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AZIMUT GLOBAL VIEW

01.04.25

Main Events

US TARIFFS
Everyone is bracing to discover the details of the reciprocal tariffs that will be applied by Trump

02.04

EU PMI
Has the confidence of European businesses improved after the approval of the German spending proposals?

03.04

US NON-FARM PAYROLLS
The US labor market is expected to remain stable, with the unemployment rate unchanged at 4.1%

04.04

US CPI
A favorable base effect, combined with the delayed impact of tariffs, could contribute to another strong inflation print

10.04

Azimut Global Network

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

ALL THAT'S LEFT IS GUIDANCE

- **April 2 is "Liberation Day", but unfortunately it is unlikely to mark the end of uncertainties over duties. The new tariffs could significantly impact GDP growth an inflation, particularly if they were to be increased to the 1930s-level, as per the latest projections**
- **However, Powell downplayed the significance of tariff-related price increases, calling them "transitory." Market reactions have been muted, with only the US stock market correcting—more likely due to excessive valuations than tariffs—while other stock markets rose and spreads narrowed. Not exactly the typical reaction one would expect, considering that tariffs usually slow down global growth and lead to higher inflation**
- **With record stockpiles following the rush to import before tariffs took effect, the resilience of US consumers is key. Any weakening of US employment data could jeopardize this resilience, especially considering that the consequences of the negative wealth effects caused by the recent market correction have yet to be felt**
- **In a situation where soft and hard data have never been so far apart, the upcoming reporting season will be crucial. Company guidance will probably be the most reliable and timely barometer for gauging the true state of the economy**

Today is April 2—the most anxiously awaited day of the year. In Trump's words, it is "Liberation Day." Unfortunately, if history is any guide, it will not be the day we are finally freed from the pervasive and frustrating uncertainty that has characterized the beginning of 2025.

Apparently, no one has a clue as to what might be announced—perhaps not even Trump himself, given that he keeps changing his version. Sometimes, the tariffs are described as a way to ensure fair trade with other countries; other times, they are framed as the main tool for generating revenue to fix public finances. On other occasions, they are portrayed as much milder and more lenient than the tariffs applied by other countries.

We won't even try to make predictions about what will be announced. Firstly, because it's likely that the reciprocal tariffs announced today won't be enforced exactly as stated on the first day. As in previous instances, they will be subject to frequent changes depending on Trump's mood.

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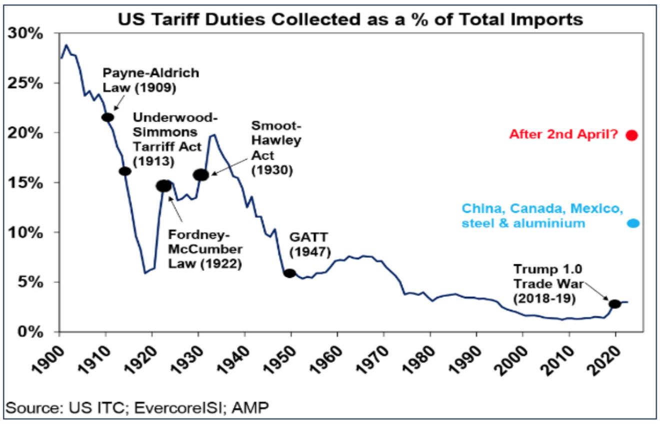
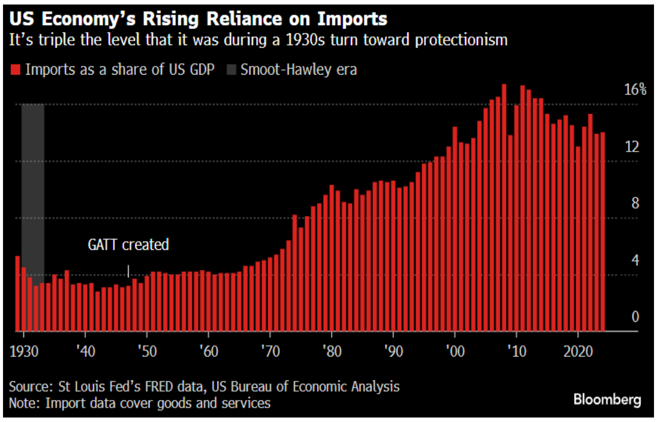


Source: AdviserVoice



Source: Bloomberg

Secondly, because unfortunately, they won't be the last. Trump continues to propose additional tariffs, unrelated to those set for April 2. An example is the recently announced 25% tariff on imported cars.

Trump recently escalated tensions by introducing the concept of "secondary tariffs". These would be duties - potentially with extremely more punitive rates compared to the "standard" ones announced until now - applied to all countries that have commercial relations with countries that Trump labels as not cooperative with his personal agenda, as was the case recently with Russia and Venezuela. However, we believe that these "secondary tariffs" will hardly ever see the light.

At the end of the day, what will really matter is which goods will be subject to to duty, the rates applied, and which countries will be most impacted (both in absolute nominal terms and as a percentage of GDP). In recent days, the consensus seems to be converging on the hypothesis that the countries most affected will be the European Union, Canada, Mexico, and China - the four major trading partners of the United States - with tariffs that could range from 10% to 20% on a wide array of products. These tariffs will be on top of those already announced on Canada, Mexico, China, steel and aluminum.

If this scenario were to materialize, US tariffs could rise to a level similar to that of the 1930s. Unlike then, however, the percentage of imports to GDP is far higher today, global economies are much more intertwined, and global supply chains more complex. To equate the impact of today's tariffs with that of 2018 could be overly optimistic.

Nevertheless, so far the reactions have been rather contained. The only market that corrected was the US stock market. However, this appears to be driven more by a narrowing of the significant performance gap with the rest of the world, alongside growing questioning about stock valuations and the U.S. exceptionalism narrative. The correction affected mainly technology/growth stocks, while many other sectors fared better or even posted positive returns. Most other global stock indices also rose, and credit markets continued to be strong.

This is an odd development, as tariffs typically cause a slowdown in global growth. When it comes to inflation, it tends to increase in the country that applies the tariffs and decrease in other countries due to lower exports and hence lower growth. In this respect, it was intriguing hearing Powell say that the Fed's inflation projections for 2025 - which were increased by 0.3% compared to December - already take into account not only the direct impact of US tariffs, but also the indirect impact of likely retaliatory measures by other countries. Powell also added that tariff-related inflation will likely be "transitory" - the same term used in 2021, which turned out to be one of the Fed's main missteps in recent years.

The U.S. yield curve happily embraced the scenario outlined by Powell, with yields falling to their lowest levels this year. Market participants have attributed this movement to growing fears of a slowdown or even the possibility of a recession in the second half of the year - despite simultaneously emphasizing that "hard data" remains strong. This explanation seems also at odds with the performance of the stock market (excluding technology stocks), and the resilience of credit markets.

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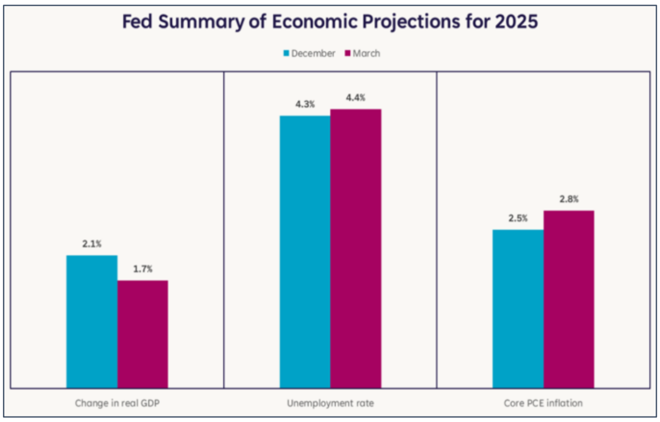
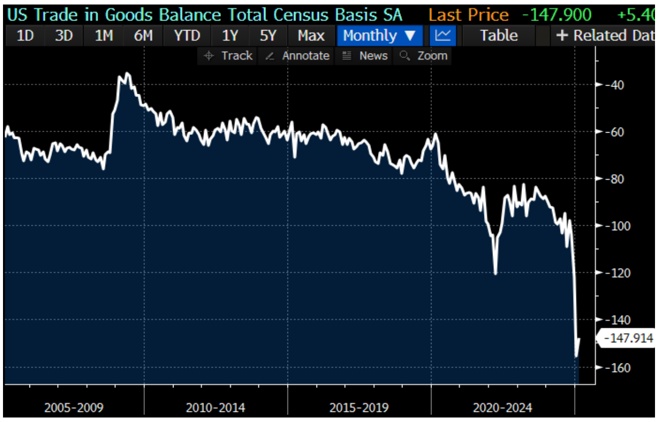


Source: SoFi, Federal Reserve



Source: Bloomberg

In addition to the risk of underestimating the impact of tariffs on inflation and growth, there are other elements that could have caused distortions in economic data, and led to misinterpretations.

The first one is the rush by U.S. companies to import as much as possible before the tariffs come into effect. As a result, the US trade deficit has reached record levels. For the rest of the world, this has translated into a substantial increase in demand. But this is a one-off event. After April 2, the buying frenzy by US companies will likely turn into a buyer's strike, as businesses that frontloaded the imports will no longer need to purchase as much in the coming months. The acceleration of growth outside the US, which occurred in the first quarter, could therefore subside.

The second factor connected to the first, is that US entrepreneurs are now sitting on huge inventories. In reaction to a situation of growing uncertainty – due to tariffs, deportations, cuts to public employees and fiscal deficit – it cannot be excluded that business investments as well as consumer spending could slow down, even suddenly and abruptly. Many companies have already stated, some more openly than others, that they will wait for greater visibility before making investment decisions.

In such a scenario, the stockpiles accumulated in recent months may take longer to clear, prompting further cut in production and investments. We reiterate, once again, that at the moment the hard data shows no clear signs of a slowdown. However, given that economic uncertainty only began escalating in late January, it will take time for shifting sentiment to be reflected in official data, which takes weeks to collect and publish.

As for American consumers, they still appear to be in fairly good health, although some timid signs of a slowdown in consumptions are emerging. However, it's far too soon to ring the alarm bell. The state of the labor market will be crucial. If the unemployment rate remains stable around current levels, it is likely that there won't be a material slowdown or recession. After all, historically, a demand-led recession has never started when the number of job vacancies is higher than the number of unemployed people, as is the case now.

However, there is another factor to consider when evaluating the resilience of US consumers: the performance of the stock market. The so-called "wealth effect" - an increase in personal wealth makes consumers feel richer, prompting them to spend more - has been an important pillar of consumption in the post-COVID years. The wealth effect, however, also works in reverse. In the quarter just ended, it is estimated that the total wealth of US consumers has decreased by 3 trillion dollars. And it was precisely the stocks preferred by retail investors that suffered the steepest corrections in the quarter.

Looking forward, in the next few days we will have a better understanding of the outlook for the near future.

If the reciprocal tariffs turn out to be less draconian than the market expects and/or Trump signals that there will be a respite from tariffs after April 2, the market could rebound, as reduced uncertainty—currently at record levels—would be welcomed by investors.

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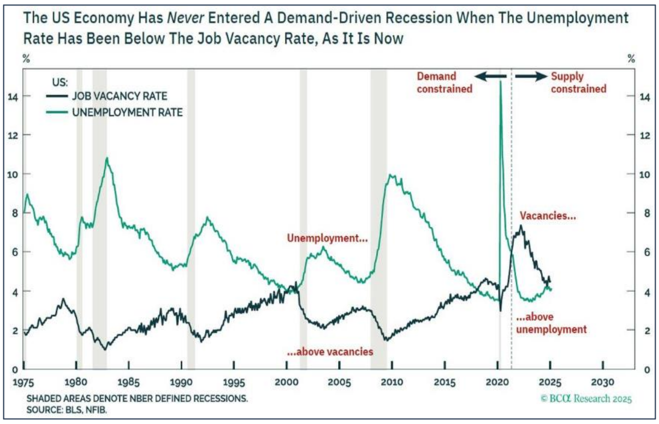
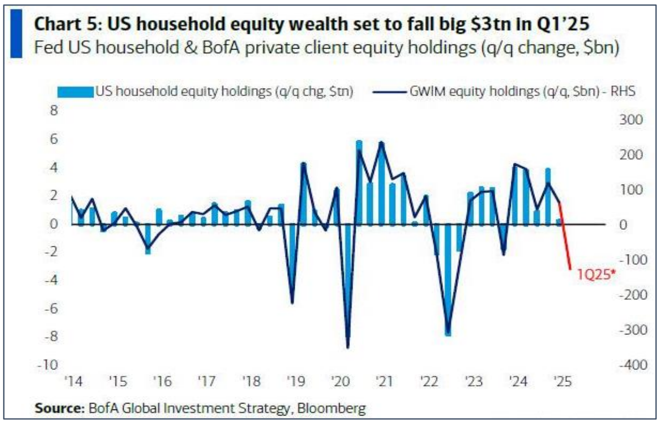


Source: BCA Research



Source: BofA, Bloomberg

Soon after that, U.S. employment data will be released—likely carrying more weight for the Fed than inflation data in the current context.

But probably, in a situation where soft and hard data have never been so misaligned, the upcoming reporting season will be crucial. Company guidance will probably be the most reliable barometer for gauging the true state of the economy: companies have full visibility not only on the prospects of their own organization, but also on consumer behavior and the economy in general. Moreover, company guidance will be based on real-time information, thus being much more timely indicators than soft or hard data.

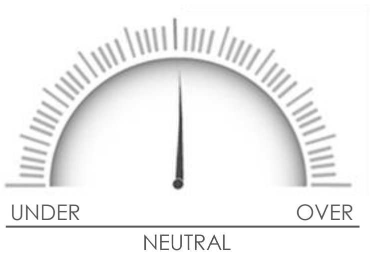
Asset Allocation View

	Under	Neutral	Over
Equity			
Developed Markets		Neutral	
Emerging Markets		Neutral	
Fixed Income			
Developed Markets Sovereign		Neutral	
Developed Markets Corporate		Downgrade	
Emerging Markets		Neutral	
Commodities			Over
Currencies		*Commentary below*	

UNDER NEUTRAL OVER

Equity

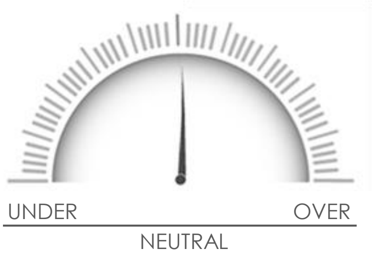
Developed Markets



We have maintained our **Neutral** recommendation on Developed Market Equities. As discussed in the prologue, this week will be decisive for global stock markets. If Trump's tariffs are perceived as milder than expected and/or employment data remains sufficiently strong, equity markets could rebound sharply. Otherwise, a continuation of the bearish trend is likely.

US	Europe	Japan
Neutral	Neutral	Under

Emerging Markets

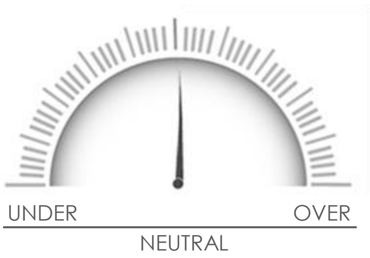


We have maintained our recommendation on Emerging Market Equities as **Neutral**. Trump's tariffs will be the main driver also for emerging markets. Mexico and India appear to be among the most vulnerable, though some of the adverse scenario has already been priced in. China could also face renewed pressure; however, we continue to see positive developments there. The latest is the recapitalization of four major state-owned banks, which will allow them to significantly expand lending to the real economy.

Asia ex-Japan	EEMEA	LATAM
Over	Under	Neutral

Fixed Income

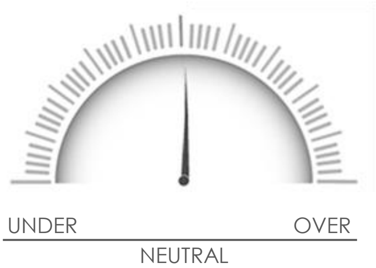
Developed Markets Sovereign



We have maintained our **Neutral** recommendation on Developed Markets Sovereign Bonds, pending greater clarity on the scope of the reciprocal tariffs that will be announced on April 2. The impacts on the US curve will be mixed, considering that lower-than-expected tariffs could ease inflation fears, but also recession fears. Moreover, in such a scenario, the stock market could rebound significantly, which would translate into upward pressure on the US curve. Vice versa in the case of higher than expected tariffs. In the rest of the world, higher tariffs are likely to lead to lower rates, and vice versa.

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

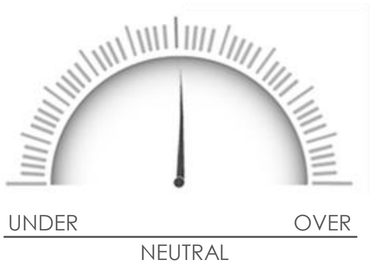
Developed Markets Corporate



We have lowered our recommendation on Developed Market Corporates to **Neutral**. The ongoing correction in the U.S. stock market is approaching levels that could lead to a widening of spreads, particularly in the U.S. Accordingly, we have tactically adjusted our recommendation, awaiting greater clarity on tariffs. Within corporate bonds, we continue to favor investment-grade bonds over high-yield bonds.

IG Europe	+	**IG US**	+	**HY Europe**	−	**HY US**	−

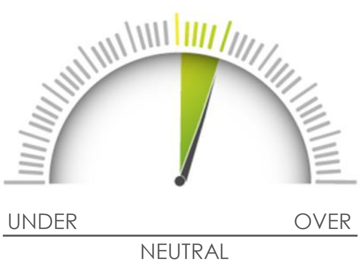
Emerging Markets



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 maintained our **Slightly Overweight** recommendation on Commodities. Our constructive stance is primarily focused on precious metals, which are in a bullish phase and could benefit from the uncertainties created by Trump's unpredictable behavior. These include his on-again, off-again threats of tariffs, the possibility that other countries may impose counter-tariffs on the U.S., and the U.S. administration's stated intention to weaken the U.S. dollar.

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

Currencies

The Committee has slightly upgraded the USD to **Neutral**. After the recent weakening, it is possible that the dollar will stabilize or recover to some extent, particularly if the risk-off scenario continues. However, we note that the dollar has not appreciated as much as in previous market corrections. This could be an indication that the US dollar may have further room to weaken in the medium term.

The Committee has downgraded its recommendation on the Euro to **Neutral**. The recent development in Germany could continue to attract capital inflows into the region, however in the short term the impacts of the reciprocal tariffs is expected to prevail.

The view on the **Chinese Renminbi** has been lowered to **Neutral**. The Chinese government is continuing to implement new initiatives to stimulate the domestic economy. However, in light of the looming US tariffs, we prefer to maintain a neutral stance.

The outlook for other **emerging market currencies** has been downgraded to **Neutral** as well. The reason is always linked to the upcoming tariffs.

Euro	=	USD	=	CNY	=	Other EM	=