Azimut Global Network

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

Main Events

US CPI – 12.09
August's inflation data will likely be decisive in the Fed's decision following week

ECB – 13.09
Given Europe's continued slowdown and the possibility that EU inflation will continue to decrease in the coming months, this may be the ECB's final chance to hike rates

CHINESE DATA – 15.09
Further signs of slowdown from industrial production, investment and retail sales could further sour investor sentiment toward China

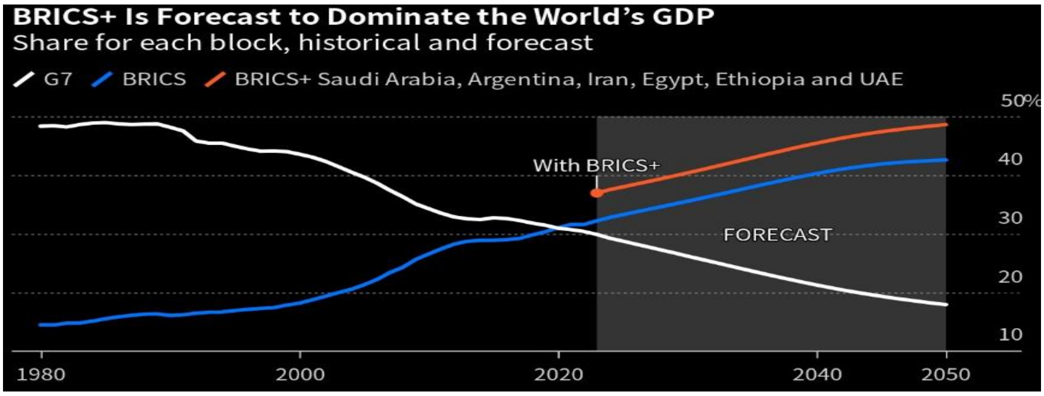
FOMC MEETING – 20.09
Never before in the last two years has there been so much uncertainty about whether the Fed would continue to raise interest rates.

TOWARD NEW EQUILIBRIUMS

- **The BRICS announced the enlargement of the bloc to include new countries, further increasing their economic relevance**
- **In addition to accounting for a growing share to world GDP, emerging countries also hold the bulk of the commodities**
- **The growing geopolitical tensions between developed and emerging countries are also the result of the former's desire to maintain the supremacy enjoyed so far, and the latter's desire to be given a more prominent role**

At their last meeting on August 24, the countries forming the "BRICS" (Brazil, Russia, India, China and South Africa) invited Saudi Arabia, United Arab Emirates, Egypt, Ethiopia, Iran and Argentina to join the group.

In its current composition, the GDP of the BRICS has already surpassed that of the G7 countries. With the enlargement to include the new countries, the group will become even more economically prominent. By 2050, the BRICS+ are expected to generate about half of the world's GDP, while the G7 will see its weight in world GDP shrink to only 20 percent.



Source: Bloomberg

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In recent years, BRICS has sought to strengthen cooperation among the countries of the group. Several steps have been taken. These include the establishment in 2014 of the New Development Bank, based in Shanghai, as an alternative to the IMF and the World Bank, where the influence of the G7 and the United States is particularly important, and the two institutions have always attached conditions and/or political demands when providing loans to troubled countries.

In 2018 they launched the BRICS Pay project, a digital payment platform that "aims to enable digital payments between the different countries in BRICS PLUS format, allowing businesses and consumers to securely and seamlessly make and receive payments in their local currency. The platform is designed to reduce the cost and complexity of international payments, while also providing a secure and reliable way to pay for goods and services" (source: https://www.brics-pay.com/). Allowing the settlement of trade interchange between them in their respective local currencies indirectly aims to reduce the importance of the dollar as a trade and reserve currency. The ultimate goal should be the creation of a common reserve currency, and reduce the hegemony of the West and of the US Dollar in particular.

But it was the fallout from Covid-19, the war in Ukraine; and rising trade and geopolitical tensions later that revealed how the balance of forces is shifting more and more in favor of emerging countries.

For years, globalization led to the moderation of inflation and decentralization of production to emerging countries, which may have been overreaching, making the West unable to secure the goods needed to meet domestic demand. It has become evident that developed countries have become somewhat dependent on emerging countries, and in the event of sudden and unforeseen events, such as a pandemic, a war, or a major deterioration in relations between countries, Western countries are, to some extent, vulnerable to emerging countries, which they are trying to respond to by reshoring.

Emerging countries are increasingly recognizing that by uniting as a bloc, rather than remaining fragmented as they have previous decades, they possess tremendous bargaining power. This is due to the fact that much of the world's commodities are located within the borders of emerging countries, and developed countries rely on access to those vital raw materials.

When the war in Ukraine began, the whole world realized that it had a dependence on Russian and Ukrainian wheat production, considering that the two countries produce more than a third of the world's output. Just as Europeans last year experienced the consequences of being almost exclusively dependent on Russia for natural gas supplies. Russia recently suspended grain exports, and conditioned their restart on the removal of certain sanctions (the lifting of these sanctions were, by the way, part of the agreement reached in July 2022 on the resumption of grain exports from Black Sea ports).

Recently, the tensions between China and the United States concerning the status of Taiwan and the ban on the export of the most advanced chips to China are another example in this regard. China is the world's leading producer of some metals (so-called rare metals). For some of them, China produces up to 80 percent of the world's output. For all advanced technological production, rare earths are essential. Following several months during which the Biden administration has progressively limited China's access to cutting-edge chips, China has retaliated by considering the prospect of reducing the export of rare metals. Presently, this remains a mere threat; however, if it were to be put into action, both the United States and the global community would encounter significant challenges in chip manufacturing, affecting not only the most advanced chips but the entire chip production industry.

Yet another demonstration of emerging countries collaborating to leverage their advantage as primary owners of crucial raw materials is exemplified by OPEC. The world's initial encounter with the impact of OPEC countries' decisions occurred during the 1970s, and to this day, the cartel meticulously orchestrates a gradual reduction in its production to maintain elevated oil prices.

In short, we are slowly transitioning out of a world in which, in the post-Bretton Woods era and even more so after the U.S. abandoning the gold standard in August 1971, Western countries were able to exert decisive influence on emerging countries through their dependence on foreign financing.

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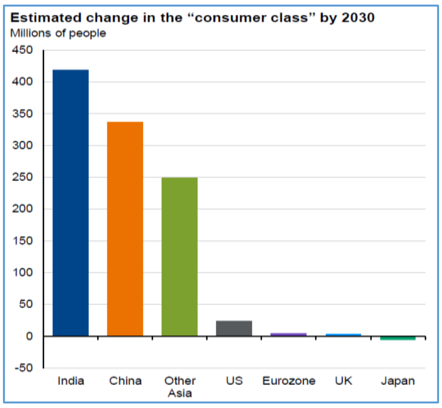
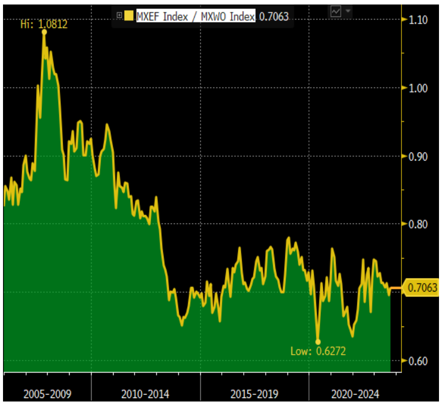
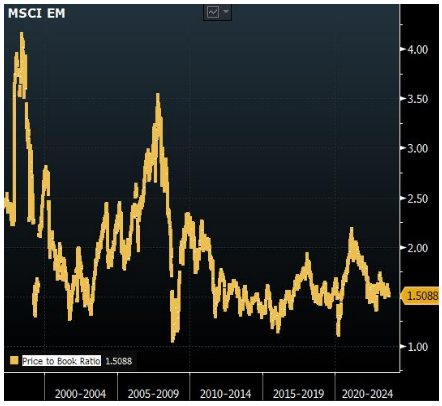


Source: J.P. Morgan Asset Management



Source: Bloomberg



Source: Bloomberg

In the old world, emerging countries did not have a solid domestic consumption base and depended on external financing for their development. Now that the growth of many emerging countries is becoming more and more dependent on the domestic consumption of the gradually emerging middle class, this dependence is fading. In this regard, it should be considered that by 2030, a not-too-distant future, the middle class will increase by about one billion people in emerging countries, while it will remain essentially unchanged in developed countries. This reinforces the argument that economic growth in emerging countries is expected to far exceed that of developed countries in the years ahead.

The geopolitical tensions of recent years, the self-awareness of emerging countries that they have become economically stronger and more powerful, and the over-reliance on monetary and fiscal stimulus by developed countries that have diminished their perceived soundness (a topic covered in the previous report) are all factors that are fostering a greater disconnect between the blocs of developed and emerging countries.

The world is realizing that while it is always possible to print infinite amounts of currency, it is not possible to print grain, rare earths, oil and all other commodities. What is therefore becoming evident that it is those who possess the raw materials who have the most bargaining power, and this is a game changer for the balance of forces.

If tensions continue to mount and/or emerging countries leverage more on the fact that they hold the bulk of the world's resources, we can imagine, on the one hand, that inflation in developed countries may fade slower than expected, and on the other hand, that the risk premium for holding emerging country assets remain high for a while.

Emerging countries thus represent a high-growth area in the coming years, destined to see their importance as well as their representation in financial benchmarks increase, and are currently trading at valuations close to historic lows, both in relative terms (such as a 30 percent discount when measured by price/earnings ratio) and in absolute terms (as measured by the price/book value).On the other hand, as mentioned, growing tensions with developed countries may, in the short term, continue to put a ceiling on emerging market upside.

Asset Allocation View

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

− UNDER = NEUTRAL + OVER

Equity

Developed Markets


UNDER OVER
NEUTRAL

We maintained our **Slightly Underweight** recommendation on Developed Markets Equities. The correction of the past weeks was insufficient to return valuations to more reasonable levels, especially given the general rise in market rates and mounting concerns about a global economic slowdown. Furthermore, September is historically the least favorable month for stock markets, so the committee prefers to be cautious for the time being.

US	=	**Europe**	−	**Japan**	=

Emerging Markets

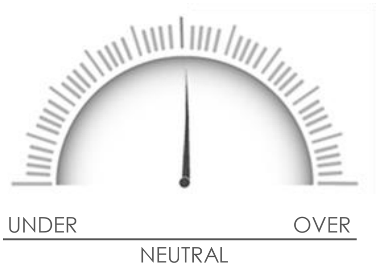

UNDER OVER
NEUTRAL

We kept our **Neutral** recommendation on Emerging Markets Equities. Despite the Politburo's pledges in late July, the Chinese government did not take any meaningful steps to bolster the domestic economy in August, disappointing investors, who responded with a new wave of selling. In addition, the government's decision to ban the use of iPhones by employees in some government offices represents a further escalation of diatribes with the United States. Despite the Chinese economy's numerous challenges, sentiment is currently so negative that a rebound might begin at any time, particularly if bolstered by favorable data or more substantial stimulus. Latin America is our preferred emerging market.

Asia ex-Japan	=	**EEMEA**	−	**LATAM**	+

Fixed Income

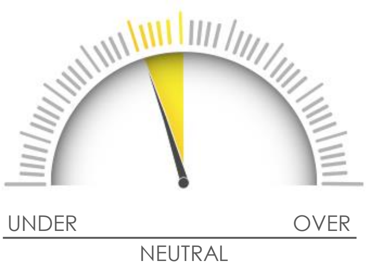
Developed Markets Sovereign



We kept our **Neutral** recommendation on Developed Markets Sovereign Bonds. The central bank meetings in the next two weeks will be crucial in determining whether or not we have reached the end of the hiking cycle cycle, although the message that interest rates should be kept at a high level for an extended period of time is expected to be reiterated, while markets continue to bet that rate cuts will begin already in early 2024. Although there is a possibility that rates could still rise somewhat, depending on what central banks say, the level reached by rates is such that an at least neutral stance is advisable.

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

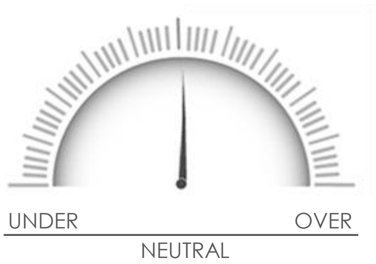
Developed Markets Corporate



We maintained our **Slightly Underweight** recommendation on Developed Markets Corporates. The committee considers that spreads in both investment grade and high yield bonds have tightened too much and are now too narrow, particularly if a slowdown or recession occurs. We continue to favour investment grade corporate bonds over high yields.

IG Europe	+	**IG US**	+	**HY Europe**	–	**HY US**	–

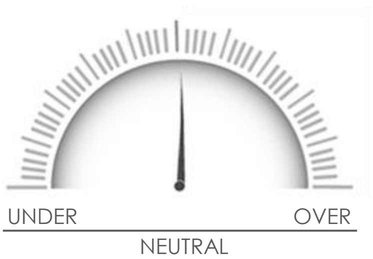
Emerging Markets



We maintained our **Neutral** recommendation on Emerging Market bonds. Given the macroeconomic environment, emerging market debt spreads are also not extremely wide. However, inflation has already fallen significantly in some countries, some central banks may decide to begin cutting interest rates, which will have a positive effect on the prices of bonds.

Local Currency	+	**Hard Currency IG**	–	**Hard Currency HY**	–

Commodities



We downgraded our recommendation on Commodities to **Neutral**. The persistence of tight monetary policies for an extended period of time, along with rising nominal and real rates, is diminishing the short-term appeal of precious metals, despite their potential as a hedge against geopolitical risks or upside surprise in inflation. Regarding other commodities, we remain cautious, as some countries/regions begin to show symptoms of slowing, though this trend is not yet evident in the United States.

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

Currencies

The Committee confirms the **Neutral** stance on the US Dollar. The dollar enjoyed one of the longest series of weekly gains in recent months, thanks to the evidence that signs of slowdown are visible in the rest of the world but not so much yet in the U.S., thus leading to the conclusion that monetary policy will remain tighter in the U.S. than in the rest of the world, a supportive factor for the dollar. The trend could continue or reverse depending on what the Fed says at its next meeting.

The view on the Euro is also **Neutral**. This may be the last chance for the ECB to raise rates, considering that the ongoing economic slowdown, coupled with the expectation that the downward trend in inflation will continue through the end of the year, would make it more difficult for the European central bank to justify further hikes later in the year. Given the weakening in recent weeks, any hawkish surprises by the ECB could lead to a recovery of the euro.

The view on the **Chinese Renminbi** remains **Neutral,** with a bearish bias, in view of the lack of significant economic stimulus despite the pledges of the last Politburo meetings, and renewed geopolitical tensions. Therefore, the pressure on the Renminbi may persist.

The outlook for other **emerging market currencies** remains **Neutral,** although we remain more optimistic about Latin American currencies, which might benefit from some of the world's highest real rates.

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