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AZIMUT GLOBAL VIEW

08.
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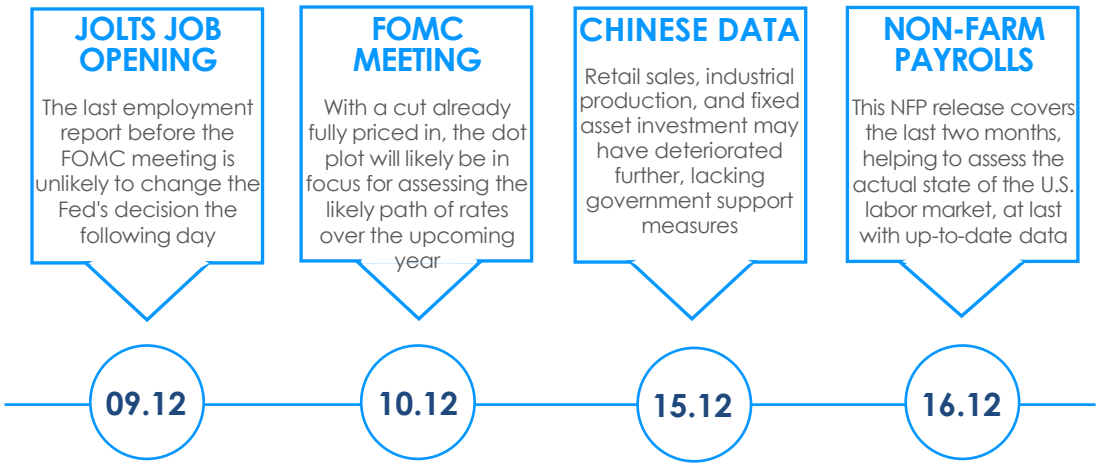
Main Events



FINAL LAP FOR THE CENTRAL BANKS

- **At the next FOMC meeting, investors will likely focus on the new dot plot, as it represents the consensus view of the Fed board. The new chair, however influential he may be, has only one vote**
- **With inflation well above target for over three years and new fiscal stimulus measures just approved by Prime Minister Takaichi's cabinet, a rate hike by the BoJ cannot be ruled out**
- **Although it may still be a little too risky to venture into the very long end of the curve, it cannot be ruled out that this increase in long-term rates could prove to be a compelling investment opportunity**

Over the next 10 days, most central banks will hold their final meetings of the year. While the ECB meeting is likely to be inconclusive, it will be important to pay attention to those of the Federal Reserve and the Bank of Japan.

Although there is no doubt that the Fed will cut rates by 25 basis points—the market takes this for granted after several governors expressed their support for a cut following the release of the October employment report, which showed an increase in the unemployment rate to 4.4% – the focus will be on the new SEP, and in particular the dot plot, to assess the extent to which interest rates could be cut in 2026.

Two seats on the Board of Governors will need to be filled next year. Powell's term will end in May, and Trump has indicated that he will announce the new chairperson in early 2026. Stephen Miran, who currently fills Adriana Kugler's vacated seat, also officially ends his term in January, when Ms. Kugler's original term expires. Trump has not yet indicated whether he intends to confirm Miran for another full term or whether he will choose someone else to replace him.

Regardless of who is chosen as the new chair and to replace Kugler's seat, it goes without saying that Trump's nominees will be aligned with his vision about monetary policy, namely that rates must be kept as low as possible to stimulate the economy and reduce the US interest expenditure on its public debt.

Azimut Global Network

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

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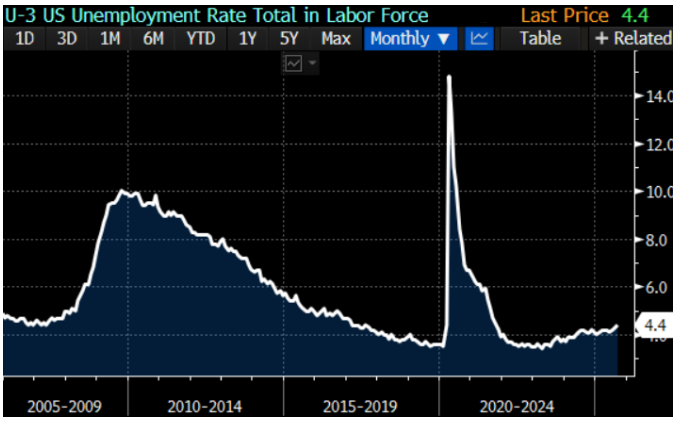
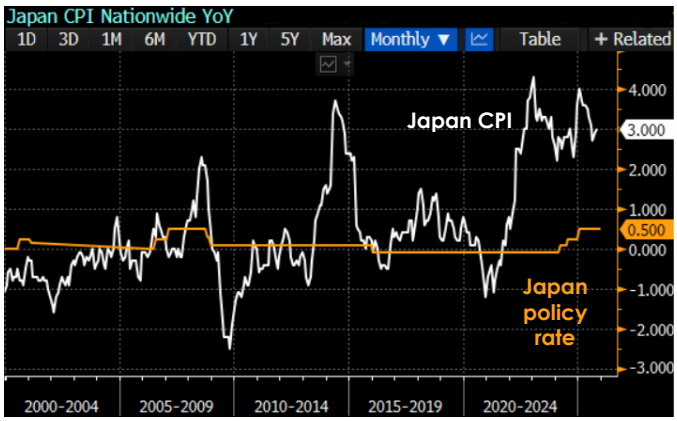


Source: Bloomberg



Source: Bloomberg

It should be noted, however, that although the Fed chair certainly has the ability to shape consensus in the manner in which he or she steers the FOMC, decisions on interest rates and monetary policy are taken by majority. Therefore, regardless of Trump's choices, observing the dot plot is probably the most reliable indication at the moment to discern the likely path of Fed monetary policy over the course of 2026.

As for the Bank of Japan, it is probably the central bank currently in the most uncomfortable position, clearly behind the curve in the process of normalizing interest rates. This is not the first time that the BoJ has been unresponsive, even when dealing with inflation spikes. In the past, these spikes have quickly subsided, as happened in 2007 and then again in 2013. At that time, deflationary dynamics were so entrenched that it was not necessary to raise rates to bring inflation back down.

In the current episode, however, this strategy does not seem to be working. Japanese inflation has been above the 2% target for three and a half years now. Complicating the situation is the new prime minister, Sanae Takaichi, whose cabinet approved a fiscal stimulus package worth ¥21.3 trillion (around $140 billion) at the end of November, equivalent to about 3% of GDP. The package includes ¥17.7 trillion in spending, ¥2.7 trillion in tax breaks, and ¥900 billion in special account spending.

It should be noted that one of the two past episodes in which inflation accelerated significantly occurred precisely following the implementation of Abe's economic policies ("Abenomics"), which involved the simultaneous implementation of fiscal and monetary stimulus measures. The increase in fiscal spending by Ms. Takaichi, combined with strongly negative real interest rates (equivalent to monetary stimulus), is what is worrying the market, especially given that inflation is already well above target. Unsurprisingly, Japanese rates have continued to rise, particularly at the long end, with the 30-year reaching new all-time highs, while the 10-year has risen by around 30 bps since the stimulus package was approved.

Faced with these dynamics, the Japanese central bank is expected to herald a tighter monetary policy, with the possibility of a rate hike already at this meeting. Further increases are also likely to be announced for 2026, although the possibility that the BoJ will remain stuck in its rigid approach, characterized by extremely low responsiveness to market changes, must be taken into account.

Source: Bloomberg

Source: Bloomberg

(continued)

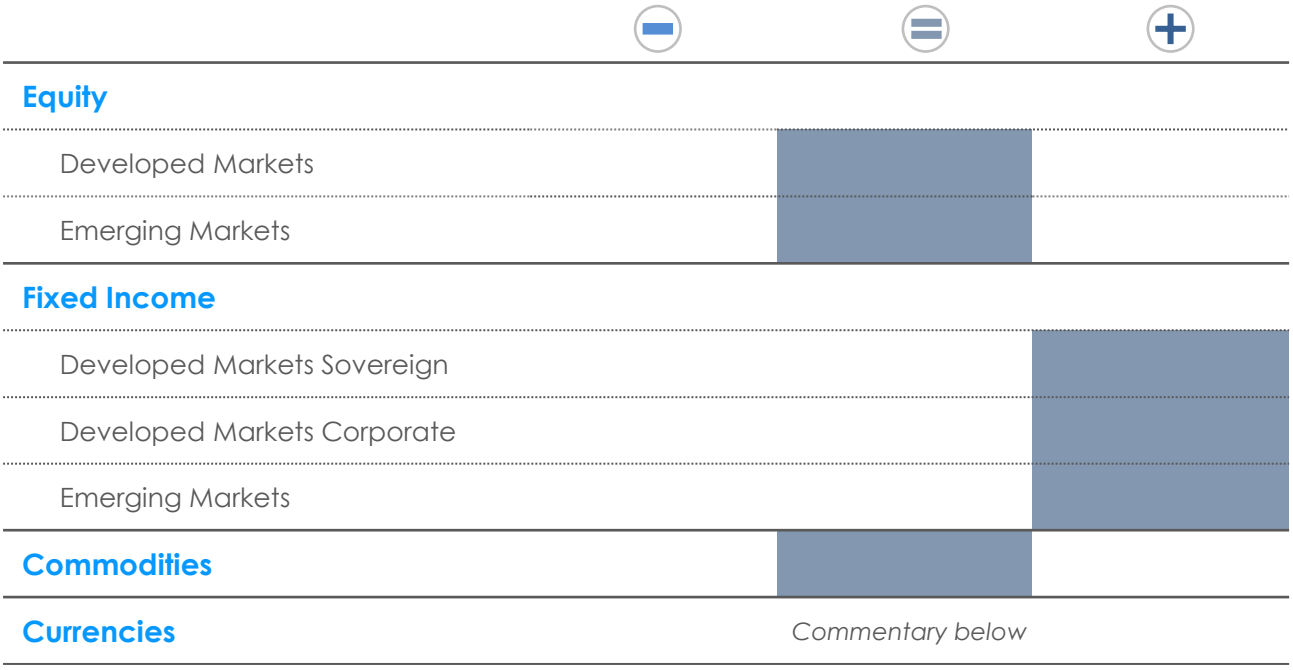
For a few years now, an increase in the very long end of the curve has become commonplace whenever a government decides to increase its budget deficit or when governments' financing needs increase.

The trend has also begun to manifest on the 30-year Bund, whose yield is now approaching 3.5%, a level not seen in almost 15 years. Again, part of the movement can be explained by the need to finance the infrastructure and defence plans announced earlier this year. However, it could also be explained by the fact that the market is beginning to speculate that the ECB may have concluded its cycle of rate cuts, and even assuming that there could even be a rate hike in 2026.

However, it is worth remembering that the rise in long-term interest rates is also the result of healthy dynamics that are not a cause for concern. The transition from QE to QT has led to a reduction in the overall money supply which still remains abundant. Just as QE led to a flattening of the curves and a reduction, if not the disappearance, of the term premium (i.e., the extra yield that very long-term bonds must offer to compensate for their greater volatility), QT is now producing the opposite effect.

Although it may still be a little too risky to venture into the very long end of the curve, it cannot be ruled out that this increase in long-term rates could prove to be a juicy investment opportunity. If inflationary pressures ease in the second half of next year and/or the global economy slows down, long-term rates at such high levels could prove to be an excellent hedge for a portfolio.

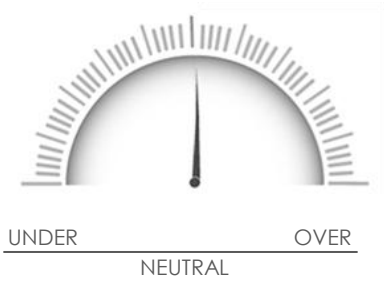
Asset Allocation View



UNDER NEUTRAL OVER

Equity

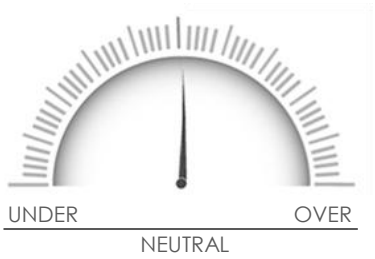
Developed Markets



Our stance on Developed Market equities remains **Neutral**. Markets have already priced in a 25 basis point rate cut by the Federal Reserve, and no policy surprise is anticipated; moreover, seasonal trends provide some near-term support. The majority of the committee is now convinced that, with no major drivers on the horizon to materially increase volatility, near-term market moves are expected to remain contained. Over the medium term some caution persists. Elevated investor optimism and still-stretched U.S. valuations warrant vigilance, reinforcing the case for broad diversification across sectors and regions.

US	Europe	Japan

Emerging Markets

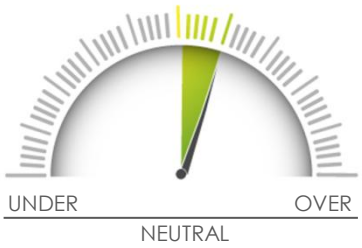


We reaffirm our **Neutral** stance on Emerging Market equities. Recent macroeconomic signals point to a continued slowdown in China's economy, but policymakers appear reluctant to adopt meaningful fiscal stimulus in the short term. Authorities seem comfortable relying on a strong current trade balance, which they view as sufficient to achieve the 5% GDP growth target by year-end. At the same time, emerging market equities continue to trade at a notable discount to developed markets, offering selective opportunities for investors. Geopolitical considerations remain a key risk factor and warrant close monitoring.

Asia ex-Japan	EEMEA	LATAM

Fixed Income

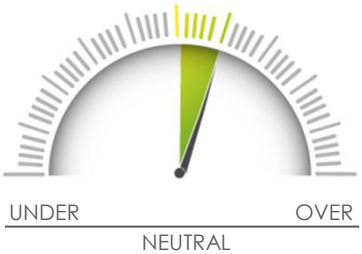
Developed Markets Sovereign



We maintain our **Slightly Overweight** stance on Developed Market sovereign bonds. Rate volatility has eased, and we expect the current trading range to remain broadly stable through year-end. Within the curve, we continue to favor the segment up to 5/7 years, where carry and risk dynamics appear most attractive. We observe increasing pressure at the long end of the curve across multiple countries, where volatility is likely to remain high as a result of two opposing forces: on the one hand, upward pressure on rates whenever concerns about fiscal slippage emerge, and on the other, downward pressure should fears of an economic slowdown materialize.

EU Core	EU Periphery	US Treasury	Japanese JGB

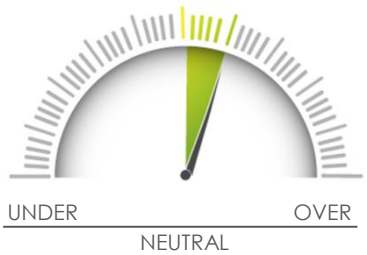
Developed Markets Corporate



We maintain our **Slightly Overweight** recommendation on Developed Market corporate bonds. Demand for credit remains robust, and spreads have tightened to record lows. With no major drivers on the horizon to materially increase volatility, near-term market moves are expected to remain contained given the continued resilience of the U.S. and European economies. We continue to recommend a focus on high-quality issuers, while avoiding excessive exposure to high-yield instruments.

IG Europe	IG US	HY Europe	HY US

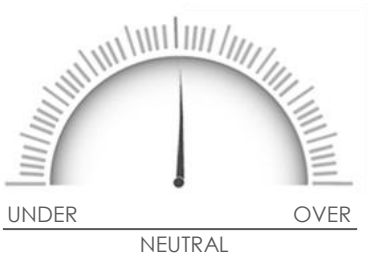
Emerging Markets



We continue to maintain our **Slightly Overweight** recommendation on Emerging Market Bonds. The rapid tightening of spreads in developed market bonds makes emerging market spreads comparatively more attractive versus similarly rated developed issuers. U.S. dollar weakness, along with ongoing diversification away from U.S. assets by international investors, could further support capital flows into emerging markets. Valuations remain compelling across much of the asset class, offering investors a higher yield without taking on excessive credit risk.

Local Currency	Hard Currency IG	Hard Currency HY

Commodities



We maintain our **Neutral** recommendation on Commodities. Within the asset class, recent price action has been marked by unusually strong volatility over the past few weeks after the huge increase over the past months. We therefore prefer to wait for the asset class to settle before raising our recommendation back to overweight, as our medium- to long-term outlook remains positive.

Precious	Energy	Industrial	Agricultural

Currencies

We maintain our **Neutral** recommendation on the USD. We expect volatility to remain low through year-end, whilst dovish monetary policy FED's dynamics might support a slightly return to dollar weakness.

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

We have maintained our **Neutral** stance on the **Chinese Renminbi**.

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