AZIMUT
DEFINING INVESTMENT DIRECTION

AZIMUT GLOBAL VIEW

09.
11.
20

Main Events

Azimut Global Network

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

12.11	ECB FORUM	Lagarde, Bailey and Powell to speak at the ECB Forum. Will they give some hints and how will they react to vaccine news?
16.11	CHINESE DATA	Industrial production and retail sales YoY growth expected to come back to pre-covid-19 levels
18.11	ECB CPI	The last reading of inflation before the December ECB meeting
19.11	US CONFIDEN.	Bloomberg Consumer Confidence is the first US sentiment indicator collected after the election and the vaccine news

Back-to-back boost

The most awaited political event of the year is now over. The results are not yet conclusive because of the recounts, Trump's lawsuits and runoffs in Georgia for two seats in the Senate; but what is clear today is that the results are quite in line with expectations with Biden winning the Presidency and Republicans retaining the control of the Senate. The definitive Democratic "blue wave" that pollsters predicted would sweep the US 2020 elections never arrived.

Financial markets reacted very positively to election results as it was interpreted as the ideal balance of powers that will prevent Democrats from fully implementing their agenda in the sense of limiting excessive spending but also the impositions of sharp increases on income, corporate and/or capital gain tax. It is reasonable to expect that under Biden the two sides will be able to compromise on additional fiscal stimulus to counter the aftermath of the pandemic. The amount will be lower than the multi-trillion package proposed by the Democrats, but still large enough to support consumers and corporations until the recovery is full on track.

Domestically, the Biden administration will swiftly focus on on implementing their policies on environmental issues, and therefore companies operating in those fields may continue to be favored. The other significant step of the Biden campaign, the response to the covid-19 pandemic, will be addressed later on in light of the news of a potential vaccine.

Internationally, the end of the Trump-era will reasonably lead to a less confrontational attitude of the US versus the other countries, and this could lead to a re-rating of non-US markets going forward.

The only development that could change this scenario is the two runoffs in Georgia for the Senate, which will be held in January 2021. The two Republican candidates' margin of victory could be as small as a few thousand votes. If the preliminary results were to be reversed and should the Democrats win both seats, a President Biden would be able to control the 50-50 upper chamber courtesy of Kamala Harris, his vice-president, casting a deciding vote.

(continued)

If this happens, then the Democrats will control both the Presidency and the Congress, and will be able to implement their full their agenda. In the short term the equity markets may react positively as they'll probably focus first on the additional spending that could be approved, but this may imply higher inflation, higher interest rates and weaker dollar down the road.

The second boost to financial markets came from the news of a very effective vaccine developed by Pfizer and BioNTech, which according to the preliminary numbers circulated, could stop the spreading of the virus in 90% of the cases. It is estimated that if the vaccine will get the emergency approval by the end of November, 25 million people may be vaccinated this year, and 650 million in 2021. This could be a game changer for a faster than expected recovery from the pandemic, which is still raging across most of the world.

The biggest beneficiaries of the vaccine could be the cyclical stocks, which have been underperforming the rest of the market since the pandemic began, whilst some of the growth stocks that were cheered recently by investors and reached sky-high valuations could be vulnerable to short term retracements. If confirmed, the US may underperform in the short term due to the high weightings of tech stocks in the S&P500. To the contrary, Europe may be the place that might benefit the most from the discovery of the vaccine, as cyclical sectors are more represented there than in other regions, and also because the local indices were sold off recently driven by the partial lockdowns imposed over the past weeks. Emerging Markets performances could be in the middle, as on one hand they will benefit from the expectation of a stronger economic recovery, but on the other hand Emerging Markets and Asia in particular have been less impacted lately from the pandemic and therefore have less room to recover.

As a consequence of the above, the markets rebounded sharply over the past week, thanks also to a positioning which was quite cautious going into the elections. The two benign outcomes one after the other have then forced the market participants to either open new long positions or close their shorts, leading the markets to fresh record highs at least in US dollar term. As equity markets were already trading at rich valuations before the election, the recent squeeze has diminished the upside left for the asset class as a whole, but there are still opportunities as highlighted above.

About the fixed income space, the recent developments could lead to some pressure on the long term rates, as the short-end of the curves will likely remain at current levels because Central Banks are expected to maintain the current accommodative monetary policy for an extended period of time. Sovereign and Investment Grade corporate bond strategies could be the more vulnerable to the downside, whereas the hybrid, subordinated and Emerging Market bonds could perform relatively well as the diminished risks would likely translate into lower spreads.

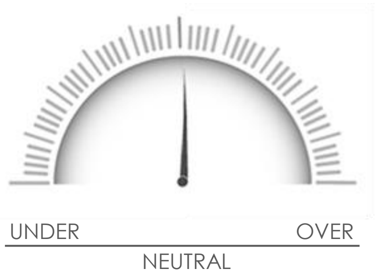
Asset Allocation View

	UNDER (−)	NEUTRAL (=)	OVER (+)
Equity			
Developed Markets		Upgrade	
Emerging Markets			■
Fixed Income			
Developed Markets Sovereign	■		
Developed Markets Corporate			Upgrade
Emerging Markets		Upgrade	
Commodities			■
Alternative Strategies		■	
Currencies	*Commentary below*		

(−) UNDER (=) NEUTRAL (+) OVER

Equity

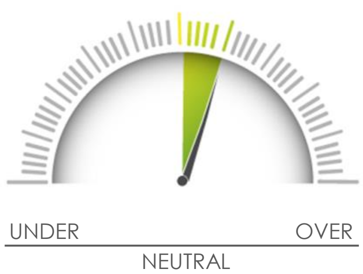
Developed Markets



We upgraded our recommendation on Developed Markets equities to neutral following the US election outcome and the Pfizer vaccine news. Notwithstanding this, the equity markets performance in response to the two developments was so strong that the main indices are in an overbought condition and a short term retracement could be possible. If occurs, this should present a buying opportunity. Cyclical sectors should be outperforming the defensive/growth names in the short term as the vaccine will mostly benefit the former. Consequently, we switched our geographic preference to Europe from US.

US	−	**Europe**	+	**Japan**	−

Emerging Markets

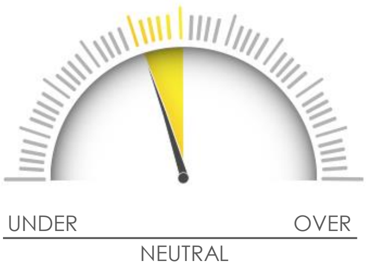


We keep our slightly positive recommendation on Emerging Markets unchanged. While the publication of 5 Year economic plan reinforced our already long-term bullish view on China, we downgraded the Asian region in the short term in line with the other regions. The reason is that if on one hand Biden's victory is a positive for China, the vaccine would help those regions currently experiencing the most cases. For China the covid-19 outbreak was fully in control meaning that in the short term the Asian markets could have less upside potential. Oppositely, more sensitive to global growth, the Latin America and Emerging Markets are expected to be the beneficiaries of the vaccine news.

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

Fixed Income

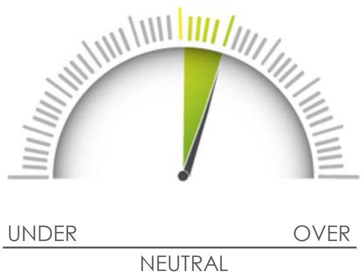
Developed Markets Sovereign



We kept our slightly underweight recommendation for Developed Markets sovereign bonds. While the vaccine news should have a negative impact on the prices of sovereign bonds, the ongoing QEs (some expected to be increased before year-end) could maintain yields compressed in the mid/long term. As the short-end of the curves will be more anchored, the long-end could be more exposed to the risk of rising yield, hence it would be appropriate to consider steepener strategies in order to protect the portfolios.

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

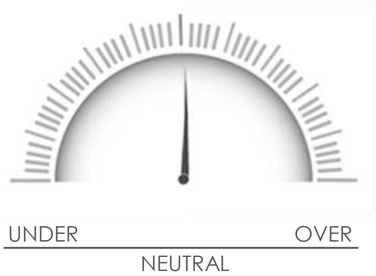
Developed Markets Corporate



We upgraded the recommendation on Developed Markets corporates. The vaccine news should expedite the return to normalcy in day-to-day life and therefore reduce the probability of protracted economic weakness translating into higher defaults. This allows for spreads to narrow further also afforded by the ongoing QEs. This will benefit mostly high yields where spread compression has been slower than that of investment grade bonds.

IG Europe	=	**IG US**	=	**HY Europe**	=	**HY US**	=

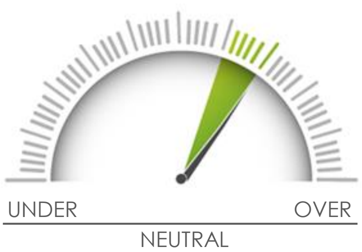
Emerging Markets



We upgraded our recommendation from underweight to neutral. The EM should benefit both from Biden's victory and the discovery of a vaccine. Specifically, the emerging markets more dependent of exports will be the biggest beneficiaries. It is projected that EM bonds could benefit both from a spread compression and a recovery in the value of their currencies. We are keeping a positive stance only on Chinese debt as the Renminbi is expected to continue to strengthen over time on the back of the increased inclusion in international portfolios.

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

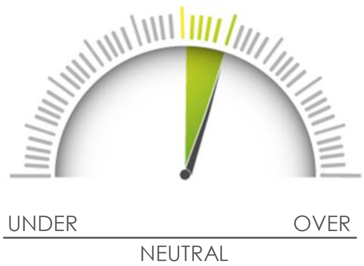
Commodities



We maintain our bullish view on the asset class. Notwithstanding the unchanged overall recommendation, we flipped the preference from precious metals into energy and industrial commodities. The recent vaccine development should reduce the search for portfolio hedging and therefore lower the demand for precious metals and moreover lead to a faster economic recovery.

Precious	=	**Energy**	+	**Industrial**	+

Alternative Strategies



We keep our recommendation as slightly positive on liquid alternative strategies because of the diminished expected returns on other asset classes. This implies that other asset classes now have greater downside risk and could be vulnerable to volatility as well. Therefore alternative/decorrelated strategies are more compelling on a relative basis.

Low Volatility	+	**Medium Volatility**	=	**High Volatility**	−

Currencies

We maintained the positive view on the Euro in the short term mainly because the Biden victory should lead to a more cooperative behaviour of the US administration with the rest of the world and the vaccine should trigger investors to increase their exposure to EU assets.
We kept our negative view on the US dollar as the vaccine should lead to a more risk-prone environment which is usually associated with a weak USD.
We maintained our slightly negative view on the Japanese yen as there are no positive catalysts in sight for the currency.
On Emerging Markets currencies, we upgraded our view to positive as the risk-on environment ingenerated by the news of the vaccine should make investor more willing to increase risks in their portfolios.

Euro	+	**USD**	−	**Yen**	−	**Emerging**	+