Main Events

ECB MEETING
The ECB will provide its updated assessment of the current situation of the EU
21.01

MARKIT EZ PMI
The Markit Eurozone PMI for January will help to assess how much the recent lockdowns have affected the sentiment in the EU
22.01

FED FOMC
The focus will be on the relations with the new administration, inflation expectations, and the economic recovery
27.01

US GDP
How negatively will be the 4Q GDP affected by the partial lockdown? Will the retail sales weakness be confirmed?
28.01

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

Dissecting the Decoupling

Macroeconomic data from the United States as well as the rest of the world have diverged significantly in recent weeks. The Citi Economic Surprise indices, which measure how actual macroeconomic data are better or worse than consensus expectations, have been on a steady downward trend in recent months in the US, while Emerging Markets were on a very solid footing. Europe stalled, mainly due to the continent-wide lockdowns that have been introduced in the past few months.

Source: Bloomberg

In the US the biggest miss came from the retail sales, which plummeted for a third month in a row. The cumulative decline from October to December in the "control group" has been -3.2%, corresponding to over -12% on an annualized basis. The "control group" is all sales, excluding receipts from auto dealers, building-materials retailers, gas stations, office supply stores, mobile homes and tobacco stores. This filtered number is a more precise method of gauging consumer spending. The impact on fourth quarter GDP could therefore be substantial.

(continued)

Source: Bloomberg

Source: Bloomberg

If the headline data was quite dismal, a deeper analysis of the data showed that the contraction was particularly felt in the "non-store" sub-index related to online sales. Seasonally adjusted data indicates that in the last two months of 2020 non-store sales fell by 7.3%, giving back some of the extra gains secured by the lockdowns. The indication of some companies benefiting mostly from the "stay-at-home" trend could be a warning sign for the upcoming reporting season.

The other weak spot in the US has been the labor markets. The initial jobless claims have started to increase again from the first week of November, and they are approaching 1 million per week in the last reading. It should be considered that a physiological level of jobless claims is about 250-300k per week, as it was the case before the pandemic. An increase in jobless claims signals a deterioration in the labor market, which in turn, leads to weaker consumption. The new fiscal package promised by the Biden administration, however, could help withstand the recent worsening of the labor market.

In Europe, November retail sales data was more negative (-6.1% month over month) than in the US, but this is easily explained by the much more tougher lockdowns implemented in the old continent. Notwithstanding this, industrial production, factory orders, unemployment rate, consumer confidence, all improved over the past month.

In China the fourth quarter GDP came in at +6.5% vs 2019, beating the expectation of +6.2%. But, most importantly, with full-year GDP growth of 2.3%, China is the only major economy that achieved positive growth during 2020. Other recent Chinese strong data include industrial production, trade balance and electricity consumption (this last one is a proxy of the overall level of economic activity, and at +9.4% YoY is one of the highest readings of the past decade).

Source: Bloomberg

Source: Bloomberg

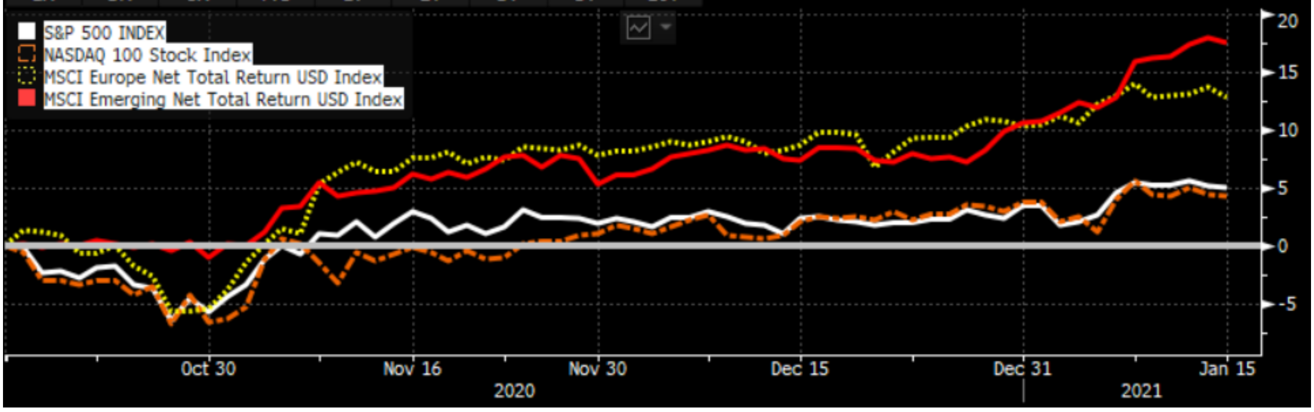
(continued)

The diverging macroeconomic developments have led to a corresponding underperformance of US equity indices relative to the rest of the world over the past three months. Emerging Markets have been the best performer over the same time-frame, with Europe just behind, whilst the Nasdaq and the S&P500 were the worst performers over the same period.

Range 10/15/2020 - 01/15/2021 Period Daily No. of Period 92 Day(s) Table

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	SPX Index	EUR	4.63%	5.04%	--	21.55%
2)	NDX Index	EUR	4.08%	4.27%	-.77%	18.05%
3)	NDDUE15 Index	EUR	12.83%	12.83%	7.79%	61.43%
4)	NDUEEGF Index	EUR	17.52%	17.52%	12.47%	89.71%
5)						
6)						

1M 3M 6M YTD 1Y 2Y 3Y 5Y 10Y



Source: Bloomberg

Certainly, part of the recent outperformance of the rest of the world may be explained by the announcement of the vaccine, and the consequent expectation of a strong economic recovery. But, if the normalization will effectively take place, Europe and Emerging Markets may easily continue to outperform the US, also considering that the formers trade at considerable discount to the latter.

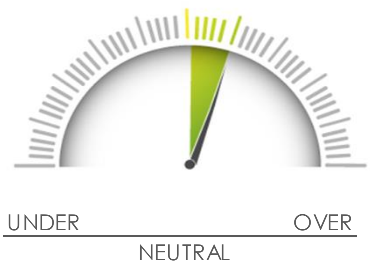
Asset Allocation View

	−	=	+
Equity			
Developed Markets			▪
Emerging Markets			▪
Fixed Income			
Developed Markets Sovereign	▪		
Developed Markets Corporate	Downgrade		
Emerging Markets			▪
Commodities			▪
Currencies		*Commentary below*	

− UNDER = NEUTRAL + OVER

Equity

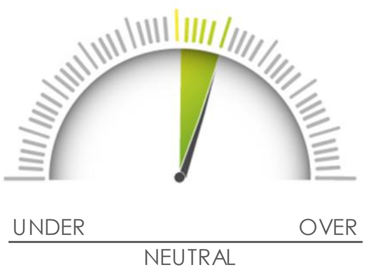
Developed Markets



We keep our stance on Developed Markets Equities as slightly positive. We still recommend to increase equity exposure as the long term constructive view on equity remains unchanged; ~5% correction, if and when occurs, could be considered buying opportunity. The Biden proposal of an additional USD1.9 trillion stimulus package will help the US economy weather the recent slowdown highlighted by several macro data. In terms of regional recommendations, US markets were downgraded to underweight due to higher valuations compared to the rest of the world. The Japanese equity markets, more cyclical in nature, have been upgraded to positive.

US	−	**Europe**	=	**Japan**	+

Emerging Markets

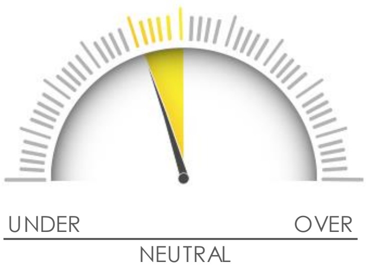


We keep our slightly positive recommendation on Emerging Markets unchanged. The recent outperfomance and overbought conditions may lead to a potential retracement. Notwithstanding this, Emerging Markets valuations are still cheaper than those of Developed Markets. In terms of regions, the recent strength by the Chinese economy and the upbeat tone used by Xi Jinping may continue to attract investments in China and the whole Asian region.

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

Fixed Income

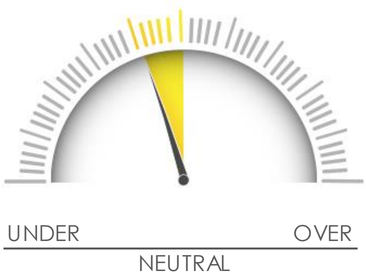
Developed Markets Sovereign



We kept our slightly underweight recommendation for Developed Markets sovereign bonds. We expect that the short end of the curves will remain fairly anchored, while the long end could be more exposed to the risk of rising yields considering the risk of a spike in inflation amid the pick up in consumption. After the recent political turmoil in Italy and the Netherlands, we are keeping the negative recommendation on European Core and Peripheral bonds.

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

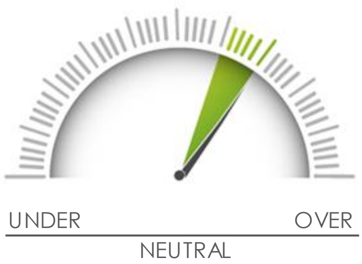
Developed Markets Corporate



We lowered our recommendation on Developed Markets corporates to negative. The downgrade is mostly related to the investment grade component, where extremely low yields to maturities and long duration make the risk return profile of those bond very unattractive. There are still some opportunities in the segment between investment grade and high yield, in particular in subordinated bonds.

IG Europe	IG US	HY Europe	HY US
−	−	=	=

Emerging Markets



We kept our bullish recommendation on the asset class. EM bonds should benefit from the expectation of a vaccine driven strong global economic recovery. Moreover, the environment of USD18 trillion negative yielding debt should bode well for EM bonds, especially considering the chase for higher yields. It is projected that EM bonds could benefit both from a spread compression and a recovery in the value of their currencies. Among local currency bonds we have a preference for those denominated in Chinese Renminbi.

Local Currency	Hard Currency IG	Hard Currency HY
+	+	+

Commodities

We maintain our bullish view on the asset class. Precious metals could be sustained by the ample liquidity and could serve as a hedge against the debasement of most currencies after the massive monetary interventions of this year. The recent correction is viewed as a short term consolidation, as expectation for higher inflation later in 2021 should sustain the demand for precious metals. Energy and industrial metals should benefit not only from the expectation of a quick and prompt recovery as soon as the vaccines are distributed, but also from the very low inventories.

Precious	Energy	Industrial
+	+	+

Currencies

We maintained our neutral view on the Euro after the recent appreciation. The modest retracement in the past days is mostly due to the recent turmoil in European politics (Italy, Netherland) and the reduction in vaccine deliveries from Pfizer.
We lowered our stance on the US Dollar, mostly due to the higher than expected fiscal package announced by Biden last week, which is expected to be followed by another one later in 2021.
We kept the neutral view on the Japanese Yen as the country may attract foreign investments if the focus on value stocks, which are well represented in the main equity indices, continues in the near future.
On Emerging Markets currencies, we maintain our positive view considering that any episode of short term volatility will not change the long term positive perspectives for the asset class.

Euro	=	USD	−	Yen	=	Emerging	+