azimut

AZIMUT GLOBAL VIEW

04.11.24

Main Events

Azimut Global Network

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

05.11	07.11	07.11	13.11
US ELECTION	**GERMANY IP**	**FOMC**	**US CPI**
We will finally know who will be the next president of the United States, and, more importantly, whether there will be a Republican sweep	Industrial production in Germany is expected to continue to contract	Will the Federal Reserve confirm its guidance on the expected path of monetary policy in light of the latest data and the outcome of the U.S. election?	Core inflation is expected to rise again by 0.3% MoM, and remaining stable at 3.3% YoY

Developed Markets: Q3 2024 Earnings Season Monitor

- **US exceptionalism is once again confirmed by the ongoing reporting season: YoY EPS growth was 9% in the US, low-single-digit in Europe and negative in Japan**
- **Big Tech earnings were generally ahead of expectations, despite several companies citing capacity constraints, supporting the view that AI remains a compelling long-term growth story**
- **Looking ahead, guidance for the next quarter is more positive for U.S. companies than for European ones, with optimism surrounding margins and artificial intelligence, and caution regarding China and inventories**

At the time of writing, approximately two-thirds of developed market corporations have reported their Q3 results, generally showing better-than-expected trends across the key regions analyzed: the United States, Europe, and Japan.

The United States has once again demonstrated resilience and growth, achieving year-over-year EPS growth of approximately 9%. This robust performance contrasts with a quarter of negative growth in Japan and low single-digit growth in Europe, where PMIs remain in contractionary territory, and it is still unclear if a bottom has been reached.

United States (S&P 500)

In the July-September quarter, U.S. companies reported a 5% increase in sales and a 9% rise in EPS. The percentage of companies beating sales estimates was a solid 53%, though this is below the long-term average of 60% and slightly lower than Q2 and Q3 of the previous year (55%). The materials, consumer discretionary, and industrials sectors recorded the lowest sales beat ratios, while financials, information technology, and real estate posted the highest.

On the earnings front, 75% of companies surpassed consensus EPS estimates, aligning closely with the historical average of 76%. Notably, communication services (89%) and financials (86%) achieved the highest EPS beat ratios, reflecting broad-based strength across sectors.

(continued)

S&P: Q3 2024 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	**274 / 494**	**55%**	**75%**	**18%**	**8%**	**9%**	**53%**	**32%**	**1%**	**5%**
Energy	8 / 22	36%	63%	25%	7%	-36%	25%	75%	0%	-7%
Materials	15 / 27	56%	47%	53%	-4%	-3%	47%	53%	1%	3%
Industrials	51 / 76	67%	75%	22%	4%	-14%	29%	39%	0%	-1%
Discretionary	27 / 49	55%	59%	30%	6%	2%	41%	52%	3%	5%
Staples	17 / 36	47%	82%	12%	4%	4%	47%	47%	1%	1%
Healthcare	31 / 62	50%	84%	13%	9%	22%	74%	10%	3%	9%
Financials	56 / 72	78%	86%	11%	10%	9%	64%	25%	2%	9%
IT	29 / 69	42%	79%	10%	5%	15%	69%	21%	1%	12%
Com. Services	9 / 19	47%	89%	0%	12%	26%	44%	33%	-4%	5%
Utilities	8 / 31	26%	63%	25%	5%	10%	50%	50%	0%	5%
Real Estate	23 / 31	74%	65%	13%	-1%	0%	61%	9%	1%	6%
Ex-Financials & Real Estate	**195 / 391**	**50%**	**73%**	**21%**	**7%**	**10%**	**48%**	**37%**	**1%**	**4%**
Ex-Energy	**266 / 472**	**56%**	**75%**	**18%**	**8%**	**10%**	**53%**	**31%**	**1%**	**6%**
Cyclicals	**122 / 221**	**55%**	**69%**	**25%**	**5%**	**1%**	**43%**	**39%**	**1%**	**4%**
Defensives	**65 / 148**	**44%**	**82%**	**12%**	**9%**	**20%**	**60%**	**28%**	**1%**	**6%**

Source: J.P. Morgan

The market response was generally positive, with stock prices of companies that beat estimates outperforming the market by around 70 basis points, slightly above the historical average. Conversely, companies that missed estimates saw their stock prices underperform by 130 basis points, though this was less severe than the long-term average. This suggests a relatively bullish market reaction, despite elevated expectations, particularly in the U.S.

Big Tech

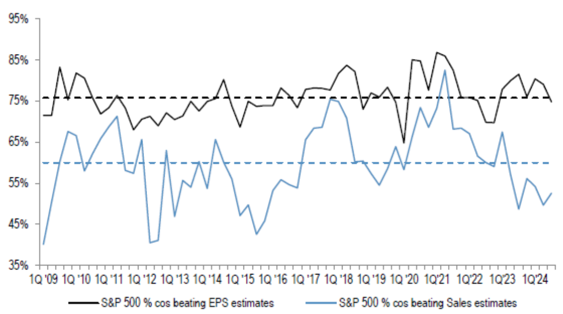
All major tech companies have reported their Q3 earnings, with the exception of Nvidia, which is scheduled to report on November 20th. Here is a summary of the latest earnings results from these key players.

Microsoft delivered strong results, with total revenue growing 16% year-over-year in constant currency, exceeding consensus by 1.6%. However, guidance for F2Q was 1.8% below expectations. Azure posted a 34% year-over-year growth, narrowly beating guidance by one percentage point, though the F2Q outlook was impacted by capacity constraints. Management remains optimistic about Azure's acceleration in the latter half of FY25, driven by new capacity and robust adoption of Copilot.

Meta sustained momentum, achieving over 20% revenue growth ex-FX for the fifth consecutive quarter. The operating income margin reached 43%, the highest since Q2 2021. Meta's Gen AI ad tools are gaining traction, now adopted by over one million advertisers, highlighting a competitive advantage.

Amazon reported Q3 net sales that were 1% above consensus, with operating income beating expectations by 19%, largely due to strong performances in International and AWS. Although the midpoint for Q4 net sales guidance was slightly conservative, EBIT guidance exceeded forecasts, alleviating investor concerns. AWS revenue growth was a modest 19%, with management attributing slower growth to supply constraints, though improvements are anticipated.

% of S&P companies beating quarterly EPS / SALES



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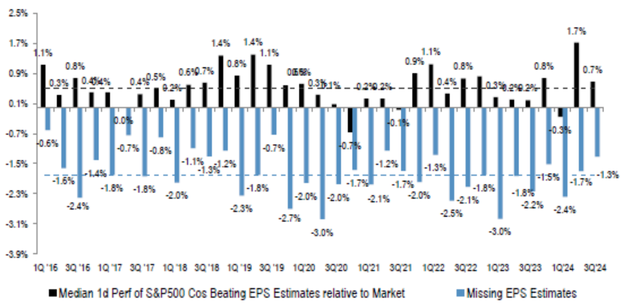
S&P: Price reaction to beats and misses



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STOXX 600: Q3 2024 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	**216 / 420**	**51%**	**60%**	**40%**	**5%**	**3%**	**41%**	**44%**	**0%**	**0%**
Energy	9 / 19	47%	50%	50%	-3%	-27%	78%	22%	3%	-8%
Materials	22 / 37	59%	63%	38%	5%	27%	23%	59%	0%	0%
Industrials	50 / 87	57%	44%	56%	0%	2%	26%	58%	-3%	0%
Discretionary	20 / 43	47%	38%	63%	-36%	-40%	42%	42%	0%	-1%
Staples	17 / 32	53%	50%	50%	1%	0%	24%	65%	2%	0%
Healthcare	17 / 43	40%	55%	45%	11%	12%	47%	35%	1%	7%
Financials	37 / 75	49%	90%	10%	11%	16%	76%	18%	3%	4%
IT	16 / 23	70%	69%	31%	6%	14%	44%	50%	0%	2%
Com. Services	12 / 26	46%	33%	67%	3%	1%	18%	36%	0%	13%
Utilities	6 / 20	30%	80%	20%	27%	9%	40%	60%	-24%	-10%
Real Estate	10 / 15	67%	33%	67%	-17%	11%	50%	25%	-16%	9%
Ex-Financials & Real Estate	**169 / 330**	**51%**	**52%**	**48%**	**1%**	**-5%**	**34%**	**51%**	**0%**	**-1%**
Ex-Energy	**207 / 401**	**52%**	**61%**	**39%**	**6%**	**8%**	**40%**	**45%**	**0%**	**1%**
Cyclicals	**108 / 190**	**57%**	**52%**	**48%**	**-4%**	**-4%**	**31%**	**54%**	**-1%**	**0%**
Defensives	**52 / 121**	**43%**	**54%**	**46%**	**11%**	**10%**	**32%**	**48%**	**0%**	**3%**

Source: J.P. Morgan

Alphabet outperformed across all segments, with cloud revenue continuing an upward trend, marking its fourth consecutive quarter of acceleration. Operating margins on net revenue surpassed consensus by approximately 160 basis points. AI-driven advancements have benefited advertising, cloud services, and operational efficiencies, supporting an optimistic outlook for sustained growth.

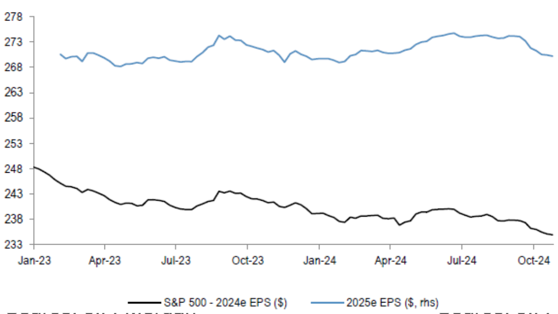
Apple saw its fiscal Q4 revenue slightly exceed expectations, largely due to strong iPhone sales, though services revenue came in just below forecasts. Performance in Greater China was weaker, and gross margins missed high investor expectations. Management's FQ1 2025 guidance pointed to low to mid-single-digit revenue growth, softer than the Street's 7% year-over-year projection, signaling a cautious stance.

Europe (STOXX 600)
Despite a low-growth environment, European companies generally exceeded expectations in Q3. The outlook for PMIs in the region remains uncertain, and companies with significant exposure to Chinese consumers faced negative momentum. On a positive note, recently announced measures in China are expected to create favorable spillover effects across various end markets and industries, though this impact may take 6 to 9 months to materialize.

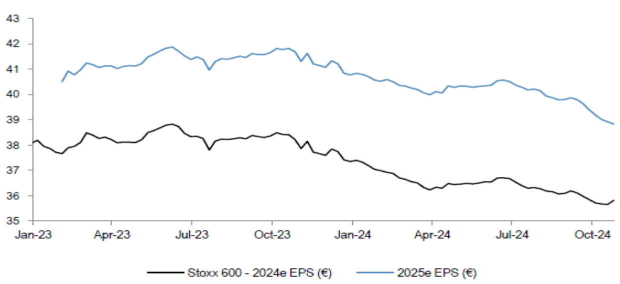
For Q3, the STOXX 600 reported flat revenue, aligning with consensus, with notable misses in utilities and real estate, while energy and financials outperformed. Income increased by 3% overall, with a positive EPS surprise of 5%. At the sector level, banks, pharmaceuticals & biotech, and aerospace & defense were standout performers, showing strong earnings breadth and results ahead of consensus expectations.

Looking ahead, overall earnings expectations for European companies remain impacted by the weak Eurozone economy and high exposure to China's ongoing challenges. Current fiscal year forecasts indicate 2% growth for 2024 relative to 2023, with a more optimistic 8.5% growth expected for 2025.

S&P: 2024 and 2025 EPS estimates evolution



STOXX 600: 2024 and 2025 EPS estimates evolution



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TOPIX: Q2 '25 summary (July- September quarter)

	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	**474 / 2111**	**22%**	**38%**	**62%**	**-10%**	**-12%**	**45%**	**44%**	**1%**	**4%**
Energy	2 / 19	11%	-	-	-	10%	-	-	-	-6%
Materials	38 / 195	19%	33%	67%	2%	7%	40%	50%	1%	8%
Industrials	116 / 569	20%	33%	67%	-10%	-9%	34%	52%	1%	0%
Discretionary	107 / 399	27%	41%	59%	-27%	-29%	48%	36%	-1%	1%
Staples	55 / 184	30%	36%	64%	-39%	-12%	50%	33%	4%	8%
Healthcare	20 / 102	20%	50%	50%	-3%	21%	64%	29%	4%	14%
Financials	27 / 148	18%	33%	67%	11%	46%	63%	25%	1%	7%
IT	69 / 302	23%	32%	68%	-10%	-3%	40%	55%	-1%	3%
Com. Services	18 / 114	16%	0%	100%	-52%	-29%	33%	67%	3%	9%
Utilities	8 / 24	33%	100%	0%	14%	-46%	80%	20%	6%	1%
Real Estate	14 / 55	25%	67%	33%	20%	17%	57%	43%	2%	12%
Ex-Financials & Real Estate	**433 / 1908**	**23%**	**37%**	**63%**	**-11%**	**-14%**	**44%**	**45%**	**1%**	**3%**
Ex-Energy	**472 / 2092**	**23%**	**38%**	**62%**	**-10%**	**-12%**	**45%**	**44%**	**1%**	**4%**
Cyclicals	**330 / 1465**	**23%**	**35%**	**65%**	**-12%**	**-10%**	**41%**	**47%**	**0%**	**2%**
Defensives	**101 / 424**	**24%**	**42%**	**58%**	**-9%**	**-22%**	**53%**	**39%**	**4%**	**7%**

Source: J.P. Morgan

JAPAN (Topix)
Japanese companies broadly met sales expectations but fell significantly short on earnings, reporting a 12% decline and a 10% negative EPS surprise at the index level. On the revenue side, only utilities and staples exceeded consensus by a mid-single-digit margin. In terms of EPS growth, all sectors except financials and utilities, missed consensus expectations by a wide margin.

Looking ahead, Japan is projected to experience strong high single-digit EPS growth over the current and next fiscal years, supported by a cycle of upward revisions over the past 12 months, indicating sustained growth potential.

Transcript Analysis, Guidance, and Analysts' Forecasts
Earnings call transcripts for Q3 2024 reflect mixed corporate sentiment. Companies express strong confidence in shareholder returns, with positive sentiment around dividends (93%) and share buybacks (86%). There is also notable optimism regarding margins, artificial intelligence (AI), and capital expenditures (Capex), underscoring resilience in profitability and advancements in technology. However, concerns about the broader economy remain significant, with 47% of firms expressing negative views, particularly around China (56% negative sentiment) and inventory management (40% negative sentiment), highlighting persistent uncertainties in the global economic outlook.

In terms of guidance, European and U.S. companies are adjusting their year-end expectations with differing strategies. In Europe, upgrades are more moderate, led by positive guidance in the financials and energy sectors, while discretionary and materials face notable cuts. In the U.S., companies are more assertive in raising guidance, particularly in the financial and tech sectors, although guidance cuts have also increased slightly.

FIGURE 14. Companies are positive on margins, capital returns and AI, while China and inventory are concerns

Q3 2024	Positive	Neutral	Negative
Economy	19%	34%	47%
China	24%	20%	56%
Inflation	35%	33%	32%
Dividends	93%	4%	3%
Buybacks	86%	10%	4%
Guidance/Outlook	22%	65%	13%
Margins	57%	22%	21%
Capex	33%	41%	26%
Layoff	3%	37%	60%
Demand	44%	24%	32%
Artificial Intelligence	63%	37%	0%
Tariffs	0%	63%	38%
Inventory	30%	30%	40%

ce: Alphasens

FIGURE 15. Firms' take on the economy remains more negative than positive

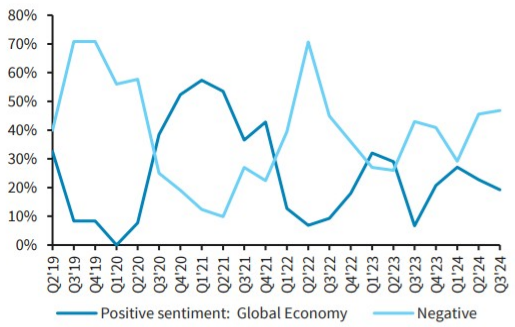

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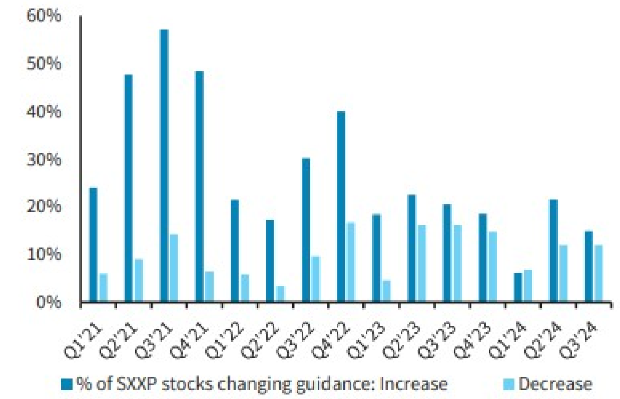
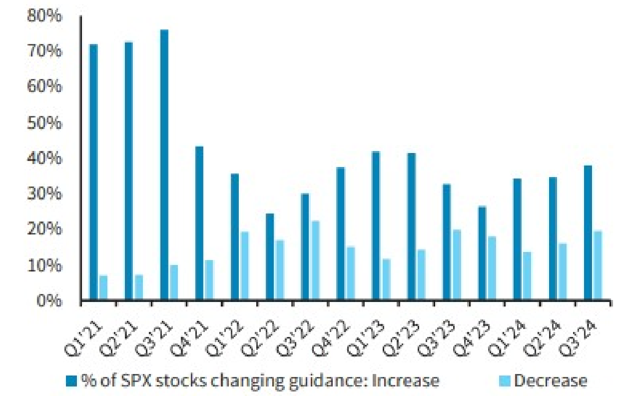
FIGURE 18. **Europe: Year-end guidance upgrades have moderated in Q3**



Source: Alphasense, Barclays research

FIGURE 19. **US: Greater % of companies have raised guidance in Q3 versus last quarter but cuts have also inched higher**



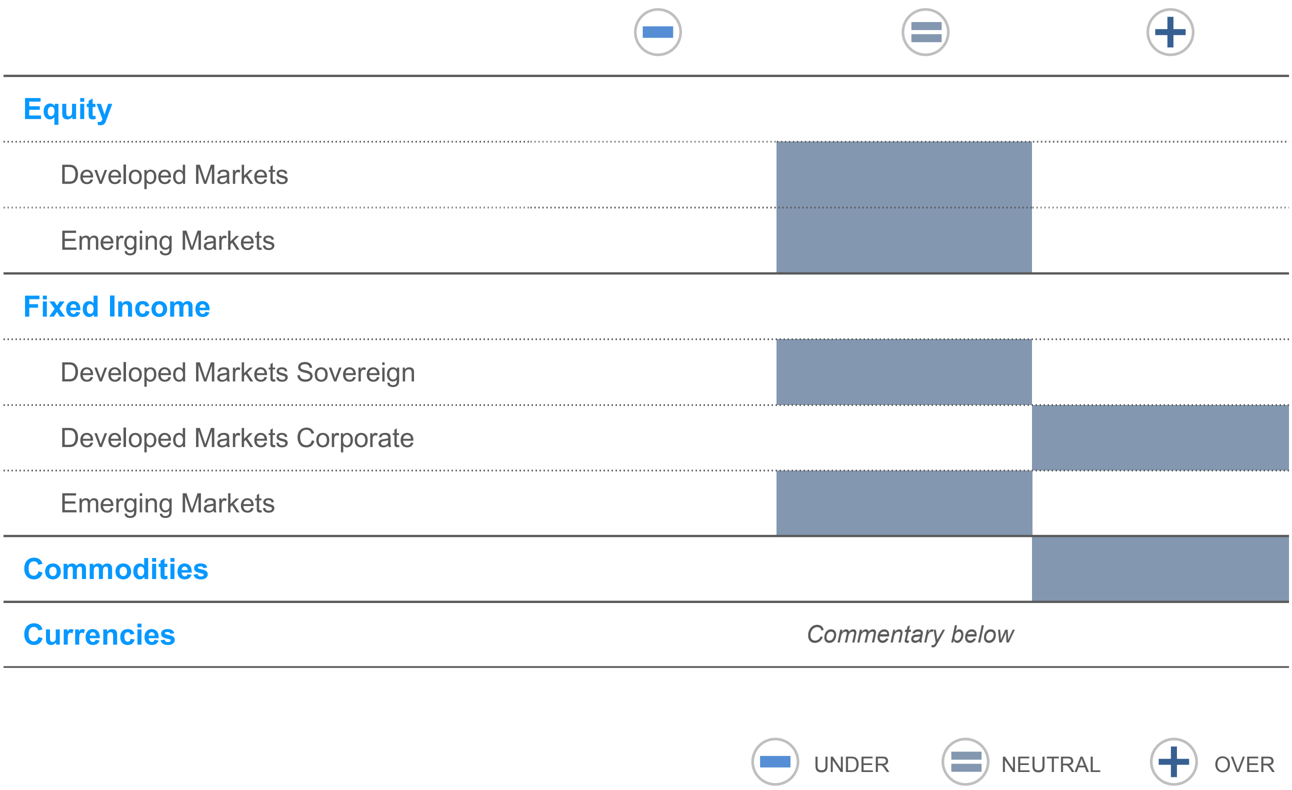
Source: Alphasense, Barclays research

Finally, consensus forecasts reveal that style factors have played a significant role in earnings revisions. European cyclicals have seen accelerated downward revisions since August, particularly within the semiconductor and luxury sectors. In contrast, defensive sectors have performed more steadily, and financials continue to experience a notable cycle of upgrades.

EPS growth forecast in Europe

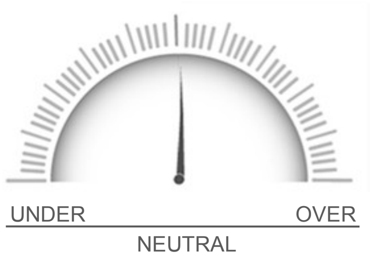
Source: LSEG Data &Analytics, Barclays Research

Asset Allocation View



Equity

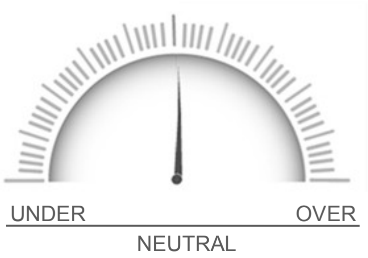
Developed Markets



We have kept our **Neutral** recommendation on Developed Market Equities. The potential for further central bank easing, abundant liquidity, and strong economic data is balanced by high valuations. However, the fate of global stock markets will be determined by the results of the U.S. elections and the Federal Reserve stance a few days later.

US	=	**Europe**	=	**Japan**	−

Emerging Markets

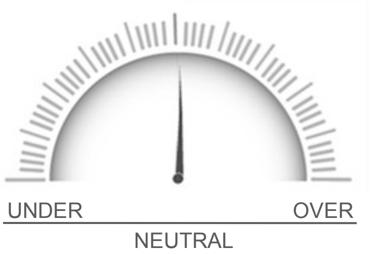


We have maintained our **Neutral** recommendation on Emerging Markets Equities. Following the correction that began in early October, Chinese markets may have the potential to rise again, supported by heavily discounted valuations. Additionally, details on the scale and type of fiscal stimulus expected to be implemented are anticipated to be announced a few days after the U.S. elections. Looking ahead, a recovery in the Chinese economy could boost commodities, benefiting Latin America, where we maintain a positive outlook, though tempered by political concerns.

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

Fixed Income

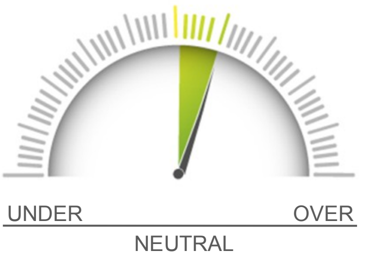
Developed Markets Sovereign



We have maintained our **Neutral** recommendation on Developed Markets Sovereign Bonds. After rising about 70 basis points from lows in the United States and half that in Europe, risk-free interest rates have returned to more attractive levels. However, given the uncertainties surrounding the U.S. election outcome, particularly the possibility of a Republican sweep, we prefer to maintain a neutral stance until more clarity emerges.

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

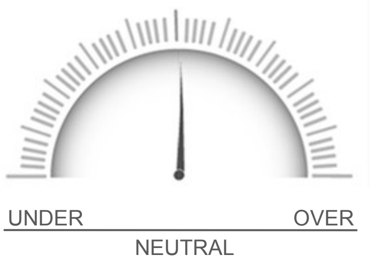
Developed Markets Corporate



We have kept our **Slightly Overweight** recommendation on Developed Markets Corporates. The search for yield in the fixed income market will continue to favor corporate bonds, as evidenced by strong demand in the primary market. Within corporates, we maintain a preference for investment-grade bonds over high-yield bonds.

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

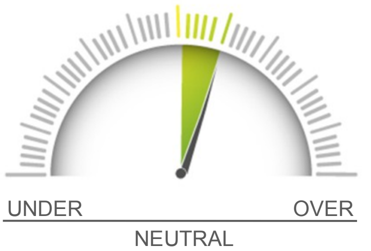
Emerging Markets



We have also maintained our **Neutral** recommendation for Emerging Market bonds. China's stimulus measures could boost demand for the asset class; however, spreads are already quite tight, especially for low-beta bonds.

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

Commodities



We confirmed our **Slightly Overweight** recommendation on Commodities. We remain positive on precious metals, which typically outperform during periods of monetary policy easing and serve as a portfolio hedge against unexpected geopolitical tensions and political uncertainties. We are also bullish on industrial metals, expecting a rebound in Chinese demand once the fiscal stimulus is fully enacted.

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

Currencies

The Committee kept the **Neutral** stance on the US Dollar. The outcome of the US election will be the most important factor in determining the future path of the greenback, while no major surprises are expected from the FOMC meeting. A Republican sweep might be the best scenario for the US Dollar.

The view on the Euro remains **Neutral** as well. As mentioned above, the most important factor in FX will be the outcome of the US elections.

The **Neutral** view on the **Chinese Renminbi** remains unchanged. The unveiling of details on the expected fiscal stimulus next week should be supportive for the Renminbi; however, any upside is tempered by the risk of heavy tariffs being imposed in the event of a Republican sweep.

The outlook for other **emerging market currencies** is **Neutral**. Among emerging currencies, in the current environment the Committee favors Asian currencies.

Euro	USD	CNY	Other EM
=	=	=	=