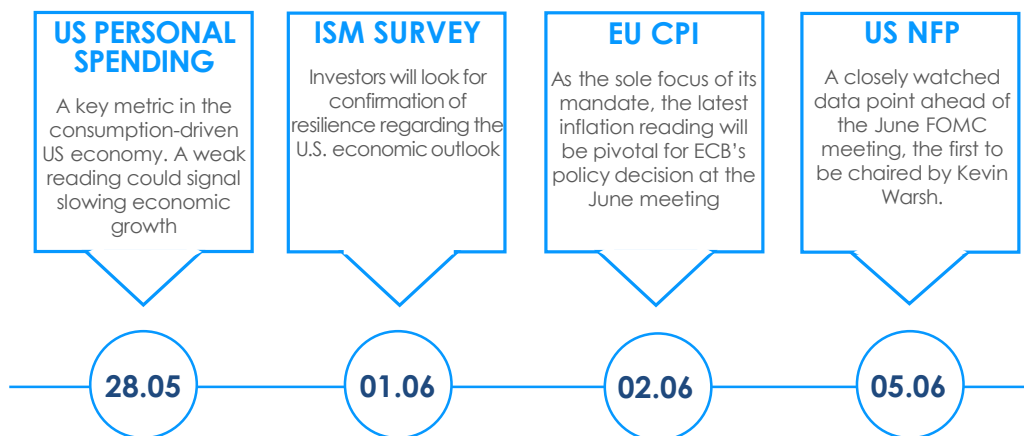


Main Events

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



Global Bonds: from Downing Street to Capitol Hill, via Hormuz

- **Global bonds are experiencing a sharp adjustment driven by the inflationary ramifications of the conflict in Iran, as well as idiosyncratic factors**
- **In the UK, Keir Starmer's premiership is under pressure following a heavy defeat in recent local elections. Expectations of looser fiscal policy under a potential new prime minister have unsettled investors, leading to a sharp repricing of UK financial assets**
- **More broadly, global fixed income markets are facing increasing pressure from a confluence of structural factors, including elevated energy prices, persistently large government deficits and the reversal of quantitative easing by major central banks**

Global bonds are experiencing a significant adjustment, exacerbated by the inflationary repercussions of the war in Iran and, in some instances, idiosyncratic domestic developments. The first section of this report examines the UK as a case study, while the second section broadens the scope to longer term shifts impacting the global macro backdrop.

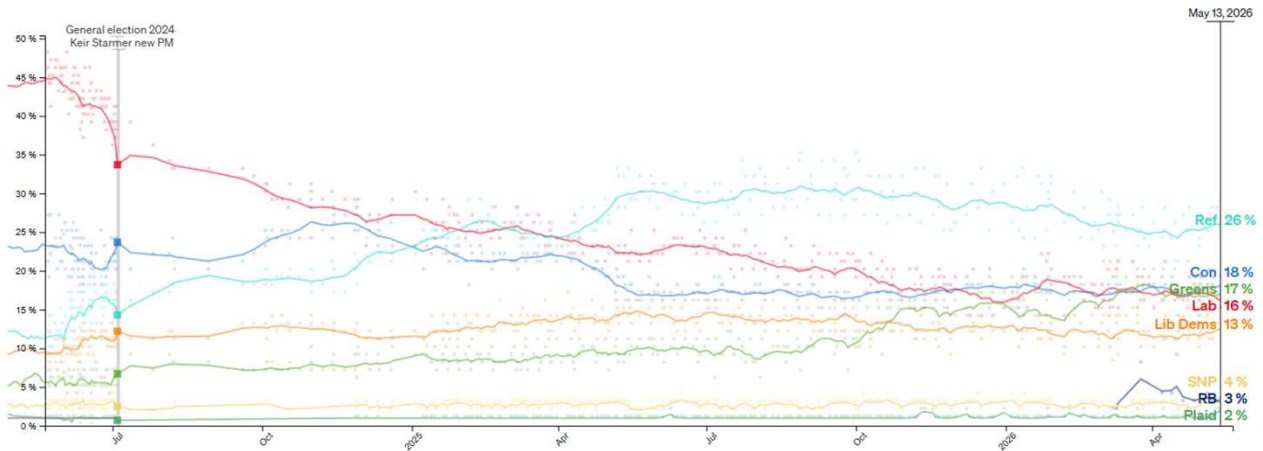
UK: war & political instability meet muscle memory

In the UK, Prime Minister Keir Starmer's premiership is under mounting pressure following a disastrous performance in local and devolved elections, with Labour losing support to Nigel Farage's Reform UK on the right and the Green Party on the left.

Such instability has opened the door for Greater Manchester Mayor Andy Burnham to mount a shadow leadership campaign. To challenge Starmer directly, Burnham must first become a sitting Member of Parliament. To facilitate this, Labour MP Josh Simons has agreed to step aside in his Makerfield constituency, triggering a by-election set for June 18th. Burnham's victory is far from guaranteed, as Reform UK secured nearly 50% of the vote across the constituency's overlapping wards in the recent local elections.

(continued)

UK Voting Intentions: Labor Party lost over half of its consensus in one year



Source: Politico

If Burnham wins the by-election and takes his seat in the Commons, 20% of Labour MPs (81 MPs) would need to formally back a leadership challenge to trigger a contest, assuming Starmer refuses to resign voluntarily. Burnham would then compete against Keir Starmer and other rivals, such as Wes Streeting and Angela Rayner. Burnham's allies are aggressively pushing for a timeline that would see him installed as Prime Minister before the Labour Party conference in Liverpool this September.

As soon as the prospect of a Burnham premiership became viable, UK financial assets – and Gilts in particular – sold off sharply. 10-year UK Gilt yields surged past 5.1% to their highest levels since 2008, and 30-year yields reached levels unseen since 1998. Although Burnham's agenda of mass renationalization and substantial local investments was one of the triggers behind the sell-off, his statement that the UK was "in hock to the bond markets" spooked markets the most.

With financial instability becoming associated with his potential leadership, Burnham promptly backtracked, seeking to calm the market by committing to the government's existing borrowing limits, known as fiscal rules. Gilts recovered some of their earlier losses, helped by a lower-than-expected inflation data release.

Beyond highlighting idiosyncratic domestic issues and the lingering effect of the 2022 UK LDI crisis on investors' muscle memory, the adverse price action in Gilts is also a manifestation of a broader trend affecting the global sovereign bond market, as discussed in the following section.

Global Bonds: attractive yields vs. structural headwinds

The turbulence in UK Gilts has been unfolding against a broader backdrop of intensifying pressure across global government bonds. An equal-weighted average of 10-year yields across major developed economies (US, Japan, UK, Germany, France, Italy, Australia, Switzerland) reached levels last seen in 2010.

While the trigger for the latest leg higher in yields has been the inflationary spillover stemming from the closure of the Strait of Hormuz, the sharp repricing in global bond markets over the past few years reflects a confluence of structural factors.

The response of governments and Central Banks, first to the Covid Pandemic and then to the Russo-Ukrainian conflict, re-shaped several of the core structures financial markets had grown accustomed to. Markets have transitioned from the so-called "New Normal" to what we at Azimut call the DART economy (De-globalization & Defence Spending, AI, Re-distribution, and energy Transition). If the defining feature of the New Normal was ample recourse to monetary accommodation, often via Government Bonds purchases, to prop up stubbornly low inflation, the current regime sees widespread use of fiscal expansion to support economic activity. This transition has dramatically changed the investment landscape, invalidating some long-standing "dogmatic truths", such as the negative correlation between equities and government bonds, and – crucially – letting the inflation genie out of the bottle.

(continued)

Equal-weighted average of 10-year yields for a basket of major developed sovereign markets



Source: Bloomberg, Azimut elaboration

De-globalization and friend-shoring have also contributed to reversing the disinflationary trend that began with China's accession to the WTO. Moreover, the substantial increase in government bond supply required to fund fiscal spending has intersected with reduced demand from Central Banks, which have shifted from Quantitative Easing to Quantitative Tightening. More broadly, demand from reserve managers has also fallen, as government bond purchases (predominantly US Treasuries) have been replaced with alternative assets such as gold. Recently, massive corporate borrowing aimed at financing the hyperscalers' AI CapEx cycle has been exerting further downward pressure on global duration. The combination of these dynamics has compelled investors to require more elevated yields and risk premia to fund sovereign issuers.

Considering the above, are global bonds poised to face a bleak outlook? In our opinion, this is not the case.

In the short term, a de-escalation of the conflict in Iran and a normalization in energy flows would shift the distribution of risk around monetary policy paths, resulting in a tailwind for global bonds.

Even in the event of re-escalation, while global bonds would likely be adversely impacted, the downside risk would be considerably more contained compared with the 2021-2022 episode, due to several factors, namely:

- A substantially higher starting point in monetary policy rates (e.g. Fed Funds are currently at 3.75% vs. 0.25% in 2021, ECB rates are currently at 2.0% vs. -0.5% in 2021);
- A lower starting point in inflation (US PCE is currently 3.2% vs. over 5% at the end of 2021, Euro Area CPI inflation is currently 3.0% vs. 5.0% at the end of 2021 and over 10% in Q4 2022);
- Less expansionary fiscal policy (the US Deficit as a % of GDP reached 14.5% in 2020, vs. 6% currently, similarly in the Euro-zone, depending on the specific country);
- The different nature of the shock: the initial phase of the inflation burst of 2021-2022 was originated by a demand shock, triggered by the post-pandemic re-opening of global economies. It was the eruption of the Russo-Ukrainian war in February 2022 that threw fuel to the inflationary fire, adding supply bottlenecks to the prevailing configuration. Today's shock is supply-driven and is occurring in a context of subdued economic activity, barring pockets of exceptionalism mainly clustered around AI.

All in all, these factors point towards a less forceful reaction function from Central Banks compared to the 2021-2022 episode, even in an environment of persistent disruption of the energy flows.

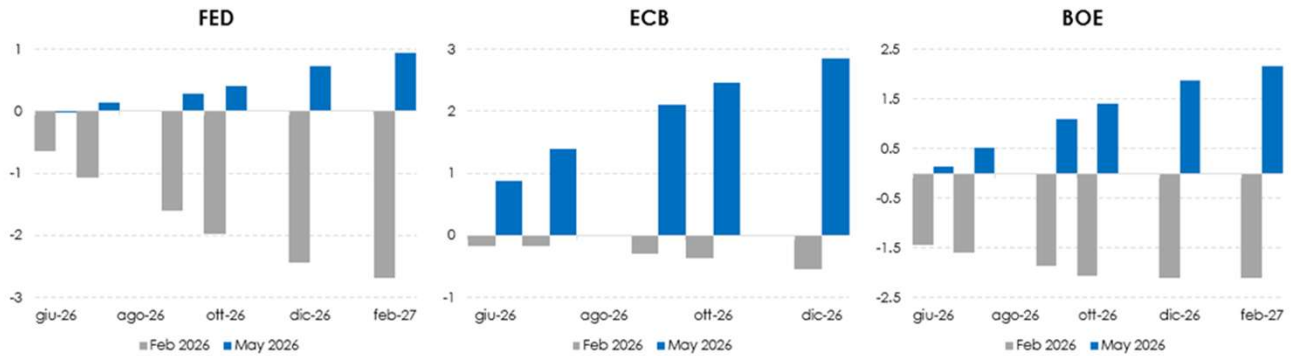
In addition to limited downside risk, several other factors are conducive to a supportive outlook for global bonds, in our view.

(continued)

First, valuations: current yield levels offer an attractive entry point and long-term forwards screen as cheap across geographies, with stand-out countries such as UK and Japan.

Second, expectations of an energy shock have already driven a sharp repricing of Central Banks' policy paths, with swap markets shifting from rate-cut expectations in the US and UK to pricing in hikes across major Central Banks. Current swap market pricing implies nearly one Fed hike, two BoE hikes, and three hikes for the ECB, by year end. Also, on average, current yield levels provide a buffer able to compensate for adverse moves in interest rates (particularly for short dated securities).

Number of rate hikes/cuts expectation for FED, ECB and BOE before and after the beginning of the war in Iran



Source: Bloomberg, Azimut elaboration

Moreover, while bonds have fared poorly as portfolio diversifiers during inflationary spells, they have still been able to deliver positive and negatively correlated returns during periods of stress driven by growth concerns. Recent episodes such as the 2023 regional bank crisis (Treasuries rallying), the aftermath of last year's "Liberation Day" (Bunds rallying) and this year's Private Credit scare (global duration rally) all provide supportive evidence. These precedents support the case for owning bonds should the ramifications of the conflict in Iran result in reduced economic activity and downward revisions to growth expectations. That said, diversification and quality will be key, as these episodes have shown that performance dispersion across different bond markets can be extremely pronounced.

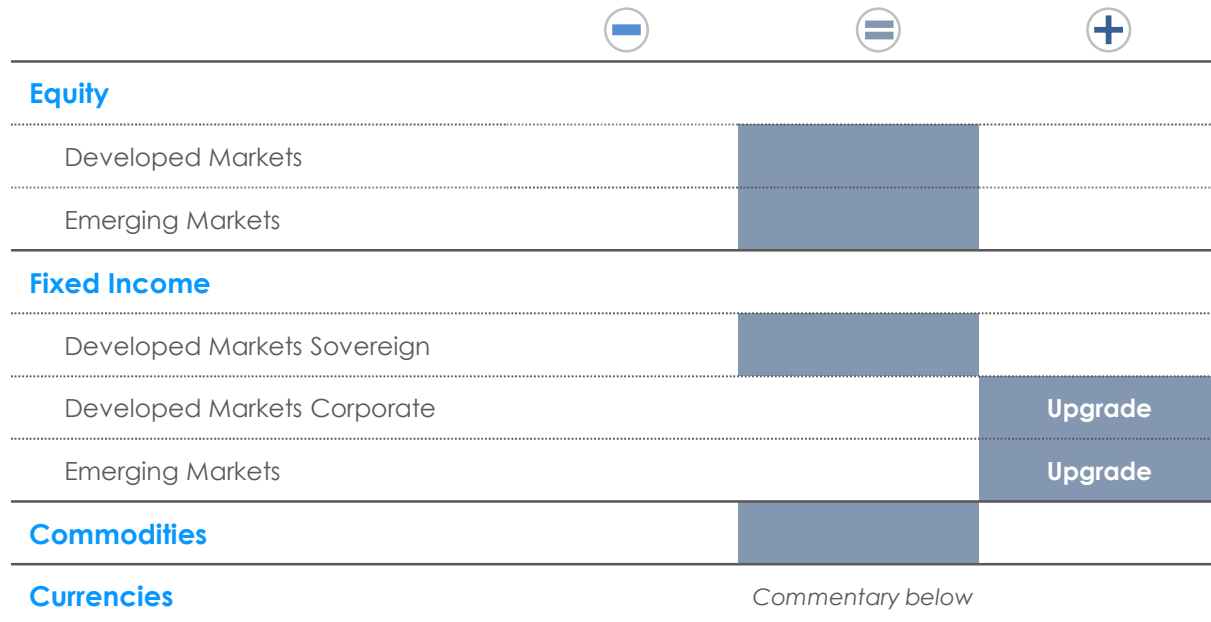
Also, inflation expectations remain well-anchored, as the recent rise in global yields has been driven by real rates. In this regard, the prevailing narrative about a forthcoming AI-driven "productivity miracle" has helped keep a lid on inflation expectations. Current levels of broad money growth across geographies are also consistent with moderate inflation pressures.

Furthermore, investors positioning reflects extreme overweight in equities and a heavy underweight in bonds, implying ample room for a pro-bond rebalancing.

Lastly, governments and Central Banks around the world have started – and most likely will continue – to implement regulatory reforms aimed at creating additional demand for domestic sovereign bonds. In November 2025, the United States enacted a Supplementary Leverage Ratio (SLR) reform, freeing up banks' balance sheet space to make room for further US Treasury purchases. Similarly, the US "GENIUS Act" (July 2025) increases demand for short-dated US Treasury paper by mandating stablecoin issuers to fully back their digital coins with high-quality liquid assets. Recent initiatives from other countries, such as the Canada Strong Fund, launched in April 2026, and UK Pension Scheme Act 2026 point in the same direction, mandating investments in domestic assets. On this point, it is also worth mentioning that those central banks still engaged in reducing their bond holdings – such as the ECB and BOE – may halt Quantitative Tightening.

To conclude, despite a confluence of transitory and structural developments that have changed the backdrop for global bonds, current levels of yields offer an attractive proposition for investors willing to take a medium-to-long term view on the segment. Geographical diversification remains a key ingredient for return enhancement, both in absolute terms and on a risk-adjusted basis. With respect to the preferred maturity, while short dated expiries feature contained downside risk, investors should also look at taking exposure to longer dated bonds as a way to lock in elevated, cycle-high yields for an extended period.

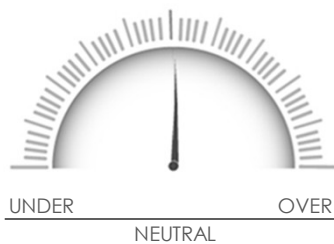
Asset Allocation View



⊖ UNDER
 ⊜ NEUTRAL
 ⊕ OVER

Equity

Developed Markets



We maintained the **Neutral** recommendation on Developed Market equities. Stock markets are being supported by several factors. The recent resurgence in inflation is pushing nominal GDP into high single digits. This translates into a stronger growth outlook for EPS, which were already growing at exceptionally high rates even without the inflationary boost. The wealth effect, the positive momentum, the ample liquidity, and the covering of short positions by investors who were caught short at the March low are all contributing to the rally. Concerns remain about a short-term correction, which cannot be ruled out, given the speed of the rebound. If a correction were to occur, however, it would present a buying opportunity as long as growth remains solid.

US



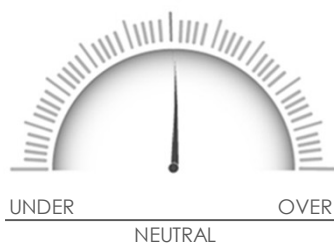
Europe



Japan



Emerging Markets



We kept our **Neutral** stance on Emerging Market equities. The same considerations outlined above for developed markets apply equally to emerging markets, which additionally trade at lower valuations, enhancing their relative attractiveness. Many of these markets also hold substantial reserves, and are net exporters of commodities, positioning them to benefit from the ongoing rise in commodity prices. Finally, emerging markets offer the greatest rebound potential should the conflict subside and the Strait of Hormuz reopen; particularly in Asia, as the region most reliant on imports passing through that chokepoint.

Asia ex-Japan



EEMEA

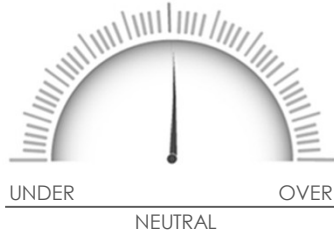


LATAM



Fixed Income

Developed Markets Sovereign



We have kept our **Neutral** recommendation on Developed Market sovereign bonds. After the substantial increases recorded in previous weeks, global yield curves have reached levels that already largely price in the various adverse scenarios that could affect bonds—renewed inflationary pressure stemming from the war in Iran, political instability, fiscal mismanagement, and liquidity withdrawal by central banks—as discussed in the opening section of this report. However, some caution is still warranted in the event of renewed tensions in Iran.

EU Core



EU Periphery



US Treasury



Japanese JGB



Developed Markets Corporate



We upgraded our recommendation on Developed Market corporate bonds to **Slightly Overweight**. The hunt for yield continues, fueled by ample liquidity, with spreads dipping below their late-February (pre-war) levels and once again approaching all-time lows. However, thanks to the increase in risk-free rates, as noted above, yields to maturity remain attractive and well above the levels seen at the start of the year. If global growth continues to hold up relatively well, there is no reason to be overly cautious and exit the market prematurely. Within credit, we continue to prefer investment-grade bonds over high-yield.

IG Europe



IG US



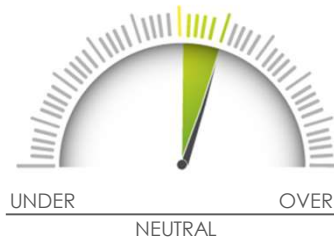
HY Europe



HY US



Emerging Markets



Likewise, we have upgraded the recommendation on Emerging Markets Debt to **Slightly Overweight**. The reasons are the same as those just outlined for developed countries' corporate bonds.

Local Currency



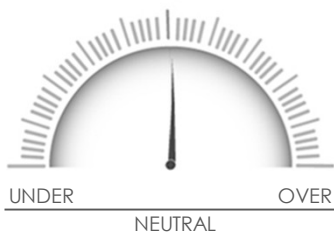
Hard Currency IG



Hard Currency HY



Commodities



Our recommendation for commodities remains **Neutral**. We remain cautious on precious metals, given headwinds from central bank selling and the possibility that investors who accumulated positions over the past year — drawn by their significant outperformance relative to other asset classes — may begin rotating back into technology stocks, which have risen steadily in the past couple of months. Over the medium to long term, however, our view remains positive. On industrial metals, we are more bullish, driven by growing competition for essential raw materials.

Precious



Energy



Industrial



Agricultural



Currencies

We maintained our **Neutral** recommendation on the US Dollar. On the one hand, the dollar could strengthen as the interest rate differential widened in its favor. On the other hand, the greenback could weaken should the conflict in Iran be resolved, easing geopolitical tensions.

The view on the Euro remains **Neutral** as well. The deteriorating growth outlook in the eurozone points to a possible weakening of the euro, but the ECB's apparent determination to raise interest rates despite the economic woes could act as a counterbalance.

We have maintained our recommendation on the **Chinese Renminbi** to **Neutral with a bullish bias**.

The outlook for other **emerging markets currencies** has been confirmed as **Neutral with a bullish bias**, with a preference for currencies of countries that are net exporters of energy commodities.

Euro		USD		CNY		Other EM	
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