Main Events

US PAYROLLS
Will the expiration of the extraordinary unemployment benefits trigger a pick up in hiring?

06.08

ZEW
Will the Eurozone continue to show strong confidence data?

10.08

US CPI
US Inflation is expected to stabilize around the last reading level

11.08

EU GDP
Eurozone GDP for Q2 2021 is expected to grow 2% QoQ (8% annualized) despite the reopening process is only in its early stage

17.08

Azimut Global Network

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

NO CHANGE IN SIGHT

- **ECB strategy review did not lead to any meaningful change in the way the ECB conducts its monetary policy**
- **The 2% symmetric goal and other dovish statements from Mrs. Lagarde pushed back the expectation for a first rate hike by the ECB to 2024**
- **In US, the Federal Reserve reaffirmed its view that inflation is transitory**

Together with the reporting season, the meetings of the ECB and the Federal Reserve were the main events of the last two weeks.

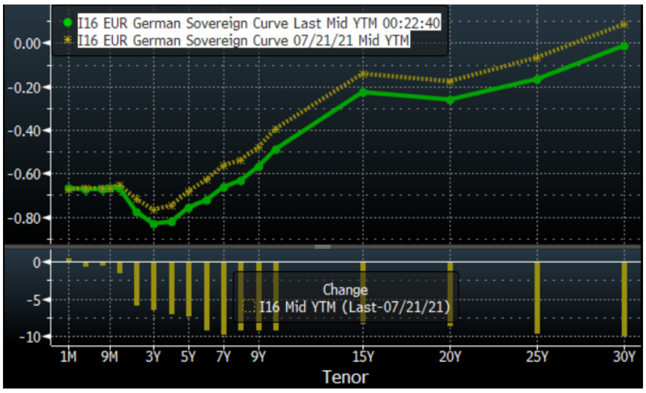
After Lagarde's surprise announcement a month ago that the monetary policy strategy review had been completed, all eyes were on the ECB meeting to understand if and how the European central bank's monetary policy would change.

The key takeaway from the press conference where these changes were outlined was the revision of the definition of price stability. According to the official statement, the "Governing Council considers that price stability is best maintained by aiming for two per cent inflation over the medium term. The Governing Council's commitment to this target is symmetric. Symmetry means that the Governing Council considers negative and positive deviations from this target as equally undesirable".

Compared to the previous objective, which was to maintain inflation close to but below 2%, having a symmetrical objective allows the ECB to be more tolerant of increases in inflation, especially if considered transitory. Mrs. Lagarde also pointed out during the press conference that what matters is the inflation expectations at the end of its forecast horizon. The President further stated that the ECB has learned from past mistakes, and therefore will not run the risk of removing monetary stimulus too soon.

(continued)

Source: Bloomberg



Source: Bloomberg

Bundesbank President Jens Weidmann and Belgian Governor Pierre Wunsch dissented over the very dovish commentary from Mrs. Lagarde, as they were uneasy about the risk of inflation moving too far above the 2% average level. This dissent could grow over the next few months considering that consumer prices in Germany are climbing by 3.4% in the first half of 2021 alone, while producer prices are rising at double that rate.

Notwithstanding the previous comments and that Mrs. Lagarde affirmed that the new monetary policy strategy doesn't mean "lower for longer", the market reacted to the ECB conference by moving the first implied rate hike by the ECB forward to no earlier than 2024. The entire EU-Sovereign rate curve, represented by the German bund, has moved downward by about 8 basis points between the time before the ECB meeting to the date of writing.

As for the Federal Reserve, the last meeting did not provide any new insights into the modalities and timing of the tapering and/or the first rate hike despite the fact that the inflation data in the United States continues to surprise on the upside and many of the questions to Mr. Powell during the hearing in Congress were centered around this issue.

In the press conference, Mr. Powell reiterated that the Federal Reserve continues to view the recent rise in inflation as transitory due to effects related to the reopening. However, Mr. Powell also clarified that transitory does not mean that the increase in consumer prices will be reversed in the future. Transitory means that the increases we are witnessing in consumer prices will be permanent and that sometime in the future the inflation rate will start to decline and converge to the Fed's 2% inflation target. This implies that bondholders, if they continue to accept the current level of yields, will incur in a permanent loss of the real value of their investments.

We will see if in Jackson Hole Mr. Powell will give more precise indications of the Fed's intentions about the tapering or if instead we will have to wait for the Fed meeting in September.

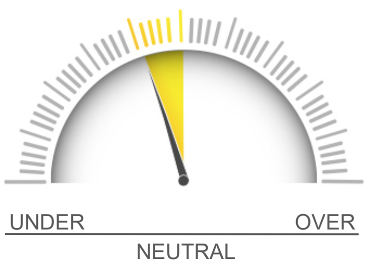
Asset Allocation View

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

− UNDER = NEUTRAL + OVER

Equity

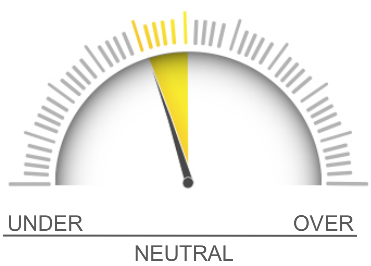
Developed Markets



We maintained our recommendation on Developed Markets Equities to **Slightly Underweight** in the short-mid term. The spread of the delta variant is currently the main concern for equities, and the exceptionally good corporate results of the last reporting season already seem to be incorporated in the current valuations. On the other side, the central banks meetings over the last weeks have confirmed that no rate hikes are expected in the coming months, which means falling sovereign yields and deeply negative real rates would be supportive for equities. Within equities, we have a preference for more defensive ones. In terms of regions, we continue to prefer Europe.

US	=	**Europe**	+	**Japan**	=

Emerging Markets

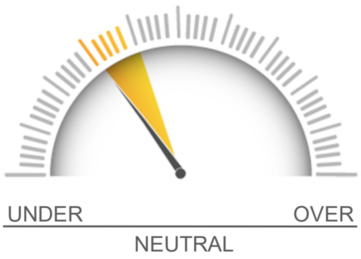


We lowered our recommendation on Emerging Markets Equities to **Slightly Underweight**. In addition to the spread of the delta variant, which is expected to slow down global growth, the renewed interventions of the Chinese government in the educational and technology sectors are weighing on the investor sentiment and increasing risk aversion on China and Emerging Markets as a whole. As a result, although the Chinese economy has been growing strongly and the valuations are at attractive levels on an absolute basis, the uncertainty surrounding government actions will continue to weigh on the Chinese stock market for some time to come.

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

Fixed Income

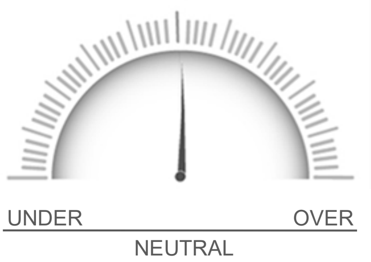
Developed Markets Sovereign



We maintained our overall **Underweight** recommendation on Developed Markets Sovereign Bonds. The recent decrease in the nominal rates has been mostly due to concerns about the Delta variant and the expected slowdown in the GDP growth because of the waning effects of the fiscal stimuli. Over the medium term, we still expect to see higher rates due to eventual tapering by central banks, a not-so-transitory inflation and more limited than expected fallouts from the delta variant.

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

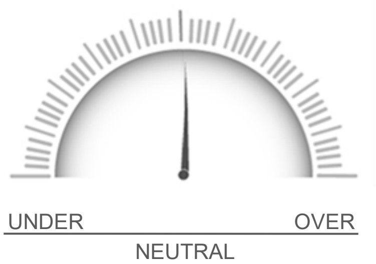
Developed Markets Corporate



We maintained our **Neutral** recommendation on Developed Markets Corporates. Within DM Corporates we prefer bonds on the short-end of the curve with acceptable ratings to mitigate the current phase of possible increase in risk aversion on financial markets. We continue to dislike long dated IG bonds due to their yields not being so different from sovereign bonds, and are therefore exposed to downside when rates will normalize. Considering the increasingly uncertain scenario priced in by the sovereign bonds, we prefer to maintain a cautious stance also in the crossover/high yield segments, even if central banks monetary policies remain fully supportive.

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

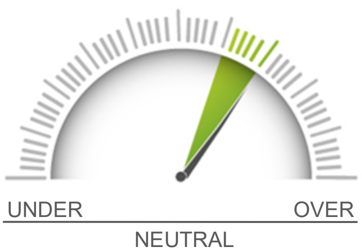
Emerging Markets



We kept our recommendation as **Neutral**. Emerging Markets Bonds spreads have compressed less than the developed market bonds with similar risk. Considering the reduction in the long-end US rates and the fact that the Fed will wait some time before tapering, Emerging Market bonds could still be attractive even considering the possibility of a slower reopening due to the delta variant. For the EM Hard Currencies, we have a preference for low duration strategies.

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

Commodities



We maintained our **Positive** view on the asset class. We are positive in particular on precious metals as they should benefit from lower risk-free rates and rising inflation. Additionally, they could serve as an hedge in case of increased risk aversion. On the other commodities the view is more cautious, as the fear of a slower reopening and normalization due to the delta variant could cause a short term consolidation.

Precious	+	**Energy**	=	**Industrial**	=	**Agricultural**	=

Currencies

On the US dollar, the committee still maintains a neutral stance, considering that a retracement of the financial markets after the recent increases could trigger margin calls in USD, and therefore support the greenback. In the medium term, huge fiscal deficits and increasingly negative real rates suggest a weaker dollar is possible.

The view on the Euro is also neutral in the short term due to the spread of the delta variant. In the medium term, a more favorable real rate differential against the USD and the positive impacts on GDP of the Recovery Fund-related fiscal spending may lead to a stronger euro.

The Yen is no longer serving as an hedge during phases of risk aversion, as it has been trading around 107 +/-5 USD for about three years.

Emerging Market currencies are also expected to remain fairly stable, as the risk of a slower global growth is offset by lower US risk free rates.

Euro	=	**USD**	=	**Yen**	=	**Emerging**	=