azimut

AZIMUT GLOBAL VIEW

07.10.25

Main Events

Azimut Global Network

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

FED MINUTES — 08.10
In the absence of hard data release, investors will scrutinize the release to get a sense of the path ahead

CHINA GDP — 15.10
Investors will gauge the health of the Chinese economy, also considering the ramification for global economic growth

US CPI — ?
Investors will keep monitoring US inflationary dynamics. The release is scheduled for October 15th, but it may be delayed due to the shutdown

US NFP — ?
At this point in time we don't know when the data will be released, but they remain very important in steering the Fed's actions

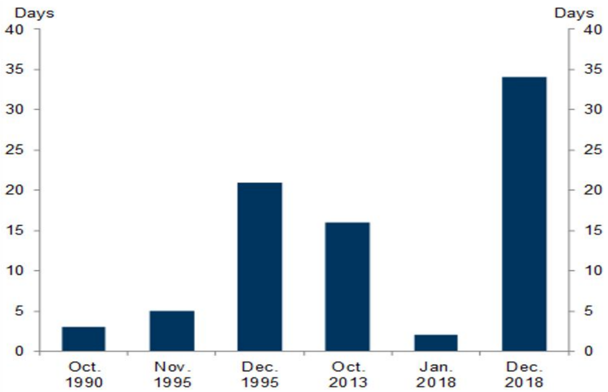
POLITICS STEAL THE SHOW

- **The U.S. federal government shut down on October 1, delaying the release of the U.S. employment report that had been scheduled for last Friday.**
- **The election of pro-growth candidate Sanae Takaichi as leader of the Liberal Democratic Party triggered a rally in Japanese equities and a sharp depreciation of the yen.**
- **Political turmoil deepened as Prime Minister Sébastien Lecornu resigned less than 24 hours after forming his cabinet.**

While investors were expecting the NFP release on Friday October 3 to shed some light on the direction of travel, the release was delayed after the U.S. federal government shut down on October 1, as Congress failed to enact appropriations for the new fiscal year. During the shutdown, government agencies will not publish the vast majority of data releases, including the employment report. Once the government reopens, the September releases will be published.

The longest shutdown on record, in 2018, lasted 34 days but spared several agencies, as partial funding approval limited furloughs and allowed some data releases to continue. Prior government-wide shutdowns have lasted no longer than a week.

Length of Government Shutdowns Since 1990



Source: Goldman Sachs Investment research

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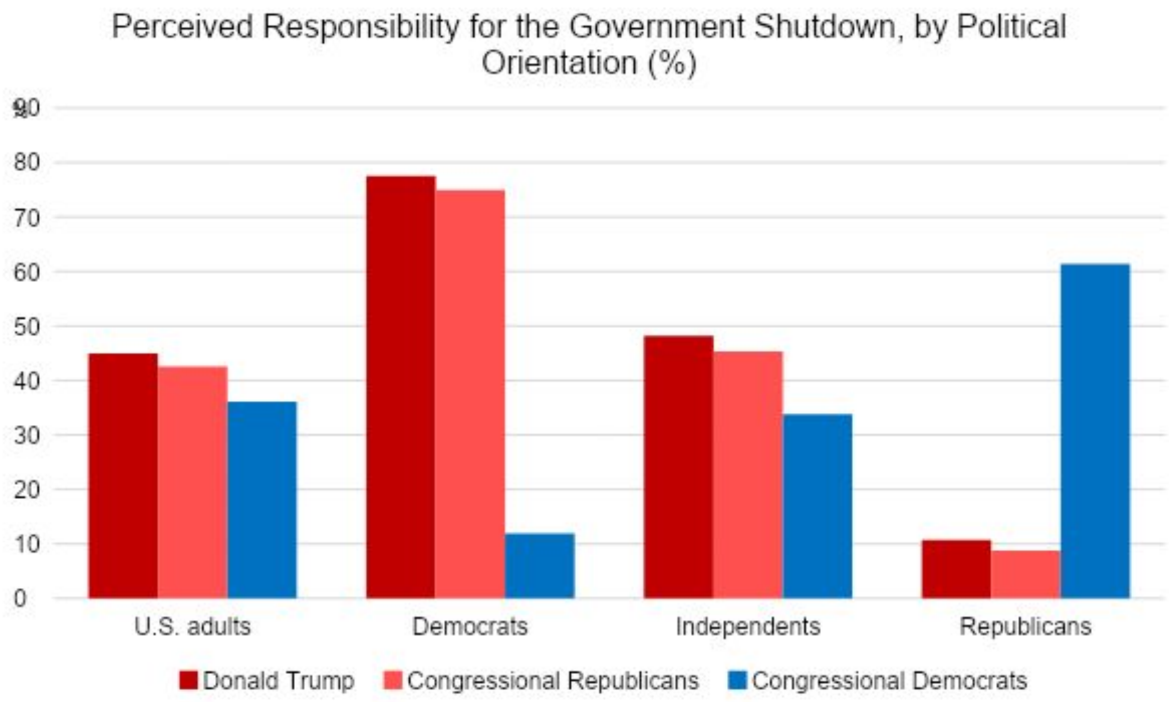
In terms of economic impact, the effects of shutdowns tend to be minor. Direct federal furloughs are estimated to subtract roughly 0.1-0.15% from the quarter-on-quarter annualized real GDP growth rate per week of shutdown, followed by a comparable rebound in the following quarter, using the working assumption the shutdown is resolved. However, a protracted shutdown would affect federal goods and services purchases, producing more tangible and persistent economic impact. This appears to have occurred, although to a limited extent, during the 34-day shutdown that began in late 2018, whereas shorter shutdowns have not shown similar lasting damage.

Regarding the shutdown's ramifications on the labour market, it may temporarily raise the unemployment rate. If the shutdown last past October 18 (the end of the reference week for the household survey), currently furloughed federal workers should be reported as unemployed on temporary layoff, pushing the unemployment rate higher (0.1%-0.4% depending on the accuracy of the categorization by the Department of Labour).

Even though recent negotiations keep failing, two factors may help unlock the stalemate:

1. October 15 Military Pay Date: If the shutdown persists, active-duty military personnel would miss an entire pay check—something that has never been allowed to happen in previous shutdowns. This could serve as a forcing event for both parties to reach an agreement before that deadline.
2. Public Opinion Pressure: Early polls consistently show that, at least for now, more voters are blaming Republicans than Democrats for the shutdown. If this trend continues, it could pressure the Republican Party to find a swift solution to the impasse. Conversely, if Democrats consistently gain the upper hand in the polls, they might feel less incentive to make progress in the negotiations.



Source: Bloomberg, Azimut Elaboration

Prediction markets currently price an 85% chance of the shutdown lasting more than 10 days and a 29% chance of it lasting more than 30 days.

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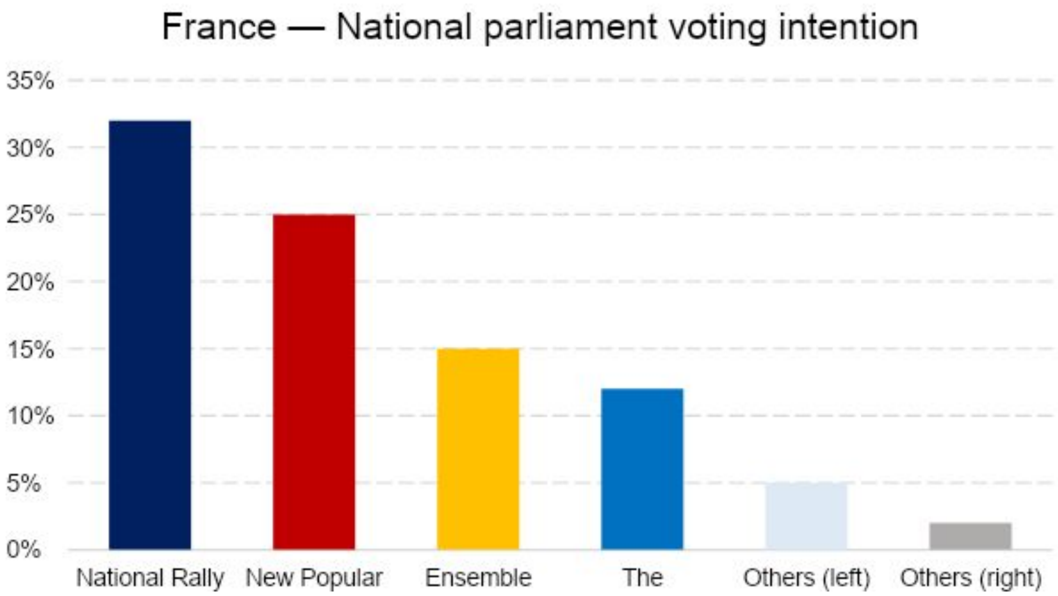
In Japan, Sanae Takaichi was elected as the 29th President of the Liberal Democratic Party, positioning her as the leading candidate to become the country's next Prime Minister. Takaichi is a well-known supporter of Abenomics and has historically been one of the most vocal advocates of loose monetary and fiscal policy. More recently, however, she has moderated her tone, emphasizing that monetary policy should be the sole responsibility of the Bank of Japan and committing to a responsible, proactive fiscal policy and a long-term reduction of debt.

A Takaichi victory was unexpected by the markets, and as a vocal proponent of expansive fiscal and monetary policy, her victory caused weakness in the Japanese JPY and Japanese Government Bonds, while boosting equities.

In Europe, political turmoil in France has resurfaced following the swift resignation of newly appointed Prime Minister Sébastien Lecornu. The resignation occurred less than a day after he unveiled his cabinet, amid fierce opposition reactions and fractures within the centrist coalition.

President Emmanuel Macron now faces two options: appoint a new prime minister or call early elections. In the former case, appointing a somewhat technocratic prime minister with no clear political affiliation might be the only arrangement capable of lasting; however, this appears increasingly unlikely, as both the far right and the far left are calling for early elections. If the moderate left joins the extremist parties, it would allow them to constitute a majority in the National Assembly, making early elections the only viable path forward.



Source: Politico, Azimut Elaboration

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 maintain our **Neutral** stance on Developed Market equities. The global economy continues to show signs of resilience, while accommodative monetary policy supports conditions for markets to sustain their upward momentum. However, the committee acknowledges that stretched valuations and the strong rally since March could lead to sudden market corrections. Most members view any sharp downturn as an attractive opportunity to increase long positions. We continue to advocate for broad diversification across sectors and regions, as high valuations remain concentrated in a small group of stocks that dominate major indices.

US	=	Europe	=	Japan	=

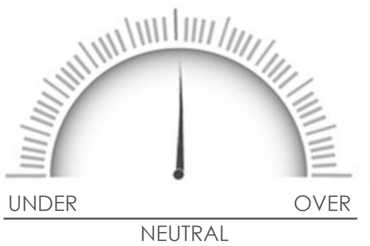
Emerging Markets

We maintain our **Neutral** recommendation on Emerging Market Equities with a positive bias. Despite the recent rally, valuations in emerging markets remain significantly lower than those in developed markets, which reinforces our relatively more favourable stance as investors increasingly seek out undervalued opportunities. Within this space, Emerging Asia ex-Japan remains a preferred allocation, supported by the strengthening momentum in the China Tech sector. Despite signs of an economic slowdown in China, the probability of further government support through fiscal stimulus or accommodative monetary policies has increased.

Asia ex-Japan	+	EEMEA	−	LATAM	=

Fixed Income

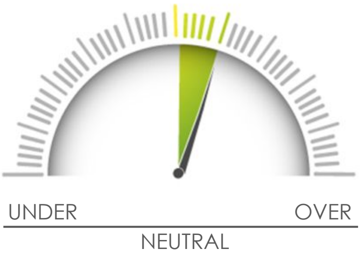
Developed Markets Sovereign



We maintain our **Neutral** recommendation on Developed Market Sovereign Bonds. After the recent decline in market rates, the upside potential for sovereign bonds now appears limited, as yield curves have largely priced in a reasonable number of rate cuts. However, in the current environment, a rebound in market rates also seems unlikely. The majority of the committee believes that the current steepness of the curve is already largely priced in, and that taking an outright short position on the long end of the curve could now be too risky.

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

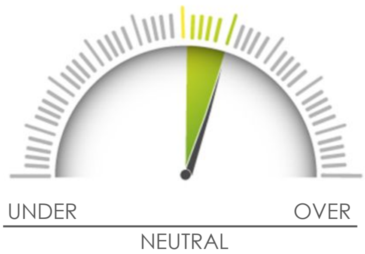
Developed Markets Corporate



We have maintained our **Slightly Overweight** recommendation on Developed Market Corporates. Demand for credit remains strong and spreads have reached record lows. Although the US labour market is showing some signs of weakening, it would not be advisable to remain underweight in credit due to the resilience of the US and European economy. However, with spreads at or near all-time lows, it is more important than ever to focus on high-quality bonds and avoid high-yield issues.

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

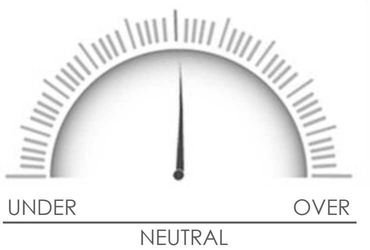
Emerging Markets



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 markets. Additionally, U.S. dollar weakness and the ongoing diversification away from U.S. assets by international investors could further support capital flows into emerging markets.

Local Currency =	Hard Currency IG =	Hard Currency HY =

Commodities



We have maintained our **Neutral** recommendation on Commodities. Within the asset class, we continue to strongly favor precious metals. Over the longer term, demand for precious metals is expected to remain resilient, driven by a potentially softer dollar, central bank purchases, and ongoing concerns about fiscal slippage in public finances globally. The committee recognizes the strong rally in bullion year to date but sees no compelling reason to reduce exposure at this stage. Members prefer to maintain the current overweight allocation.

Precious +	Energy =	Industrial =	Agricultural =

Currencies

We acknowledge the possibility of a short-term rebound in USD, driven by temporary shifts in market sentiment or adjustments in interest rate expectations; therefore, we preferred to bring back the recommendation to **Neutral**.

The view on the Euro remains as **Neutral.**

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 massive YTD outperformance of emerging debt strategies has been gaining momentum among investors, despite the uncertainties still surrounding trade relationships.

Euro	USD	CNY	Other EM
=	=	=	+