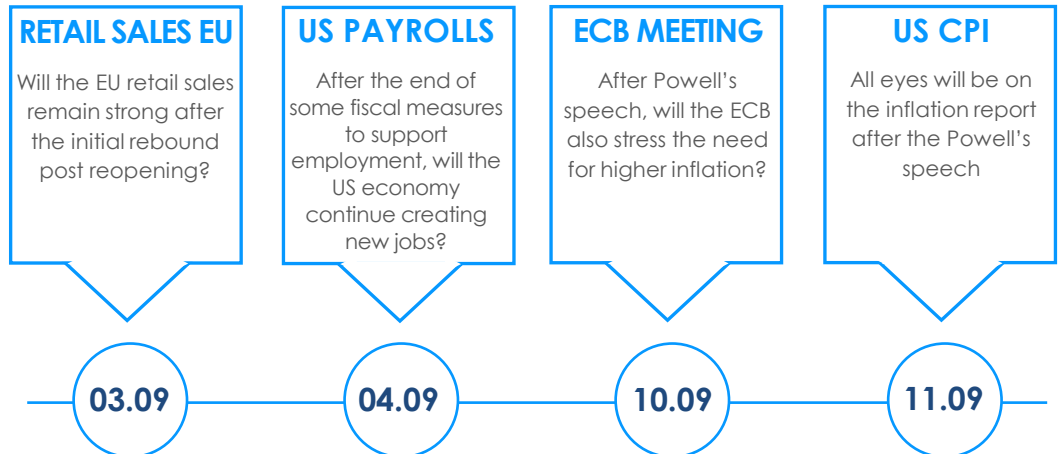


Main Events

Azimut Global Network

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

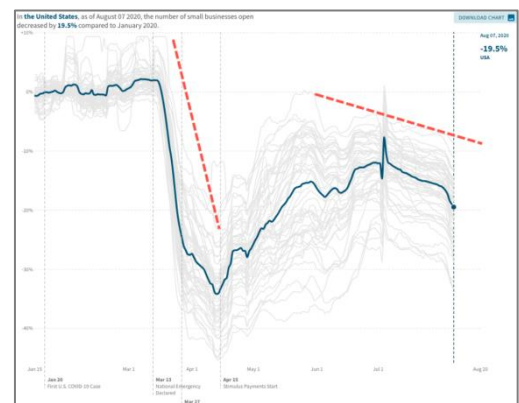
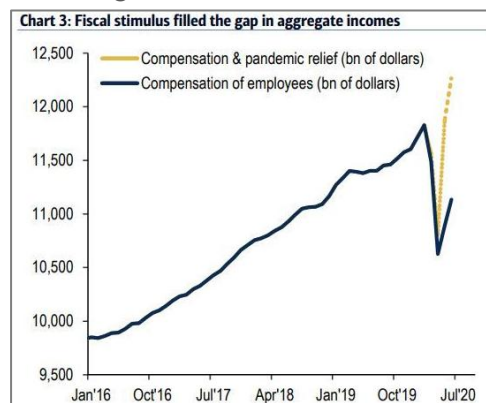


FISCAL CLIFF

The summer break didn't bring anything new: while the financial markets continued their relentless advance, the real economy continued to suffer in the aftermath of the pandemic. Poor macro data is disregarded due to the belief that central banks and governments will come to rescue again.

Markit PMI in Europe has decreased to slightly over 50 - the threshold that separates expansion from contraction. The bounce close to 60 in the wake of the reopening seems to be quickly evaporating. The US was the only exception with its PMI rising for the first time significantly above 50. This could be explained by the fact that the US was quicker to enact the fiscal packages to support individuals and corporations, and most of all by the size of those stimulus.

According to the Harver Analytics, "The federal payments of \$3.2 trillion to people and small businesses equaled nearly 15% of personal income. To put that in perspective, personal tax payments in 2019 totaled \$2.2 trillion, or 12% of personal income. So the scale of stimulus payments Congress sent to people in Q2 was \$1 trillion, which was more than what people pay in taxes in the entire year. [...] Q2 wage and salary income totaled \$8.85 trillion, off \$680 billion from Q1 level. That means the infusion of \$3.2 trillion in payments to people was nearly 5X times the amount of lost income due to job loss, fewer hours worked, and wage cuts".



Source: BofA Research, Bureau of economic Analysis

Source: Opportunity Insight

(continued)

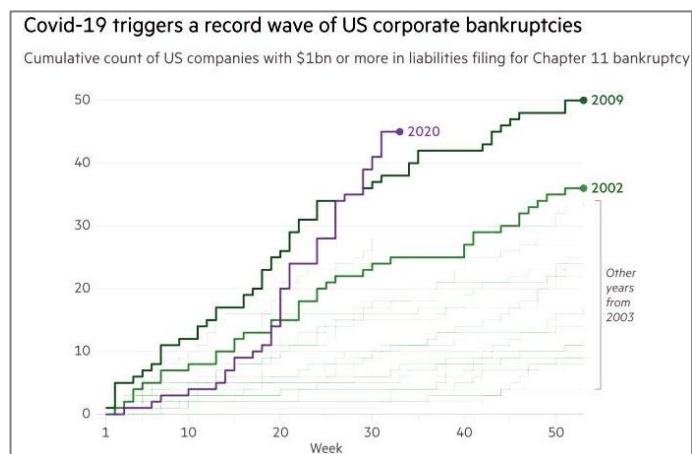
The left graph on the previous page shows the total compensation of employees paid by the employers (blue line) while the yellow line includes the Pandemic Additional Compensation (PAC), the extraordinary unemployment subsidies. As has been discussed in the previous report, the sharp rise in the disposable income is the core reason for why the consumer spending and sentiment have remained at elevated levels notwithstanding the covid-induced job losses. The issue is those extraordinary payments ended at the end of July, and from now on people must live solely on the labor compensation (the blue line). Expecting that the spending behavior will remain unchanged is not realistic.

The other program implemented by the US Government aimed at supporting small US corporations under the conditionality of retaining all employees (the Paycheck Protection Program, or PPP) expired at the end of June. The bottom right graph on the previous page illustrates the YTD percentage change of small businesses opened nation wide (blue line) while grey lines demonstrate single states. After the huge drop during the pandemic the number of small businesses openings started to recover after the reopening, but peaked exactly at the expiry point of the stimulus and have been declining ever since.

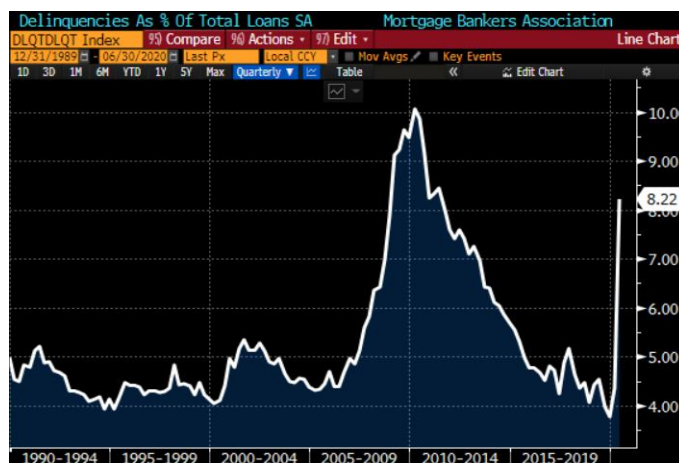
Not only the small businesses are suffering in the crisis, but also the large corporations are experiencing hardship as the cumulative number of total bankruptcies of corporations with over one billion liabilities is at the highest level ever for any given year, and will likely surpass the year end the record of 2009 (see graph below on the left).

Business closures will lead to lower employment. In August the US Internal Revenue Service indicated that it is expecting that the number of jobs reported for tax purposes will decrease by 14% compared to pre-covid levels (the number of W-2 forms is expected to decrease from 266.6 million to 229.4 millions).

The end of the PAC benefit and the possibility of further increases in the unemployment rate will dent the financial ability of people to repay their existing loans. Even before the fiscal cliff caused by the expiration of the PAC, the loan delinquency rates already skyrocketed in the 2Q to the highs of 2009 (see graph below on the right).



Source: BankruptcyData.com, FT

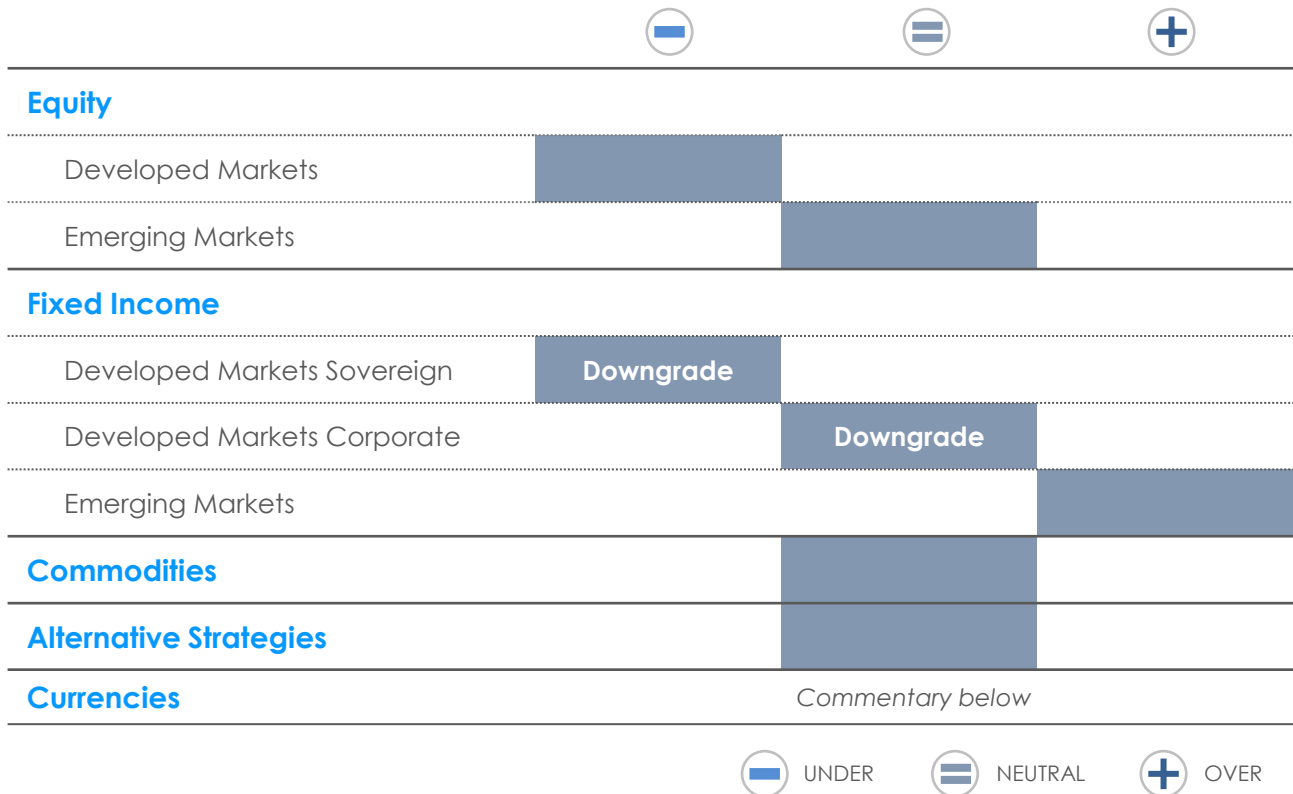


Source: Bloomberg

Finally, some countries are starting to hint at future tax increases in order to cover at least part of the swelling budget deficits. UK was one of the first countries to openly talk about this possibility. If and when implemented, these measure will further restrain the consumers' disposable income.

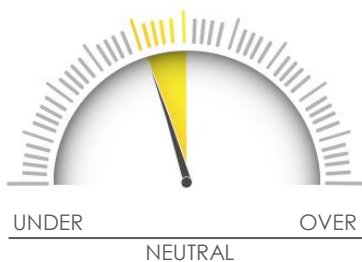
Looking at macro developments, thus, it seems that the extraordinary fiscal measures to support the economy have only served to borrow some time, but the economic hardship induced by the coronavirus will be felt anyway in the coming quarters. Financial markets, instead, continue to believe in a V-shaped recovery with equity multiples at historic highs and bond yields and spread close to historic lows. At some point in time, one of the two will be proven wrong.

Asset Allocation View



Equity

Developed Markets



We kept our slightly underweight recommendation unchanged. Valuations continue to be stretched and the overbought conditions mainly in the US markets could lead to a short term correction. The majority of the Committee members believe that retracements will be quite limited due to the huge amount of cash on the sidelines. In terms of regions, the Committee decided to withdraw the preference for European equities due to the strength of the Euro which will dent the EU's competitiveness.

US



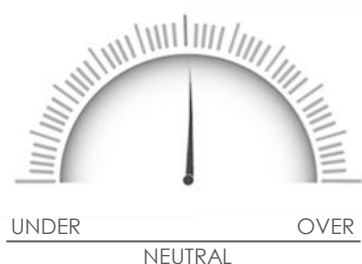
Europe



Japan



Emerging Markets



We kept our recommendation on Emerging Markets as Neutral, with a strong preference for the Asia ex-Japan region, and China in particular. The valuations of EM companies are well below those of developed markets. We are starting to take profit on Chinese equities due to the sharp re-rating earlier in the summer, and because of the mounting US & China tensions. Unchanged the view on the other regions. A weaker dollar constitutes strength for the EM equities.

Asia ex-Japan



EEMEA

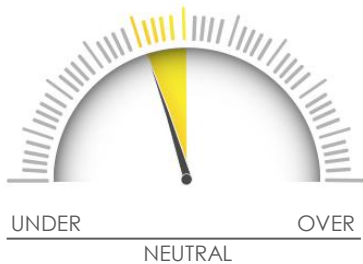


LATAM



Fixed Income

Developed Markets Sovereign



We downgraded our recommendation for developed markets sovereign bonds. The Powell's speech at Jackson Hole confirmed the expectation that the Fed is willing to accept some overshooting of the inflation above 2% and they will use all the tools at their disposal to achieve this objective. Even if QEs and short term rates close to zero will remain for an extended period of time, this push for inflation may trigger some short term steepening of the major sovereign yield curves. The underweight recommendation is therefore should be considered as a short term call, not a strategic one.

EU Core



EU Periphery



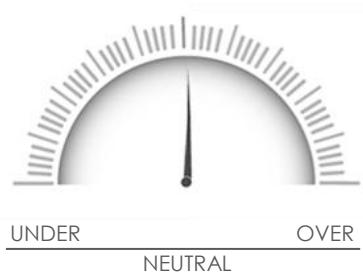
US Treasury



Japanese JGB



Developed Markets Corporate



We downgraded our recommendation to neutral. The QEs implemented by all major central banks on their sovereign and corporate bonds are compressing both risk-free rates and spreads. Monetary policies will remain accommodative for an extended period of time supporting the corporate bonds prices amid the hunt for positive yield. In the corporate bond space our preference remains in the investment grade. The slowdown in the real economy is weakening the fundamentals of some corporates, especially in the high yield space, where we keep the negative stance.

IG Europe



IG US



HY Europe



HY US



Emerging Markets



We maintained our recommendation on EM bonds as slightly overweight because these bonds did not enjoy the same fast recovery experienced by other credit segments. They were left behind because EM central banks are not doing QE on their bonds, therefore investors have been more cautious in buying those. Considering the low levels of the risk-free rates, the compression of the spreads in developed market corporates and the rebound of commodities, there is room now for a catch up of emerging bonds. Among them, we have a strong preference for local currency bonds and the Chinese renminbi in particular.

Local Currency



Hard Currency IG



Hard Currency HY



Commodities



We have a neutral stance with a positive bias. We continue to prefer precious metals because of the low yield environment, and as a hedge against unexpected turbulence. Because of the possibility that the Euro will continue to be quite strong in the short term for the reasons explained in the currency section, for Euro-based investors precious metals could be a less attractive investment solution as any strength in the Euro will detract from the performance.

Precious



Energy



Industrial



Alternative Strategies



We keep our recommendation as neutral on liquid alternative strategies, because of the diminished expected returns on other asset classes. This implies that other asset classes have now higher downside risk and could be vulnerable to volatility as well. Therefore alternative/decorrelated strategies are more attractive on a relative basis.

Low Volatility		Medium Volatility		High Volatility	
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Currencies

We maintained the positive view on the Euro in the short term. The common European currency is breaking to the upside some very strong technical resistance, and market sentiment is very bullish on the euro.

We kept our negative view on the US dollar for several reasons, among which, inter alia: 1) the uncertainty related to the upcoming presidential elections; 2) the very dovish speech of Mr. Powell at the Jackson Hole symposium, and 3) the bearish market sentiment on the dollar.

We maintain our slightly negative view on the Japanese yen, as there are no positive catalysts in sight for the currency. The resignation of the Prime Minister Abe presents further uncertainties for the country.

On emerging markets currencies, we have a constructive view as most of them appear to be undervalued and the yields offered by those currencies are more and more attractive as YTM continues to fall in developed markets.

Euro		USD		Yen		Emerging	
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