Main Events

Azimut Global Network

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

MARKIT
Markit publishes the manufacturing and services PMIs for most of the countries worldwide
03.09

US PAYROLLS
The key US data that could determine the effective start of the tapering
06.09

ECB MEETING
Similarly to what Powell did in Jackson Hole, the ECB may announce in the September meeting the fate of the PEPP program
09.09

US CPI
Will the US inflation effectively prove to be transitory?
11.09

CARRYING ON

- **During the Jackson Hole symposium, Chairman Powell announced that the Fed could begin reducing bond purchases as early as this year**
- **There is no direct link between tapering and liftoff, but the latter will be contingent on achieving substantial further progresses towards full employment**
- **As a consequence, the Fed's monetary policy could remain accommodative for a few more months than expected, supporting the appetite for risky assets**

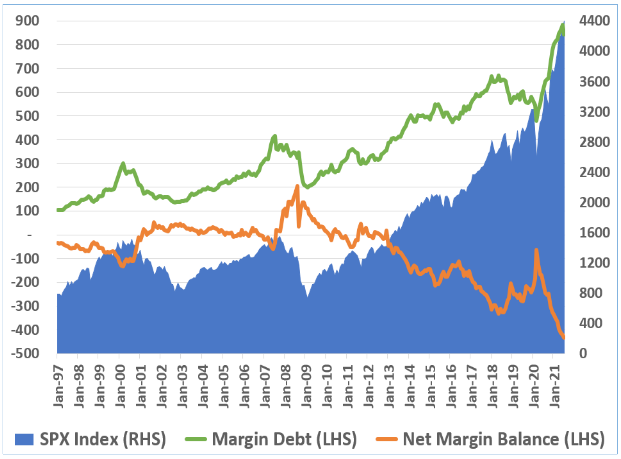
August 2021 has long been feared as the riskiest month for financial markets, not only due to seasonal factors but also and foremost for the annual central banks symposium in Jackson Hole, typically known for Fed to announce to the market any relevant changes regarding the way it conducts its monetary policy.

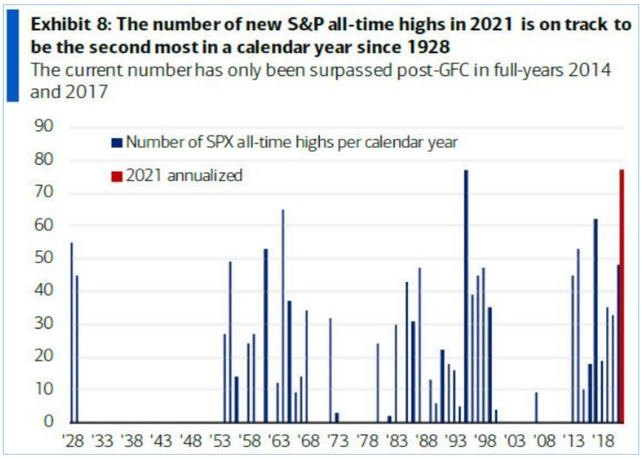
This year the market was particularly concerned that higher-than-expected inflation data and sustained GDP growth could prompt Fed to take a more hawkish stance than expected. The market was already pricing in the possibility that tapering could start as early as this year, while there was much more uncertainty about when the Fed would start raising interest rates, and at what pace.

Chairman Powell affirmed that the long sought 'substantial further progress' in the labor market and economic growth has finally been achieved, and therefore "it could be appropriate to start reducing the pace of asset purchases this year". Powell did not commit to effectively initiate the tapering process this year, nor did he provide clear indications on the pace of reduction in bond purchases, leaving this decision to the next FOMC meetings.

In the most optimistic scenario, if September non-farm payrolls show robust numbers and no negative surprises emerge from the spread of the delta variant, it is possible that the start of tapering in November could be announced as early as September.

(continued)





Source: FINRA, Bloomberg, Azimut elaborations

Source: BofA Global Research, data from 1-Jan-28 to 16-Aug-21

Moreover, the start of tapering takes place at a historical moment in which the US fiscal deficit should begin to shrink towards more contained levels, provided that no new major fiscal measures are approved in the fall. With the fiscal deficit narrowing, not reducing QE would have been like increasing the amount of money being injected into the financial system (issuing new treasury bonds to finance the fiscal deficit absorbs liquidity from the market, while QE provides liquidity to the market; if the fiscal deficit narrows and QE remains unchanged, the net money supply to the market increases). Considering that the abundant liquidity has been the driver not only of the increases in financial markets but also of the use of financial leverage, tapering the bond purchases now may prevent even more speculative behavior (the top left chart above reports the S&P500 against the margin debt to fund speculative positions, and the net margin balance; the higher the margin debt and the lower the net margin balance, the more leveraged the market)

But the most important and reassuring message that Mr. Powell conveyed to the market is that there is no link between the tapering and the subsequent decision on lifting interest rates. In his words, “the timing and pace of the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate liftoff, for which we have articulated a different and substantially more stringent test”. Also, Mr. Powell did not provide any hints as to when the rate hikes might begin, which was also interpreted as dovish by the market.

He also continued to downplay any concerns about inflation, which is still believed to be transitory and concentrated on a few items related to the reopening, not the widespread inflation. Therefore any tightening in response to factors that turn out to be temporary will slow down the recovery in place and push inflation lower than desired, causing more harm than good.

As a result of the above dovish messages, financial markets have continued their advance, with the S&P500 closing to a new all-time high for the 53rd time this year on an annualized basis - we are approaching the same level of daily record highs reached in 1995.

Going forward, the actual start and pace of tapering, the evolution of the pandemic and the resilience of the economy in the face of the expiration of extraordinary unemployment benefits will be key to determining whether these markets still have room for growth, or whether a healthy retracement will begin to unfold.

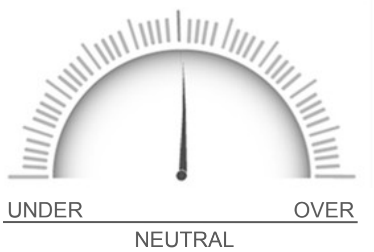
Asset Allocation View

	−	=	+
Equity			
Developed Markets		Upgrade	
Emerging Markets	■		
Fixed Income			
Developed Markets Sovereign	■		
Developed Markets Corporate		■	
Emerging Markets		■	
Commodities			■
Currencies		*Commentary below*	

− UNDER = NEUTRAL + OVER

Equity

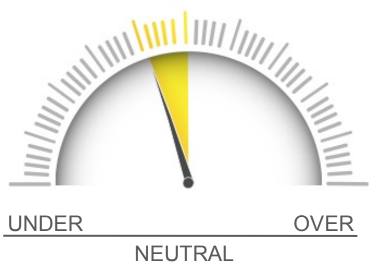
Developed Markets



We upgraded our recommendation on Developed Markets Equities to **Neutral**. The most-awaited event of August, the annual symposium in Jackson Hole, has been concluded with no surprise as elaborated in the prologue of this report. The reassurance that the tapering is not tied to any subsequent action on interest rates means that easy monetary conditions may persist for a few more months; granting a return to a neutral stance on equities. Within equities, we have a preference for more defensive ones. In terms of regions, we continue to prefer Europe.

US	=	Europe	+	Japan	=

Emerging Markets



We maintained our recommendation on Emerging Markets Equities to **Slightly Underweight**. Even though Chairman Powell adopted a quite dovish stance in Jackson Hole that should favor risky assets, the Chinese government's continued interventions on listed companies (Ping An is the last one on that list) could continue to weigh on Chinese stocks. Additionally, the spread of the delta variant is more pronounced in Asia than elsewhere, weighing on investor sentiment in the region. Conversely, the strength of raw materials should underpin commodity exporting countries, in particular the Latin America region.

Asia ex-Japan	=	EEMEA	=	LATAM	+

Fixed Income

Developed Markets Sovereign

UNDER OVER
NEUTRAL

We maintained our overall **Underweight** recommendation on Developed Markets Sovereign Bonds. Over the medium term, we still expect to see higher rates due the tapering by the Fed, a not-so-transitory inflation and more contained fallouts from the delta variant. Within sovereign bonds we currently have no particular preferences in terms of regions/curves, but if the ECB also announces a tapering of its PEPP program, then we might turn more negative on European Core bonds.

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

Developed Markets Corporate

UNDER OVER
NEUTRAL

We maintained our **Neutral** recommendation on Developed Markets Corporates. Within DM Corporates we prefer bonds on the short-end of the curve with acceptable ratings. We continue to dislike long dated IG bonds due to their yields not being so different from sovereign bonds, and are therefore exposed to downside when rates nnormalize. Considering the increasingly uncertain scenario priced in by the sovereign bonds, we prefer to maintain a cautious stance also in the crossover/high yield segments, even if central banks monetary policies remain fully supportive.

IG Europe	IG US	HY Europe	HY US
=	=	=	=

Emerging Markets

UNDER OVER
NEUTRAL

We kept our recommendation as **Neutral**. Emerging Markets Bonds spreads have compressed less than the developed market bonds with similar risk. Considering the reduction in the long end of the US rates, the ample liquidity, the hunt for yield and the fact that the Fed will wait some time before rising rates, Emerging Market bonds could still be attractive even considering the possibility of a slower reopening due to the delta variant. For the EM Hard Currencies, we have a preference for low duration strategies.

Local Currency	Hard Currency IG	Hard Currency HY
=	=	=

Commodities

UNDER OVER
NEUTRAL

We maintained our **Positive** view on the asset class. We are positive in particular on precious metals as they should benefit from lower risk-free rates and rising inflation. Additionally, they could serve as an hedge in case of increased risk aversion. In terms of the other commodities the view is less cautious, as the fear of a slower reopening and normalization due to the delta variant could cause a short term consolidation.

Precious	Energy	Industrial	Agricultural
+	=	=	=

Currencies

On the US dollar, the Committee still maintains a neutral stance. In the short term, we expect the US Dollar to remain rangebound after Powell did not surprise the markets in Jackson Hole. In the medium term, huge fiscal deficits and increasingly negative real rates suggest a weaker Dollar is possible.

The view on the Euro is also neutral in the short term due to the spread of the delta variant. In the medium term, a more favorable real rate differential against the USD and the positive impacts on GDP of the Recovery Fund-related fiscal spending may lead to a stronger Euro.

The Yen is no longer serving as an hedge during times of risk aversion, as it has been trading around 107 +/-5 USD for about three years.

Emerging Market currencies are also expected to remain fairly stable, as the risk of a slower global growth is offset by the lower US risk-free rates and a still dovish Fed.

Euro	=	**USD**	=	**Yen**	=	**Emerging**	=