AZIMUT GLOBAL VIEW

20.11.23

Main Events

EU PMI	US GDP	EU CPI	US PCE
Confidence in the Eurozone is expected to rebound from the dismal level of previous months	The first revision of Q3 GDP is expected to be revised upwards to 5.1%.	Now that the strongest disinflationary contributions from base effect are over, will European inflation rise above 3% again?	The Federal Reserve's preferred measure of inflation is expected to continue falling
23.11	29.11	30.11	30.11

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

DEVELOPED MARKETS EQUITY: Q3 2023 EARNINGS SEASON

- **The reporting season was generally favorable and above expectations, yet with wide divergences between countries and sectors**
- **The US and Japan reported earnings growth of around 3%, while Europe's earnings contracted by 9%**
- **Among the sectors, energy and mining suffered the most, while consumer discretionary, technology and financials recorded the strongest growth**

At the time of writing, 90% of developed market corporates had reported their Q3 results, exhibiting interesting geographical and metric divergences.

The United States has exhibited a commendable resilience, achieving a year-over-year EPS growth of approximately +3%. This growth, indicative of the robust nature of the US market, contrasts sharply with the European scenario. Europe has struggled with a notable -8% decline in EPS, significantly influenced by the volatility in commodity sectors. When the analysis is refined to exclude the Energy sector, the US showcases an even more impressive EPS growth of +9%, while Europe shows a moderate recovery at +3%. This disparity in performance underscores the different economic dynamics and market responses in the two regions during this period.

United States (S&P 500)
The July-October quarter in the US witnessed a 1% growth in sales and a 3% growth in EPS. However, the percentage of companies beating sales estimates stood at 49%, marking the lowest level in the past 8 years and falling below the long-term average of 60%. This decline was notably influenced by the Materials and Consumer Staples sectors, where the downward spiral of commodity prices (year-over-year decline) impacted the top line more than analysts had anticipated.

(continued)

S&P500: Q3 2023 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	**452 / 503**	**90%**	**82%**	**15%**	**6%**	**3%**	**49%**	**29%**	**1%**	**1%**
Energy	23 / 23	100%	74%	22%	0%	-37%	57%	39%	2%	-17%
Materials	29 / 30	97%	82%	18%	5%	-20%	36%	50%	0%	-10%
Industrials	69 / 77	90%	82%	16%	7%	9%	45%	24%	1%	3%
Discretionary	42 / 52	81%	83%	13%	21%	55%	65%	25%	1%	11%
Staples	29 / 38	76%	85%	11%	7%	6%	44%	44%	0%	2%
Healthcare	61 / 65	94%	84%	11%	4%	-20%	52%	30%	2%	6%
Financials	71 / 72	99%	83%	16%	9%	16%	51%	20%	1%	5%
IT	48 / 65	74%	90%	6%	9%	7%	52%	23%	1%	0%
Com. Services	19 / 20	95%	84%	16%	9%	39%	47%	16%	1%	6%
Utilities	30 / 30	100%	80%	20%	2%	9%	30%	60%	-6%	-6%
Real Estate	31 / 31	100%	65%	23%	3%	3%	52%	16%	3%	6%
Ex-Financials & Real Estate	**348 / 400**	**87%**	**83%**	**14%**	**7%**	**0%**	**48%**	**32%**	**1%**	**1%**
Ex-Energy	**427 / 480**	**89%**	**82%**	**14%**	**8%**	**9%**	**49%**	**29%**	**1%**	**4%**

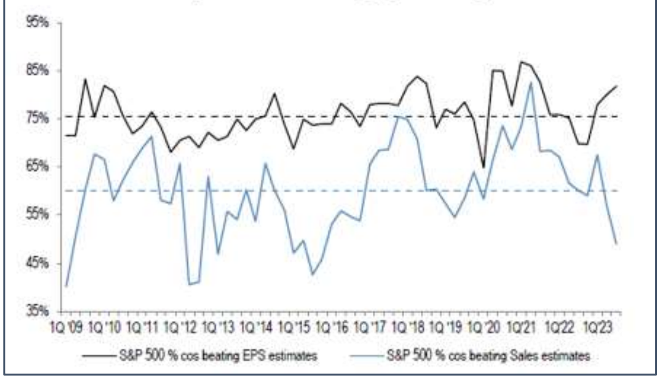
Source: JP Morgan

In contrast, 83% of companies exceeded consensus profit projections, a notably positive trend when compared to the historical average of 76%. Surprisingly, with the exception of Real Estate (65%) and Energy (74%), practically all sectors had a high ratio of companies topping projections, with at least 80% exceeding expectations. Regarding market response, stocks reacting positively to beating estimates performed slightly below the average, while negative surprises were punished in line with the average (-1.7%). This indicates a market response in line with historical norms, despite the varying performances across sectors.

The FAANG earnings reports exhibited distinct trends across Cloud, advertising, and smartphone. Microsoft notably exhibited robust performance in Cloud services, driven by successes in Azure and AI, signaling promising growth prospects. Amazon's AWS maintained steady growth, but hinted at a potential slowdown in Cloud optimization alongside a surge in AI workloads. Both Google and Meta displayed resilience in advertising, emphasizing their investments in AI and efficiency initiatives. Conversely, Apple's marginal earnings beat was overshadowed by a stagnant iPhone forecast, notably impacting the US market. However, Apple's Services sector continued its global acceleration, indicating diversified revenue streams beyond smartphone sales.

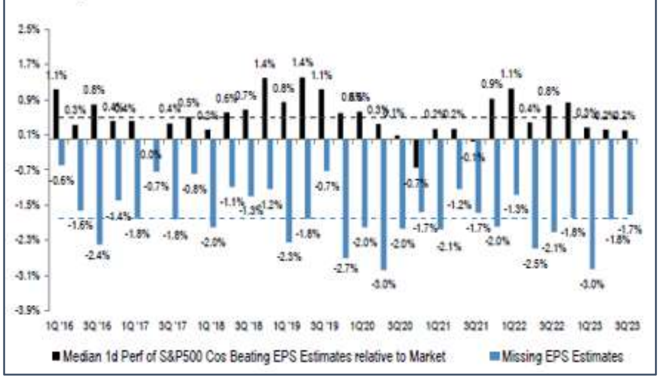
Assessing the overall outlook for the US market, a smaller proportion of US companies is raising EPS guidance this quarter, while a higher proportion is lowering their outlook. Despite this, expectations for the fiscal year remain relatively stable, hovering around $220 USD EPS for the current fiscal year and $240 USD for the next.

S&P: % of companies beating quarterly EPS / SALES



Source: JP Morgan

S&P: price reaction to beats and misses



Source: JP Morgan

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Stoxx 600: Q3 2023 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
Stoxx600	**395 / 459**	**86%**	**58%**	**42%**	**1%**	**-8%**	**39%**	**48%**	**-3%**	**-9%**
Energy	13 / 15	87%	46%	54%	-4%	-50%	38%	62%	-8%	-28%
Materials	41 / 44	93%	57%	43%	0%	-55%	26%	72%	-4%	-20%
Industrials	84 / 90	93%	50%	50%	0%	-14%	30%	58%	-1%	-4%
Discretionary	39 / 50	78%	44%	56%	-1%	18%	32%	50%	1%	4%
Staples	31 / 39	79%	75%	25%	-1%	-3%	23%	60%	0%	0%
Healthcare	34 / 39	87%	55%	45%	1%	0%	44%	41%	-4%	-6%
Financials	67 / 76	88%	65%	35%	5%	19%	67%	16%	12%	5%
IT	24 / 29	83%	67%	33%	4%	1%	33%	54%	-2%	-3%
Com. Services	26 / 28	93%	69%	31%	4%	14%	48%	28%	1%	-5%
Utilities	20 / 25	80%	53%	47%	-8%	21%	21%	79%	-34%	-38%
Real Estate	16 / 24	67%	64%	36%	-4%	4%	60%	20%	-2%	-7%
Ex-Financials & Real Estate	**312 / 359**	**87%**	**56%**	**44%**	**-1%**	**-17%**	**32%**	**56%**	**-5%**	**-11%**
Ex-Energy	**382 / 444**	**86%**	**59%**	**41%**	**2%**	**3%**	**39%**	**48%**	**-2%**	**-6%**

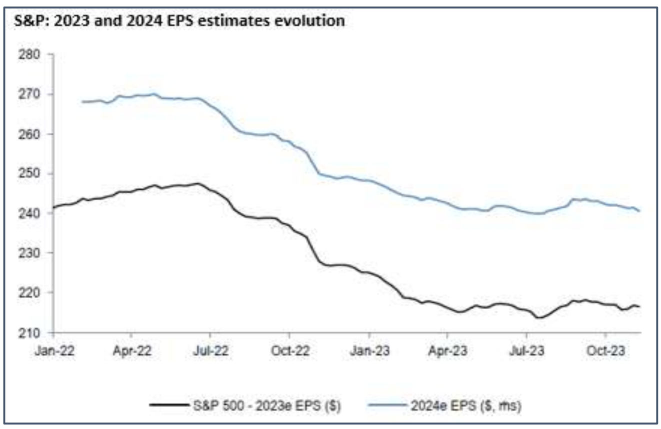
Source: JP Morgan

When looking at Europe, the market's more cyclical nature compared to the United States, justifies the relatively poorer performance in both sales and EPS metrics. Stoxx600 experienced a decline in revenue by as much as -9%, accompanied by a negative surprise of -3%. Income, on the other hand, fell by -8% collectively, with a 1% EPS surprise.

Similar to the situation in the US, sectors depending on commodities faced greater challenges than others, pulling down the ratio of companies beating sales to its lowest point in the past 10 years. Shifting focus to income, the staples sector stood out as one of the best in terms of the ratio of companies beating EPS, while consumer discretionary and energy emerged as significant drags on this metric.

Another highlight of this earnings season was the significant number of profit warnings, primarily observed in the Discretionary and Industrials sectors, indicating sector-specific vulnerabilities. Conversely, Defensive sectors demonstrated greater resilience, experiencing fewer warnings—a trait traditionally associated with these sectors during economic downturns.

Regarding the outlook, European earnings expectations have declined over the past month following a period of stagnation. Forecasts for the current fiscal year remain unchanged compared to 2022, while consensus suggests a 6% growth for 2024 compared to 2023.



Source: JP Morgan

Source: JP Morgan

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TOPIX: Q3 2023 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	**2024**	/	**2140**	**95%**	**56%**	**38%**	**10%**	**3%**	**50%**	**41%**	**1%**	**2%**
Energy	19	/	19	100%	57%	29%	31%	1%	71%	29%	3%	-9%
Materials	199	/	199	100%	52%	46%	13%	-12%	26%	68%	-1%	-2%
Industrials	555	/	575	97%	56%	35%	-2%	-29%	47%	46%	1%	-2%
Discretionary	373	/	408	91%	61%	38%	14%	38%	57%	35%	1%	10%
Staples	168	/	188	89%	69%	27%	6%	18%	55%	30%	3%	3%
Healthcare	100	/	102	98%	59%	36%	2%	12%	61%	33%	5%	6%
Financials	142	/	145	98%	46%	43%	16%	23%	46%	46%	3%	1%
IT	292	/	309	94%	51%	39%	-1%	-26%	61%	29%	1%	2%
Telecoms	105	/	117	90%	38%	50%	16%	7%	51%	37%	1%	5%
Utilities	23	/	24	96%	93%	7%	-	-	25%	75%	-5%	-3%
Real Estate	48	/	54	89%	50%	50%	1%	23%	35%	48%	1%	8%
Ex-Financials & Real Estate	**1834**	/	**1941**	**94%**	**57%**	**37%**	**10%**	**1%**	**50%**	**41%**	**1%**	**2%**
Ex-Energy	**2005**	/	**2121**	**95%**	**56%**	**38%**	**10%**	**3%**	**50%**	**41%**	**1%**	**2%**

Source: JP Morgan

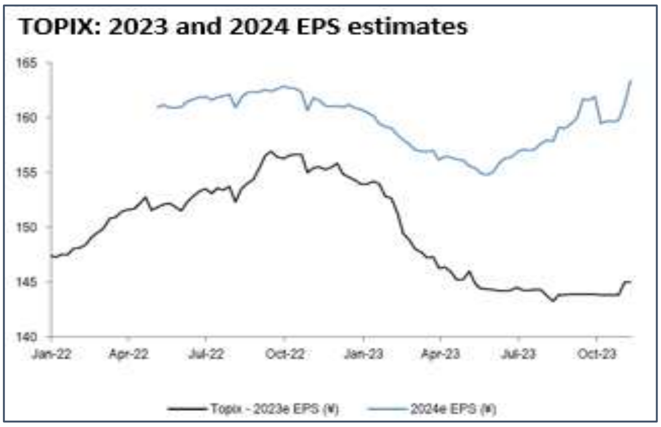
JAPAN (TOPIX)
Japanese companies fared well both at a sales and earnings level, showing a 2% and 3% growth, respectively. The most impressive element of this reporting season was a very high EPS surprise ratio of 10%, driven mainly by the energy, financials and telco sectors. The ratio of companies beating revenue and income was in line with the long-term average. After the recent improvements, the current and following fiscal years in Japan are likely to post mid-single digit EPS growth.

Global Economic Landscape and Sectoral Insights
Looking at the broader picture, a stable yet unspectacular earnings performance is anticipated for 2023 in both the US and Europe. However, the global outlook for 2024 is tinged with optimism, projecting a potential mid-single digit growth in EPS, hinting at a recovery on the horizon. Revenue prospects also suggest a gradual improvement, although risks loom, particularly given the current state of corporate earnings and profit margins.

The consensus projects an uptick in top line growth for both the S&P 500 and MSCI Eurozone, yet this comes with the caveat of potential downward risks, especially in the context of evolving PPI trends and reduced corporate pricing power. Profit margins are also expected to see modest improvements, but this is tempered by potential challenges such as rising costs and changes in sales mix and volumes. The Financials and Industrials sectors have shown an increased focus on inflation, while Utilities, Energy, and Mining are positioned to exhibit strong earnings resilience.

TOPIX: % of companies beating quarterly EPS / SALES

Source: JP Morgan



TOPIX: 2023 and 2024 EPS estimates

Source: JP Morgan

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Conclusion and Future Outlook

In summary, the Q3 2023 earnings season reveals a complex landscape characterized by regional disparities, sectoral shifts, and varying corporate responses. The US and European markets have taken different paths, influenced by their unique economic conditions and sectoral compositions. The cautious corporate guidance, coupled with the impact of commodity sectors, paints a picture of an economy at a crossroads, confronted with both challenges and opportunities.

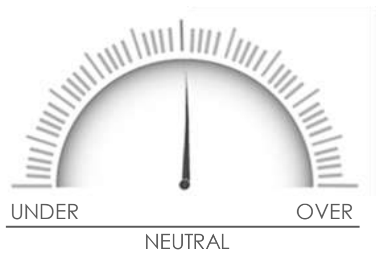
Asset Allocation View

	Under	Neutral	Over
Equity			
Developed Markets		Neutral	
Emerging Markets		Neutral	
Fixed Income			
Developed Markets Sovereign		Neutral	
Developed Markets Corporate	Under		
Emerging Markets	Under		
Commodities			Over
Currencies		*Commentary below*	

UNDER NEUTRAL OVER

Equity

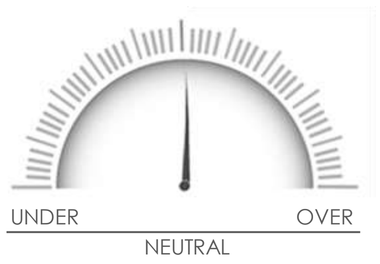
Developed Markets



We confirmed our **Neutral** recommendation on Developed Markets Equities. The continued decline in market rates, combined with a generally positive reporting season and favorable market seasonality, could allow the market to extend its current uptrend, despite unappealing valuations and ongoing geopolitical tensions.

US	Over	**Europe**	Neutral	**Japan**	Over

Emerging Markets

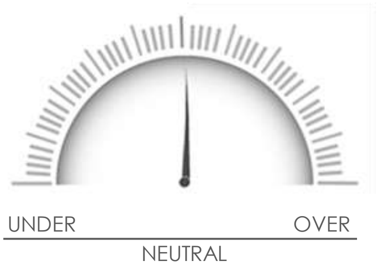


We maintained our **Neutral** recommendation on Emerging Markets Equities. The same positive factors mentioned for developed countries also apply to emerging countries, where valuations are lower. Another supportive factor is the recent weakening of the dollar, which, if sustained, could be a further driver for a rebound. On the other hand, geopolitical tensions weigh more heavily on emerging countries than on developed countries.

Asia ex-Japan	Neutral	**EEMEA**	Under	**LATAM**	Over

Fixed Income

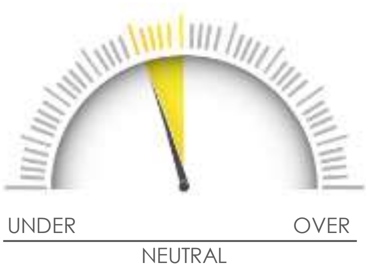
Developed Markets Sovereign



We reiterate our **Neutral** stance on Developed Markets Sovereign Bonds. The recent fall in rates has brought the curves back to somewhat less attractive levels, particularly at the medium-long ends. On the one hand, the asset class may continue to benefit from the ongoing decline in inflation and the possibility that central banks have completed their rate hikes. On the other hand, the need to finance rising government deficits as well as the ongoing QT may continue to put upward pressure on interest rates, particularly at the long end. After a significant decline in recent weeks, we no longer prefer EU core bonds among the major curves.

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

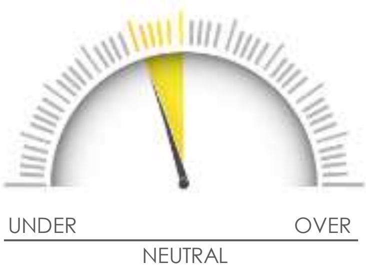
Developed Markets Corporate



We maintained our **Slightly Underweight** recommendation on Developed Markets Corporates. The committee believes that spreads in both investment grade and high yield bonds are still too narrow. Moreover, because of the withdrawal of liquidity caused by QTs and the need for governments to finance growing fiscal deficits, companies will have to pay wider spreads to refinance their debt. We continue to favor investment grade corporate bonds and recommend avoiding high yield bonds.

IG Europe	+	**IG US**	+	**HY Europe**	−	**HY US**	−

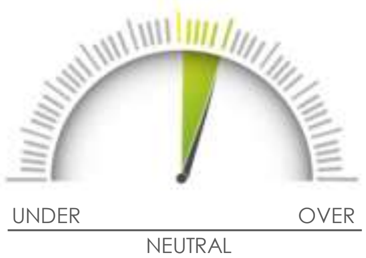
Emerging Markets



We maintained our recommendation on Emerging Market bonds to **Slightly Underweight**. We prefer to maintain a cautious stance in view of geopolitical risks and the other factors mentioned for developed market corporate bonds. Given the possibility that the dollar will weaken if the Fed confirms that the rate-hike cycle has ended, we continue to favor local currency debt.

Local Currency	+	**Hard Currency IG**	−	**Hard Currency HY**	−

Commodities



We kept our **Slightly Overweight** recommendation on Commodities. Precious metals may rise further in the short term, not only if the US dollar continues to fall, but also as a portfolio hedge in light of rising geopolitical tensions. Oil and energy commodities should benefit for the same reasons. The committee is more cautious on other commodities.

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

Currencies

The Committee kept the **Neutral** stance **with a bearish bias** on the US Dollar. The increasingly likely possibility that the Fed's hiking cycle is over could be the pretext for an extension of the ongoing correction of the US dollar.

The view on the Euro remains **Neutral with a bullish bias**, mostly due to the possibility of a weakening of the US Dollar and the Japanese Yen.

The view on the **Chinese Renminbi** remains **Neutral,** with a bearish bias. In the absence of adequate stimulus measures, and with persisting geopolitical tensions, the renminbi can have further downside.

The outlook for other **emerging market currencies** is confirmed **Neutral with a bullish bias.** Lower rates in Western countries are a breath of fresh air for emerging currencies, which would be the first beneficiaries of a possible weakening of the dollar. We continue to remain relatively more optimistic about Latin American currencies.

Euro	=	USD	=	CNY	=	Other EM	=