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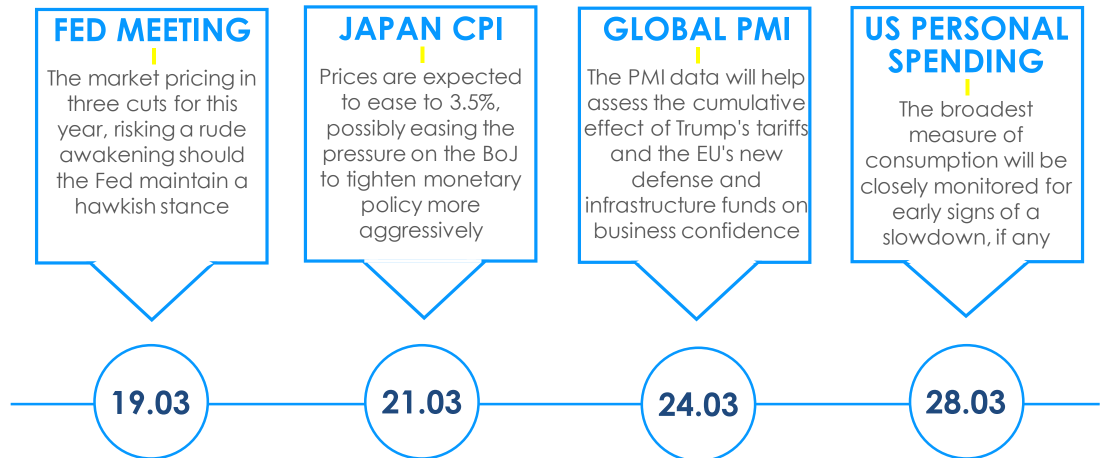
AZIMUT GLOBAL VIEW

17.03.25

Main Events



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

MOVING THE GOALPOSTS

- **The change in Trump's attitude—from openly supporting a rising stock market to appearing unconcerned with the current correction—took investors by surprise.**
- **Growing uncertainties surrounding Trump's unpredictability, along with the likelihood that policies negatively impacting growth will be implemented before supportive ones, have led to reduced growth expectations for the U.S. economy and stock markets.**
- **The Federal Reserve could be a key factor in the short term: if perceived as dovish, it may trigger a significant rebound; if hawkish, the current decline could deepen.**

In recent weeks, there has been a significant decline in the US markets, with the main indices entering a correction, i.e.: falling by more than 10% from their highs. The decline was primarily driven by the very companies that had led the rally in previous months. Several factors contributed the most to this development. Let's analyze the most relevant ones.

The first and probably most concrete reason is the change in attitude shown by Trump regarding the markets. During his first term, he clearly linked the results of his presidency to the performance of the U.S. stock market. Even after the election and leading up to his inauguration, he reinforced the same message: suggesting his "Make America Great Again" motto was also applicable to financial markets. His proposals for deregulation, technological investment, and tax cuts were expected to drive significant market gains.

However, when it became clear that the financial markets were reacting negatively to the imposition of heavy tariffs on key trading partners, the White House narrative began to change.

As discussed in previous reports, the imposition of tariffs is probably the signature measure of Trump's program. Unable to backtrack, he first began to downplay the importance of market reactions. But as absolute declines and relative underperformance compared to other markets became more pronounced, his statements evolved further.

(continued)

Source: Bloomberg

Source: Bloomberg

In recent days, both Trump and Bessent have made several statements downplaying market performances, emphasizing that that stock indices are volatile – even suggetsing that corrections are healthy and welcome. This is a massive U-turn from the expectations created post-election.

Caught off guard, investors had no choice but to adjust their expectations to the new reality where the White House seems no longer so supportive of equity markets, at least in the short term. The stocks and sectors that had been leading the rally, especially since the elections, were the ones that suffered the most. The "magnificent 7" have corrected by about 20% from the highs reached early this year, while the MSCI New Technology index, which includes many of the so-called "retail favorites", has fallen by almost 30% in the last month, wiping out the entire post-election rally.

Another reason for the recent movement has been the acknowledgment that, of Trump's program, the measures that will be implemented first are those that will normally result in a slowdown of growth. The tariffs, in addition to being inflationary, have proven to be harmful to the economy; the deportation of illegal immigrants leads to a reduction in the population and consequently in GDP, since there are fewer consumers; cuts in the number of public employees will result in a reduction in employment; finally, the reduction of public deficits, although a positive development in the long term, in the short term also leads to a contraction of GDP. With regard to the latter, GDP can be broken down into public consumption and private consumption: if public consumption falls (i.e. if the deficit shrinks) GDP also declines. Bessent clearly confirmed the intention to reduce the US deficit, stating that the American economy must sever its addiction to public spending. Deregulation will take longer, while it seems increasingly clear that tax cuts will not be implemented before the next fiscal year.

Investors were betting that measures potentilally detrimental to growth would be implemented after—or, at worst, alongside those aimed at stimulating growth. This assumption now seems to have been overturned. This has led to a downward revision of growth expectations for the second half of 2025. As a result, some investment banks and strategists have begun to lower their year-end S&P 500 targets.

The third reason is that some "soft data" have started to drop significantly. In this regard, it is worth noting that the worsening of some of these indicators has clearly been overstated and misinterpreted.

The most notable example of misleading interpretation is the Atlanta Fed's "GDPNow" indicator, which has suddenly plummeted from over +2% to almost -2%. This is simply a consequence of the significant worsening of the trade balance observed in recent months, as net exports are one of the items that contribute to GDP. When net exports decrease (the trade deficit increases), GDP declines. The increase in the trade deficit is entirely due to companies front-loading as much of their imports as possible to avoid being subject to the upcoming tariffs. However, in subsequent quarters the trade deficit will decrease because companies will need to import less, having already anticipated as many imports as possible. The impact on GDP due to increased imports will certainly be largely negative for the first quarter (as indicated by GDPNow), but it will be completely reversed in subsequent quarters when companies will import less, thus boosting future GDP numbers.

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(continued)

Source: Bloomberg

Source: Bloomberg

The most concerning indications, however, come from various business and consumer confidence indicators. We mention them cautiously, given that in recent years they have often provided unreliable signals. However, the rapid and coordinated decline of many of these indicators could reflect unease related to the uncertainties created by the Trump administration, whether it be the on-again, off-again tariffs, the threats to reduce the number of public employees, or concerns about a slowdown tied to a potentially significant reduction in federal spending.

An additional reason for the recent decline in the U.S. markets could be linked to further evidence that calls into question the American exceptionalism so widely celebrated in the recent past. Not only has China released other artificial intelligence applications with capabilities similar to those of the United States, but BYD has also just announced that it has developed a new technology that would allow the batteries of its electric vehicles to be recharged in just 5 minutes. The capabilities of Western car manufacturers pale in comparison. It will probably take more than a month, as estimated by BYD, to roll out this new technology (if only because of the need to install dedicated charging stations), but it is yet another example showing that the United States might not necessarily be at the forefront of technology in certain fields.

One last, and perhaps even more important factor behind the underperformance of the United States since the beginning of the year is related to some unexpected and decidedly positive developments in other parts of the world. We cannot fail to mention the constitutional amendment in Germany that removes the cap on public spending and will allow the creation of two funds, one for defense and one for infrastructure, as eloborated in the previous report. This is a game changer for Europe, which has suffered from excessive fiscal austerity for years, and will allow for structurally higher growth rates than in the past. As for China, in addition to recent technological achievements, the government is finally starting to unveil more concrete plans to boost domestic consumption after years of market-hostile policies.

Back to the United States, given the stock market correction and a White House increasingly perceived as less favorable to the markets, the financial community has placed increasing hope in receiving a helping hand from the Fed. Rates on the Fed Fund futures for December 2025 have dropped as low as 3.5%, thus pricing in up to 3.5 cuts by the Federal Reserve by the end of the year, compared to the current policy rates of 4.25%-4.50%.

This might be too optimistic, considering that if we look only at the “hard data” (consumption, employment, industrial production, etc.), there is still no concrete sign that the US economy is slowing down, contrary to what is suggested by soft data. Moreover, with the exception of the latest data, which was only slightly better than expected, inflation has been surprising to the upside for months. What's more, Trump's tariffs - and the counter-tariffs potentially imposed by other countries on the US - will further exacerbate inflationary pressures in the coming months.

The Fed meeting on Wednesday will therefore be crucial. If Powell confirms the view that monetary policy is currently meaningfully restrictive, suggesting that rate cuts are only postponed, but not called into question, and/or announces a reduction in QT, U.S. equity markets could find a base from which to rebound. On the other hand, if the Fed signals a hawkish stance, the market would have to contend with the fact that both the White House and the Fed are unsupportive, leaving it vulnerable to further corrections.

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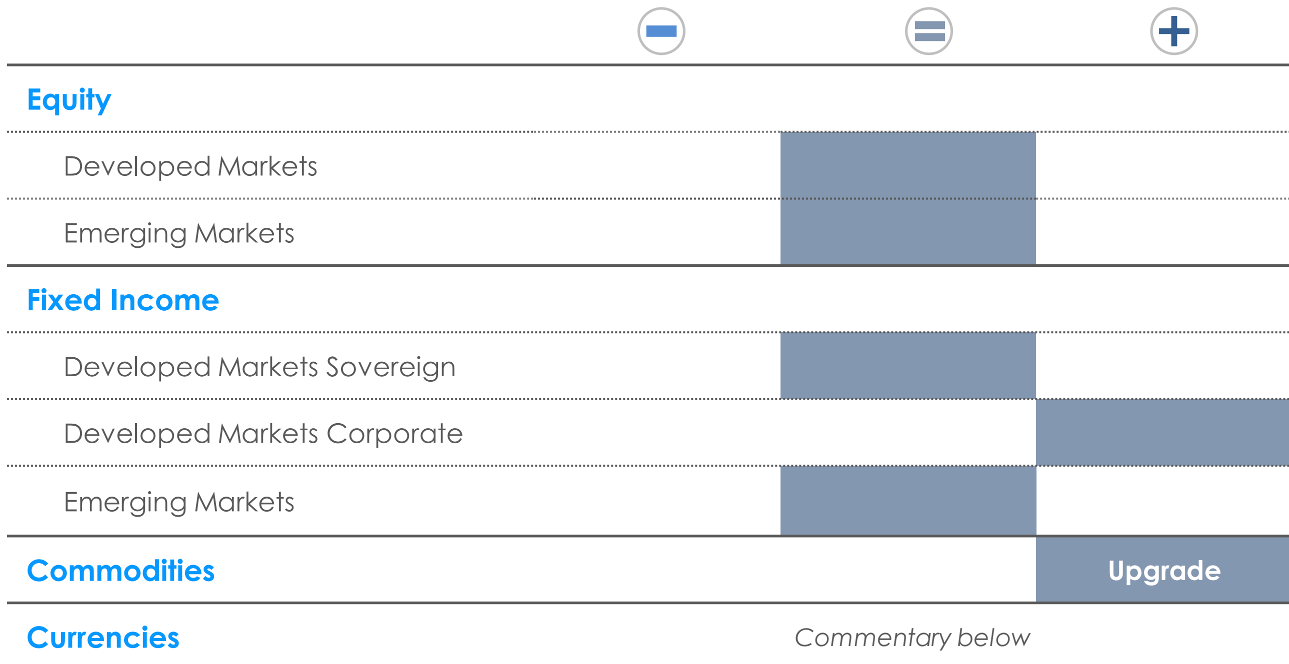
Asset Allocation View

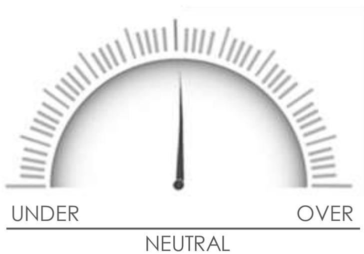


	Under (−)	Neutral (=)	Over (+)
Equity			
Developed Markets		■	
Emerging Markets		■	
Fixed Income			
Developed Markets Sovereign		■	
Developed Markets Corporate			■
Emerging Markets		■	
Commodities			Upgrade
Currencies		*Commentary below*	

(−) UNDER (=) NEUTRAL (+) OVER

Equity

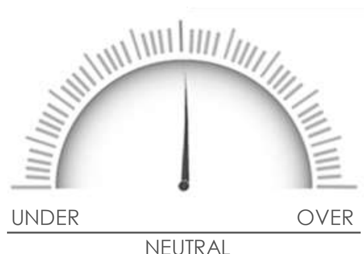
Developed Markets



We have maintained our **Neutral** recommendation on Developed Market Equities. Trump and Bessent's statements that the current correction is natural and healthy have realistically been the main causes for the correction, especially given that hard data still shows no signs of a slowdown or cause for concern. If the Federal Reserve signals the possibility of monetary easing at this week's meeting, the U.S. market could rebound. As for Europe, the positive momentum is expected to persist, as the amendment to the German constitution will allow for greater recourse to debt and public spending. This will lead to structurally higher growth rates in Europe, and the region's re-rating has room to continue in the medium to long term.

US	Europe	Japan
Neutral (=)	Neutral (=)	Under (−)

Emerging Markets



We have maintained our recommendation on Emerging Market Equities as **Neutral**. The National People's Congress concluded with a clear declaration of intent to transform China's economy, which is still heavily export-oriented, into one driven by rising household income and consumption. These intentions were followed last weekend by the first clear indications of how the government might translate them into concrete actions. As a result, the current bullish trend in China has the potential to continue. We remain more cautious about other emerging markets, given that the reciprocal tariffs announced by Trump, expected to come into effect at the beginning of April, are likely to have a greater impact on emerging countries than on developed ones.

Asia ex-Japan	EEMEA	LATAM
Over (+)	Under (−)	Neutral (=)

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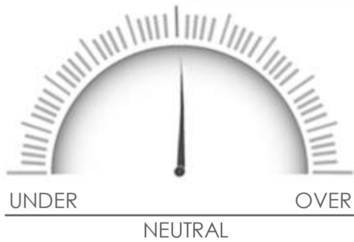
Fixed Income

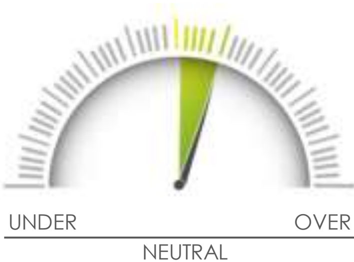
Developed Markets Sovereign



We have maintained our **Neutral** recommendation on Developed Markets Sovereign Bonds. The recent rally in government bonds (fall in rates) has been mainly driven by the decline in stock markets. U.S. macroeconomic data, particularly on employment and inflation, continue to remain strong. The expectation that the Federal Reserve may signal three rate cuts for 2025 at this week's meeting is ambitious. If this expectation is not met, it could lead to a rebound in U.S. interest rates. On the other hand, the more than 40-basis-point increase in German rates following the announcement of the intention to create two defense and infrastructure funds is significant, making further increase in German rates unlikely in the short term. In Europe, however, the periphery is preferred over the core.

EU Core		EU Periphery		US Treasury		Japanese JGB	

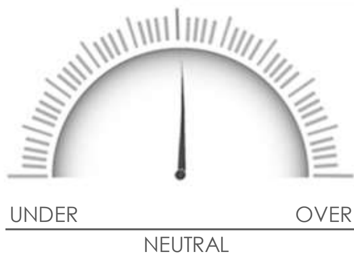
Developed Markets Corporate



We have kept our **Slightly Overweight** recommendation on Developed Markets Corporates. Trump's threats on tariffs should not have an impact on corporate bond spreads at the moment, at least until clear signs of a slowdown begin to emerge. Therefore, the search for yield in the fixed-income market will continue to favor this asset class. Within corporate bonds, we maintain a preference for investment-grade bonds over high-yield bonds, which are currently hovering around all-time lows.

IG Europe		IG US		HY Europe		HY US	

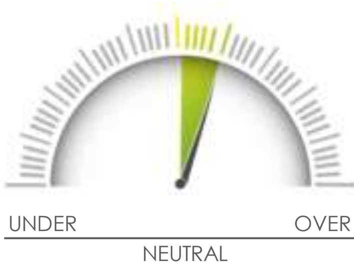
Emerging Markets



We have kept our **Neutral** recommendation for Emerging Market Bonds. The potential risks posed by tariff impositions from the Trump administration are mitigated by the relatively higher spreads that emerging market bonds currently offer compared to similarly rated corporate bonds in developed markets.

Local Currency		Hard Currency IG		Hard Currency HY	

Commodities



We have increased our recommendation on Commodities to **Slightly Overweight**. Our constructive stance is mainly geared towards precious metals, which are in a bullish phase and could benefit from the uncertainties generated by Trump's unpredictable behavior, including his on-again, off-again threats of tariffs, the possibility that other countries will impose counter-tariffs on the US, as well as the U.S. administration's declared intention to weaken the US dollar.

Precious		Energy		Industrial		Agricultural	

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Currencies

The Committee slightly upgraded the USD to **Neutral with a bearish bias**. After the recent sharp correction, it is possible that the dollar will stabilize or recover to some extent. However, the Committee believes that Trump's policies could lead to a weakening of the dollar in the medium to long term, so the bearish bias is maintained.

The Committee maintained its **Outperform** recommendation on the Euro. The expectation that the dollar may continue to weaken in the medium term is, by extension, positive for the euro. Additionally, the agreement to amend the German constitution, allowing for greater borrowing and public spending, is a game changer for Europe and could continue to attract capital inflows into the region.

The view on the **Chinese Renminbi** has been upgraded to **Neutral with a bullish bias**. The National People's Congress concluded with a clear declaration of intent to implement policies that promote the growth of domestic income and consumption, moving away from a growth model that remains too export-oriented. A few days later, a series of additional concrete measures were announced. As a result, the recovery of the Chinese market could extend, favoring the influx of capital into China.

The outlook for other **emerging market currencies** has been downgraded to **Neutral with a bullish bias**. The upcoming tariffs, expected to take effect at the beginning of April, are likely to have a more negative impact on emerging countries, diminishing the attractiveness of their currencies. This is despite the fact that emerging market currencies typically outperform during periods of a weaker dollar.

Euro	+	USD	−	CNY	+	Other EM	+

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