azimut

AZIMUT GLOBAL VIEW

20.10.25

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

22.10 – UK CPI
UK inflation may rise to 4% — a near two-year high — potentially dimming prospects for further BoE rate cuts

24.10 – US CPI
US inflation is the only economic data set the government will release during the shutdown, making it pivotal for the upcoming FOMC decision

29.10 – FED MEETING
A 25 bps cut is widely expected, but investors will focus on whether the Fed confirms expectations for a series of cuts extending into early 2026

30.10 – ECB MEETING
No major change in the ECB monetary policy is foreseen in the near future

FULL STEAM AHEAD AMID THE WARNING SIGNS

- **Since the April low, investor complacency has grown amid Fed policy easing, a de-escalation in U.S.–China trade tensions, and upbeat corporate and AI-related developments, with markets largely overlooking emerging warning signs**
- **Trump reignited the trade dispute with China, corporate defaults raised credit concerns, and reports highlighted potential circular financing risks among AI companies reminiscent of the late-1990s tech bubble**
- **Despite an ongoing U.S. government shutdown, mixed sovereign rating actions in Europe, and stretched market valuations, investor optimism remains exuberant—driven by expectations of faster earnings growth, Fed rate cuts, and record ETF inflows—suggesting that market euphoria persists but warrants a more cautious stance ahead of key economic and policy developments**

Ever since the April low, investors have become increasingly complacent, ignoring adverse developments or even adopting a "what's good is good, what's bad is good" attitude—believing that any negative event would either force the Fed to switch to a rate-cutting policy or compel Trump to back down if he were the cause of market stress.

This is exactly what happened. Trump has folded on his attack on Powell and Lisa Cook and de-escalated the trade war with China (the only country that truly fought back). The Fed, for its part, has committed to a series of rate cuts following the widely expected downward revisions to U.S. non-farm payroll data—which were well known to have been artificially inflated—despite no other (non-inflated) data pointing to a slowdown in the U.S. economy.

All this has happened while the last reporting season once again largely beat (lowered) expectations, and the companies most involved in AI development continue to raise their projected capex for the coming years.

However, while investor optimism in recent months has been buoyed by these positive developments, there has been a sudden and considerable increase in warning signs in recent weeks—largely ignored by the market.

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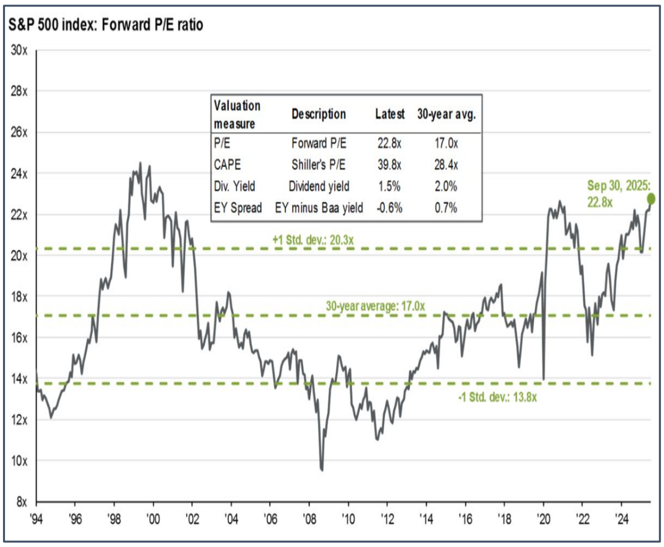
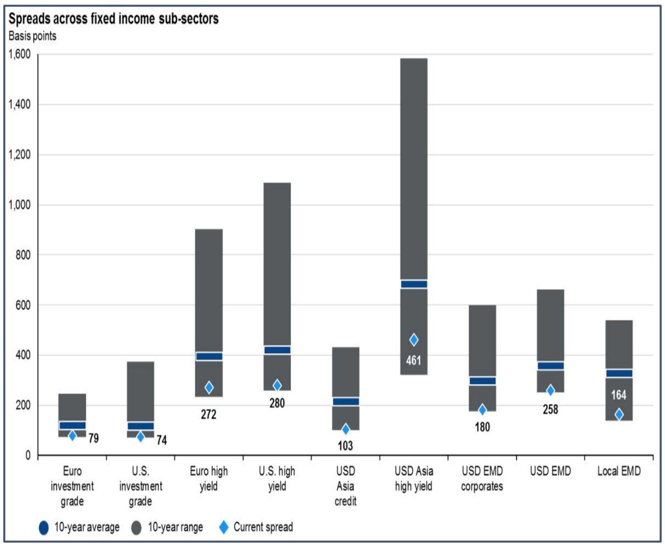


Source: JP Morgan



Source: JP Morgan

Trump suddenly reopened the tariff dispute, announcing additional 100% tariffs on imports from China in response to further restrictions on rare earth exports by the latter. He then softened his tone, backtracking again after signs of nervousness in the stock market, though the spat is far from over. Threats to cancel the meeting between Trump and Xi persist. Additionally, the three-month "truce" agreed between China and the U.S. back in May—and already extended in July—is set to expire in early November, with no certainty as to whether it will be extended again. Considering that the U.S. now has tariffs in place on other countries at rates not dissimilar to those announced on April 2, if those on China were restored to around 145%, the situation would resemble the worst-case scenario priced in by markets in April. The only difference is that markets are now roughly 35% higher in dollar terms than they were at that time.

The credit market has seen a few defaults by sizable issuers such as Tricolor and First Brand. For now, these appear to be isolated cases involving fraud rather than signs of systemic problems. However, even in past instances that later turned into broader disruptions, everything often began with cases initially considered contained. Jamie Dimon's remark that "when you find one cockroach, there are usually many more hiding" helped stoke concerns that lending standards may have become too lax—both within the banking system and among private debt funds.

A number of reports, including Bloomberg's Big Take, have also begun discussing the possibility of a circular reference among companies involved in AI development. Essentially, the capex of one hyperscaler often translates into revenue and profits for others. Whenever one company raises its spending commitments, the rest follow suit, citing ever-growing demand for AI infrastructure. Yet much of the growth in AI so far is tied, on one hand, to the construction of new data centers (which require AI chips), and on the other, to companies developing AI chips that rent computing power (i.e., data centers) to train and build more powerful chips. Moreover, some recent deals have been structured so that company A raises capital from company B and then uses part of that capital to purchase goods and/or services from B. Similar dynamics occurred during the final phase of the internet bubble in the late 1990s.

On another front, the government shutdown is about to enter its fourth week. Spillovers on U.S. economic growth are increasingly likely in the short term, albeit still muted—assuming furloughed workers receive full back pay when the shutdown ends, as has always been the case in the past. The impact on GDP would be more material only in the highly unlikely event that Trump follows through on his threat to withhold back pay. Additionally, last week S&P Global Ratings once again cut France's rating—from AA– to A+—in an unscheduled move driven by fiscal stability concerns. In the opposite direction, Morningstar DBRS upgraded Italy's rating to A, four notches above junk.

All these developments are occurring at a time when stock valuations are near all-time highs and credit spreads at all-time lows. Yet neither asset class has been significantly impacted, despite appearing overbought after months of relentless gains.

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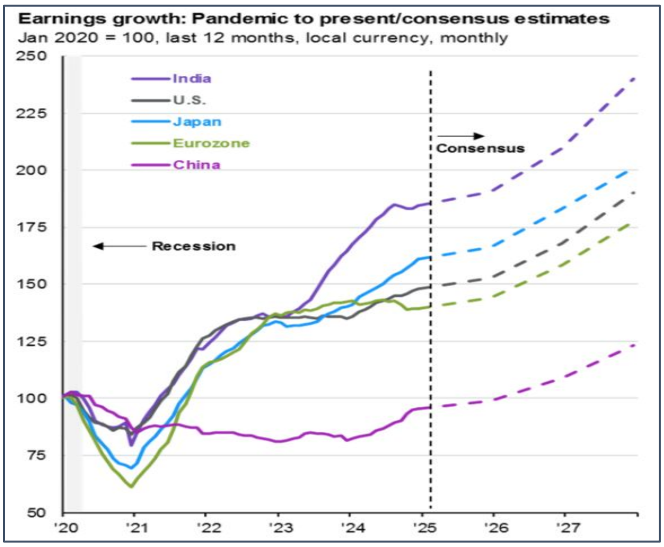
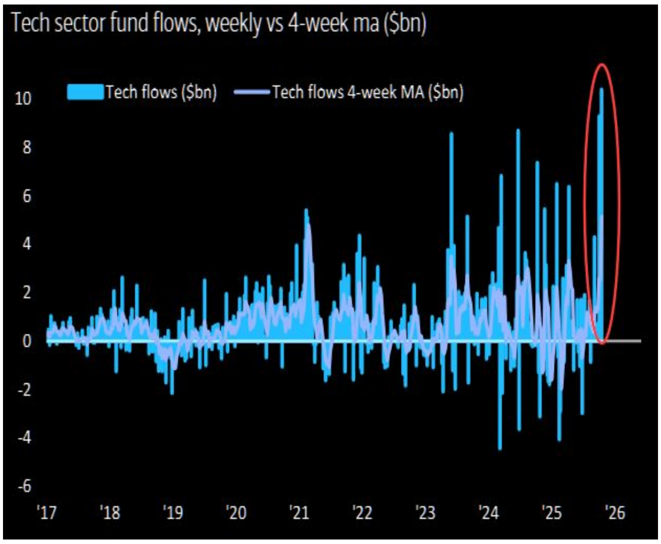


Source: JP Morgan

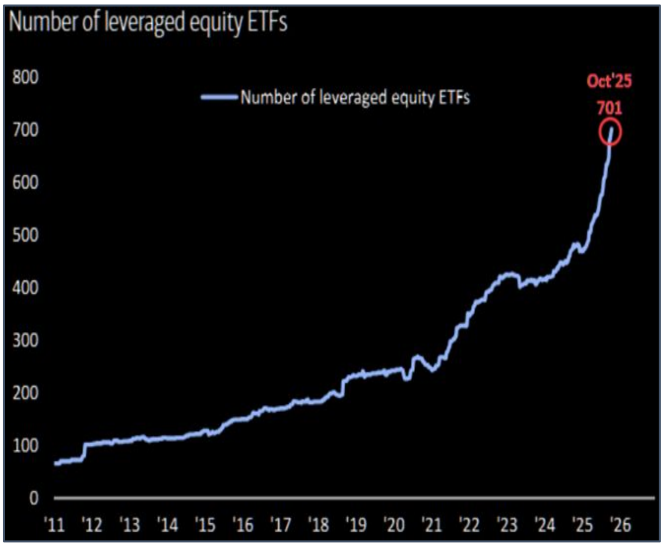


Source: Bank of America

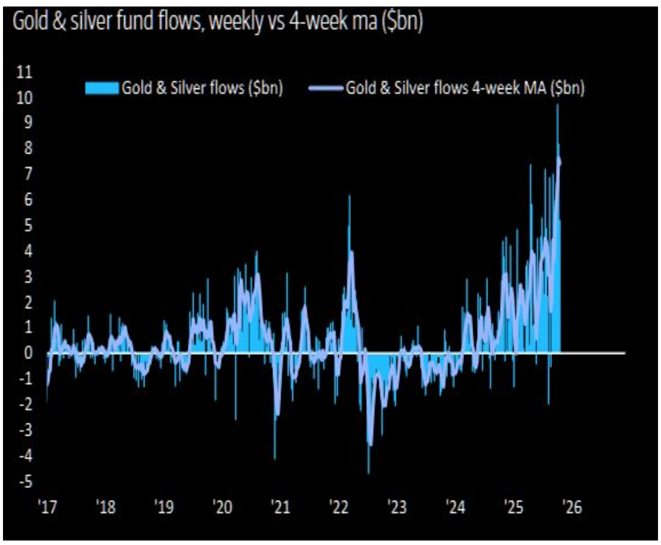
On the contrary, investors seem to be increasingly optimistic in their expectations. EPS for the coming years is now expected to grow at a much faster pace than in the last three years. Since the last Fed meeting, where market expectations of three rate cuts by the end of the year were confirmed, ETFs have seen record inflows, particularly those focused on growth stocks. And apparently, "normal" ETFs no longer seem enough to satisfy investors' growing yearning, to the point that the number of leveraged ETFs has boomed. Similar explosive patterns have also been observed in precious metals, to the point that the London silver market has been cornered, resulting in silver (and gold) prices skyrocketing.

These dynamics suggest that investor bullishness is reaching extreme levels as of late. When this happens, the euphoria may continue to remain the main driver of markets, possibly even for a long time. In such a situation, being overly cautious could be detrimental, as warning signs may continue to be ignored. Until they are not: dismissing them could be just as dangerous. Therefore, all things considered, a slightly more cautious approach now seems advisable.

In the absence of fresh economic data on the world's largest economy, the reporting season that has just begun as well as any change in the Federal Reserve's stance could have a much greater impact than normal.



Source: JP Morgan



Source: Bank of America

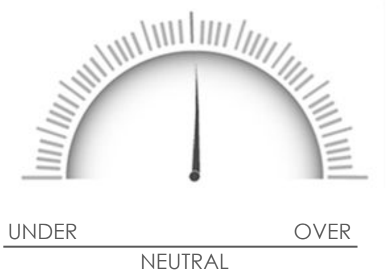
Asset Allocation View

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

UNDER NEUTRAL OVER

Equity

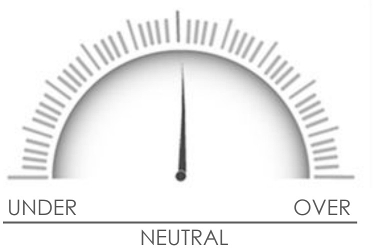
Developed Markets



We maintain a **Neutral** stance on Developed Market equities. However, the committee recognizes that stretched valuations and the strong rally since March could lead to periods of heightened volatility. Some members have suggested a slight reduction in exposure, given the adverse developments that have been discussed in the Prologue, though the majority prefer not to move ahead of the market, which remains persistently driven higher. Others view any potential market correction as an attractive opportunity to add to long positions. We continue to recommend broad diversification across sectors and regions, as high valuations remain concentrated within a small group of stocks dominating major indices.

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

Emerging Markets

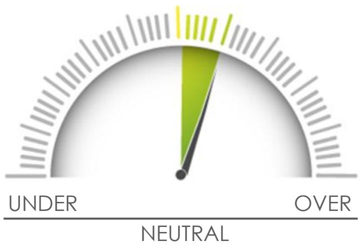


We confirm our **Neutral** recommendation on Emerging Market Equities. Valuations in emerging markets remain significantly lower than those in developed markets, which reinforces our relatively more favorable stance as investors increasingly seek out undervalued opportunities. China remains the most attractive market, supported by the potential for government intervention through fiscal stimulus and by the technological revolution currently underway in the country. However, a possible escalation of the trade war with the United States represents a significant downside risk to China's economic outlook and should be carefully considered.

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

Fixed Income

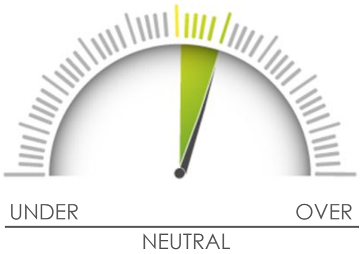
Developed Markets Sovereign



We have upgraded our recommendation on Developed Market Sovereign Bonds to **Slightly Overweight**. The Fed's recent shift in tone reflects growing concern over a cooling labor market, with slower hiring and rising downside risks to employment. Even lacking fresh data due to the ongoing government shutdown, most Fed governors reiterated their intention to continue cutting rates at upcoming FOMC meetings. With yield curve steepness largely priced in, we see room for a measured extension of portfolio duration, but only for bonds with maturities up to 10 years. We continue to recommend avoiding maturities beyond 10 years.

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

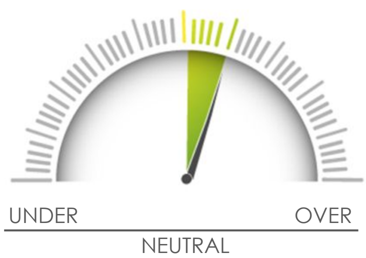
Developed Markets Corporate



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, we continue to recommend a preference for high-quality bonds while avoiding excessive exposure to high-yield instruments.

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

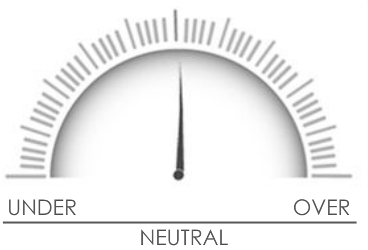
Emerging Markets



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, the main focus is still on 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. Although there are no specific macroeconomic reasons to reduce exposure to gold bullion, the Committee has decided to tactically switch to neutral in order to lock in the strong outperformance achieved in recent months.

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 maintained our **Neutral** recommendation on the greenback.

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, as well as on the potential announcement of futher stimulus.

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	+