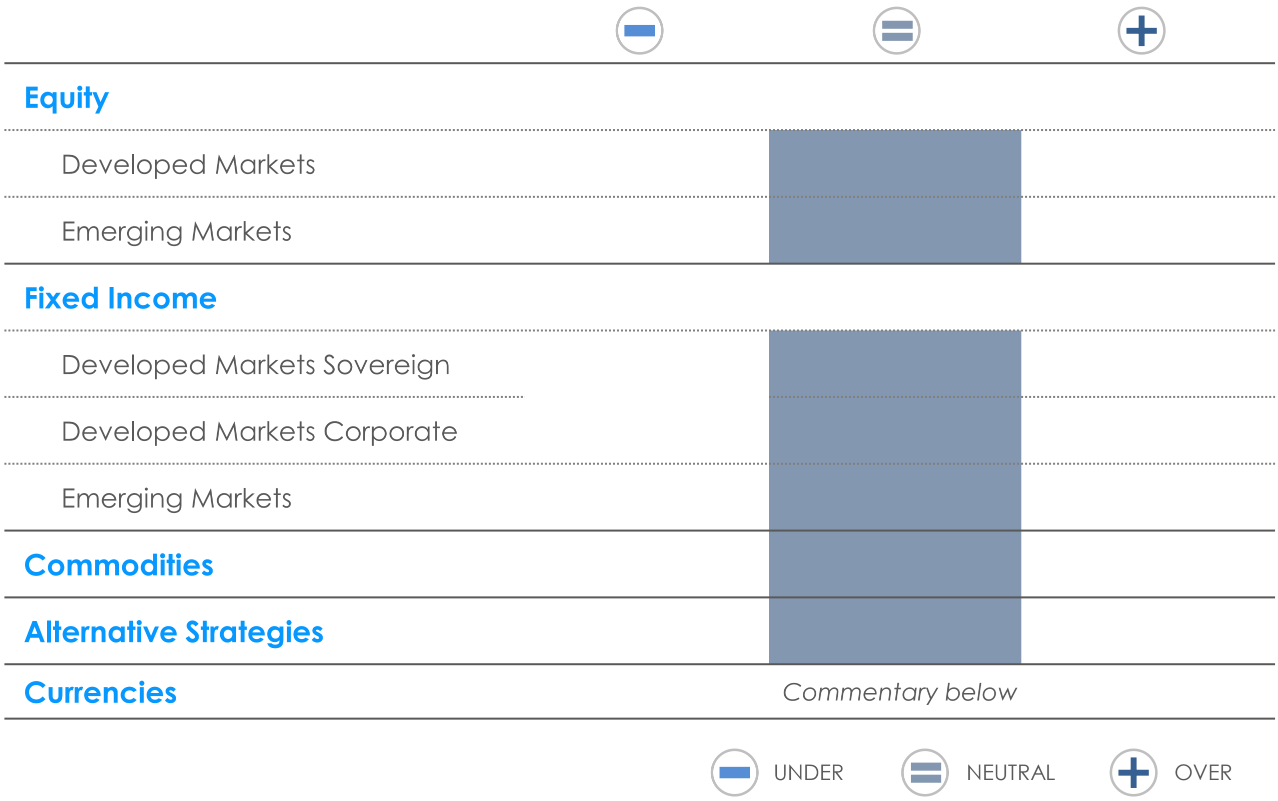
MSCI World – Earnings (blue) and Sales (orange) growth – YoY [LHS] and QoQ [RHS]



Source: Bloomberg

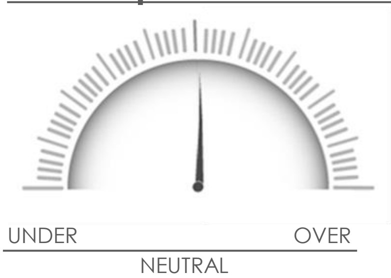
Earnings expected to grow at about 5% for 2020. Considering the outbreak of the coronavirus, is this realistic? The answer could come as early as the next reporting season.

Asset Allocation View



Equity

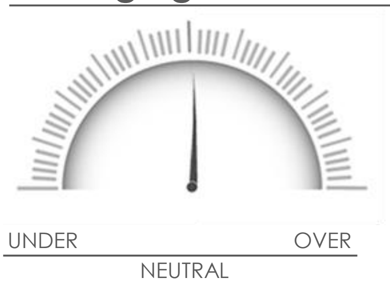
Developed Markets



We maintain the neutral stance, waiting to better gauge the true impact of the outbreak of the Coronavirus. Economic activity in China is still running below potential due to the measures to curb further expansion of the virus, and it is reasonable that the global economy will be somehow impacted. On the positive side, the supportive measures enacted and/or expected by global central banks and by the Chinese government could reassure markets and keep global equity markets up. In terms of countries, we keep the neutral stance, after having downgraded Europe to neutral last week.

US **Europe** **Japan**

Emerging Markets

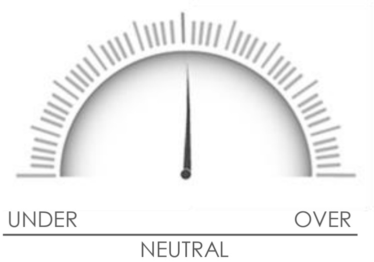


We maintain the neutral stance, waiting to better gauge the true impact of the outbreak of the Coronavirus. Chinese economy is running at about 40% of its potential due to the travel ban, and the closure of many factories, public offices and schools. We maintain the underweight in Asia ex-Japan as it is the main affected area by coronavirus. We are slightly more positive on LATAM and EEMA as those regions show no sign of contagion, and the recent correction in the Emerging Markets brought valuation to more attractive levels.

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

Fixed Income

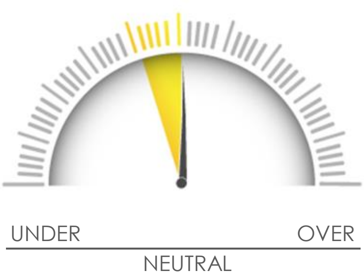
Developed Markets Sovereign



We tactically upgrade our view on the asset class to neutral, as DM sovereign may prove to be a good hedge until coronavirus infection begins to recede. Strategic view remained negative, due to the historical low levels reached by risk-free rates. Within sovereign, the preference is for US Treasuries as a hedging tool, and Italian BTPs. The recent results of the regional elections in Italy, that clearly indicating no risk of snap elections in the short/medium term could drive the spread with German bund as low as 80 bps.

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

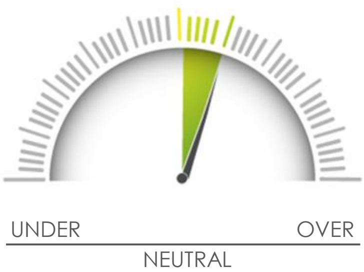
Developed Markets Corporate



We maintained a neutral view with an underweight tilt. The unchanged view is the result of two opposite forces: on the positive side there is no longer a preference for equities due to the outbreak of the coronavirus (corporate was underweight mainly due to the preference for equities); therefore the general view on the asset class has improved. On the negative side the higher uncertainties could lead to a more risk averse environment. The preferred region is still Europe, where ECB's QE will probably lead to a further compression in spreads, and within corporate bonds investment grade are preferred to high yield.

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

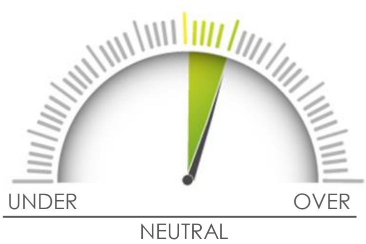
Emerging Markets



We downgraded the view on the asset class from positive to slightly positive due to the coronavirus. The view is still positive as EM bonds trade at a relatively attractive levels, the current low/negative yield environment will support the hunt for yield, and DM central banks are still on the dovish side. Also, the fallout from the virus should moderately affect the asset class at this stage (bonds could benefit from the expectation of lower rates going forward). The only segment of EM bonds to avoid is the high yields.

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

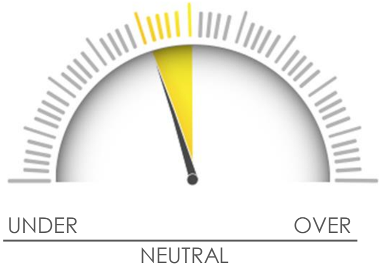
Commodities



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 a hedge against geopolitical tensions and unexpected turbulence. We decreased to underweight the recommendation on energy and industrial commodities as the coronavirus could lead to a global slowdown.

Precious	+	**Energy**	−	**Industrial**	−

Alternative Strategies



We improved our view on liquid alternative strategies, as the low yield environment together with the increased risks related to the coronavirus makes low volatility strategies a good alternative to fixed income strategies. We continue to prefer mixed-assets or equity funds to medium- and high-volatility alternative strategies.

Low Volatility	+	**Medium Volatility**	−	**High Volatility**	−

Currencies

We have a neutral view on the Euro. On one hand the Euro, being a currency with negative yield, could have been used as a funding currency, and during risk-off environment, funding currencies tend to outperform. On the other hand, EU will be one of the most vulnerable areas to a possible Chinese slowdown.

We maintain a neutral view on the US dollar as well. US will be less impacted by a Chinese slowdown as the GDP mostly depends on the domestic consumption, and the US dollar tends to be considered as a safe haven in times of stress. On the negative side, the Fed has room to lower its benchmark rate more than other Central Banks, and a narrowing rate differential could drag down the greenback. Some participant are taking partial or total profit on their long positions on US dollar.

The view on Japanese Yen is neutral as well. It's the most used funding currency, and therefore could benefit from the increased risk aversion.

On the Emerging Markets Currencies, the view is tactically slightly negative. Even if some emerging currencies appear undervalued, the outbreak of the coronavirus will probably lead to outflows from the asset class.

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