AZIMUT
DEFINING INVESTMENT DIRECTION

AZIMUT GLOBAL VIEW

08.11.21

Main Events

EU ZEW	US CPI	JAPAN GDP	CHINESE DATA
Will the expectation of economic growth in the Eurozone show signs of strength after falling sharply in the previous months?	Economists expect that the headline and core inflation to reach 5.9% and4.3%, respectively, the highest level in three decades	Japan's economy likely to contract marginally in the third quarter	Retail sales, industrial production and fixed assets investments YoY growth rates should all have contracted to low- single-digit levels
09.11	10.11	15.11	15.11

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

THREADING THE NEEDLE

- **In both US and Eurozone, companies reported strong YoY growth rates on both top and bottom lines, largely exceeding consensus expectations**
- **Energy and financials were the strongest sectors, followed by materials, healthcare and technology**
- **For the next few quarters, global PMIs suggest that the pace of EPS growth should remain close to its long term average (7%-10%)**

Global equity indices have reached fresh new highs recently, underpinned by strong economic data and earnings reports from companies.

At the time of writing, about three quarters of companies have reported their third quarter results. Regardless of the geographic areas, the results were very positive, both in terms of the YoY growth in profits, revenues, and also the average "surprise" (how much the actual results are above consensus expectations).

The US is leading the way. From the last available Factset report, with 89% of companies reporting actual results, "the Q3 revenue growth rate of 17.3% is well above the 5-year average growth rate of 5.8% and the 10-year average growth rate of 3.5%". The Q3 revenue growth rate is second only to the +25.3% recorded last quarter, which benefited from the fiscal stimuli and a very low base (due to the lockdown). All sectors experienced a positive growth YoY, with energy and materials increasing the most. For the next quarters, the revenues growth rate is expected to decline to high-single-digit.

In terms of EPS, the weighted average YoY increase was almost +40%, the third highest since 2010, also driven by the stimulus and the base effect. On average, companies reported earnings that are about 10% above consensus expectations, with financial, energy and healthcare sectors securing the highest "beats".

(continued)

The table below provides additional information on how the reporting season has been coming along in the US. As Factset provides detailed data for the US market only, the table below is taken from JPM Cazenove, which also provides data for Europe and Japan, thus enabling a consistent comparison with the results of other regions (hereafter). The US data shown by JPM Cazenove is slightly different from that of Factset, as they are not based on the same dates.

Table 1: S&P500 Q3 '21 earnings summary

	No. of cos reported/ Total	% reported	% cos Beating EPS estimates	% cos Missing EPS estimates	EPS surprise	%yoy EPS growth	% cos Beating Sales estimates	% cos Missing Sales estimates	Sales surprise	%yoy Sales growth
S&P500	**404 / 499**	**81%**	**82%**	**14%**	**10%**	**41%**	**67%**	**22%**	**3%**	**18%**
Energy	19 / 21	90%	79%	5%	14%	-	79%	21%	9%	73%
Materials	26 / 28	93%	69%	31%	1%	99%	77%	19%	3%	32%
Industrials	65 / 73	89%	85%	14%	8%	93%	55%	37%	0%	17%
Discretionary	39 / 62	63%	74%	21%	6%	-15%	64%	28%	1%	10%
Staples	20 / 31	65%	80%	20%	4%	3%	70%	20%	3%	8%
Healthcare	56 / 64	88%	91%	7%	12%	24%	71%	14%	3%	16%
Financials	63 / 65	97%	86%	13%	18%	40%	73%	23%	5%	11%
IT	50 / 75	67%	92%	4%	8%	41%	66%	14%	1%	21%
Com. Services	20 / 23	87%	75%	20%	9%	37%	45%	20%	0%	15%
Utilities	22 / 28	79%	64%	32%	0%	-1%	68%	32%	2%	9%
Real Estate	24 / 29	83%	75%	13%	7%	23%	83%	8%	4%	16%

Source: J.P. Morgan Cazenove, Bloomberg Finance LLP

In the Eurozone, 68% of the companies have reported so far. The YoY EPS growth rate has been +24%, as the reopening took place at a slower pace in the old continent. The EPS increase has been driven mostly by the energy sector (+337%), followed by materials (+60%) and financials (+38%). Industrials and utilities lagged behind as the two sectors were not yet able to pass through the cost increases to the end clients, something that is expected to happen in the next few quarters.

In terms of revenues, the YoY increase has been +11%, again led mostly by the energy (+65%), materials (+26%) and technology (+13%) sectors. Compared to market consensus, consumer discretionary missed expectations by the widest margin (-4%), mainly due to delays in the reopening of the economies and bottlenecks in the shipment of some components and intermediate goods, which particularly affected the auto sector.

Table 3: EuroStoxx Q3'21 earnings summary

	No. of cos reported/ Total	% reported	% cos Beating EPS estimates	% cos Missing EPS estimates	EPS surprise	%yoy EPS growth	% cos Beating Sales estimates	% cos Missing Sales estimates	Sales surprise	%yoy Sales growth
EuroStoxx	**181 / 265**	**68%**	**70%**	**30%**	**9%**	**24%**	**66%**	**23%**	**1%**	**11%**
Energy	8 / 9	89%	86%	14%	10%	337%	63%	25%	7%	65%
Materials	15 / 21	71%	63%	38%	3%	60%	80%	7%	5%	26%
Industrials	32 / 48	67%	54%	46%	-4%	13%	50%	38%	0%	8%
Discretionary	24 / 30	80%	60%	40%	4%	2%	62%	38%	-4%	3%
Staples	13 / 13	100%	75%	25%	10%	11%	82%	0%	5%	9%
Healthcare	17 / 24	71%	73%	27%	7%	7%	65%	29%	1%	4%
Financials	23 / 39	59%	79%	21%	19%	38%	82%	5%	4%	7%
IT	16 / 22	73%	78%	22%	17%	30%	69%	19%	2%	13%
Telecoms	14 / 19	74%	80%	20%	9%	-2%	62%	15%	1%	-6%
Utilities	10 / 24	42%	75%	25%	-8%	3%	60%	30%	-1%	16%
Real Estate	9 / 16	56%	0%	100%	-7%	-20%	50%	50%	12%	-14%

Source: J.P. Morgan Cazenove, Bloomberg Finance LLP

(continued)

In Japan the reporting season is still in the early phase, with only 42% of the companies reported, therefore the numbers are subject to changes, but in general, the YoY growth rates of EPS (+27%) and revenues (+10%) appear to be in line with those of the Eurozone.

The main difference is in terms of sector results. Financials, that reported very strong numbers in both US and EU, underperformed in Japan with a negative EPS surprise of -27% on flat revenues. Also consumer discretionary, the second largest industry group in the MSCI Japan, reported weak sales growth and a contraction in EPS (-36%) vs. one year ago. By contrast, materials, technology, healthcare and staples were among the best performing sectors in terms of EPS growth and/or surprise.

Table 4: Topix Q2'22 earnings summary

	No. of cos reported / Total	% reported	% cos Beating EPS estimates	% cos Missing EPS estimates	EPS surprise	%yoy EPS growth	% cos Beating Sales estimates	% cos Missing Sales estimates	Sales surprise	%yoy Sales growth
Topix	**908 / 2159**	**42%**	**54%**	**41%**	**2%**	**27%**	**46%**	**47%**	**2%**	**10%**
Energy	5 / 19	26%	50%	50%	-	3%	100%	0%	10%	18%
Materials	85 / 200	43%	86%	14%	8%	75%	67%	33%	1%	27%
Industrials	242 / 573	42%	51%	44%	5%	-	53%	41%	8%	19%
Discretionary	174 / 421	41%	48%	48%	-9%	-36%	26%	70%	-1%	2%
Staples	88 / 182	48%	57%	35%	17%	6%	34%	48%	4%	6%
Healthcare	43 / 98	44%	31%	54%	-2%	52%	58%	31%	4%	10%
Financials	34 / 142	24%	63%	25%	-27%	-5%	25%	63%	0%	5%
IT	152 / 322	47%	57%	34%	6%	61%	54%	38%	-1%	11%
Com. Services	45 / 118	38%	42%	58%	-6%	-1%	44%	44%	0%	11%
Utilities	18 / 24	75%	62%	38%	11%	-37%	20%	80%	-6%	-12%
Real Estate	21 / 55	38%	44%	56%	6%	15%	45%	55%	-3%	7%

Source: J.P. Morgan Cazenove, Bloomberg Finance LLP

For the next few quarters, revenues and EPS are expected to continue growing at a healthy pace, as historically there is positive correlations between earning growth and composite PMI. Even if there is a reduction in the exceptionally high readings earlier this year when economies were flooded with monetary and fiscal stimuli, global PMIs still remain at quite elevated levels and should lead to earning growth rates in line with historical averages (+7%/+10% YoY).

In terms of the markets, the next 12-month consensus EPS has reacted differently to the ongoing reporting season. As shown in the graphs below and the next page, the region in which earnings expectations for the next 12 months rose the most is the Eurozone. This is mainly explained by the fact that earnings estimates were revised downwards during the summer due to the fears related to the delta variant. Considering that this negative scenario has not occurred, the market is gradually revising its earnings estimates upwards for the region.

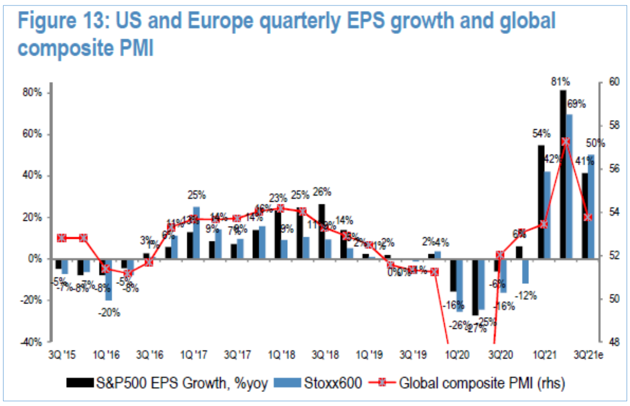
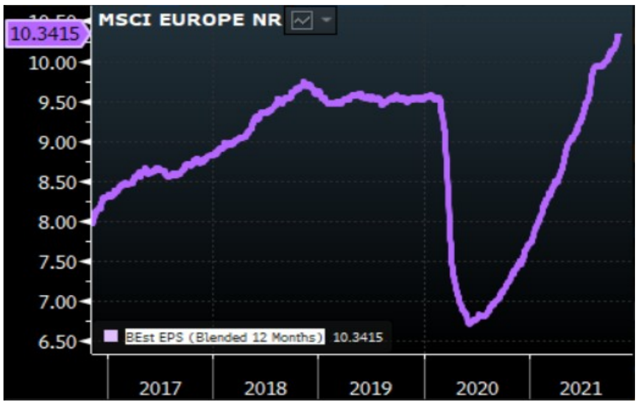


Figure 13: US and Europe quarterly EPS growth and global composite PMI

Source: JPM Cazenove, Bloomberg Fin. LLP, IBES, Markit



Source: Bloomberg

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In the United States, where the recovery from the pandemic started earlier and earnings had already increased substantially, after this reporting season the expectations for the next 12 months rose at a more moderate pace for the S&P500 and remained almost unchanged for the Nasdaq.

Source: Bloomberg

Source: Bloomberg

In terms of the sectors, we currently have a preference for financials, healthcare and technology in the US, and financials, healthcare and consumer discretionary in the EU.

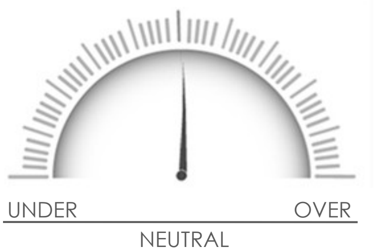
Asset Allocation View

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

UNDER NEUTRAL OVER

Equity

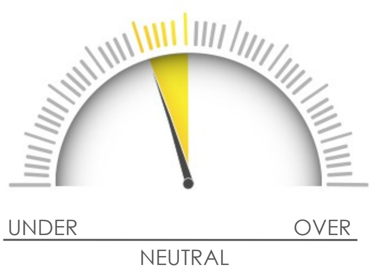
Developed Markets



We upgraded our recommendation on Developed Markets Equities to **Neutral**. The major central banks reiterated their view that inflation is transitory and confirmed that they will be very cautious in tightening their monetary policy to avoid the risk of derailing ongoing recovery. Furthermore, as articulated in the prologue of this report, the reporting season for the third quarter has been strong and ahead of the expectations thanks, among other things, to the muted effects of the delta variant spread. With respect to the regions, we continue to view the EU and US as equally attractive. On sectors, we have a preference for financials, healthcare and technologies.

US	=	Europe	=	Japan	=

Emerging Markets

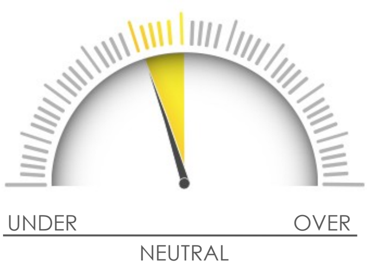


We maintained our **Slightly Underweight** recommendation on Emerging Markets Equities. Central banks in several emerging market countries are rising rates to fight against the increase of inflation in their domestic markets. Additionally, political uncertainty continues to weigh on some countries, and in China the crisis in the real estate sector seems to be spreading further. The formal announcement of the start of tapering by Fed could possibly assist with further weakness in the emerging markets, as they tend to be negatively correlated to tightening financial conditions.

Asia ex-Japan	=	EEMEA	=	LATAM	=

Fixed Income

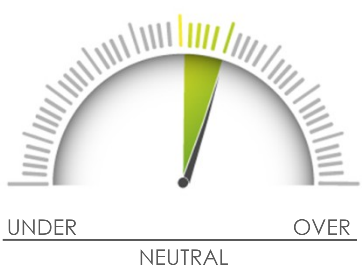
Developed Markets Sovereign



We maintained our **Slightly Underweight** recommendation on Developed Markets Sovereign Bonds. The three major western central banks confirmed their view about the transience of inflation, as well as the need for a gradual exit from the extraordinary stimulus of the past months. The Bank of England surprised the market by holding the rates steady defying investor expectations in spite of several members openly supporting an imminent rate hike. Consequently, investors assumed that other central banks may also pivot to less hawkish stance in the future. This added downward pressure on rates, mostly in the long end of the curves. As a result, rates may remain quite tamed in the short term unless the CPI data shows further acceleration in inflation.

EU Core	**EU Periphery**	**US Treasury**	**Japanese JGB**

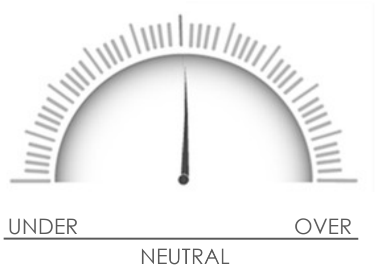
Developed Markets Corporate



We left our recommendation on Developed Markets Corporates unchanged at **Slightly Positive**. The confirmation of the dovish stance by the major central banks suggests that increase in the spreads is unlikely in the short term. Solid balance sheets, low default rates and expectations for a continuation of the recovery/reopening of the economies all support this view. Considering the increased volatility in rates, funds actively managing duration and credit risks could prove to be an interesting investment solution. Within corporate bonds, we are still cautious on high yield bonds.

IG Europe	**IG US**	**HY Europe**	**HY US**

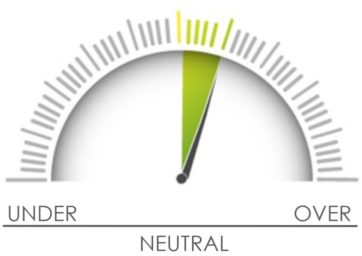
Emerging Markets



We kept our recommendation as **Neutral**. Emerging Markets corporate bond spreads continue to widen because of the lingering fear in Chinese real estate crisis and several bonds now trade at a very wide spread, even assuming a stressed scenario. On the other hand, sovereign bonds were affected by the increase in central bank rates in some countries where inflation was reaching uncomfortably high levels. Generally speaking, the EM bonds continue to look attractive on a relative basis and they can still count on the ample liquidity and the hunt for yield.

Local Currency	**Hard Currency IG**	**Hard Currency HY**

Commodities



We reduced our **Positive** view on the commodities by one notch. This doesn't mean that we are changing our long term bullish view on the asset class, which is confirmed, but after the strong price increases of the past months, a healthy consolidation may happen at any time in energy and industrial commodities. On the other hand, considering that the major central banks confirmed their dovish stance and real rates dropped further to negative levels and not to forget they lagged other commodities this year, the attractiveness of precious metals increased further.

Precious	**Energy**	**Industrial**	**Agricultural**

Currencies

On the US dollar, the Committee still maintains a neutral stance. On one hand, the formal announcement of the tapering should underpin the greenback but, on the other hand, the large twin deficits and worries about the ability to increase the debt ceiling should be a drag for the US dollar.

The view on the Euro is also neutral. The reduced risks related to the spread of the delta variant is balanced by a more favorable real rate differential against the USD and the spike of the energy prices.

On the Chinese Renminbi the view is slightly negative. The ongoing real estate crisis together with a slowdown in the domestic economy may put downward pressure on the renminbi.

The other Emerging Market currencies are expected to remain fairly stable, assuming that US risk-free rates won't deviate materially from the current levels. Some central banks are either starting or continuing to raise rates, which could help support their currencies, or slowing down their depreciation.

Euro	=	**USD**	=	**CNY**	−	**Other EM**	=