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

CHINA PMI – 01.04
A Chinese PMI rebound could bring hope to the rest of the world of a possible quick recovery from the coronavirus

US MARKIT – 03.04
So far US corporate confidence fared much better than elsewhere. Will it be sustained after the outbreak grows in the US?

US PAYROLLS – 03.04
After a staggering increase in jobless claims last week, what to expect from the non-farm payrolls?

US CONS SENT – 09.04
The first reading of April Consumer Confidence is the one published by the University of Michigan. What will it show?

LOOKING FOR THE BRIGHT SPOTS

After a month of record-breaking disorderly correction, markets were finally able to balance and find a bottom. There are at least three main reasons behind this recovery.

One of them may very well be the expiry of the "quadruple-witching" (the quarterly and simultaneous expiry of both indices and single stock futures and options), that occurs four times a year, on the third Friday of the quarter-ending month, when all the derivative positions are settled. As many market participants were trying to enhance their portfolio's return via selling protections (either assuming naked short position of selling volatility), or were just outright long without hedges in place (believing that central banks would have been able to face any problem), once the markets fell below a certain threshold, many had to cover themselves or to face a huge margin call. Consequently, market participants were forced to dispose some of their assets, further reinforcing the vicious cycle. Once the quadruple-witching was over and the positions settled, there was nothing left to sell, and the brutal cycle has stopped.

The second one is the quarterly rebalancing of the pension funds. After the massive sell-off in equities and the rally in the sovereign bonds, pension funds found themselves strongly underweight of equities vs. their target allocations. As such, it is estimated that at quarter end pension funds should collectively buy around 200 Billion USD worth of equities. As this is a widely known information, it is well possible that some market participants started to buy equities in anticipation of the flows from the pension funds.

The third and ultimate reason is the mammoth amount of monetary and fiscal stimulus implemented by the central banks and governments worldwide.

Firstly, it was the Fed that stepped in and provided enough funding to fight the liquidity shortage in the markets. To give some context; 1) up to 5 trillion USD available for banks via REPO; 2) swap lines with other central banks in order to provide unlimited funding in USD; 3) at least 700 million of QE on Treasuries and MBS; 4) Purchase of unlimited corporate bonds in order to grant enough liquidity for corporations to stay afloat during the lockdown.

(continued)

Also other central banks helped the markets, like the ECB who announced, among others, a QE of 750 billion and new LTRO and TLTRO, and the BoE who started a 645 QE program and also up to £100 million of lending to SMEs.

Some governments have also stepped in with major fiscal spending. US again provided the largest stimulus ever. Considering that the US GDP is around 20 trillion, it means that on each quarter the USA produces 5 trillion of GDP. Currently, the most pessimistic projections are for a contraction of 30% for one quarter due to the covid-19. That means that we should expect a loss of about 1.5 trillion caused by the lockdown. The fiscal stimulus just approved by the US Congress is about 2 trillion, hence exceeding the most pessimistic projections.

Several other governments worldwide approved further monetary and fiscal policies. Some of them are also massive compared to their GDPs, and amongst them, there is Germany and France, approving fiscal spendings of about 750 billion and 300 billion, respectively.

All those actions have bought time, putting a floor on a rapidly and disorderly collapsing markets. We can therefore expect that over the next few weeks and months, financial markets will try to recover part of the losses inflicted by the forced deleveraging and margin calls. The expectation, though, is that the recovery will not be linear, but we should continue to assist to very volatile trading sessions. The most likely outcome is that financial markets will remain range-bound in a quite wide trading range around the current levels.

Over the longer term, there will be some persistent effects on the economy and financial stability, even with all the supportive measures highlighted above. Some of the SMEs and familiar enterprises could not survive the lockdown, the more so the longer the shutdown of the economy will persist. Many jobs will be lost in that process. Governments will find themselves with higher debt/GDP ratios. And many bonds will either be downgraded from investment grade to high yield, or will default.

Although we can now enjoy the calm after the storm, in the second half of the year we could expect some more turbulence.

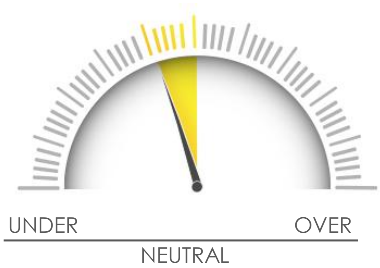
Asset Allocation View

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

− UNDER = NEUTRAL + OVER

Equity

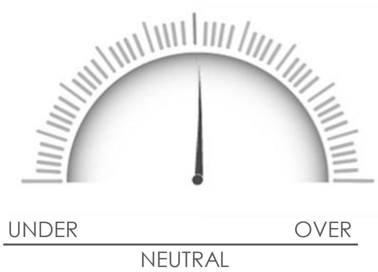
Developed Markets



After the rebound, we change our view to a netural stance with a negative bias, taking profit on our call of two weeks ago to be overweight equities. Probably last week lows could hold up for the time being, thanks to the monetary and fiscal measures which ensured liquidity continued to flow through the markets and contained the fallout of the lockdowns. As the rebound from the lows has been quite strong (>20%), it is expected that in the near future equity markets could remain range-bound within a wider trading range around current levels. Region wise, EU is cheaper than US and worsely impacted by the pandemics, but US has initiated stronger monetary and fiscal stimuli than the EU.

US	=	**Europe**	=	**Japan**	−

Emerging Markets

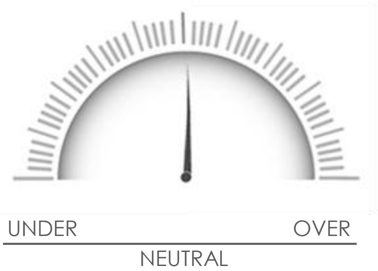


After the rebound, we change our view to netural stance, taking profits on our call of overweight to equities two weeks ago. Probably last week lows could hold up for the time being, thanks to monetary and fiscal measures put in place by several developed markets which should reduce liquidity shortages and offset the slowdown induced by the coronavirus. Emerging Asia 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. 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 the safe haven status for investors during phases of risk aversion. We maintain the EU peripheral bonds in underweight as the expected decrease in GDP and fiscal receipts, together with the increase in fiscal expenditure will weaken the creditworthiness of the countries already suffering from high debt/GDP ratios.

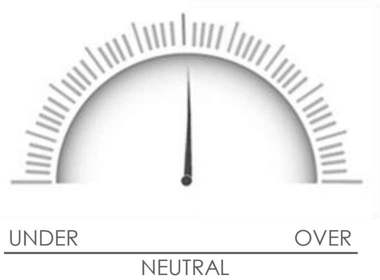
EU Core	=	EU Periphery	−	US Treasury	+	Japanese JGB	−

Developed Markets Corporate

We increase our stance on corporate bonds to slightly overweight after the huge sell-off across the wider credit markets. The preference is for corporate bonds with investment grade ratings (both Europe and US), as the current sell-off caused IG yields to increase substantially above sovereign bonds, in spite of no material changes in their long term creditworthiness. The view remains negative on high yield bonds on the anticipation of several IG downgrades to HY, together with an increase of the default rate, could keep the whole segment under pressure.

IG Europe	+	IG US	+	HY Europe	−	HY US	−

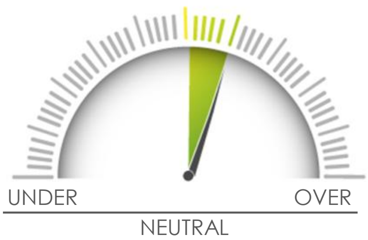
Emerging Markets



We remove the slightly underweight recommendation and move to neutral with a positive bias as the monetary and fiscal stimulus implemented or announced so far could help reduce the liquidity shortage and increase the attractiveness of risky assets. Emerging market bonds are trading at attractive levels both in local and hard currencies.

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 maintain our underweight 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. The monetary and fiscal measures approved or under discussion in the EU seems less material than those in the US. On one hand this means that there will be relatively less Euro than US dollar in the market (and this shoud strenghten the euro), but also that the fallout of the coronavirus will be more profound, reducing the attractiveness of the region.
We have a neutral view on the US dollar for the very same reasons explained for the euro.
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.
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**	=