Main Events

JOBLESS CLAIMS	JAPAN CPI	PERSONAL SPENDING	US NON-FARM PAYROLLS
Continuing claims have risen significantly in recent weeks, signaling a potential weakening of the labor market	Japan's inflation is expected to decline, helping to ease pressure on Japanese interest rate	Can the U.S. consumer remain resilient despite signs of a weakening labor market?	Another weak report could allow the Fed to more openly signal a rate cut in September
26.06	27.06	27.06	03.07

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

ESCALATION OR SOLUTION?

- **With *Operation Midnight Hammer*, the United States has joined forces with Israel against Iran, deploying several bunker buster bombs to destroy suspected uranium enrichment sites operated by the Ayatollah's regime**
- **The Tehran regime now appears significantly weakened and may be unable to mount a meaningful response, potentially leading to a quicker resolution of Middle Eastern tensions. The most serious retaliatory threat Iran could pose would be an attempt to close the Strait of Hormuz**
- **These developments are yet another exogenous factor complicating the Fed's task of ensuring price stability and promoting full employment. However, based on recent CPI figures and labor market indicators, a policy easing after the summer seems increasingly likely**

Here we go again. Another about-face. After vowing to swiftly resolve the long-standing conflicts in Ukraine and Gaza, to prevent any new wars during his presidency, President Trump has now unilaterally entered the Israeli-Iranian conflict. It's a hazardous gamble—but one with the potential to pay off.

Despite the dramatic escalation, markets opened calmly after the weekend strike. At the of Monday's AA committee meeting, equity markets, currencies, and commodities—including oil—were largely unchanged from Friday's close.

Markets' reaction seems to be based on the assumption that Iran is too weakened to retaliate meaningfully against Israel and the US, and no longer poses a serious threat. The Ayatollah's regime in Iran indeed appears to be isolated and vulnerable than ever. Over the past months, the largest Shiite country has lost all its major proxies: in Syria, Bashar al-Assad's regime has been overthrown; in Lebanon, the paramilitary organization Hezbollah has been severely weakened by Israeli attacks and the killing of its leader Hassan Nasrallah; while the Houthis in Yemen have been undermined by US and Israeli attacks.

As of Monday, Iran had not retaliated by striking U.S. interests in the region, despite earlier threats, and its shelling of Israel remained in line with previous patterns.

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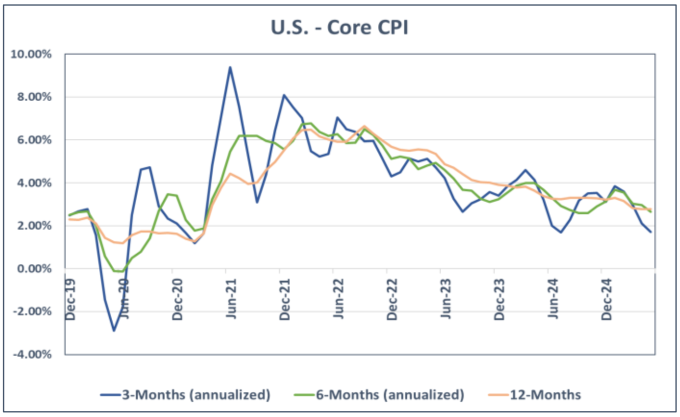

Source: Bloomberg, Azimut Elaborations

Source: Bloomberg

The markets therefore seem to endorse the scenario that coordinated attacks against Iran will ultimately lead to a much faster resolution of long-standing issues with Iran: not only would Iran's ability to enrich uranium and build nuclear weapons be significantly impaired after the strikes, but both Netanyahu and Trump are now openly acknowledging the possibility that the Ayatollah's regime could be overthrown.

The only retaliation that Tehran could possibly implement is an attempt to close the Strait of Hormuz, a waterway in the Persian Gulf that carries about a quarter of the world's seaborne oil trade. If this were to happen, economists have estimated that oil prices could climb significantly higher, with most estimates ranging between $100 and $130 per barrel. As a consequence, markets would be vulnerable to corrections due to the combined effects of a rebound in inflation—which would result in tighter monetary policy and higher market rates—and the economic slowdown that would most likely follow. Should the opposite happen, and the conflict fails to escalate significantly or involve other countries, then it is conceivable that markets will interpret these developments as a step forward towards a gradual easing of tensions in the Middle East, leading to a further extension of the rebound from April lows.
The potential spillover effects of the geopolitical situation—along with tariff and fiscal policies—were also among the reasons cited by Powell for keeping rates unchanged at last week's FOMC meeting, as widely expected by the market.

Powell spent much of the question-and-answer session arguing that the nature and scale of the uncertainties currently affecting the U.S. economy are unprecedented. Among these, unsurprisingly, tariffs were the most frequently quoted. Powell repeatedly emphasized that not only the Fed, but also other renowned economists and forecasters, agree that the risk of a temporary resurgence in inflation cannot be ruled out given the magnitude of the increase in duties. Consequently, year-end inflation forecasts have been revised upward to 3.1%.

This was the main argument underpinning the Fed's wait-and-see approach on interest rates. Powell said that the Fed must remain humble and observe the extent to which tariff inflation will be passed on to U.S. consumers and the extent to which it will be absorbed by other players in the supply chain (including producers, exporters, importers, and retailers, according to Powell's simplified scheme). He also reiterated that the inflation we are seeing today does not yet reflect the potential impact of tariffs, as what is being sold now was most likely stockpiled before the tariffs came into effect.

However, it cannot be ignored that inflation is already well on track to return to the 2% target. This is particularly true when looking at core inflation—which is less volatile and more reliable—and is trending down both year-over-year and on a three- and six-month annualized basis.

It is therefore clear that the main concern holding the Fed back from cutting rates is the risk posed by tariffs. The dilemma could be resolved shortly, considering that ten days ago it was anticipated that, in the absence of bilateral trade agreements—and for the moment there are none in sight—Trump would, within two weeks, send individual communications to each country stating the unilaterally imposed tariff rates that would apply after the July 10 deadline

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Considering Trump's behavior so far, it is highly likely that these new tariff rates will be higher than the current flat rate of 10%—perhaps even exceeding those announced on April 2, in an effort to maintain maximum pressure on foreign countries. Should this scenario materialize, it would be difficult to imagine the Federal Reserve lowering rates during the summer, barring a sudden deterioration in the labor market.

In this respect, we recall that in our previous commentary we pointed out that the latest non-farm payroll report showed a 595K drop in the labor force. Without this decline, the unemployment rate would have risen from 4.2% to 4.6% in a single month. Furthermore, in recent weeks, a noticeable acceleration in the number of people enrolled in continuing unemployment benefits has begun to emerge. As layoff rates remain fairly low, the increase in continuing claims suggests that those who lose their jobs, although not numerous, are finding it tougher than usual to secure new employment, resulting in longer periods of unemployment.

This peculiar scenario—in which the Fed's dual mandate would require opposing monetary policy choices—is likely at the root of the wide dispersion of expectations regarding the level of rates at the end of the year. The new dot plot shows that 10 governors have penciled in cuts of 50 basis points or more for 2025, while 7 others do not foresee any rate cuts at all. Such a wide range in year-end projections is highly unusual for this point in the year.

All things considered, it seems increasingly likely that the Federal Reserve will soon embark on a second round of rate cuts. However, the extent of these cuts will largely depend on Trump's decisions regarding tariffs. As was the case last year, the August meeting in Jackson Hole will once again serve as the occasion for the Fed to provide more precise guidance on how it intends to conduct monetary policy, at least through year-end.

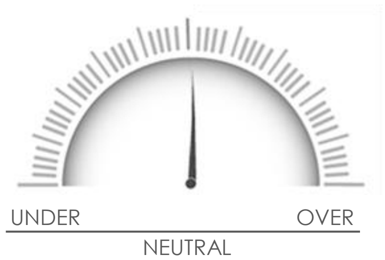
Asset Allocation View

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

− UNDER = NEUTRAL + OVER

Equity

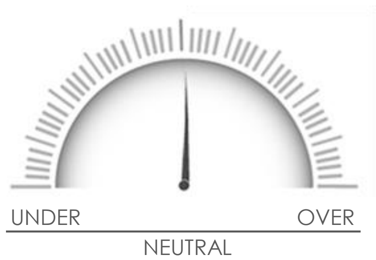
Developed Markets



We have maintained our **Neutral** recommendation on Developed Market Equities. On the one hand, the resilience shown by equity indices in recent days, despite heightened geopolitical tensions, should be interpreted as a sign that equity markets remain resilient and still have upside potential. On the other hand, valuations continue to be high and uncertainty over tariffs does not seem likely to abate as the July 10 deadline approaches. Given the significant outperformance since the beginning of the year, we are tactically taking profits by reducing our overweight exposure to Europe.

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

Emerging Markets

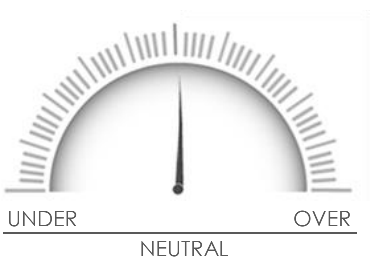


We have kept our Neutral recommendation on Emerging Market Equities. Emerging countries, like developed countries, have also shown remarkable resilience in recent days. This resilience is particularly noteworthy given that the main geopolitical tensions are affecting emerging countries specifically and could spread to surrounding areas. On the other hand, unlike developed countries, emerging market valuations are more attractive, and the weaker U.S. dollar serves as a tailwind for these markets.

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

Fixed Income

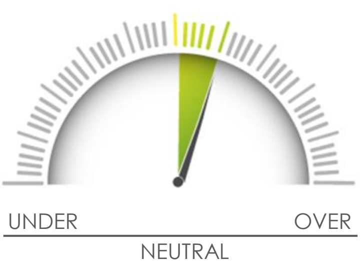
Developed Markets Sovereign



We have maintained our **Neutral** recommendation on Developed Markets Sovereign Bonds. The Committee continues to believe that the short and medium segments of the yield curve remain the most attractive positioning. This is particularly true for the U.S., where the Federal Reserve could start cutting rates later this year if inflation stays subdued and the labor market continues to weaken. Some caution is still warranted on the long end of the curve, given the increased focus of bond vigilantes on the sustainability of fiscal policies.

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

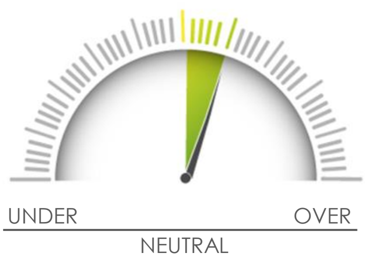
Developed Markets Corporate



We have maintained our **Slightly Overweight** recommendation on Developed Market Corporates. The easing of international trade tensions, along with still low likelihood of recession should allow for a further compression of credit spreads. In this environment, we continue to favor investment-grade bonds over high yield bonds, and EU bonds over US bonds.

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

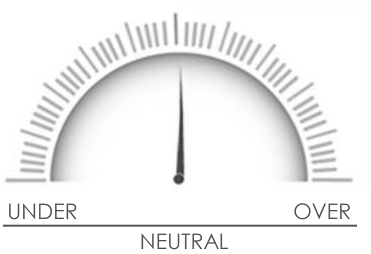
Emerging Markets



We have maintained our **Slightly Overweight** recommendation on Emerging Market Bonds. 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 U.S. 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 have downgraded our short-term view on precious metals. On the one hand, we acknowledge the possibility of a short-term pullback given their strong outperformance since the start of the year, especially if tensions in the Middle East ease. However, in the long term, demand for precious metals should remain solid, supported by a weaker dollar and fears of further fiscal slippages in the US. Caution is still warranted across other commodities, particularly energy, which could experience sharp swings in either direction depending on how hostilities in the Middle East evolve.

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

Currencies

The Committee has confirmed its **Underperform** recommendation for the U.S. Dollar. The failure to strengthen significantly even after the US strike on Iran is a further sign that the world's major currency remain vulnerable to further corrections. In addition, Trump's big beautiful bill and the ensuing increase in the US fiscal deficit, as well as the possibility that the US will start announcing new unilateral tariffs before the looming July 10 deadline, could weigh further on the dollar.

The Committee has maintained its **Slightly Overweight** recommendation on the Euro. The year-to-date outperformance of the EU could warrant further capital inflows.

We have maintained our **Neutral** stance on the **Chinese Renminbi**, awaiting more clarity on the outcome of the ongoing trade negotiations with the United States.

The outlook for other **emerging market currencies** has been confirmed as **Neutral with a bullish bias**. The reallocation of capital away from the US and the weakening of the US dollar could continue to favor emerging markets, despite the uncertainties still surrounding trade relationships.

Euro	+	USD	−	CNY	=	Other EM	+