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AZIMUT GLOBAL VIEW

18.11.24

Main Events

JAPAN CPI	GLOBAL PMI	FOMC MINUTES	EU CPI
Inflation in Japan should have continued to moderate, allowing the BoJ to be more cautious in rising rates	Will November's preliminary global business confidence data have already factored in the impacts of Trump's re-election?	It will be interesting to see how unanimous the governors' expectations were regarding the trajectory of inflation and interest rates	Germany, France and Italy will release preliminary inflation data for November
22.11	22.11	26.11	29.11

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

U.S. ELECTION AND IMPLICATIONS FOR MARKETS

- **Republicans managed to achieve a sweeping victory in the last U.S. elections, winning the presidency and both Chambers of Congress.**
- **Trump's economic policies will likely accelerate domestic growth (and potentially moderate the decline in inflation), possibly at the expense of the rest of the world**
- **The "Trump trade" still has room to extend, although a retracement is possible in the short term.**

Finally, the last (and most important) 2024 election is now behind us.

The result was unambiguous: Trump won by a large majority, not only in the Electoral College (312 vs. 226 for Kamala Harris), but also in the popular vote (76.5 million vs. 73.8 million), a drastic reversal from 2020, when Biden won by 7 million votes over Trump. This was clearly a protest vote against Biden and the Democratic administration of recent years, likely due to the inflationary spike that eroded purchasing power, especially among typical Democratic voters.

Not only that, but Republicans also regained the majority in both houses of Congress, succeeding in the so-called "Republican sweep." In the Senate, Republicans won 53 seats, flipping three and gaining a comfortable three-seat majority. The vote count for the House is still underway at the time of writing. At present, Republicans have won 218 seats out of 325, thus holding a very slim majority of just one seat. Only five seats remain to be called. Of these, Republicans could win three more, maintaining the four-seat lead they had before the election.

The Republicans' sweeping victory has important consequences for financial markets, as it will make it easier for Trump to fully implement his agenda, which, as in his first term is centered on the principle of "America First." Many of the measures announced during the campaign have the potential to revive inflation, or at least delay reaching the 2 percent target.

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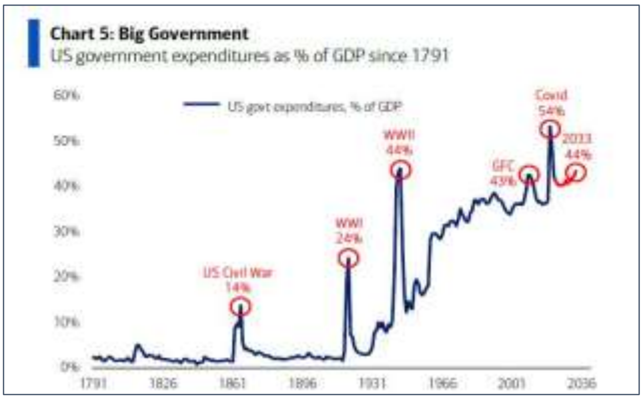
Source: Bloomberg



Source: Bank of America

Of these, the potentially most impactful is the imposition of across-the-board tariffs of between 10% and 20% on imports and 60% on imports from China. If implemented in its entirety, this decision would raise average tariffs to a record high for the past century, as shown in the chart above left. The oft-referenced comparison with 2018 is misleading, and the reason becomes clear by looking at the same graph. Tariffs imposed during the previous Trump administration led to a modest increase in aggregate tariffs. At that time, the economy was recovering from years of excessively low inflation, and a modest increase in tariffs was not passed on to the economy. In contrast, today we have just emerged from an inflationary shock, and such a large jump in tariffs (if actually implemented) could have a greater impact on U.S. inflation than in 2018.

Immigration measures could also have a direct impact on inflation. Trump has stated that he wants to expel illegal aliens from the United States, potentially impacting millions of people, and also to restrict legal immigration. Such measures would lead to a noticeable reduction in the labor force, thus recreating the labor supply and demand imbalances that contributed to inflation.

Other measures include extending or making permanent the 2017 tax cuts that expire at the end of 2025, which reduced the corporate tax rate from 35% to 21%. In his campaign, Trump floated the idea of further reducing the corporate tax rate to 15%. For individuals, he has hinted at lowering the tax brackets, particularly the top rate. Proposals to de-regulate and cut bureaucracy are also beneficial for markets and growth. However, it should be noted that Trump would like to reduce government spending, and to achieve this, he is reaching out to people with experience in the real economy. But the net effect of his economic measures, at least initially, would likely result in a further expansion of government deficits, even accounting for the additional tariffs.

All in all, Trump's program is expected to lead to an acceleration of growth in the United States, albeit at the risk of keeping inflation slightly above targets. For the rest of the world, however, these measures would likely have the opposite effect: higher tariffs would lead to a reduction in net exports to the United States, resulting in lower GDP growth. Reduced exports would lead to a decrease in industrial production, employment, and consumption.

Market reactions have been consistent with the above. Starting when the odds of Trump's victory began to rise again, the "Trump trade" has been the dominant theme in the markets. U.S. stocks rebounded on the expectation of accelerating growth, attracting enormous flows, while other equity markets lagged behind or even fell in U.S. dollar terms.

U.S. interest rates rose significantly. In the short end, the movement was driven by the reduced possibility of rate cuts in the near future. The 1-year forward rate (the 1-year interest rate expected one year from now) rose a full percentage point from its September lows, indicating that the market now expects that official rates are unlikely to be cut below 3.75% to 4.00%. The long end of the U.S. curve also rose, but in this case the driving factor was mainly related to concerns about the ballooning fiscal deficits. In Europe, conversely, rates have remained broadly stable, pushed up on the one hand by U.S. rates, but down on the other due to fears of weaker growth.

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(continued)

Source: Bank of America

Source: Bloomberg

Source: Bloomberg

Looking ahead, it is possible that U.S. equity markets might be vulnerable to a correction in the short term, given the significant rally in recent weeks, but particularly due to rising nominal and real rates. Namely, over the past two years, every time real interest rates have exceeded 2 percent, a correction has followed. In the medium term, however, the U.S. equity markets could continue to rise due to the fiscal measures contemplated by the Trump administration and the AI theme. Markets in the rest of the world may experience a rebound in the short term, but over the medium term, they are likely to continue underperforming the U.S. as the consequences of Trump's policies are not yet fully factored in.

As for rates, the short end of the U.S. curve seems to be correctly priced and we do not see any more significant declines. On the contrary, some caution is still needed on the very long end of the curve, waiting to see what will actually be implemented of Trump's economic agenda. In the event of a significant widening of the budget deficit, rates could continue to rise; however, if the economic team Trump is assembling enacts drastic spending cuts to bring the deficit under control, current levels could represent an excellent buying opportunity. Pending further evidence on this front, we prefer to maintain a neutral stance.

Rates in the rest of the world could continue to decline, and perhaps even more rapidly if U.S. protectionism, as seems likely, actually leads to weaker growth and lower inflation. In that case, central banks would have solid reasons to cut rates aggressively. This seems especially true for Europe, where growth has been particularly anemic for some time now.

Regarding currencies, a limited correction of the dollar is possible in the very short term after last month's rally against all major developed and emerging currencies. However, the expected widening of the rate differential between the United States and the rest of the world will likely lead to further strengthening of the dollar over the medium term.

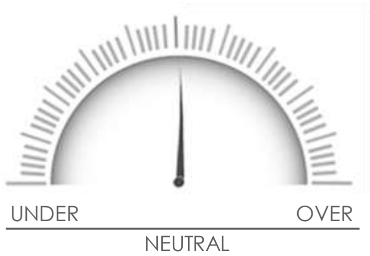
Asset Allocation View

	UNDER	NEUTRAL	OVER
Equity			
Developed Markets		■	
Emerging Markets	Downgrade		
Fixed Income			
Developed Markets Sovereign		■	
Developed Markets Corporate			■
Emerging Markets	Downgrade		
Commodities			■
Currencies		*Commentary below*	

UNDER NEUTRAL OVER

Equity

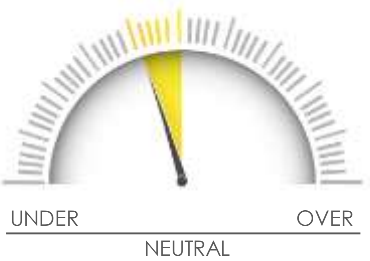
Developed Markets



We have kept our **Neutral** recommendation on Developed Market Equities. The sustained and ongoing increase in nominal and real interest rates in the United States over the past month could render U.S. equity markets vulnerable to corrections, as argued in the prologue to this report. Geographically, the "Trump" trade (buy U.S. stocks and sell everything else) still has room to extend, although short-term retracements are possible considering the size of the gap in performance between the U.S. and the rest of the world over the past two weeks.

US	Neutral
Europe	Neutral
Japan	Under

Emerging Markets



We have downgraded our recommendation on Emerging Markets Equities to **Slightly Underweight**. Emerging countries could suffer more than developed countries due to Trump's proposed imposition of universal tariffs at 10%. The hardest-hit country is expected to be China, given the proposal to increase tariffs to 60%. Also weighing on China is the disappointment with the announced fiscal measures, which so far amount to little more than a reallocation of existing debt from local entities to the central government, while interventions to directly support consumption and investment remain entirely absent.

Asia ex-Japan	Over
EEMEA	Under
LATAM	Neutral

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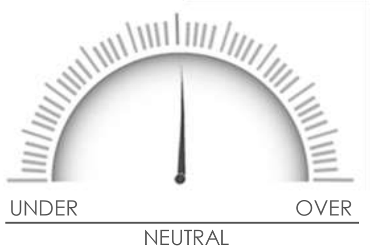
Fixed Income

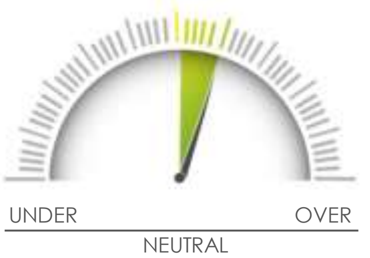
Developed Markets Sovereign



We have maintained our **Neutral** recommendation on Developed Markets Sovereign Bonds. The "Republican sweep" could allow the new administration to implement aggressive fiscal policies. As a result, we caution on the long end of the U.S. curve, while the committee remains more constructive on the very short end. In the rest of the world, the possible imposition of tariffs on exports could lead to a deceleration in growth, allowing other central banks to cut rates more aggressively than previously anticipated. This is especially true in Europe, where we maintain a relatively more positive view.

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

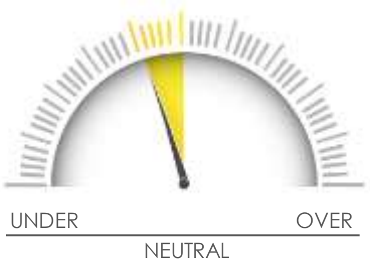
Developed Markets Corporate



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	
	+		+		−		−

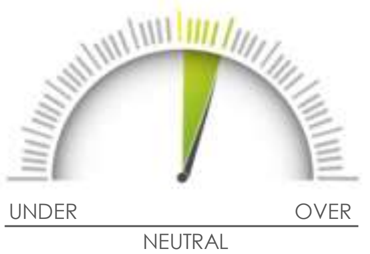
Emerging Markets



We have lowered our recommendation for Emerging Market bonds to **Slightly Negative**. The reasons are the same as those previously outlined with reference to emerging market equities.

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. Therefore, we see the correction following Trump re-election as an opportunity to accumulate.

Precious		Energy		Industrial		Agricultural	
	+		−		+		=

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Currencies

The Committee kept the **Neutral** stance on the US Dollar. Trump's re-election is likely to lead to a widening of the growth and interest rate gap between the United States and the rest of the world. Therefore, in the medium term, the dollar still has room to strengthen. In the immediate future, a retracement is possible considering it's overbought in the very short term after last month's rally.

The view on the Euro remains **Neutral** as well, but it is possible that it will continue to weaken in the medium term for the same reasons (in reverse) mentioned for the dollar.

The view on the **Chinese Renminbi** remains **Neutral,** but now **with a bearish bias**. China's announced stimulus measures have disappointed once again. Moreover, the Republican sweep may actually allow Trump to impose the threatened 60 percent tariffs.

The outlook for other **emerging market currencies** remains **Neutral with a bearish bias** in view of protectionist measures that Trump may implement.

Euro	=	USD	=	CNY	=	Other EM	=

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