AZIMUT
DEFINING INVESTMENT DIRECTION

AZIMUT GLOBAL VIEW

29.
03.
21

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

CHINA PMI — 31.03
How much the manufacturing sector has been affected by the tightening implemented by the Chinese Central Bank?

EU CPI — 31.03
The Eurozone CPI is expected to jump to 1.4%, bringing EU short term real rates to -2%. How will long term rates react?

GERMANY RETAIL SALES — 01.04
Despite the lockdown sales are expected to increase by 2% MoM, confirming the positive trend of EU macro data

US PAYROLLS — 02.04
The US Labor market is expected to continue its recovery, adding 650k jobs in March, with unemployment rate falling to 6.0%

HIDDEN VALUE

• US is outpacing Europe in stimulus and vaccination roll out

• Markets are unfazed by the extraordinary measures' potential overhang

• Larger stimulus packages by the US receiving much praise while risking leaving Europe behind

• We look for hidden value in Europe before the cycle picks up

"*It is not the strongest of the species that survives, nor the most intelligent; it is the one most adaptable to change*"

While there is ample debate as to whether Darwin actually said this phrase or not, its meaning is unquestionably true. And financial markets are no exception.

For years we have grown accustomed to accepting the fact that the United States is the safest place in the world. On the contrary, Europe is perceived as a place to avoid as it is affected by the seemingly insoluble structural problems, and therefore it could not represent a credible investment alternative.

Using the fight against the pandemic as a reference, the United States is portrayed as the nation that has been able to give the most effective response in all respects, monetary, fiscal and pharmacological. This is certainly true from a pharmacological point of view, considering the two most effective and least controversial vaccines developed by Pfizer and Moderna, and that the US has been much faster in vaccine rollout. Even in the Old Continent, the UK which is outside the European Union, is far ahead of the rest of the Europe in the administration of vaccines.

This varying paces of vaccination across countries is leading to a clear dichotomy in growth prospects: the United States and the UK are already planning the stages for the reopening of their economies, while Europe is forced to implement new or more stringent lockdowns, delaying economic recovery and putting the survival of several companies at risk.

In terms of the fiscal support, the United States has been praised for the amount of stimulus approved, including measures for direct support to citizens and businesses. Europe has been able to make significant progress achieving a historic result last year with the approval of the Recovery Fund, but the perception of the market is that it has done very little compared to the US.

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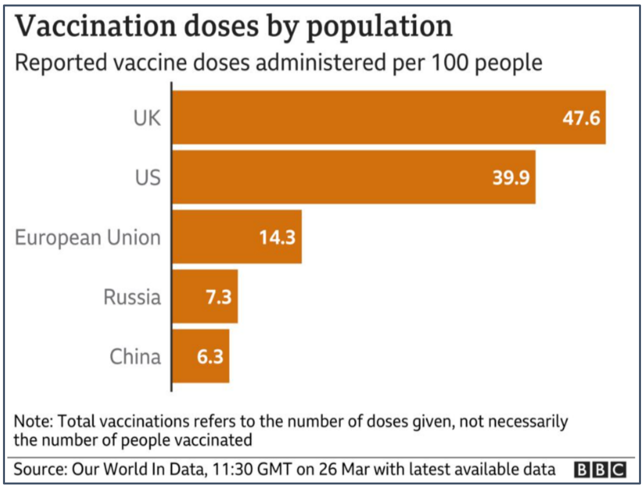
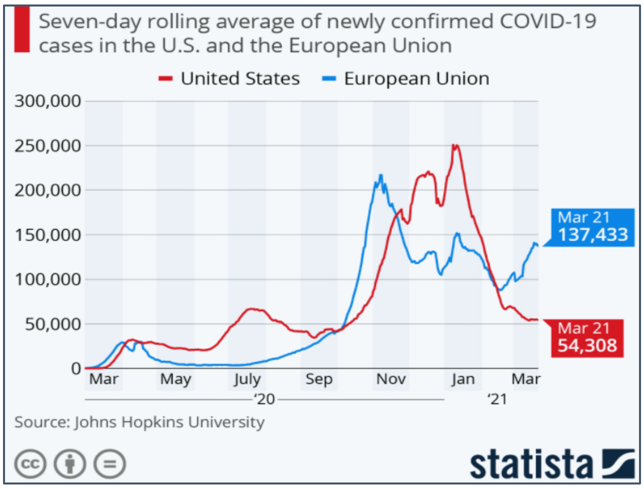


Source: Our World In Data, BBC



Source: Johns Hopkins University, Statista

Now that the announcement of the $3 trillion infrastructure plan is behind us, the market expectations indicate a 10% nominal GDP growth for the US, reinforcing that transition to nomalcy is by all means guaranteed and leaving not much room for discount for the US markets. In fact, despite the macroeconomic data coming out strongly in the United States, they are still below market expectations. The Citi Economic Surprise Index (CESI), which measures data surprises relative to market expectations, has been steadily decreasing. This means that the expectations are heightened to the point that even the strongest data are perceived as unsatisfactory.

On the contrary, the perception of Europe has worsened due to fragmented COVID response and the consensus remained negative in spite of actual data being better than expectations. This view has also been confirmed by CESI Europe, which has been on the rise in recent days, not to mention that it is trending again towards the previous peak levels.

Source: Bloomberg, Citigroup Global Markets Inc.

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Despite all these headwinds against Europe, the Eurostoxx 50 managed to achieve the same YTD performance of the S&P500. This suggests that if the negative news stops and/or the sentiment becomes more positive, a sustained outperformance of European equities may be in the cards.

After the initial hiccups, EU vaccine rollout is expected accelerate in the coming weeks. Furthermore, once the American and British populations have been fully vaccinated, the availability of vaccines for Europe could increase, shortening the time to achieve herd immunity which is now estimated for mid-July. The problems of Europe could therefore prove to be overestimated.

(continued)

Additionally, Europe can continue to benefit from the fact that it is traditionally a more "value" than the United States, where technology and "growth" are much more represented. The two graphs below compare the multiples of Nasdaq (a growth proxy) and Europe (as value proxy). Considering the highly distorting effects of the pandemic on last year's earnings, the price-to-book and price-to-sales indices were used.

Source: Bloomberg

Source: Bloomberg

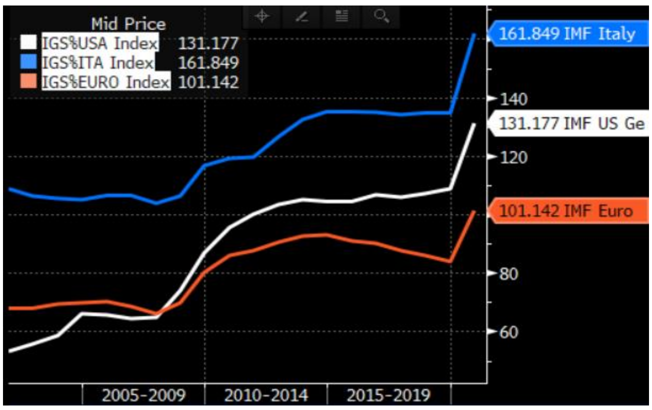
Both metrics indicate that Europe, the most overlooked region in recent years, is trading at about a 75% discount over Nasdaq 100, the best-performing index and the one that has gathered the most capital in the same time period.

Value and Europe have underperformed for years due to weak global growth, and persistently lower rates that have favored the so-called "long-duration stocks" ("growth" and the like). With the expectation of synchronized economic growth at rates never seen in recent decades and a pick-up in inflation, the more cyclical part of the markets could enjoy very strong performances. "Value" benefits from valuations far below market average as well as the strong underweight in global portfolios. Also worth mentioning that after years of restructuring completed in the face of weak economy, the operating leverage of these companies stays fairly high, thus allowing a sharp increase in profits should revenues start to rise. There is probably much more value in Europe than currently perceived.

One final remark if I can make. As mentioned in the intro, compared to other countries, the United States was highly praised and recognized by the industry for the massive fiscal support it provided to its economy. While economic growth benefits in the short term, one should be cognizant of the fact that such fiscal policies could have adverse consequences. The US Debt-to-GDP ratio stood at 130% at the end of 2020. This figure does not yet take into account the dispersed $900 billion stimulus, recently approved new $1.9 trillion package and the announced $3 trillion infrastructure bill.

To these numbers we must also add the $1 trillion structural deficit the US had even before the pandemic. The sum of all these expenses stands at just under $7 trillion or around roughly 30% of the GDP. Even considering that the increase in nominal GDP will mitigate the increase in the debt/GDP ratio, the US could reach 150% in the not-so-distant future. This is a level not that far away from Italy, and well above that of the entire Euro Area.

The value may indeed be more hidden than one can think.



Source: Bloomberg, IMF

Asset Allocation View

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

− UNDER = NEUTRAL + OVER

Equity

Developed Markets

We reduced our recommendation on Developed Market equities to slightly positive. After the approval of the $1.9 trillion fiscal package, the announcement of a new $3.0 trillion infrastructure bill confirmed our view that both the Fed and the ECB will maintain their accommodative monetary policies as well as the expectations of a positive GDP growth for 2021. We think that most of the positive news have already been priced in. As discussed in the prologue, among Developed Markets, we prefer Europe amid the negative sentiment versus the macroeconomic data that keeps surprising on the upside. On the contrary, the US may lag behind considering the potential increase of the corporate tax rates.

US	=	Europe	+	Japan	=

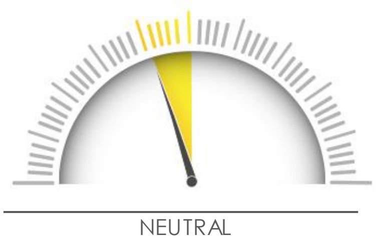
Emerging Markets

We maintained the neutral indication for Emerging Markets Equities Traditionally, Emerging Market returns tend to be negatively correlated with US rates, which are expected to remain at the current or higher levels considering the reopening of the US economy and the recently approved fiscal stimulus. Therefore, even if in the long term Emerging Markets continue to grow faster than Developed Markets, we prefer to maintain a more cautious approach in the short term.

Asia ex-Japan	=	EEMEA	=	LATAM	=

Fixed Income

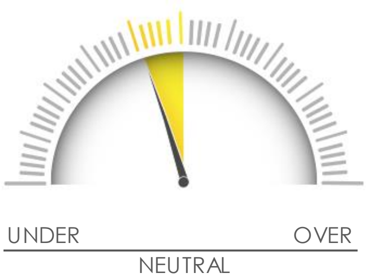
Developed Markets Sovereign



We keep our slight underweight recommendation on Developed Markets sovereign bonds. In line with our view of the expected reopenings of the economies and the recently approved fiscal stimulus in the United States, we remain cautious on risk-free rates. Even if the levels reached could make US 10-year Treasuries an attractive portfolio hedge, it is possible that rates could advance higher after the pension fund quarterly rebalancing is completed on March end. In Europe, rates could remain more stable due to the expanded purchased announced by the ECB after the last meeting.

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

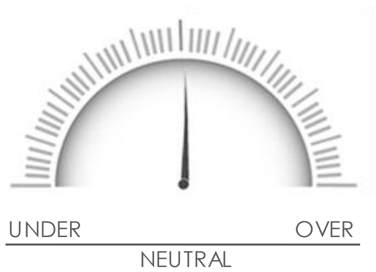
Developed Markets Corporate



We kept our negative recommendation on Developed Markets Corporates. The recent move in risk-free rates has not been extended enough to make investment grade bonds attractive again and the high yield spreads remained broadly unchanged. We stick to our view that further spread compressions could be possible in the segment between investment grade and high yield, in particular in subordinated bonds.

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

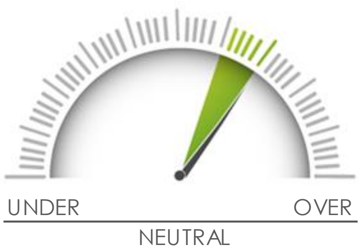
Emerging Markets



We lowered our recommendation to neutral, because Emerging Markets bonds tend to be negatively affected by the increase in risk-free rates, in particular the US curve. The move in US rates may continue once the pension funds quarterly rebalancing is done. Additionally, some Emerging Markets Central Banks are hiking rates, adding pressure to the EM bond prices. On the other hand, higher rates may sustain the currencies, offsetting at least partially the decline in the prices of the bonds.

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

Commodities



We maintain our bullish view on the asset class. In the short term precious metals could face headwinds due to the increase in risk-free rates, but the ample liquidity, the surge in fiscal deficits and the expectation for higher inflation later in the year should continue to support precious metals. We also maintain our positive stance on energy commodities.

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

Currencies

We maintain our neutral view on the Euro, mainly because on one hand the expectation for a stronger economic growth should sustain the demand for cyclical/value stocks that are more represented in EU vs. the US, and on the other hand the slower vaccine rollout may temper the expectation of the Eurozone recovery.

We kept the view on the US Dollar to neutral. While the US dollar may weaken over the long term because of the unsustainable pace of fiscal deficit expansion over the past year, in the short term the widening gap between US rates and those of the rest of the world should be supportive for the greenback.

We kept the neutral view on the Japanese Yen as the country may attract foreign investments if the interest on value stocks, which are well represented in the main equity indices, continues in the near future.

On Emerging Markets currencies, we maintained our neutral view. A further increase in US risk-free rates may put downward pressure on Emerging Market currencies, but on the other hand some EM central banks are starting to increase their rates as well which should provide support for their currencies.

Euro	=	**USD**	=	**Yen**	=	**Emerging**	=