AZIMUT
DEFINING INVESTMENT DIRECTION

AZIMUT GLOBAL VIEW

14.04.20

Week 16

Main Events

RETAIL SALES
The first reading on US retail spending during lockdown will help assess the severity of the slowdown.
15.04

EU CONS CONF
On March end, European consumer confidence was only slightly negative. Will the reading be confirmed?
22.04

ZEW GERMANY
After more than one month of lockdown, how will the enterprise see the future?
24.04

US CONS CONF
How much will the massive layoffs of the past weeks impact the consumer sentiment?
28.04

Azimut Global Network

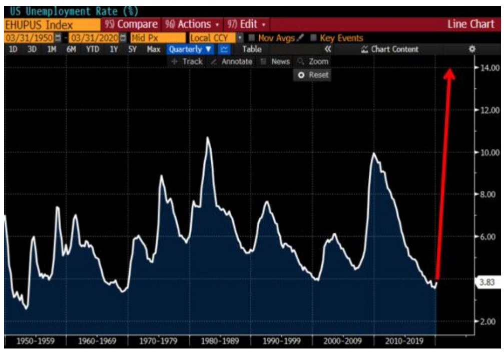
- **Milan**
- Abu Dhabi
- Cairo
- Dubai
- Dublin
- Hong Kong
- Istanbul
- Lugano
- Luxembourg
- Mexico City
- Miami
- Monaco
- Santiago
- São Paulo
- Shanghai
- Singapore
- Sydney
- Taipei

BETWEEN A ROCK AND A HARD PLACE

After the huge month-long drawdown ended in late March, the rebound that we advocated few weeks back has realized. Fed interventions to rein in the liquidity shortfall was the smoking gun. But as of late, financial markets seem to be growing (overly?)and optimistic about the future. Is this trend sustainable?

Let's start with a brief assessment of the economy, using the few data we have on a timely base. First, let's take the biggest economy, the US, and the consumer, its growth engine, that accounts for 70% of the US GDP. The chart shown on left below demonstrates the labor force, the people currently employed. This data from the April payroll report shows the period through second week of March before the US entered the shutdown. The table inside the chart shows the latest three weekly jobless claims. Over this short period, 17 million people lost their job. To put it in perspective, it's double the job losses over the great financial crisis of 2008-2009. As the US labor force is about 160 million people, it means that the unemployment rate will increase by 10%, and should now stand around 14%, by far well above any previous peak in the post-war period. And it's just the beginning, more job losses are expected down the road.

Source: Bloomberg

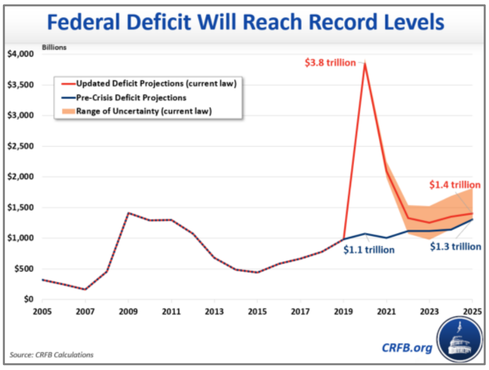


Source: Bloomberg

On top of that, there are the countless SMEs that will not be able to weather the lockdown imposed by this Covid-19.
These developments will have long lasting effects on the economy, reducing its growth potential. A V-shaped recovery doesn't seems to be in the card, it will probably be a U-shaped recovery.

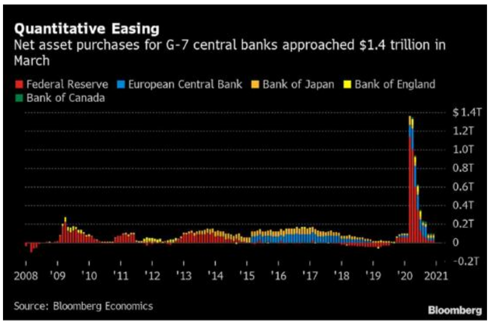
(continued)

If the scale of the impacts on the economy is unprecedented, the same could be said for the response from central banks and governments worldwide. Let's again focus on the US, where the measures undertaken by the policy-makers are more significant than elsewhere.



Source: CRFB.org

Source: Bloomberg



Source: Bloomberg Economics

In the first picture on the left, the evolution of the US fiscal deficit is shown. The blue line was the pre-covid-19 projection, and the orange one is the updated one, including the stimulus measures approved so far (more are under discussion). The US fiscal deficit will reach almost 4 trillion this year, 20% of the GDP, and the cumulative additional spending over the 5 years are in the region of 10 trillion, equivalent to 50% of additional debt.

The chart in the middle reports the evolution of the Fed balance sheet. We included the pre-2008 period to remind what a prudent monetary policy was supposed to be like. Over the past month alone, the Fed injected 2 trillion in the financial markets, increasing the money supply by 50%.

The last chart shows the scale of the QE collectively put in place by the various central banks. It includes the expected future path of purchases over the remaining of 2020. The last bar with definitive value depicting March is the highest one.

From this chart, we can appreciate that the current monetary stimulus is about 5 or 6 times greater than the QEs that have been implemented over time by various central banks in the past decade.

Now the dilemma each portfolio manager has to deal with is: Which factor has to be considered in building up his/her allocation? Should it be the real economy (bearish), or the policy-maker response (bullish)? The answer is not easy to find. Both forces are very powerful, and it will be like navigating between a rock and a hard place.

Probably, the most prudent approach will be to overweight the asset classes and regions that will be more supported by the monetary and/or fiscal measures recently approved, additionally the upcoming earnings season and macro data should shed more light in the future.

Asset Allocation View

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

– UNDER = NEUTRAL + OVER

Equity

Developed Markets

After another leg up in equity markets worldwide, we are moving to an underweight recommendation, due to the dichotomy between real economy and financial markets that was discussed in the general commentary. The committee sees the current level as near the upper bound of a trading range, where markets could be trapped for some time, waiting for more clarity on the macro and micro data. Even if it's the market with the highest multiples, the preference remains for the US market, as it's the country where the biggest monetary and fiscal stimulus have been implemented. In the committee there is also a preference for the growth style, in spite of some disagreements.

US	=	**Europe**	–	**Japan**	–

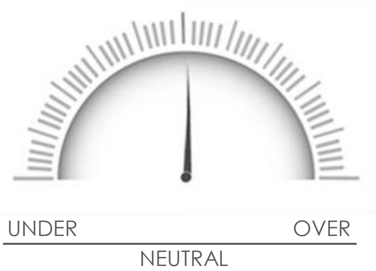
Emerging Markets

We downgraded emerging markets to slightly underweight after the recent rebound. We maintain a moderate preference for emerging markets as their multiples are well below of those main developed markets. In terms of the geographical area, we maintain the positive view on emerging Asia, as it is the first region that is reopening from the coronavirus, and it's the biggest importer of commodities, whose prices have dropped dramatically. For the very same reason we are keeping the underweight recommendation for Emerging Europe and Latin America, as those regions are mostly commodity exporters and therefore severely impacted in the current environment.

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

Fixed Income

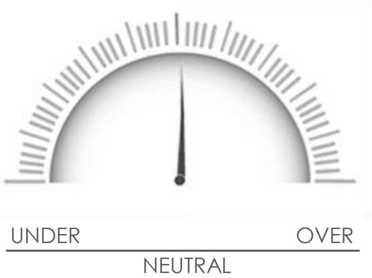
Developed Markets Sovereign



We maintain a Neutral view as the ongoing QEs by all the major central banks should keep rates close the current levels, notwithstanding the expected explosion of debt/GDP ratio due to the fiscal measures just approved by many governments. 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**	−

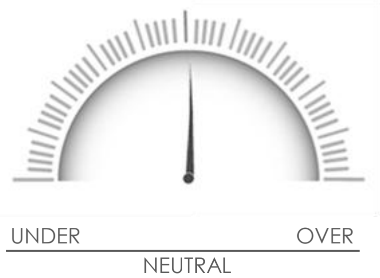
Developed Markets Corporate



We scaled back to neutral our stance on corporate bonds after the narrowing of the spread over the past few week, after the Fed started to inject liquidity in the segment via purchases of corporate. Even if the spreads are still quite high by historical norms, it is also true that the fallout of the global shutdown of the economies will negatively impact the creditworthiness of sever issuers, mostly in the high yield segment which we continue to dislike. We therefore expect that any further compression in spread will be more gradual that in the past few weeks. Considering that the Fed is buying more aggressively than the EBS, we have a slight preference for the US corporate.

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

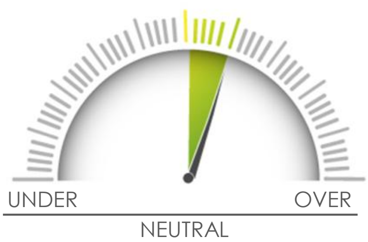
Emerging Markets



We keep the neutral stance on emerging market bond. The asset class suffered the biggest outflows ever in the first quarter of 2020, and spreads are at attractive levels compared to the historical averages. The liquidity injected by many central banks of developed markets should help reduce the liquidity shortage, and the low yield environment should gradually lead to a renewed hunt for yield.

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

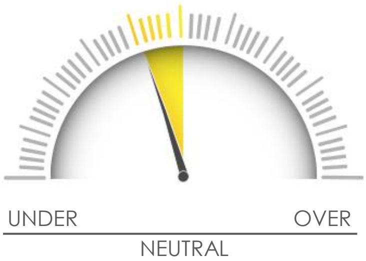
Commodities



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. After the OPEC+ was able to reach a deal, we removed the underweight recommendation on oil, as the announced cuts should help stabilize the oil prices. We keep the underweight recommendation on industrial commodities.

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

Alternative Strategies



We slightly reduced our underweight recommendation on liquid alternative strategies, as the expected normalization in volatility over the next weeks could allow for a recovery of some strategies.

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

Currencies

We have a neutral view on the Euro. The region seems slower than other to reopen its economies, and the fiscal and monetary responses have been more limited than in other countries. On one hand this means European assets will look less attractive than others, but on the other hand this also implies that the supply of euros will increase less than that of other currencies.
We have a neutral view on the US dollar as well, but with a positive tilt due to the fact that the US will continue to be considered as a safe haven.
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**	=