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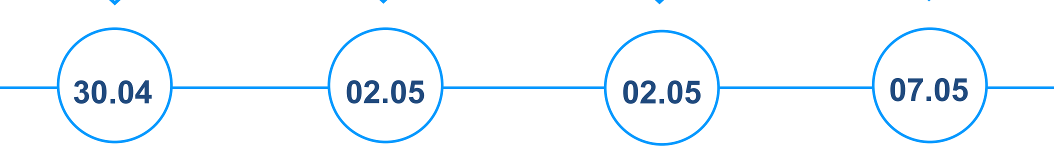
AZIMUT GLOBAL VIEW

28.04.25

Main Events

CORE PCE	EU CPI	NON-FARM PAYROLLS	FOMC
The Fed's preferred measure of inflation is expected to progress toward the 2% target	A further slowdown in inflation towards the 2% target could pave the way for another cut by the ECB in June	The health of the labor market is the single most important factor for the Fed's decision the following week	The decision on whether to open the door to a rate cut could trigger significant market swings in either direction



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

THE LABOR MARKET TAKES CENTER STAGE

- **A few of weeks ago, Trump signaled his intention to fire Powell, but then backtracked after another sharp correction in U.S. assets**
- **After the reversal, markets staged a relief rally that almost entirely erased the losses accumulated since the beginning of the month. Some caution is warranted at this stage, as this month's developments are likely to leave lasting effects**
- **The Fed will be the decisive factor in determining the fate of the stock markets: if it hints at a rate cut, the current rally could extend, however for such a shift, a clear evidence of a weakening labor market would be necessary**

Financial markets have experienced another wild ride over the past two weeks, still heavily impacted by Trump's actions.

More than the ever-changing stance on trade tariffs, this time it was the increasingly aggressive statements directed at the Federal Reserve, with the clear intention of undermining its independence, that caused anxiety in the markets. The attacks from the White House peaked on Friday the 18th, when Chairman of the Council of Economic Advisors, Kevin Hassett openly told the press that the President and his team were looking into how to legally fire Powell.

Unsurprisingly, when markets reopened after the Easter break, U.S. assets began to falter again, with stock indices moving back toward the April lows, the 30-year rate once again approaching the 5% mark, and the dollar hitting a new low—dipping to just under 1.16 against the euro—while gold soared to an all-time high of $3,500.

As already noted in the last report, the only factor that appears capable of prompting Trump to adopt a more conciliatory stance is a disorderly market reaction—particularly in long-term rates. The following day, Trump bluntly stated during a press conference that he had never intended to fire Powell. He later floated the possibility of slashing steep tariffs on Chinese imports—by more than half in some cases—and claimed that China had approached the United States to negotiate a trade deal. The first statement was never followed up, while the second was denied by China.

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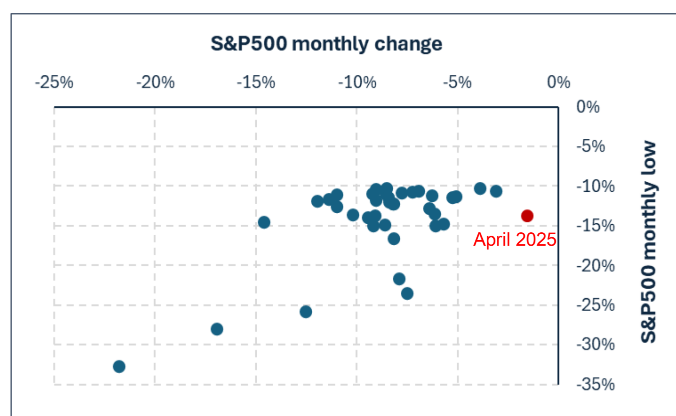

Source: Bloomberg, Azimut elaborations. Data as of April 25, 2025 *Source: Bloomberg*

Nevertheless, investors looking for any reason to kick-start a rebound seized on these statements as a justification for doing so. Investor sentiment has gone from one extreme to another. For the first time in over 75 years, an intra-month decline of more than 10% has been almost entirely recovered, with the possibility that stock indices could even close the month in positive territory, should this week's reporting season by most of the big-tech companies ends on a positive note.

A bit more caution seems warranted at this stage, given that this month's events will inevitably leave lasting consequences. Ignoring what has occurred would be unwise. While some of the decisions made can be reversed, what has been said cannot be unsaid.

Although the 10% tariff rates certainly represent an improvement compared to those announced on April 2, they still act as a brake on the economy. The uncertainty surrounding the current situation is prompting companies to postpone investment and hiring decisions until the situation becomes clearer and more stable. The consequence of all this is that so-called “soft data”—mainly confidence indicators—are falling sharply, in some cases at rates or to levels even worse than those seen during the pandemic. Hard data—employment, industrial production, consumption, etc.—remain solid, but are still all referring to the period prior to the April 2 announcement. Data on freight and container rates, as well as volumes, although varying considerably from one provider to another, all point to a dramatic drop in international trade, particularly between China and the United States. Moreover, the first signs of price increases on goods destined for the United States by Chinese companies are beginning to emerge, in order to offset the higher tariffs. If the standoff between China and the US continues for longer, it would not be unlikely to witness shortages of goods in the United States over the coming months, recreating a situation similar to the supply chain disruptions that occurred during the COVID-19 pandemic.

As for the Fed, although Trump has denied any intention of firing Powell, his statements so far—i.e.: the Fed should take the White House's position into account when setting monetary policy—raise the possibility that Trump may seek to appoint a “yes man” to replace Powell when his term expires in a year, thereby undermining the Fed's perceived independence.

What the Federal Reserve says next week will likely be the decisive factor for market direction. So far, Powell has emphasized that there is no immediate need to act, given the inflationary risks posed by tariffs. However, he has also left the door open to rate cuts should risks to employment emerge. Fed Governor Waller expressed this more explicitly, stating that if unemployment were to rise, the mandate to promote full employment would undoubtedly take precedence over the goal of maintaining price stability—indicating the possibility of significant rate cuts if necessary.

During this week, several employment figures will be released, which will help assess the effective health of the labor market. Expectations for the non-farm payrolls report, probably the single most closely watched employment figure by the Fed, point to the creation of around 130,000 new jobs in April. Although this is lower than the previous month, which was surprisingly strong, it is consistent with an economy that continues to grow at a decent pace. Initial and continuing jobless claims remain stable at low levels, confirming that there are still no signs of stress.

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However, it should be noted that the non-farm payroll report includes employment data up to the week that includes the 12th of the month. Therefore, the data that will be published on May 2 and officially related to April actually covers the period between March 17 and April 13. Consequently, the data to be released this week will not yet reflect the chaos that followed Liberation Day, as companies have not reacted impulsively by immediately laying off employees as a preemptive measure. Before making such decisions—if they are made at all—businesses will likely wait for a clearer and more stable outlook.

But there could be surprises in store, in light of recent measures taken by the Department of Government Efficiency (DOGE). According to Challenger U.S. Job Cuts data, monthly layoffs in the public sector are on the rise, reaching 217,000 in March—prior to the announcement of tariffs—with the possibility of further reductions in the near future. Clearly, these figures have not yet been reflected in the March non-farm payrolls data, so it is conceivable that some of these layoffs may impact the April report.

In this respect, it should be remembered that in the final months of Biden's presidential term, public sector hiring accounted for a growing share of total job creation. At the time, everyone praised the strength of the U.S. labor market, and no one bothered to point out that the figures were heavily skewed by public sector hiring. Today, we can expect the same, but in reverse. The simplest, most effective, and politically viable way for Trump to force Powell to cut rates is to ramp up public sector layoffs as much as possible. Faced with rising unemployment, Powell and the Fed would have no choice but to respond, as they could not credibly argue that the layoffs stem solely from political decisions rather than genuine economic weakness—and are therefore irrelevant.

In the coming days, investors will therefore be focusing their attention on employment data—including the JOLTS job openings data—in the hope that it will be weak enough to enable the Fed to change its stance, without, however, being too disappointing. Any sign that the Fed is open to cutting rates would undoubtedly lead to an extension of the current rally, potentially even beyond the levels seen on April 2. Otherwise, a retracement towards the middle of the recent trading range would become likely.

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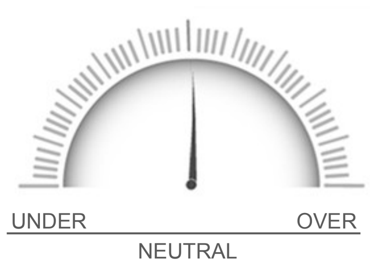
Asset Allocation View

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

UNDER NEUTRAL OVER

Equity

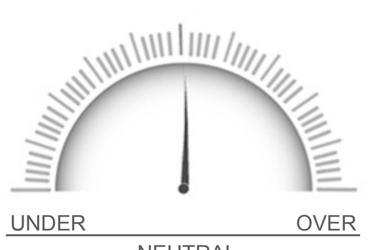
Developed Markets



We have downgraded our recommendation on Developed Market Equities back to **Neutral**. Stock markets have recovered almost all of their losses since April 2, and therefore warranting a more cautious approach. In the short term, markets could continue to rise if the reporting season proves favorable or if the Fed signals even a modest openness to rate cuts. On the other hand, the ongoing uncertainty and chaos that followed the announcement of tariffs will continue to weigh on the economic outlook. Further declines are possible if hard data confirms that a slowdown is underway.

US		**Europe**		**Japan**	

Emerging Markets



We have maintained our recommendation on Emerging Market Equities as **Neutral**. Emerging markets reacted better than expected to the announcement of U.S. tariffs. However, there is growing evidence that the tariffs are causing a sharp decline in exports from China. Furthermore, China is the only country facing tariffs of over 100%, while all others have benefited from a temporary 10% exemption. We are therefore increasingly cautious about China. India—the other Asian giant with a working-age population similar to China's—could benefit from this situation and also appears close to reaching an agreement with the Trump administration.

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

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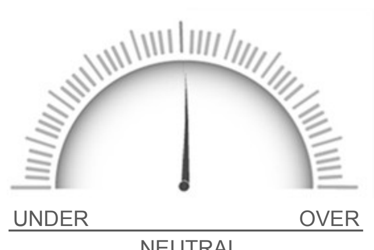
Fixed Income

Developed Markets Sovereign

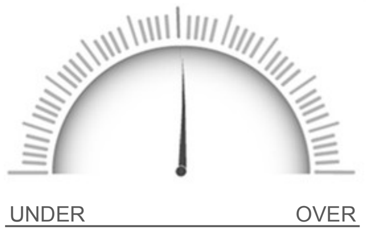


We have maintained our **Neutral** recommendation on Developed Markets Sovereign Bonds. After the exceptional volatility of recent weeks, sovereign bond markets seem to be stabilizing, particularly on the U.S. curve. Pending the Federal Reserve's announcement on May 7, we believe interest rates are likely to remain around current levels across all major world curves. We continue to favor the short- and medium-term maturities, which are more sensitive to central bank monetary policy. Caution remains warranted on the long end of the curve, particularly in the U.S..

Developed Markets Corporate

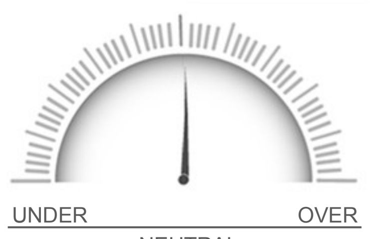
We have maintained our **Slightly Overweight** recommendation on Developed Market Corporates. Following the widening of spreads in the first half of the month, and until there are clear signs from hard data of an imminent risk of recession, credit should continue to recover, also supported by the ample liquidity still available in the markets. We continue to favor investment grade over high yield bonds.

Emerging Markets



We have kept our **Neutral** recommendation for Emerging Market Bonds. The risks posed by tariffs and the contraction of overall market liquidity are offset by the relatively higher spreads currently offered by emerging market bonds compared to similarly rated corporate bonds in developed markets.

Commodities



We have reduced our recommendation on Commodities to **Neutral**. After the outsized gains since the start of the year, we believe that precious metals, particularly gold, may now be due for a healthy correction, although, we still believe there is upside in the medium to long term. We remain more cautious on other commodities, which are more vulnerable to a downturn in the economic cycle.

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Currencies

The Committee has lowered its recommendation on the U.S. Dollar to **Neutral**, removing the bullish bias. The greenback was not able to recover meaningfully, despite volatility and stress indicators fell considerably over the past two weeks. This suggests that there is still room for a decline in the medium term, but at least until the Fed meeting, the US dollar could remain stable.

The Committee has upgraded its recommendation on the Euro to **Neutral,** removing the bearish bias. European markets continue to outperform their U.S. counterparts, fueling capital inflows into Europe and supporting the single currency. However, the ECB's recent rate cut, along with the possibility of further reductions in the coming months, could limit the euro's upside.

The view on the **Chinese Renminbi** remains **Neutral with a bearish bias**. Trump's tariff are now hitting China far more than other countries, possibly forcing the PBOC to let the Renminbi to slide against the U.S. Dollar in order to limit the adverse impacts on the Chinese economy.

The outlook for other **emerging market currencies** is maintained at **Neutral**. These currencies have suffered following Trump's tariffs, and may recover if investor risk aversion subsides, and trade deals are signed.

Euro	=	USD	=	CNY	=	Other EM	=

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