Main Events

MARKIT PMI	US CONS CONF	ITA CONFID.	CHINA PMI
The first reading of the corporate confidence for March	So far US consumers maintained strong confidence in the economy. Will this be sustainable also in March?	The first macro data collected in Italy after the coronavirus outbbreak. How weak the numbers will be?	The whole world will look at Chinese PMI to assess the speed of the recovery after coronavirus containment
24.03	27.03	27.03	31.03

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

Stay Home and Buy Equities

All hell broke loose over the last two weeks.

Of course the real tragedy is the threats to the lives of our families and friends. Nothing can compare to this, and the entire Azimut management team wishes to express their solidarity to those affected.

In financial markets, this correction coupled with deleveraging is breaking countless of records day after day. On top of the coronavirus pandemic, two major events occurred causing even more panic: the breakup of the OPEC+ cartel (OPEC plus Russia) and the utter failure of central banks to underpin the markets.

The OPEC+ cartel failed to reach agreement to reduce oil production in response to the decreasing demand due to coronavirus outbreak. The end game was an all-out-war among cartel members, with Saudi Arabia and Russia deciding to pump as much as they can. Oil prices fell by a staggering 30%, below the breakeven price for most of the US shale oil/gas companies. This resulted in a blow-up of the spreads of the US high yield energy companies, which makes up 10% of the entire US high yield market, to new record highs (graph in the next page, LHS).

The credit market, which until that moment was quite tame, started to churn along with the whole financial markets, due to margin calls and the forced deleveraging. But the final blow to financial markets came from the institutions that rescued them several times over the past decade: Central Banks.

The first hit came from Ms. Lagarde who, during the conference call, openly criticized EU governments for not delivering an adequate fiscal stimulus for the eurozone. In times of unprecedented stress, opening a front between institutions of the same jurisdiction is not a wise move, and certainly it doesn't calm markets. But the real shock was her stating that ECB was "not here to close spreads". It is commonly known that peripheral sovereign and corporate bonds trade at rates well below their fair level, due to the ECB's QE. With this statement Ms. Lagarde gave green light to speculators to go after peripheral bonds. With a few botched words, she crushed all the effort put forth by the ECB in the past years.

(continued)

Source: Bloomberg

Source: Bloomberg

Immediately, Italian government bonds, subordinated bonds and equities went in a freefall, bringing down the rest of Europe and global markets with them.

The Fed tried to step in, offering up to 5 trillion USD of repo over one month, with 1.5 trillion available in the following two days. This move came in just days after the 50 basis points inter-meeting emergency cut of the previous quarter. Markets bounced back immediately, but then erased all gains and closed at new lows for the day at -10%.

Unsatisfied, the Fed doubled down on another extraordinary meeting, this time on Sunday. The US central bank slashed official rates by a full percentage point to about zero, reduced the reserve requirement ratio to zero (i.e. the commercial banks can create infinite amount of money), provided liquidity via standing U.S. dollar liquidity swap arrangements with the other major central banks, and committed to another round of QE via the purchase of at least (no upper cap) 500 billion of Treasuries and 200 billion of MBS. During a subsequent conference call, Mr. Powell stated that he doesn't envisage to cut rates below zero, it means that in just over a week the Fed went all-in, and is now out of ammunitions.

The markets again reacted in a quite rational way: what does the Fed know that nobody else knows that it deploys its full arsenal at once? On Monday, the markets were again in a freefall, poised for another record-breaking session.

It is worth noting that after all of these measures, 10 year Treasuries are at the very same level of March 6th, whilst 10 year bunds are at the lowest level in a month. Over the same time horizon (March 6th and February 19th) , the S&P 500 and Eurostoxx 50 fell by 19% and 40%, respectively. This could mean that market participants started to lose faith in the ability of central banks to control markets.

But the failure for bonds to balance the performance of equities in a portfolio, also implies that many investment strategies went under huge stress and were forced to deleverage sharply, offloading billions of equities and bonds in a very short period of time. Among those strategies, the hardest hit have been risk-parity and CTA. As a result, VIX spiked to about 80, closing at 82.69 on March 16th(graph above, RHS), the highest closing level ever, even above 2008 (80.86).

What to expect next? The market is deeply oversold and the Fed really did "whatever it takes" to save the financial markets. In the short term a rebound is highly possible, even in the range of +15%/+25% from the current levels. Increasing equity exposure at this level could prove to be a very rewarding strategy.

If offered, this rebound should be then used to scale back risk in the portfolios, as the second part of 2020 could be very volatile once economic data will show the true impact of the Coronavirus on the economy.

Asset Allocation View

	−	=	+
Equity			
Developed Markets			upgrade
Emerging Markets			upgrade
Fixed Income			
Developed Markets Sovereign			
Developed Markets Corporate	downgrade		
Emerging Markets	downgrade		
Commodities			
Alternative strategies	downgrade		
Currencies		*Commentary below*	

− UNDER = NEUTRAL + OVER

Equity

Developed Markets

UNDER OVER

NEUTRAL

After the sharp correction of the past weeks, we upgrade our view on developed markets equity to Buy for short to mid term. The oversold conditions of most markets and the huge measures announced by the Federal Reserve could help markets stabilize and find a bottom. If volatility decreases, than a relief rally could unfold. There's not enough visibility on the virus and its effect on the economy, therefore over the mid to long term the view is more cautious. We prefer EU and US equities, the former owing to much deeper correction, and the latter for the support offered by the Fed. Japan is kept underweight.

US	+	**Europe**	+	**Japan**	−

Emerging Markets

UNDER OVER

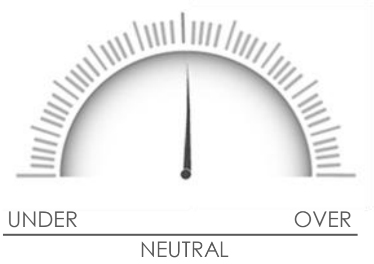
NEUTRAL

We upgraded our view on EM equities to Buy for mid to long term. The huge sell-off drove market valuations to levels usually associated with elevated long-term returns. Emerging Asia, that represents almost three quarters of EM, is the only region where we are bullish. On top of the low valuations, Asia could be the first region to re-emerge from the pandemic, and it is a huge importer of commodities whose prices dropped sharply. Only headwind for Asia is the current lockdown in Europe, one of the main target markets of Asian exports. The drop in commodity prices is the reason behind the negative view on Latin America and Emerging Europe.

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

Fixed Income

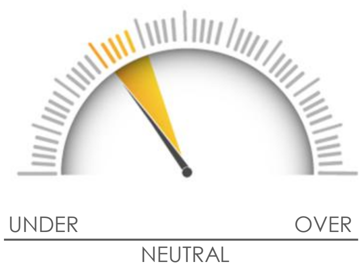
Developed Markets Sovereign



We maintain a Neutral view as the massive interventions from central banks worldwide seems not enough to further propel bond prices. Among sovereign bonds, US treasuries is the only asset class we have a positive stance on, as they could benefit from both the resumption of the Fed QE, and the safe haven status for investors during phases of risk aversion. We downgraded EU periphery to underweight as the unfortunate comments from Ms. Lagarde during the ECB conference call could lead to wider spreads.

EU Core	–	**EU Periphery**	–	**US Treasury**	+	**Japanese JGB**	–

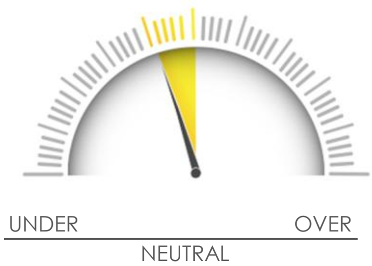
Developed Markets Corporate



We downgraded developed market corporate for three main reasons. The first one is the drop in oil prices, that added stress to the whole high yield spectrum, already suffering huge outflows. The second reason is that the current lockdown in Europe and possibly down the road for US, could bring billions of bonds that are currently rated BBB- (lower investment grade rating) over the cliff of the high yield rating. This would add stress to both credit segments. The third one is that so far spreads have not widened enough compared to the big correction we had in the equity markets.

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

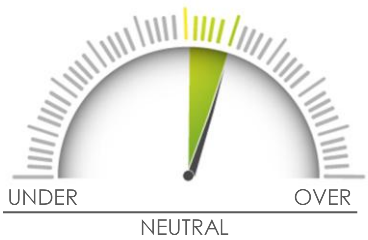
Emerging Markets



We downgraded EM bonds to slightly underweight for the very same three reasons reported in the developed market corporate commentary. Only plus for emerging market bonds is that their spreads are wider and therefore relatively more attractive.

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 keep the underweight recommendation on energy and industrial commodities as the lockdown will reasonably lead to a global recession.

Precious	+	**Energy**	–	**Industrial**	–

Alternative Strategies

We downgraded our recommendation on liquid alternative strategies. The current level of volatility does not allow alternative strategies to work properly, and the risk to incur in unexpected losses and/or higher than expected volatility is not negligible. Also, alternative strategies have to be considered mostly when risk premiums are low and there is a risk of corrections. Now that most markets accused sharp corrections, it is better to invest in traditional (long only) products.

Low Volatility	+	Medium Volatility	−	High Volatility	−

Currencies

We have a neutral view on the Euro, as a result of opposing forces. On one side the euro could suffer from the current lockdown and the unfortunate comments of Ms. Lagarde. On the other side the fact that the ECB has been the only major central bank not to engage in substantial monetary easing could make the Euro less abundant than other currencies, and therefore appreciate. On top of that the euro is a funding currency and therefore could appreciate in times of increased risk aversion.
We have a neutral view on the US dollar. Likewise for the euro, there are two opposing forces in place. The narrowing rate differential and the huge injection of liquidity promised by the Fed could weaken the US dollar. On the other hand, the deleveraging and the more risk-averse attitude by market participants are supporting the demand for "safe haven" assets, and the US Treasuries are amongst them. The recent widening of the FRA-OIS spread (a measure of scarcity of US dollar) also pose for a stronger greenback.
The view on Japanese Yen remains strongly negative. The only appeal of the Yen was its strength during phases of rising risk aversion. During the recent sharp correction, Japanese Yen did not outperform other currencies, losing its main function in a portfolio. Domestic economy was also facing a pronounced slowdown, even before the coronavirus outbreak.
On the Emerging Markets Currencies, the view is neutral. Some emerging currencies appear undervalued and the mounting negative yielding assets are supportive for the asset class, but the expectation for a global recession due to the coronavirus is reducing emerging currencies appeal.

Euro	=	USD	=	Yen	−	Emerging	=