AZIMUT
DEFINING INVESTMENT DIRECTION

AZIMUT GLOBAL VIEW

10.
05.
21

Main Events

Azimut Global Network

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

US CPI (12.05)
The most anticipated data of the month; the first CPI reading when the base effect will register a visible impact

US RETAIL SALES (14.05)
Will the April reading still benefit from the fiscal stimulus paid in March? A weak reading may spark concerns about the expected GDP growth

JAPAN GDP (18.05)
The last wave of COVID-19 infection is expected to plunge Japan in a double-dip recession, with GDP expected at -4,5%

MARKIT EU (21.05)
EU Markit sentiment indicators are expected to improve amid vaccines paving the way for faster reopenings

TURNING TIDE

- **Central banks have started using more hawkish tones given the improving growth outlook**
- **Despite an exceptionally good reporting season, NASDAQ is showing signs of weakness**
- **Reflation could still benefit "value" stocks**

"*Elevated valuation pressures are signaled by asset prices that are high relative to economic fundamentals or historical norms and are often driven by an increased willingness of investors to take on risk. As such, elevated valuation pressures imply a greater possibility of outsized drops in asset prices.*"

No, above quote is not an excerpt from a commentary referring to some past bubble or market peak, it's how the latest Financial Stability Report released by the Federal Reserve last week begins (https://www.federalreserve.gov/publications/files/financial-stability-report-20210506.pdf). And this sentence is not hidden among the countless pages of the report. It is the first bullet point of the abstract. It should also be remembered that during the last post-FOMC press conference, Powell, while confirming that the Fed would continue to maintain expansionary monetary policy for a long time and as long as the labor market would not improve substantially, also said "you are seeing things in the capital markets that are a bit frothy, that's a fact ".

Interestingly, the Bank of England also announced a mini-tapering last week: gilt purchases will be cut by £ 1 billion a week. It is not a large amount in absolute terms, but it represents almost a quarter of the amount purchased each week (currently GBP 4.5 billion). Before that, the Bank of Canada had also announced a tapering. In the Eurozone, Mr. Kazak who is the governor of the central bank of Latvia and ECB member, said with reference to the PEPP program that "if financial conditions remain favorable, in June we can decide to buy less".

(continued)

While Kazak's comments are not that relevant as it is highly unlikely that the ECB will change its stance on the PEPP in June, Anglo-Saxon central banks (Canada is part of the Commonwealth) are apparently beginning to convey to the markets more concrete messages indicating that the normalization of monetary policies is approaching.

Last week, we concluded our commentary by saying "Only when governments and/or central banks start hinting the need to scale back stimuli, it will be the time to reduce risk". We are starting to see the first steps in this direction, and it is an important sign that should not be underestimated.

Another cause for concern is the market reaction to the latest reporting season. Below are reported the figures for the FAAMG + Tesla.

	Consensus EPS Adj.	Actual EPS Adj.	EPS Adj. Surprise	Consensus EPS GAAP+	Actual EPS GAAP+	EPS GAAP+ Surprise	Consensus Revenue	Actual Revenue	Revenue Surprise	Performance 23/04-10/05
Alphabet	17.709	20.779	17.3%	15.637	26.29	68.1%	42.61	45.6	7.0%	-0.4%
Amazon	13.123	15.803	20.4%	9.692	15.79	62.9%	104.56	108.51	3.8%	-4.5%
Apple	0.991	1.396	40.9%	0.991	1.4	41.3%	77.302	89.58	15.9%	-5.4%
Facebook	2.61	3.295	26.2%	2.343	3.3	40.8%	23.715	26.171	10.4%	1.6%
Microsoft	1.912	1.95	2.0%	1.776	2.03	14.3%	41.053	41.706	1.6%	-5.3%
Tesla	0.804	0.93	15.7%	0.345	0.39	13.0%	10.415	10.389	-0.2%	-13.8%

Source: Bloomberg

The table provides data about adjusted earnings, earnings calculated according to GAAP principles, and revenue. For each data, both market expectations and the actual data are reported. The "surprise" column shows the difference between the actual data and the market consensus. Considering that the market consensus already included expectations of strong earnings and revenue growth, such impressive beats are indicative of a stellar reporting season.

All those companies reported in the week of April 26. Despite these impressive results, the performance of these stocks from April 23 have been generally negative, as can be seen in the last column. This reaction may mean that expectations were so high on these stocks that even an impressive reporting was no longer able to advance them further. Everything positive seems to be priced in.

The NASDAQ has been behaving the same way, and it is currently trading below its February highs, before the company results for the quarter just ended were known. A partial explanation, apart from the record valuations, can be attributed to the fact that the market is starting to anticipate the peak of the fiscal stimulus. American consumers received state subsidies twice in the recent quarter. How meaningful those stimuli are can be appreciated from graph at the bottom right, which shows the impact of the fiscal subsidies on the US disposable income and how the government dispersed stimuli checks helped soar US personal income twice.

Source: Bloomberg

Source: Bloomberg

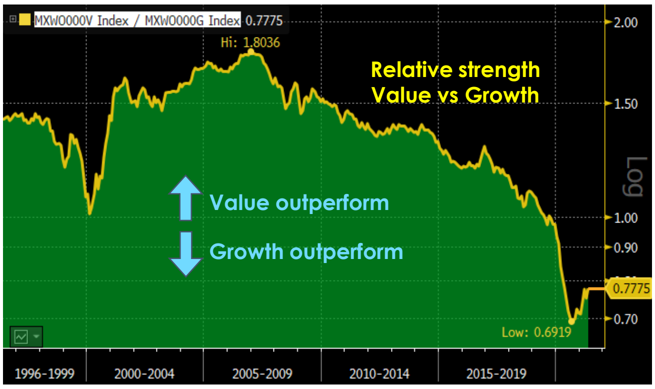
(continued)

A further explanation is that the market is starting to price that the implied EPS increases of some of the growth stocks may not be easily achievable once the fiscal stimuli subsides. Additionally, the performances of growth stocks tend to be negatively correlated with risk-free rates: as the earnings of these companies are expected to grow significantly over time, the bulk of earnings are distant into the future. Using a higher risk-free rate, holding all else constant, will increase discount rates and reduce present value of the company in a discounted cash flow valuation.

The sharp rise in commodity prices and the wage pressures slowly becoming more evident at least in the US may lead to a more sustained and persistent inflation than central banks collectively expect. If so, risk-free rates may have to rise more than the market assumes, hence dragging down growth stocks.

Conversely, value stocks (typically banks, energy, materials and some industrials) tend to benefit from a reflationary environment, as they either profit from higher commodity prices (energy and mining companies) or higher interest rates (banks) or a pick-up in global demand (industrials). In the current market environment, after years of underperformance, those stocks present valuations that are not only below the market average, but also lower than their own historical average valuations. A more inflationary environment could therefore benefit those companies, which could continue to recover from the relative underperformance accumulated over the last decade.

Source: Bloomberg



Source: Bloomberg

In light of the above, we continue to believe that there are still interesting investment opportunities.

However, the latest central banks comments and actions, coupled with the risk of higher inflation and risk-free rates over the next months, suggest that the time for trimmimg portfolio risks might be approaching, perhaps faster than expected.

Asset Allocation View

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

− UNDER = NEUTRAL + OVER

Equity

Developed Markets

UNDER OVER
NEUTRAL

We lowered our recommendation on Developed Market equities to neutral mostly because of the reasons explained in the prologue of this report. Another headwind for stocks could be a further increase in rates, which seems increasingly possible looking at commodity prices. In terms of geographical allocation, we continue to prefer Europe and Italy in particular, as they are more "value" than US, and trade at multiples lower than the historical averages for MSCI World. In terms of styles, we have a preference for the value investment style due its lower valuation compared to other investment styles and its position to benefit most from a reflationary environment.

US	=	**Europe**	+	**Japan**	=

Emerging Markets

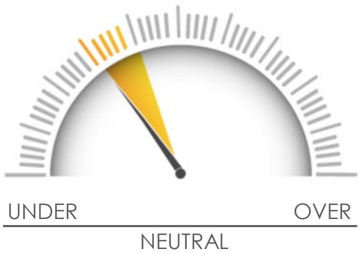
UNDER OVER
NEUTRAL

We lowered Emerging Markets Equities to slightly underweight. Tensions between China and the West is continuing to escalate instead of subsiding as it was the widespread belief after Biden's election. Additionally, Emerging Markets are more vulnerable than Developed nations to risk-free rate increases. Within EM space, we are turning negative on Asia ex-Japan, not only for the reasons highlighted above, but also Asia is more exposed to "growth" and it's the biggest importer of commodities, whose prices have been rising dramatically. The uptrend of commodity prices is also the reason for our constructive stance on Latin America.

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

Fixed Income

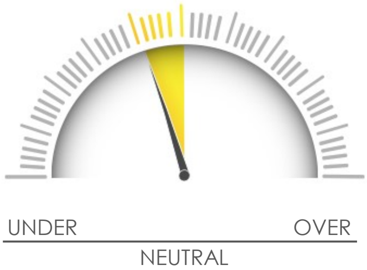
Developed Markets Sovereign



We maintained our overall underweight recommendation on Developed Markets sovereign bonds. Our expectation is that rates will continue to increase over the next months due to the base effect and the sharp increase of commodity prices. Considering the recent underperformance of Italian BTPs, we have increased our recommendation on European Periphery in expectation of a narrowing of the Bund-BTP spread.

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

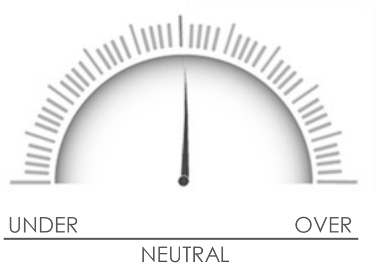
Developed Markets Corporate



We kept our negative recommendation on Developed Markets Corporates. There is no expectation of further compression in corporate investment grade spreads. As the performance of investment grade bonds will therefore be primarily affected by the evolution of risk-free rates, these bonds are likely to deliver negative returns and we prefer to avoid them. In the crossover/high yield segments, there is still room for some spread compression, but the bulk of the tightening has already happened, and a more cautious approach should be warranted.

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

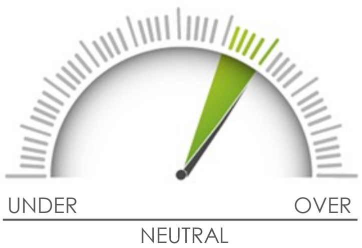
Emerging Markets



We kept our recommendation as neutral. In addition to the risk of further increases in US risk-free rates, some emerging markets are experiencing a new wave of COVID-19 cases. This could derail or delay the expectations of a sustained GDP growth and prevent central banks from increasing rates to defend the currencies and/or restrain inflation pressures.

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

Commodities



We maintain our positive view on the asset class, as we think commodities may have started another bullish super cycle. The bull case on precious metals is still supported by the ample liquidity and the surge in fiscal deficits, even if an increase in long term rates is increasingly plausible. As for agricultural, industrial and energy commodities; a combination of years of underinvestment, surging demand and bottlenecks in shipping are all driving commodity prices to new highs.

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

Currencies

We maintain our neutral view on Euro, USD and Yen, in line with the recommendation for all other currencies. The view of the asset allocation committee is that in the short term, all major currencies will remain rangebound within their recent trading range.

On Emerging Markets currencies, we maintained our neutral view. In case of further increase in US rates, emerging market currencies may have room to weaken.

Euro	=	USD	=	Yen	=	Emerging	=