azimut

AZIMUT GLOBAL VIEW

29.07.24

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

EU GDP — 30.07
The first reading of second quarter GDP is expected to confirm that European growth remains lackluster

EU CPI — 31.07
Another weak inflation figure paves the way for a September cut by the ECB

FOMC MEETING — 31.07
Powell should confirm U.S. central bank's openness to begin cutting rates in September

US NON-FARM PAYROLLS — 02.08
The U.S. labor market is expected to stabilize after the latest weak readings

THE PATH IS SET

- **The latest batch of U.S. macroeconomic data confirms that the economy is moderately cooling, strengthening the expectation of a soft landing.**
- **These developments are paving the way for a rate cut by the Fed in September, which is expected to be announced this week and is already fully priced in by the market.**
- **Equity markets have experienced a healthy rotation, with growth stocks consolidating after a strong rally. This week's earnings reports by 4 of the Magnificent 7 could trigger a resumption of the bullish trend.**

We are entering the hottest week of the summer—not in terms of weather, but in relevance to financial markets. About 40 percent of the S&P 500 by market value will report this week, the Federal Reserve is expected to validate hopes for a rate cut in September, and labor market data will be released.

Apart from inflation data in mid-August, there will be nothing particularly significant until the end of next month, when financial markets will wait intrepidly for the outcome of the annual gathering of central bankers in Jackson Hole and for the earnings report of Nvidia, the main beneficiary of artificial intelligence so far.

Recent U.S. macroeconomic data have shown mixed results. Retail sales, industrial production, and personal consumption exceeded expectations. The first reading of second-quarter GDP came in at +2.8%, double the previous quarter's figure and significantly better than the expected 2.0%. However, nearly half of this increase was due to an accumulation of inventories (0.8%) and a rise in government spending (+0.5%). Notably, there was a jump in private investment (+0.6%), partly driven by the boom in artificial intelligence investments. Conversely, other data, such as housing market figures, unemployment claims, and various confidence indicators, fell short of expectations.

(continued)

This mixed bag of economic data creates a perfect scenario for the Federal Reserve to cut interest rates. As Powell has repeatedly mentioned, holding rates steady in a context of falling inflation implies an increasingly restrictive monetary policy. As the economy cools and the downward trend in inflation resumes, the dual mandate of promoting growth and keeping inflation under control requires the Federal Reserve to give more weight to the risk of causing an excessive and unnecessary slowdown in economic activity. The balance between the risk of cutting rates too soon and the risk of waiting too long is now shifting in favor of a cut, the sooner the better.

Several Fed governors have recently shown more openness to considering the possibility of a cut. Christopher Waller said, "we are getting closer to the time when a cut in the policy rate is warranted," while Mary Daly noted, "We don't want to be at a point where we start to see the labor market weaken substantially—to falter—because by then, it is actually often too late to bring it back."

Even more significant was Powell's comment during his congressional testimony earlier in the month. When confronted with the question of whether a September rate cut could be seen as electoral interference, he replied that "our undertaking is to make decisions when and as they need to be made, based on the data, the incoming data, the evolving outlook, and the balance of risks, and not in consideration of other factors, and that would include political factors."

Many had assumed that the Fed, unable to cut rates in June because of the inflationary flare-up at the beginning of the year, would have been forced to wait until the end of the year to avoid the risk that an easing of monetary policy just before the election would be politicized. Powell's words paved the way for the Fed to act. But precisely for this reason, barring unexpected developments in macro data and particularly in inflation, it will now be really challenging for the Fed not to deliver a cut in September.

At this week's Fed meeting, nothing else is expected but the first official opening to a rate cut at the September meeting, a message that is expected to be reiterated even more explicitly in Jackson Hole. The market has fully discounted this scenario, with the U.S. curve downshifting in July by about 30 basis points in the segment between 1 and 10 years.

As for stocks, the reporting by Microsoft, Meta, Apple, and Amazon this week will be far more important to the markets than the Fed.

After the breathtaking rally of previous months, big tech companies have gone through a consolidation phase. The correction, which initially began as a healthy market rotation, gained momentum after the results of Tesla and Alphabet. Of the two, only Tesla reported results below expectations, while Alphabet, Google's parent company, beat on all metrics. What probably upset the market was the following comment from CEO Pichai: "I think we are in this phase where we have to deeply work and make sure on these use cases [for AI products], on these workflows, we are driving deeper progress on unlocking value, which I'm very bullish will happen. But these things take time."

The rally in AI-related stocks has been so strong that the expectation bar has been set very high. Not surprisingly, therefore, the warning that some patience is needed has cooled some enthusiasm. The ensuing correction has been deep enough that the bar is much more within reach today. Results in line with expectations or, even better, beats by the big tech companies reporting this week might revive the rally in the stock market, also aided by a Fed that, as noted above, should be supportive of risky assets.

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 Market Equities. Stock markets, particularly in the United States, have experienced a healthy rotation between large-cap tech stocks and the broader market. This rotation has improved market breadth without triggering a generalized correction. Macroeconomic data suggest that a soft landing, accompanied by a few rate cuts from central banks, is becoming increasingly likely. Consequently, stocks that have lagged may continue to rebound. In the short term, the outlook for growth stocks will largely hinge on the upcoming earnings reports from major tech companies. If these companies meet expectations, a rebound is likely.

US	=	**Europe**	=	**Japan**	=

Emerging Markets

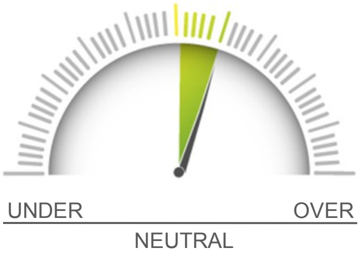
UNDER OVER
NEUTRAL

We maintained our **Neutral** recommendation on Emerging Markets Equities. Valuations remain favorable and significantly discounted compared to developed markets. However, emerging markets may be weighed down by the lack of concrete measures from China's Third Plenum.

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

Fixed Income

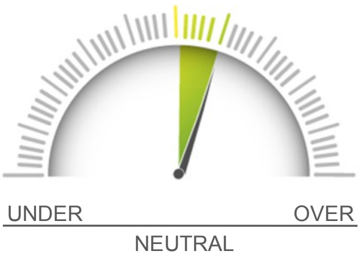
Developed Markets Sovereign



We have maintained our **Slightly Overweight** recommendation for Developed Markets Sovereign Bonds. The committee remains positive particularly on the short-end and the belly of the curves (up to 7 years), which are more sensitive to monetary policy decisions. More caution remains on the long ends of the curves, which may stay under pressure due to concerns about further loosening of fiscal discipline.

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

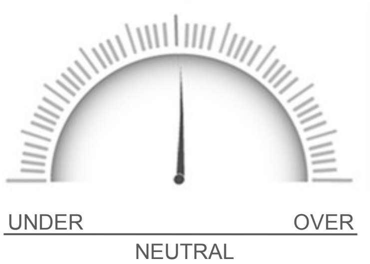
Developed Markets Corporate



We maintained our **Slightly Overweight** recommendation on Developed Markets Corporates. We reiterate our preference for investment grade corporate bonds due to their persistently narrow spreads.

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

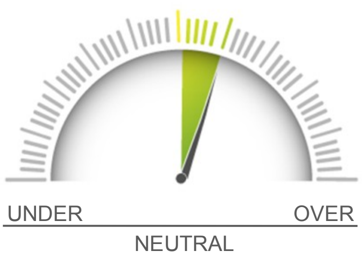
Emerging Markets



We also maintained our **Neutral** recommendation for Emerging Market bonds.

Local Currency	=	Hard Currency IG	=	Hard Currency HY	=

Commodities



We confirmed our **Slightly Overweight** recommendation on Commodities. Within commodities, we remain positive on precious metals, which tend to outperform during periods of monetary policy easing and serve as a portfolio hedge against unexpected geopolitical tensions and political uncertainties. In contrast, we are more cautious about cyclical commodities, which could face pressure if economic growth slows further.

Precious	+	Energy	−	Industrial	−	Agricultural	=

Currencies

The Committee kept its **Neutral** stance both on the **USD and Euro**, both of which appear to be fairly valued.

The view on the **Chinese Renminbi** remains **Negative**. The Chinese government's unwillingness to implement any concrete measures to support the economy is likely to continue to weigh on the Renminbi, which remains near the upper limit of the allowed fluctuation band against the central bank's fixing.

The outlook for other **emerging market currencies** is **Neutral**, with a **bearish bias**. Among emerging currencies, the Committee still favors the **Turkish Lira**.

Euro	USD	CNY	Other EM
=	=	=	=