Main Events

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

FOMC MEETING
Will the Fed's decision be influenced more by the resilience of inflation, or by recent weaker-than-expected employment and consumption data?
20.03

WORLD PMI
PMI data from most developed countries will help gauge the actual resilience of the global economy
21.03

EU CPI
Only a significantly higher-than-expected inflation reading could cast doubt on the ECB's first rate cut taking place in June
03.04

US PAYROLLS
Nonfarm payrolls, a key indicator for the Fed, have proven to be very volatile of late, with readings diverging significantly from consensus and substantial subsequent revisions
05.04

CENTRAL BANKS' WEEK

- **Data released last week showed once again that U.S. inflation is proving more resilient than expected.**
- **As a result, the Federal Reserve could warn the market that the first rate cut could be further delayed and/or the number of expected cuts reduced, presumably via a change in the dot plot.**
- **The Bank of Japan may decide to end the era of negative interest rates by bringing the official rate to zero, also due to the large wage increases that have been recently enacted.**

In market commentary, this week has often been referred to as "central banks' week" because of the potentially far-reaching implications for markets of decisions that will be taken and messages conveyed by the Federal Reserve and, to a lesser extent, the Bank of Japan.

If there were no specific uncertainties surrounding the ECB meeting of two weeks ago, which is now far in the rearview mirror and considered a non-event, the same cannot be said for the upcoming meetings. After all, conditions in Europe were such that there was little room for surprise: with the Eurozone economy stagnating and inflation falling (albeit more slowly than expected), it was widely anticipated that the ECB would de-facto validate the expectation of a first rate cut in June. Conversely, there is much more uncertainty about what will be decided by the Fed and the BoJ.

Let's start with the US. The CPI data released last week have once again confirmed that inflation in the United States is proving much more resilient than expected, particularly in the core components, the ones most closely monitored by the Fed.

While the year-on-year figure has been steadily declining since the end of 2022, reaching 3.8% in February, the 3-months annualized change shows a troubling dynamic. After bottoming out in August last year at 2.6%, it has started to rebound and reached 4.2%, a higher level than the 3.8% of the year-on-year core inflation.

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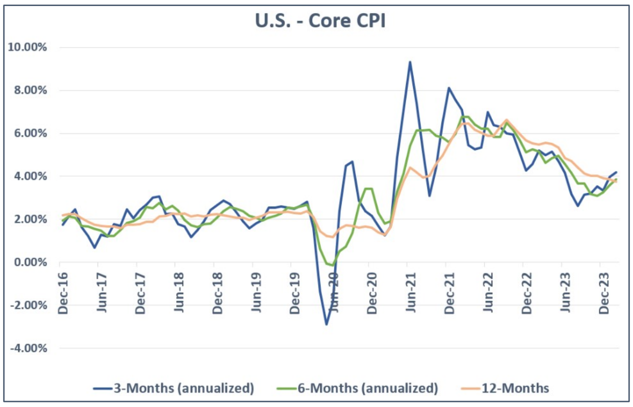
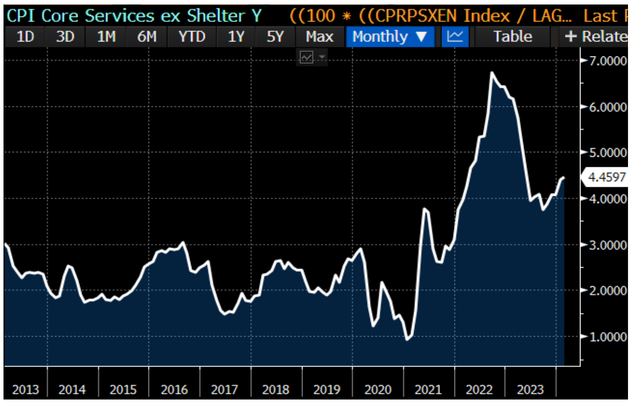




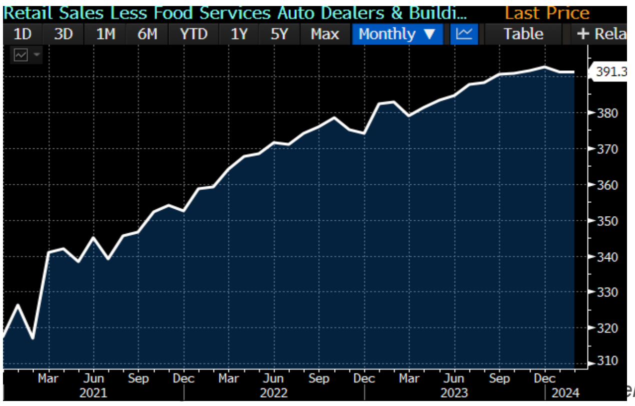
Source: Bloomberg, Azimut elaborations *Source: Bloomberg*

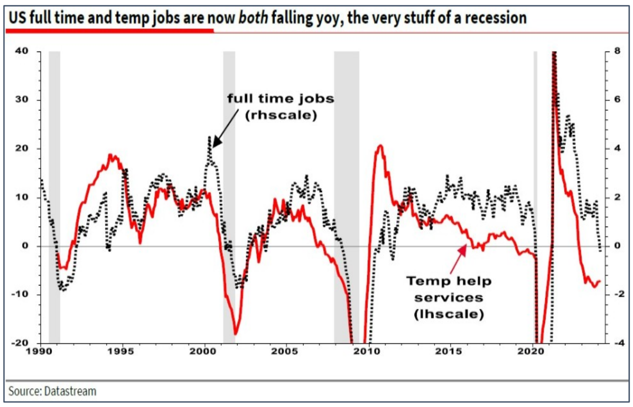
If we examine the so-called "supercore" or "core services ex-shelter" inflation, we notice that in recent months it has risen back to 4.5%, increasing by 1.2% cumulatively in the first two months of the year alone, 0.7% in January and 0.5% in February.

However, while inflation was unquestionably above expectations, data on other parts of the economy began to show some timid signs of weakness. Retail sales turned out to be lower than expected, and the previous month's figure was also revised downward. Taking the figure for the retail sales control group, the one most representative of the consumption basket used to calculate GDP, it was flat in February after a 0.3% decline in January. Looking at the time series and not month-on-month changes, it is easy to notice that retail sales have remained essentially unchanged since September, despite the fact that retail sales data are calculated in nominal dollars (not real dollars).

Regarding employment, non-farm payrolls data have proven to be very volatile and unreliable in recent months, as evident by the heavy monthly revisions. However, if we look at the total number of people employed, we can see that there has been a decline in the number of full-time employees compared to a year ago. This is in line with the change in the unemployment rate, which has increased from 3.4% to 3.9%. Neither of the two dynamics just mentioned is worrisome; they just show that the economy is becoming less red-hot. After all, the GDPNow figure calculated by the Atlanta Fed indicates that U.S. GDP is still growing at 2%.

In light of the above, it will be interesting to see how these dynamics will influence the Fed's decision. Among the different options, the most realistic and embraced by the market is that the Fed will take advantage of the periodic update of the dot plot, scheduled for this very meeting, to raise the median rate projected for the end of 2024, implicitly telling the market that only two cuts should be expected this year. If the Fed uses the dot plot to signal that monetary policy will remain restrictive for longer, it is unlikely that Powell will convey any further hawkish messages during the post-FOMC conference call, such as hinting at the possibility of a further delay of the first cut. Instead, he will likely emphasize again that the Fed will be data-dependent and need further evidence before moving.





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This scenario is probably the best one for the market, while any deviation could have more or less negative consequences. If the stance is more hawkish than what the market has already priced in, interest rates could continue to rise, particularly on the short end of the curve, and the stock market could correct because of increased interest rate competition, but also because a tighter than required monetary policy would reduce the chances of achieving the much hoped-for soft landing.

A dovish surprise, on the other hand, could be interpreted as if the Fed is aware of some trouble not yet known by the market. Considering that the Fed's focus has been on fighting inflation for the past two years, a dovish stance would be suspect in light of the recent higher-than-expected inflation data.

As for the BoJ, the market is rather divided on whether the central bank will raise rates at this meeting or postpone the decision once again. Considering the sudden slowdown of the Japanese economy in the previous two quarters and the decline in inflation, the BoJ may decide to stay put. However, the increasingly frequent announcements of wage increases could be the determining factor for the central bank's decision, which may fear the emergence of so-called second-round effects.

In any case, even if the BoJ decides to raise rates, ceasing to be the last central bank in the world to maintain negative rates, no major move is expected: in the most likely scenario, rates will be raised from -10 basis points to zero, sticking to the BoJ's practice of acting in baby steps. Therefore, whatever the Bank of Japan's decision, it is not expected to have a significant impact on financial markets.

Asset Allocation View

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

− UNDER = NEUTRAL + OVER

Equity

Developed Markets

UNDER OVER
NEUTRAL

We maintained our **Neutral** recommendation on Developed Markets Equities. There is no change from the last reported view. Thanks to the substantial stability in recent weeks, the overbought condition is gradually fading. Nevertheless, a neutral stance is preferred in view of valuations that remain high and increasing competition from bond yields, which continue to rise. The Fed's decision is likely to determine the next moves in equity markets. A further delay in the timing of the first cut could unnerve markets, while reassurance that three cuts are still possible could lead to a resumption of the bullish trend.

US	+	Europe	=	Japan	=

Emerging Markets

UNDER OVER
NEUTRAL

We kept our **Slightly Overweight** recommendation on Emerging Markets Equities. Macroeconomic data in China continued to improve, prompting a rebound in the domestic stock market from its January lows. Chinese stocks continue to trade at a steep discount to developed countries and other emerging markets, so there is still ample room for a continuation of the move, barring any market-unfriendly policy decisions. In other emerging markets, the view also remains positive, particularly for oil-exporting countries that could benefit from the recent rebound in oil prices.

Asia ex-Japan	=	EEMEA	−	LATAM	=

Fixed Income

Developed Markets Sovereign

We maintained the **Neutral** stance on Developed Markets Sovereign Bonds. The U.S. interest rate curve now discounts just under three rate cuts by the Fed in 2024, in line with Fed projections. Any change in the dot plot or the Fed's stance at Wednesday's meeting could cause market rates to readjust to the new scenario. As for European curves, the market now takes for granted that the first cut by the ECB will occur in June, followed by at least two, if not three, more cuts in 2024.

EU Core	EU Periphery	US Treasury	Japanese JGB

Developed Markets Corporate

We kept our **Slightly Overweight** recommendation on Developed Markets Corporates. Waiting for more clarity on the direction of interest rates after Wednesday's Fed meeting, we continue to favor investment-grade corporate bonds since spreads continue to be quite narrow.

IG Europe	IG US	HY Europe	HY US

Emerging Markets

We also maintained our **Neutral** recommendation for Emerging Market bonds, waiting for more clarity from the Federal Reserve.

Local Currency	Hard Currency IG	Hard Currency HY

Commodities

We increased our recommendation on Commodities to **Overweight** by one notch. The upgrade is particularly related to the positive outlook on precious metals, which could benefit from the beginning of the cycle of rate cuts (regardless of the start date). Additionally, they continue to serve as a portfolio hedge in the event of escalating geopolitical tensions. The committee remains slightly more cautious on other commodities, with a relative preference for industrial metals.

Precious	Energy	Industrial	Agricultural

Currencies

The Committee kept the **Neutral** stance on the US Dollar, which is fair valued based on the interest rate differential. Only changes in the Fed's stance can lead to deviations from current values.

The view on the Euro is **Neutral** as well. On the one hand, the relative weakness of the European economy and the beginning of a series of rate cuts starting in June are already widely discounted by the market, so any further downside seems limited. On the other hand, there are also no evident catalysts for a strengthening either.

The view on the **Chinese Renminbi** remains **Neutral,** with a bearish bias. The slightly better-than-expected economic data in recent weeks is not likely to change the scenario for the renminbi.

The outlook for other **emerging market currencies** is **Neutral.** We continue to remain relatively more optimistic about Latin American currencies.

Euro	USD	CNY	Other EM
=	=	=	=