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AZIMUT GLOBAL VIEW

02.12.24

Main Events

US NFP (06.12): The upcoming U.S. jobs report will be pivotal for the FOMC decision later this month

US CPI (11.12): The market continues to seek confirmation that inflation is consistently moving towards the Fed's 2% target

ECB MEETING (12.12): With a rate cut fully priced in by swap markets, investors will focus on clues about the trajectory of monetary policy for 2025

US FOMC (18.12): Investors will primarily seek greater clarity on the rate decision following the upcoming data releases

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

TRUMP'S NEW ADMINISTRATION TAKES SHAPE

- **Donald Trump has been appointing officials at a record pace, most notably nominating Scott Bessent as Secretary of the Treasury**
- **Political uncertainty is rising in Europe due to a political impasse over the France budget and early elections in Germany, both of which could shape European fiscal policy in 2025**

Following his landmark victory on November 5th, President-elect Trump has rapidly started forming his administration. His early appointments suggest a focus on stricter trade policies, highlighted by the selection of Marco Rubio—a known China hawk—as Secretary of State, and Howard Lutnick—a tariff advocate—as Secretary of Commerce. The early appointments favored a continuation of the "Trump Trade" across asset classes, keeping Treasuries under pressure while benefiting the US dollar and crypto assets.

On November 22nd, the Trump campaign announced Scott Bessent as the nominee for Secretary of the Treasury, signaling a probably more balanced approach to fiscal policy during a second Trump term. Well-known and highly regarded on Wall Street, Bessent is considered fiscally responsible and has adopted a more moderate tone on tariffs in recent public comments, suggesting they should be used primarily as negotiating tools.

Financial markets reacted positively to Bessent's appointment, sustaining upward momentum in risky assets while prompting a partial reversal of the "Trump trade" in Treasuries. The 10-year yield fell in the sessions following the announcement. The USD also reversed some of its recent strength, especially against the Euro and the Japanese Yen.

Bessent's appointment suggests that Trump's policies may be implemented more cautiously than initially anticipated. This expectation is supported by two considerations:

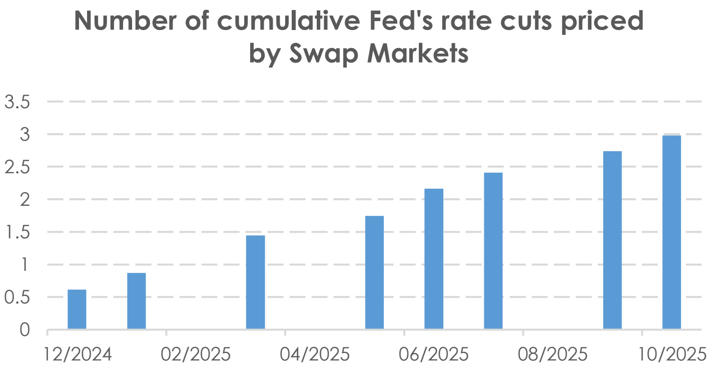
(continued)

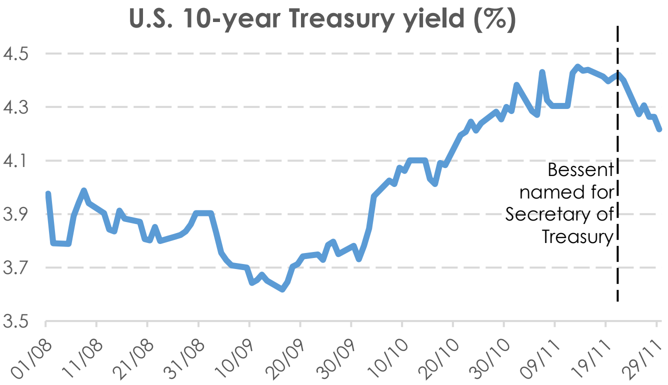
- Political Cost of Inflation: The outcome of recent elections across the world has shown a significant decline in support for incumbent parties, a trend largely attributed by analysts to the post-pandemic inflationary pressures. Inflation carries substantial political risks, which should incentivize a more cautious approach to economic and fiscal policies.

- Market Performance as a metric of the Administration's success: Historically, Trump has regarded financial market performance, particularly equity returns, as a key measure of his administration's success. The prospect of profligate fiscal spending, although beneficial for the level of economic activity in the short term, would most likely re-ignite concerns around U.S. debt sustainability, creating adverse ramifications for the broader risk complex.

Against this backdrop, Bessent's appointment is perceived as a move to balance policy ambitions with market stability and political realities, acting as a volatility suppressant for financial markets.

Looking ahead, investors will closely monitor the upcoming jobs report on Friday and Federal Reserve Chair Jerome Powell's remarks on Wednesday for insights into the Central Bank's monetary policy trajectory. The market's attention is expected to focus particularly on Friday's employment data, which will play a pivotal role in determining the direction of Treasury yields into year-end as is likely to be instrumental in influencing the Federal Open Market Committee's (FOMC) decision on whether to proceed with a third consecutive interest rate cut at their meeting later this month. Currently, swap markets reflect a 60% probability of a 25bp cut at the December 18 meeting and projections indicate a terminal rate of 3.6%.





Source: *Bloomberg, Azimut elaboration*

Across the Atlantic, political uncertainty has intensified due to the budget deadlock in France and the collapse of the "traffic light coalition" in Germany. Both of these developments are poised to impact Eurozone fiscal policy in 2025.

In France, political turbulence has once again taken center stage as Prime Minister Barnier struggles to secure approval for the 2025 budget without a parliamentary majority. Given France's already precarious fiscal situation, Barnier's proposed budget includes substantial fiscal tightening, which faces strong resistance from opposition parties. The situation has reached a critical juncture, as the far-right National Rally, which vehemently opposes the tightening measures, recently announced that it will back a no-confidence vote against PM Barnier after he failed to agree to all of its demands.

Concerns over a potential government defeat in a no-confidence vote have punished France's sovereign bonds (OATs) relative to its peers, causing a widening of the spread over German Bunds above 85 basis points - a level not seen since the height of the EU sovereign debt crisis in 2012. Moreover, France's 10-year bond yields have risen to match Greece's for the first time in history.

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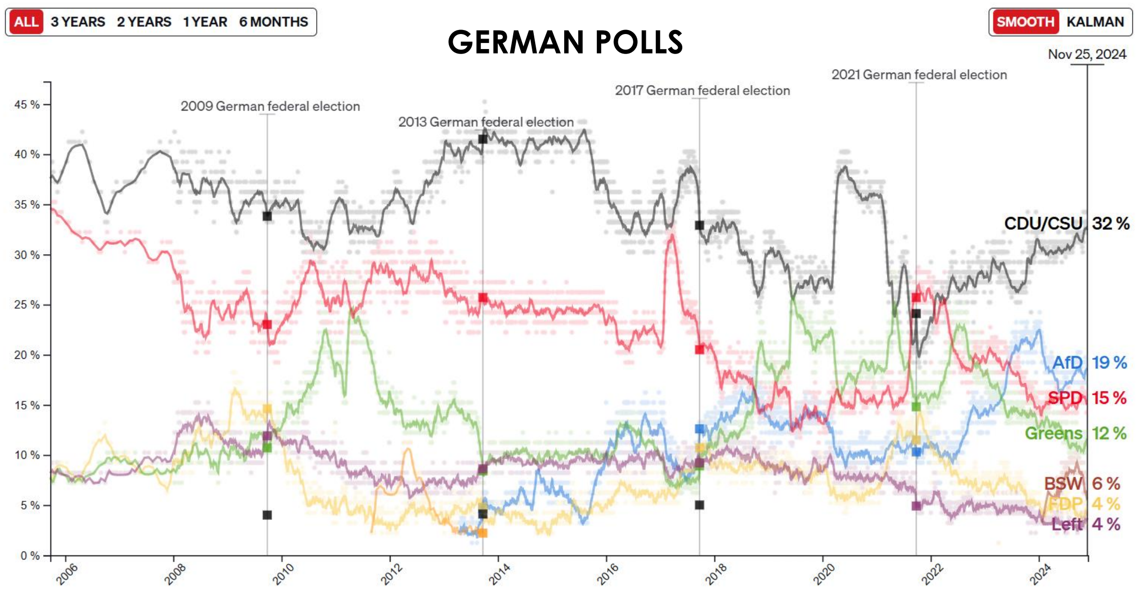
OAT-Bund Spread (bps)

Source: *Bloomberg, Azimut elaboration*

In Germany, disputes over budgetary deficit levels have led to the dismissal of Finance Minister Christian Lindner and the subsequent collapse of the "traffic light coalition", prompting a snap election in February.

Germany is struggling with deep structural challenges, which require both public investment and important supply-side reforms to lower energy prices, increase labor supply ,and spur private investment and innovation. Unlike other countries in the region, Germany has the fiscal space to implement expansionary measures but currently lacks the political leadership needed to execute them. In that regard, the snap election is seen as a positive catalyst for economic revitalization, as it could replace the current weak leadership with a more effective CDU/SPD coalition that may mark a shift toward pro-growth policies.

Investors are closely watching whether a new administration might ease fiscal policy by relaxing the “debt brake,” a constitutional provision limiting the structural budget deficit to 0.35% of GDP. Recently, there has been an emerging consensus on some degree of relaxation, even among fiscally conservative parties. Friedrich Merz, leader of the CDU, has signaled openness to reforming the debt brake, and Angela Merkel, under whose leadership the measure was originally enacted, has also advocated for its relaxation.



Source: *Politico*

Asset Allocation View

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

− UNDER = NEUTRAL + OVER

Equity

Developed Markets

UNDER OVER
NEUTRAL

We have kept our **Neutral** recommendation on Developed Market Equities. The "Trump" trade (buy U.S. stocks and sell everything else) still has room to extend until the end of the year, also in light of the political troubles in Europe. Short-term retracements are possible considering the size of the gap in performance between the U.S. and the rest of the world since the election, but they seem more likely in early 2025.

US	=	**Europe**	=	**Japan**	−

Emerging Markets

UNDER OVER
NEUTRAL

We have increased our recommendation on Emerging Markets Equities back to **Neutral**. After significant underperformance following the U.S. elections, emerging market equities appear poised for at least a short-term rebound, likely materializing in early 2025. Among these markets, China retains a key advantage with the potential to leverage fiscal policy to counteract the negative effects of the Trump administration's tariffs, but unfortunately details continue to be lacking.

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

Fixed Income

Developed Markets Sovereign

We have maintained our **Neutral** recommendation on Developed Markets Sovereign Bonds. Following the sharp rise in U.S. rates after the Republican sweep, we adopt a more constructive outlook on the short end of the curve, while maintaining caution on the long end. Globally, the potential implementation of tariffs on exports could slow growth, creating conditions for other central banks to reduce rates more aggressively than previously anticipated. This dynamic is particularly evident in Europe, where we have 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 upgraded the recommendation for Emerging Market Bonds back to **Neutral**. The potential risks posed by tariff impositions from the Trump administration are mitigated by the recent widening of spreads on emerging market bonds compared to similarly rated corporate bonds in developed markets, following their recent underperformance.

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

Commodities

We downgraded our recommendation on Commodities to **Neutral**. We are turning more cautious on precious metals due to the recent dollar strength and the subsiding inflation. However, we are still positive in medium to long term, considering that bullion typically outperforms during periods of monetary policy easing and serves as a portfolio hedge against unexpected geopolitical tensions.

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

Currencies

The Committee kept the **Neutral** stance on the US Dollar. The rate differential between the United States and the rest of the world is likely to continue supporting a strong dollar, although there is room for a retracement in the short term.

The view on the Euro remains **Neutral** as well, but it weighing on the common currency are the political uncertainties surrounding Germany and particularly France, as argued in the Prologue.

The view on the **Chinese Renminbi** remains **Neutral with a bearish bias**. The Chinese currency will continue to remain under pressure due to tariff threats from the U.S. and the lack of details on fiscal measures to support the domestic economy.

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	=