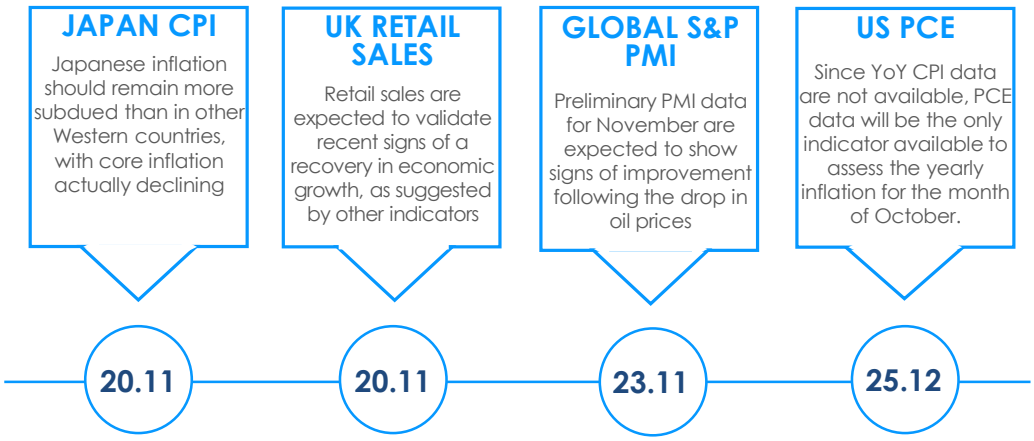
Main Events



A ROUGHER-THAN-EXPECTED ROAD TO YEAR-END

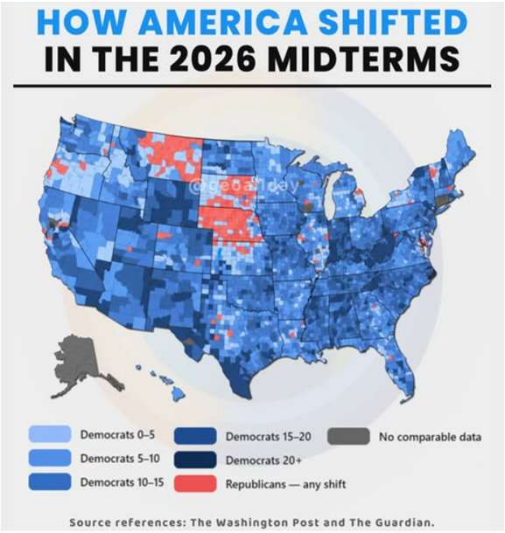
- **The US elections concluded with a surprise—not so much because of the Democratic victory itself, but due to the magnitude of the shift in voter preferences**
- **The Democratic wave presents a double-edged outlook: reduced White House unpredictability and better odds of finding a solution for the Iran war, offset by congressional gridlock and additional hurdles for data center construction**
- **An unexpectedly hawkish shift by some Fed Governor and Huang's personal affairs, which led to his ouster as Nvidia's CEO, have added further layers of uncertainty**

U.S. elections were seen as the last source of uncertainty and the final hurdle to clear in 2026 for markets to resume their upward trend, supported by sustained earnings growth. Nothing could have been further from the truth.

Let's start with the mid-term elections, which were become a referendum on Trump. The result was unequivocal.

The national popular vote shifted by approximately 15 percentage points in favor of Democrats compared to 2024. In the Senate, Democrats won 8 states from Republicans—with the potential of also winning Alaska, still too close to call—shifting from a 53–47 Republican majority to at least a 55–45 Democratic majority.

The first and immediate consequence of these results is that Trump will no longer be seen as almighty as before, or as having an unrestricted ability to push past the boundaries imposed on him by the Constitution.



Source: Geo All Day

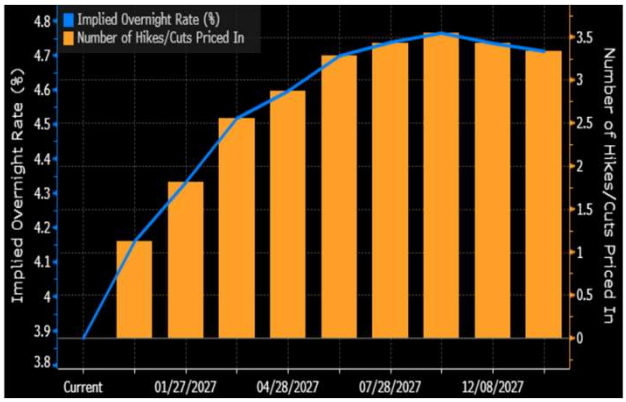
Azimut Global Network

- 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

(continued)



Source: Bloomberg



Source: Bloomberg

Trump will struggle more to push through his broader domestic agenda, as any initiative—from tax changes to sweeping deregulation—will face steep resistance, forcing the White House to rely more heavily on executive orders and regulatory adjustments that cannot create new laws or authorize new spending. The key moment in this respect will be the increase of the debt ceiling, which will kick in around next summer, given that Trump's and the Democrats' priorities are mutually incompatible. Trump will obviously still try to push his agenda forward, while the Democrats may try to undo at least some of Trump's signature measures. This will likely lead to lengthy negotiations and potentially a new government shutdown, causing volatility in financial markets.

So, while a divided government (a president from one party and one or both chambers controlled by the other party) is usually the scenario preferred by the markets—because it forces the two parties to reach a compromise and prevents the passage of radical measures in either direction—in this specific case, it could lead to a full-blown gridlock that would hinder the legislative process.

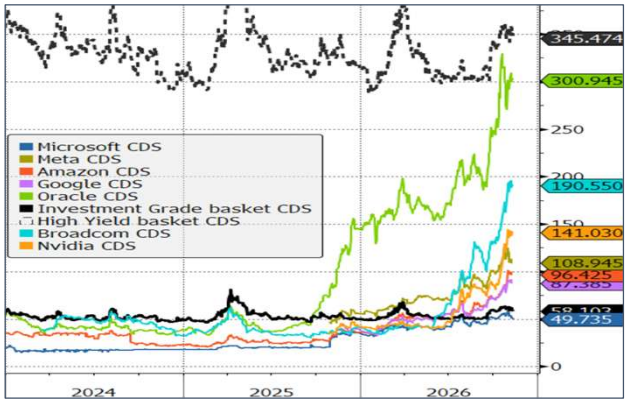
In foreign politics, incoming Democratic congressional majorities will have strong political incentives to try to force an end to the war with Iran, as affordability was clearly the decisive factors in the November midterm elections. Any peace agreement—even a suboptimal one, in which case the Democrats will put the blame on Trump for a war that should never have started—will likely lead to a drop in oil prices.

The price of oil, incidentally, was already heading in the right direction: dated brent was already converging to brent futures even before the election. Dated brent refers to oil for immediate delivery, and when it trades above the futures price, it indicates tightness (there isn't enough oil available in the physical market). Starting in early October, dated brent went from trading at a premium of $30 per barrel to converging with the futures price. This supports rumors circulating recently that the flow of oil through the Strait of Hormuz has returned to pre-conflict levels. The IEA (International Energy Agency) confirmed last week that oil supply exceeded oil demand by almost 2 mln barrel per day in October.

Given the aggressive ramp-up in global output and shipping capacity over recent months, a definitive end to the conflict risks creating a massive oil surplus, which might push prices even below pre-war levels, massively improving the affordability issue. Add to this the fact that inflation is calculated as a year-over-year change. This implies that, starting in April of next year, for most of the monthly readings the energy component will have a deflationary impact on the CPI, even assuming steady oil prices.

It was therefore quite surprising to hear some Fed governors hint at the possibility of stepping up the pace of rate hikes or extending them further into 2027. And even if recent labor and consumer spending data point to accelerating growth, robust growth and full employment need not come at the expense of price stability, as Warsh has long argued. This unexpected hawkish shift by the Fed was yet another unexpected development that caught everyone off guard. The markets had to immediately adjust, with interest rates quickly returning to levels not far from their early-October highs.

We maintain that inflation fears are exaggerated and view current yields as attractive, particularly in the belly of the curve. This holds especially true in Europe, where growth prospects remain subdued but also the one that could benefit the most from a drop in energy prices.



Source: Bloomberg



Source: Bloomberg

Turning to the third unexpected development, the mid-term election resulted in Democrats winning governorships in critical data center battlegrounds—including Texas which accounts for more than a quarter of all planned U.S. data center growth through 2030.

Although several governors-elect campaigned on imposing moratorium on data center construction, immediate post-election estimates of the computing capacity at risk appear overly alarmist. Given that maintaining U.S. leadership in artificial intelligence is vital to both economic competitiveness and national security, Democratic leaders are unlikely to halt the buildout outright. More plausibly, they will leverage project authorizations to secure larger community contributions and requiring developers to shoulder a greater share of the costs associated with the project, such as local grid and water infrastructure costs.

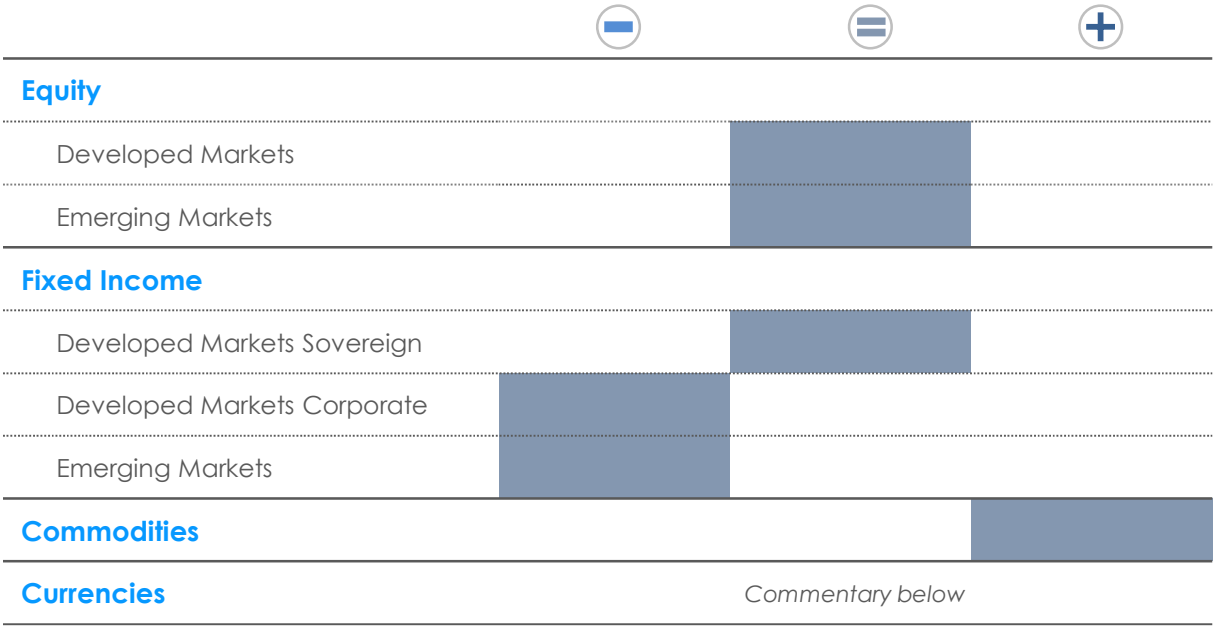
This development coincided with a reporting season that confirmed that while the AI sector continues to grow at a breakneck pace—with revenue and profits generally beating consensus forecasts—capital expenditures, debt issuance, and off-balance-sheet liabilities are also surging faster than anticipated. And the liability side of AI development is precisely the reason behind the market's growing concern.

Dwindling hyperscalers cash flows, rising debt loads, circular dealmaking across the AI ecosystem, and years of projected cash burn are being met with waning complacency by investors—particularly when return on investment and break-even timelines remain anyone's guess.

While the election results had already further shaken investor confidence, the final blow came from Jensen Huang's personal affairs, which led to his ouster as Nvidia's CEO. Given Nvidia's role as the de facto "central bank of AI," a leadership change at the top could send ripple effects across the sector—particularly if his successor or the board to demonstrate a lower risk appetite in dealmaking.

Investors hoping for a quiet year-end and the usual Santa Claus rally has gotten a rude awakening. The central question now is whether the fears behind the recent sell-off in AI-related companies are warranted—as signaled by credit-default swaps and lower multiples—or whether the pullback offers a rare entry point into companies with superior long-term growth at compelling valuations. We are inclined to favor the latter interpretation, yet we cannot wholly dismiss these concerns. Accordingly, the most prudent strategy is to gradually rebuild exposure to U.S. equities and technology names, ideally on dips.

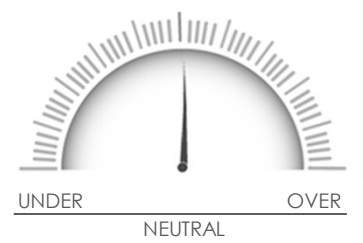
Asset Allocation View



UNDER NEUTRAL OVER

Equity

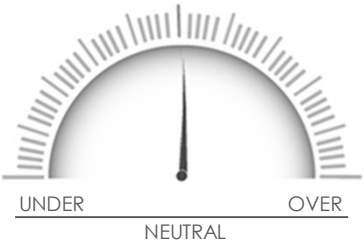
Developed Markets



We have maintained our **Neutral** recommendation on Developed Market equities. The election results and Jensen Huang's ousting from Nvidia triggered another drop in AI-related stocks. Although AI-related stocks could keep correcting in the short term due to negative news flow and momentum, a majority of the committee believes that current valuations have become quite attractive and already price in a fairly unfavorable scenario. As previously, market indices have continued to hold up thanks to the ongoing rotation which lifted defensive stocks. However, these stocks now are viewed as rather expensive and vulnerable to a pullback. We therefore believe it is appropriate to rebalance portfolios by adding technology stocks on weakness and reducing exposure to defensive stocks.

US	Europe	Japan
+	=	=

Emerging Markets



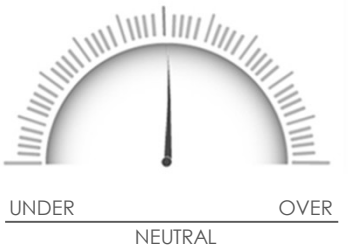
Likewise, we have kept the **Neutral** recommendation on Emerging Market equities. The higher weighting of technology stocks in emerging market indices (compared to developed markets), combined with the renewed strength of the dollar, has led to a sharp underperformance by developing countries. However, since many of the stocks benefiting from the exponential increase in spending on AI (such as chip and memory manufacturers) are included in emerging market indices, and given that their earnings per share (EPS) continue to rise sharply, the forward P/E has fallen to levels not seen since 2008. As for developed markets, we therefore recommend gradually building positions on weakness.

Asia ex-Japan	EEMEA	LATAM
=	=	=

The information reported in this document has been extrapolated from Bloomberg and external research sources, and subsequently re-elaborated by Azimut Investments S.A. Please read the disclaimer at the end of this document

Fixed Income

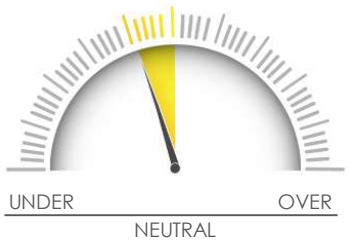
Developed Markets Sovereign



We have maintained our **Neutral** recommendation on Developed Market sovereign bonds. The tactical downgrade made last time proved to be timely, as rates quickly returned close to recent highs following better-than-expected U.S. macroeconomic data and hawkish statements from some Fed governors. In light of the decline in oil prices, the recent move is viewed as somewhat excessive, particularly in the belly of the yield curves. Therefore, while maintaining a neutral position out of caution, the committee finds the belly of the yield curves attractive, especially in Europe, where both economic growth and underlying inflationary pressures are more subdued.

EU Core	EU Periphery	US Treasury	Japanese JGB

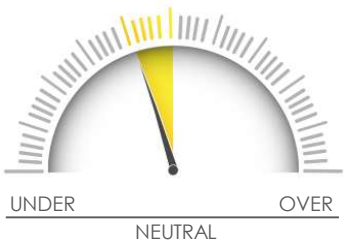
Developed Markets Corporate



We have maintained our **Slightly Underweight** recommendation on Developed Market corporate bonds. Although spreads have widened since mid-September, they are not yet considered attractive in either the investment-grade or high-yield segments. Within credit, we continue to prefer investment-grade bonds over high-yield.

IG Europe	IG US	HY Europe	HY US

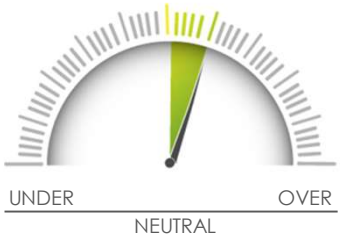
Emerging Markets



We have maintained our **Slightly Underweight** recommendation on Emerging Markets Debt. The ongoing turbulence in developed-market bonds is starting to weigh on investor appetite for emerging-market debt as well. Although emerging-market bonds still offer higher yields than developed-market bonds with the same credit rating, we prefer to remain cautious here too.

Local Currency	Hard Currency IG	Hard Currency HY

Commodities



We have maintained our **Slightly Overweight** recommendation for commodities. Although the long-term bullish outlook for precious metals remains unchanged, the rapid return of interest rates towards recent highs is creating new headwinds, suggesting that caution is still warranted. We remain positive on industrial metals and rare earths, as supply shortages are set to worsen in the coming years due to their increasing adoption across various strategic sectors, including artificial intelligence, the space race, military applications, and energy production.

Precious	Energy	Industrial	Agricultural

The information reported in this document has been extrapolated from Bloomberg and external research sources, and subsequently re-elaborated by Azimut Investments S.A. Please read the disclaimer at the end of this document

Currencies

We have maintained our **Neutral recommendation** on the **US Dollar**. The greenback is currently seen as fair valued considering the interest rate differential.

We have maintained our **Neutral** recommendation on the **Euro** as well. Recent concerns about Europe continue to subside, suggesting that a consolidation might take place in the near future.

The recommendation on the **Chinese Renminbi** remains **Neutral**.

Likewise, the outlook for other **emerging market currencies** has been maintained at **Neutral**.

Euro	USD	CNY	Other EM
=	=	=	=

The information contained herein is confidential and proprietary and intended only for use by the recipient. The materials may not be reproduced, distributed or used for any other purposes. The information contained herein is not complete and does not contain certain material information about the investments described in the present document, including important disclosures and risk factors associated with these investments, and is subject to change without notice. This document is not intended to be, nor should it be construed or used as, an offer to sell, or a solicitation of any offer to buy, shares or limited partner interests in any funds managed by Azimut Investments S.A. If any offer is made, it shall be pursuant to a definitive Prospectus / Private Placement Memorandum/Offering Memorandum prepared by or on behalf of a specific fund which contains detailed information concerning the investment terms and the risks, fees and expenses associated with an investment in that fund.

In addition, the market trend information herein has been prepared by or on behalf of Azimut Investments S.A. and has not been independently audited or verified. Investment returns may vary materially from the stated objectives and/or targets so that investors may have a gain or a loss when they redeem their investment. As with any investment (vehicle), past performance cannot assure any level of future results. Forward looking statements constitute the opinion of Azimut Investments S.A. does not guarantee any specific outcome or performance.

All investments entail substantial risk. The profitability and return of investments are dependent upon numerous factors, which may include the active management of securities, across global markets.

Opinions expressed are current opinions as of the date appearing in this material only. The information provided in these materials is illustrative and no assurance can be provided that any of the future events referenced herein (including projected or estimated returns or performance results) will occur on the terms contemplated herein or at all. While the data contained herein has been prepared from information that Azimut Investments S.A. believes to be reliable, Azimut Investments S.A. does not warrant the accuracy or completeness of such information. The underlying managers used by Azimut Investments S.A. in its portfolios are subject to change in the future and there will likely be additional managers added to the portfolio.

The information reported in this document has been extrapolated from Bloomberg and external research sources, and subsequently re-elaborated by Azimut Investments S.A. Please read the disclaimer at the end of this document