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AZIMUT GLOBAL VIEW

26.05.25

Main Events

US PCE	EU CPI	ECB MEETING	NON-FARM PAYROLLS
The Fed's preferred measure of inflation is projected to ease, mirroring the downward trend observed in earlier data releases this month	Eurozone inflation may have edged closer to the ECB's 2% target, potentially opening the door to further rate cuts	The ECB is expected to cut rates again in anticipation of a potential economic slowdown, following Trump's threat to impose 50% tariffs on the EU	Another strong data reading is likely to delay any hopes of a rate cut until at least September
30.05	03.06	05.06	06.06

Azimut Global Network

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

THE BIG BEAUTIFUL BILL AND THE NOT-SO-BEAUTIFUL BOND MARKET

- **With inflation cooling—driven by commodity declines—and a resilient labor market, the Fed sees no urgency to change course. However, it remains watchful of mounting risks tied to U.S. fiscal policy, trade tensions, and a still-uncertain global backdrop**

- **A temporary U.S.-China trade truce offered brief relief, but President Trump's erratic policies—such as sudden tariff threats against the EU and even domestic giants like Apple—have reignited volatility.**

- **The proposed "Big Beautiful Bill," which extends tax cuts and widens the deficit, is putting U.S. long-term interest rates under pressure.**

After the break dedicated to the review of the first quarter earnings season, we return to our analysis of the macroeconomic environment and evolution of market conditions.

The Federal Reserve meeting earlier in the month proved inconclusive. This was not the Fed's fault. As Powell rightly pointed out, with Trump continuing to change the status quo, the only rational thing to do is to monitor economic data and act accordingly if necessary. Risks may arise on both sides of the Federal Reserve's mandate.

According to CPI data published in May, prices continue to converge towards the 2% target. However, this is the result of the collapse in commodity prices—particularly energy prices—after "Liberation Day," but also of the fact that the impact of tariffs on prices is yet to be seen. First quarter GDP data showed that net exports contributed around -5% to GDP. Considering that private consumption is growing at an average rate of about 4% annually, the front-loading of imports to avoid tariffs has led to the accumulation of sufficient stocks for about one quarter.

This means that what consumers are buying now is still based goods purchased on pre-tariff prices. We will probably have to wait until the third quarter to start seeing in full the actual impact of tariffs on inflation. This is in line with what Walmart announced during its first quarter results conference call, namely that it will start raising prices starting in late May/early June.

(continued)

As for the other side of the Fed's mandate, promoting full employment, the April non-farm payrolls data released in early May was much stronger than expected. During the rest of the month, initial jobless claims figures did not indicate any deterioration of the labor market, suggesting that the employment data set to be released in early June will likely remain strong.

In such a context, it would be irrational for the Fed to lower rates in anticipation of a possible deterioration in the labor market—which has been expected for several years now but has not yet materialized—or to tighten financial conditions to prevent a hypothetical new rise in inflation—which may never occur. Therefore, the most likely scenario is that interest rates will probably not be lowered before September, if at all in 2025, with the Fed waiting for additional evidence on both inflation and employment.

Another notable development of the month was the reaction to the temporary truce in the trade war between China and the United States. In negotiations in Geneva, Bessent and the Chinese delegation agreed to a 90-day reprieve on tariffs, during which duties on imports from China will be "only" 30% , and those on Chinese imports from the United States 10%.

The days that followed saw the first significant outperformance of US equities and the dollar since the start of the year. This confirms what we have already pointed out in previous comments, namely that the United States is not in a position of strength. Despite being the world's largest economy, declaring (trade) war on the rest of the world makes the United States the most vulnerable player, resulting in US financial assets underperforming the rest of the world.

But just as a leopard cannot change its spots, instead of leaving Bessent in charge of handling trade negotiation with other countries, Trump resumed his erratic behavior on trade at the end of May, first announcing 50% tariffs on the EU, then abruptly suspending them until July 9. US stock indices, the dollar, and Treasury bonds all fell, more than the rest of the world. This confirms that the market views any threat from Trump as negative for the US and any easing of tensions as positive.

Not only has Trump resumed imposing tariffs on other countries, he also threatened for the first time to apply 25% duties to a US company if it did not bow to his will, namely to bring production back to US soil. And not just any company: Apple, the world's largest company by market cap. This is a completely new development, opening a new chapter in the tariff saga.

In prior weeks, Trump had already openly expressed his displeasure with Amazon when rumors circulated that the impact of tariffs on prices would be visible on its website. Targeting national champions—some of the most widely held and popular stocks globally—appears to be a highly questionable move.

Furthermore, the key argument used by Trump domestically to justify imposing tariffs on other countries is that the costs will be borne by those countries, while prices for US consumers will remain unchanged. This is based on the assumption—as argued in Miran's paper—that other countries' currencies will weaken against the dollar by an amount equal to the tariffs imposed, keeping import prices unchanged. This assumption is already proving wrong, as the dollar has weakened since the tariffs were introduced, disproving the supposed rationale underpinning duties. But when it is a domestic company that is subject to tariffs, the entire cost of the tariffs is inevitably borne entirely by the US system, either in the form of lower profits or higher costs for consumers. Not exactly a smart move, if implemented.

Finally, when it comes to public finances, the reality is very different from the promises made to cut the deficit. Despite initial bold statements to cut $2 trillion from the $7 trillion spent annually by the government, the DOGE has saved about $150 billion, according to its own estimates (other sources suggest lower savings). Meanwhile, Congress is currently trying to pass Trump's "big beautiful bill." The measure extends indefinitely the tax cuts that would have expired at the beginning of 2026 and adds additional breaks and deductions, while spending cuts are significantly more limited. As a result, the bill is expected to add just under $4 trillion over 10 years to the previously estimated deficit.

It is not surprising that, in light of the developments just discussed, both the dollar and US long-term interest rates, particularly the 30-year one, have come under pressure.

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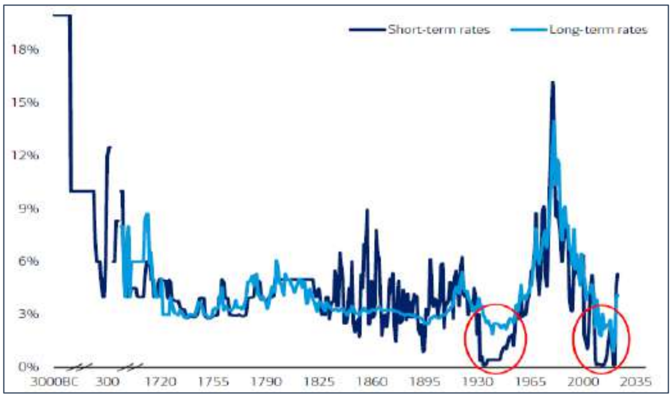
Source: Bank of America



Source: Trustnet, Bank of America. Data as of November 2023

The steady rise in interest rates in recent years has caused the 10-year annualized return on an investment in Treasury bonds with maturities of 15 years or more to fall into negative territory, currently standing at -0.6% on an annual basis. This is unprecedented development. Some may view this rise in rates as a rare opportunity to buy long-term bonds at rates not far from the highs of the last two decades. It might prove to be an unexpected gift, especially if the Fed were to start cutting rates later in the year, and even more so if a slowdown were to materialize, leading to a sharp decrease in long-term rates.

But one could also argue that the negative return over a 10-year holding period—an exceptional event—is nothing more than the consequence of an equally exceptional starting point, namely that never before in history had long-term rates fallen as low as they did prior to the recent rate normalization. The continued rise in long-term rates could therefore be the natural consequence of two factors: on the one hand, an economy that has remained strong so far, but on the other, the growing impact of the "bond vigilantes" in light of persistent fiscal deficits that are unsustainable in the long term and are not being addressed by Congress. If concerns about fiscal sustainability were the real driver behind the latest rise in long-term rates, further spikes cannot be ruled out.

In light of this, the wisest decision is to avoid the long ends of the curves, pending greater clarity regarding the direction of rates. In the meantime, investor preference remains focused on the short and medium ends of the curves, considering that these are the segments that benefit most when central banks cut rates. Those outside the US are already cutting rates and will realistically continue to do so, while the Fed could resume cutting in the not too distant future.

Asset Allocation View

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

− UNDER = NEUTRAL + OVER

Equity

Developed Markets

UNDER OVER
NEUTRAL

We have maintained our **Neutral** recommendation on Developed Market Equities, owing to the persistence of opposing forces. Valuations remain elevated, long-term interest rates are on the rise, and tariff-related uncertainty is resurfacing—fueled by the unprecedented threat of imposing 50% tariffs not only on Europe but also on Apple, the world's largest company. Meanwhile, hard data, especially employment figures, remain stable, and there are encouraging signs of improvement in soft data. In this environment, we continue to favor equities from global markets over those in the United States.

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

Emerging Markets

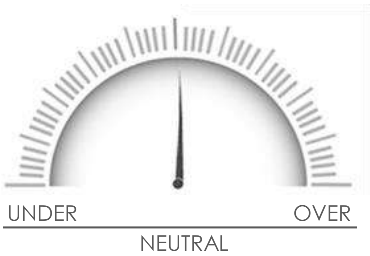
UNDER OVER
NEUTRAL

We have maintained our **Neutral** recommendation on Emerging Market Equities. After the spike on the news of the 90-day reprieve on US-China tariffs, emerging markets moved sideways, demonstrating their inability to further extend the rebound that began in April. Uncertainty regarding how many agreements will be finalized before July 10—and the specific terms of those agreements—is likely to continue capping the upside potential. On the other hand, a shift away from the US could continue to provide tailwinds for emerging markets

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

Fixed Income

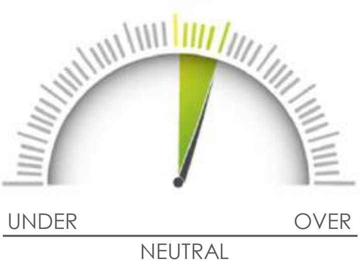
Developed Markets Sovereign



We have maintained our **Neutral** recommendation on Developed Markets Sovereign Bonds. Following the recent rise in yields—particularly in the US—global yield curves are now seen as more accurately reflecting the current macroeconomic environment. Nonetheless, the preference remains for the short- and medium-term segments of the curve. In contrast, the outlook for long-term rates, especially 30-year maturities, is marked by greater uncertainty, with volatility likely to remain elevated in both directions.

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

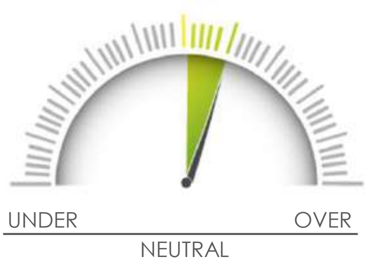
Developed Markets Corporate



We have maintained our **Slightly Overweight** recommendation on Developed Market Corporates. The recent easing of international trade tensions, along with a reduced likelihood of recession is likely to lead to a narrowing of credit spreads. In this environment, we continue to favor investment-grade bonds over high yield bonds.

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

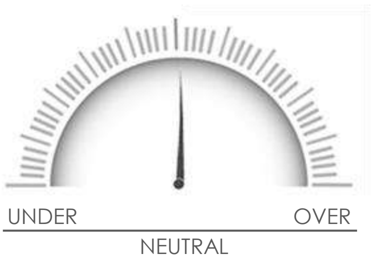
Emerging Markets



We have upgraded our recommendation for Emerging Market Bonds to **Slightly Overweight**. The rapid narrowing of spreads on developed market bonds makes emerging market bond spreads relatively more attractive than similarly rated bonds issued by developed market issuers. In addition, ongoing diversification away from the US by international investors and the weakening US dollar could continue to divert flows towards emerging markets.

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

Commodities



We have maintained our **Neutral** recommendation on Commodities. Among commodities, we continue to favor precious metals. The correction from recent highs has been limited and could extend further. However, it could also indicate that the underlying demand for precious metals remains strong, potentially pointing to new highs, especially if the dollar continues to weaken. Caution is still warranted on other commodities, pending greater clarity on the global economic outlook.

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

Currencies

The Committee has lowered its recommendation on the U.S. Dollar to **Neutral with a bearish bias**. The dollar staged a partial recovery after the announcement of a trade truce between China and the United States, but the rebound proved short-lived. The underlying weakness of the greenback suggests that further downside is possible.

The Committee has maintained its **Neutral** recommendation on the Euro. The threat of an increase in EU tariffs to 50% if negotiations fail, as well as the increased likelihood of further cuts by the ECB, could weigh on the euro. On the other hand, the continued outperformance of European assets and the gradual reallocation of capital out of the US should continue to support the euro.

We have kept our **Neutral** stance on the **Chinese Renminbi**. Thanks to the 90-day reprieve of bilateral duties with the U.S., the renminbi is likely to stabilize around current levels.

The outlook for other **emerging market currencies** has been upgraded to **Neutral with a bullish bias**. The reallocation of capital outside of the United States could continue to favor emerging markets, despite the uncertainties still surrounding the outcome of negotiations.

Euro	=	USD	=	CNY	=	Other EM	=