Main Events

ECB MEETING — 11.09
No surprises are expected at this meeting, with rates likely to remain stable for the remainder of the year

US CPI — 11.09
After the dismal payroll data and negative job revisions, not even a higher-than-expected CPI print could refrain the Federal Reserve from cutting rates

US RETAIL SALES — 16.09
Retail sales are expected to continue raising at a solid pace, underscoring how currently only the labor market is showing sign of a slowdown

FOMC — 17.09
The Federal Reserve is expected to cut rates by 25 bps, with investors focused on trying to understand how extended this cutting cycle might be

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

RATE CUTS ARE COMING. BUT HOW MANY?

- **The U.S. labor market deteriorated sharply over the summer, with monthly and annual revisions shaving more than a million jobs off previous estimates**
- **Considering that in Jackson Hole—when most of these revisions were not yet known—Powell had already stated that the time had come for the Fed to change its monetary policy stance, a series of rate cuts is now a foregone conclusion**
- **The most likely scenario appears to be a series of three 25 bps cuts between now and the end of the year**

In two weeks, the FOMC will hold its most important meeting of the year. The current circumstances are drastically different from those at the time of the previous meeting in July.

Since then, labor market data has been dreadful. In both the August and September data releases, not only were the actual figures well below expectations, but the figures for previous months were also revised downwards significantly. From an initial publication of around +150,000 new jobs in both May and June, the final figure fell to +19,000 in May and -13,000 in June, the first month since 2020 in which there has been a contraction in employment.

It is no new that US employment data always looks great when first published, only to be revised downward in subsequent monthly releases, as shown in the first chart on the following page. Since market attention is obviously focused primarily on the most recent data, this pattern of consistently overestimating actual job creation is distorting perceptions of the true state of the US economy.

The latest payroll figures also highlighted other worrying trends. The unemployment rate ticked up to 4.3% (4.324% unrounded). The 3-months average of new jobs fell to 29,000, well below the 150,000-180,000 new jobs needed on a monthly basis to keep the unemployment rate steady. The number of full-time jobs fell by 357,000, the second consecutive month of sharp decline, while part-time jobs increased by 597,000. In addition, the number of people with multiple jobs increased by more than 443,000, suggesting that more and more people are struggling to meet the ends.

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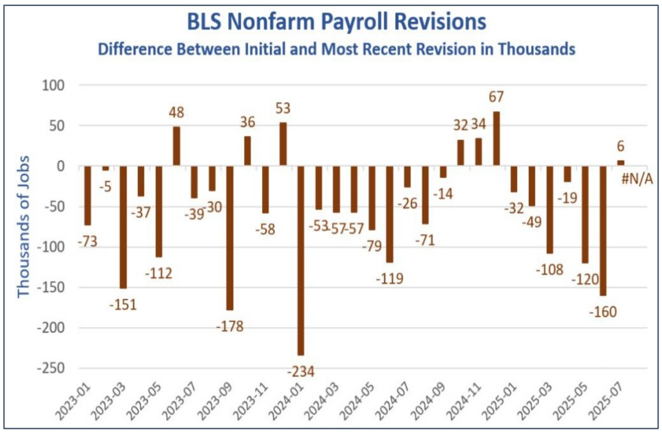
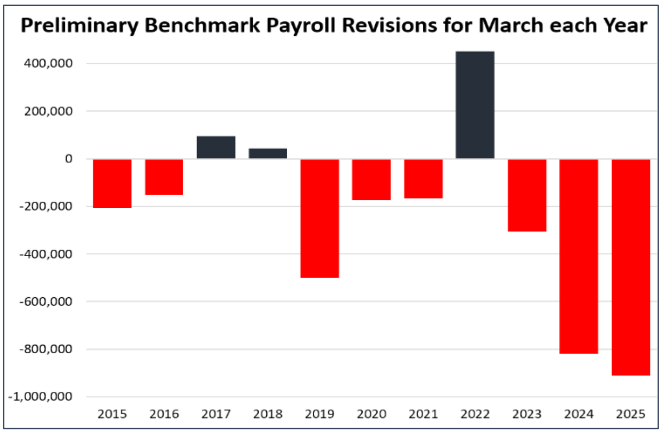




Source: MishTalk, BLS

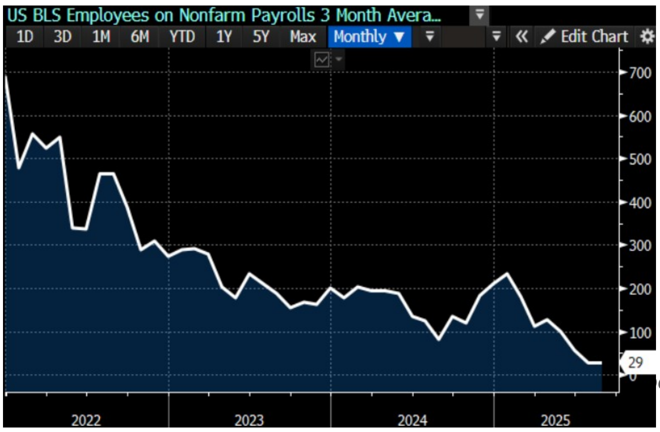
Source: wolfstreet.com, BLS

In addition to the monthly revision of employment data with each new release, it should also be pointed out that there is another revision that takes place every year, with preliminary data released in early September, while the final ones in February of the following year. The preliminary data just published and covering the 12-month period ending in March 2025, showed that job creation was overestimated by a stunning 911,000 jobs! The preliminary revision suggests that in the year ending March 2025, the number of people in employment grew by 71,000 per month, about half the pace (147,000 new jobs per month) previously reported.

Already in August, Powell acknowledged in Jackson Hole that the US labor market was experiencing a sudden deterioration and that it was therefore necessary to change the monetary policy stance. Since then, the monthly data and the annual revision have shown that a further million jobs have been lost.

A 25 basis point cut at this FOMC meeting is therefore a foregone conclusion, following the sharp deterioration in labor market data after Jackson Hole, when Powell had already committed to implementing at least some cuts. It remains to be seen how extended this cycle of cuts will be, given that the rest of the economy is not showing signs of slowing down. At present, these signs are coming solely from the labor market. Retail sales, personal income, personal spending, and confidence indicators (particularly for services) remain at healthy levels. In addition, fears of inflationary spillovers due to tariffs continue to linger.

The update to the Summary of Economic Projections (SEP) scheduled for September will therefore be key to understanding the Fed's perception of the state of the economy and its expectations regarding the future path of interest rates. Crucially important will be the dot plot, which contains the governors' forecasts about where interest rates might be at the end of each calendar year.



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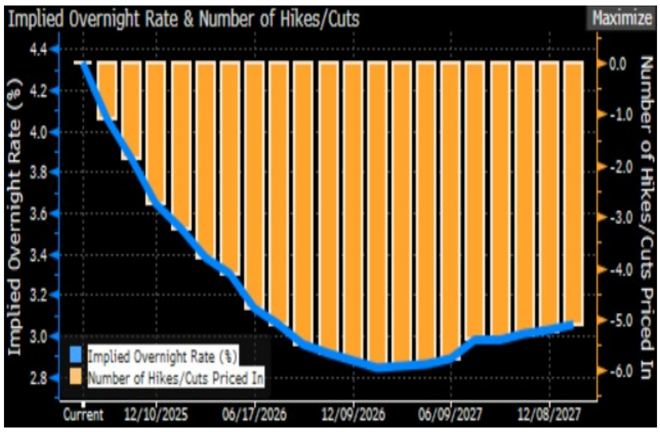

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If the dots continue to point to only two interest rate cuts this year, this could suggest that the Fed does not believe that the US economy as a whole is at risk of excessive deterioration (as many macroeconomic data suggest) or that it remains concerned about the inflationary impact of tariffs. However, this seems rather unlikely after the sharp slowdown in the labor market.

The most likely scenario until the end of the year is probably the one priced in by the market: three consecutive 25 basis point cuts. This would also be the ideal scenario, as it would signal that the Fed is not panicking, but remains responsive to the evolving economic developments.

Over the longer term, however, the market is perhaps proving once again a little too optimistic, pricing in five cuts within the next nine months and up to six cuts by the end of 2026, which would correspond to official rates falling from the current 4.25%-4.50% to 2.75%-3.00%, a scenario that seems likely only if the economy as a whole experiences a noticeable slowdown.

Asset Allocation View

	UNDER	NEUTRAL	OVER
Equity			
Developed Markets		■	
Emerging Markets		■	
Fixed Income			
Developed Markets Sovereign		■	
Developed Markets Corporate			■
Emerging Markets			■
Commodities		■	
Currencies		*Commentary below*	

UNDER NEUTRAL OVER

Equity

Developed Markets

UNDER OVER
NEUTRAL

We have maintained our **Neutral** recommendation on Developed Market Equities. Equity markets continued their upward trend, buoyed by the positive conclusion to the earnings season and expectations of a series of rate cuts by the Federal Reserve. This momentum could continue further, given the current bullishness among investors. However, valuations that remain at historically high levels, coupled with a clearly weaker US labor market, suggest that some caution is also warranted. We continue to recommend maintaining a well-diversified portfolio in terms of sectors and countries, as high valuations are concentrated in a few stocks, which represent also the biggest positions in the main stock indices.

US	NEUTRAL	**Europe**	NEUTRAL	**Japan**	NEUTRAL

Emerging Markets

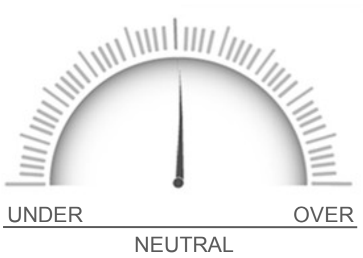
UNDER OVER
NEUTRAL

We maintain our **Neutral** recommendation on Emerging Market Equities with a positive bias. Despite the recent rally, valuations in emerging markets remain significantly lower than those in developed markets, which reinforces our relatively more favourable stance as investors increasingly seek out undervalued opportunities. Furthermore, emerging markets is expected to remain an attractive asset class as long as the U.S. dollar continues to remain weak. Within this space, China Tech and value sectors continue to be key areas of focus.

Asia ex-Japan	NEUTRAL	**EEMEA**	UNDER	**LATAM**	NEUTRAL

Fixed Income

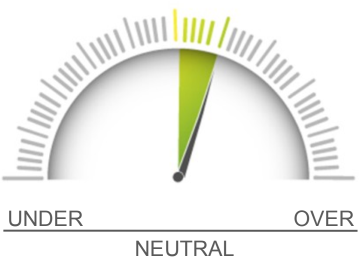
Developed Markets Sovereign



We have maintained our **Neutral** recommendation on Developed Markets Sovereign Bonds. Following the recent decline in market rates after the confirmation in Jackson Hole that the Fed will embark on a cycle of rate cuts starting in September, the upside potential for sovereign bonds is more limited, as the curves have now fully priced in a reasonable number of cuts. On the other hand, in the current environment, a rebound in market rates is also much more unlikely. Only on the very long ends of the curves part of the committee members still maintain a cautious stance.

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

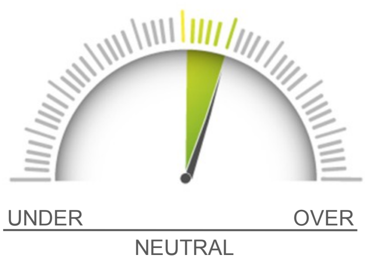
Developed Markets Corporate



We have maintained our **Slightly Overweight** recommendation on Developed Market Corporates. Demand for credit remains strong and spreads have reached record lows. Although the US labor market is showing some signs of weakening, it would not be advisable to remain underweight in credit. However, given that spreads are at or very close to all-time lows, it is even more advisable than in the past to focus on high-quality bonds and avoid high-yield bonds.

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

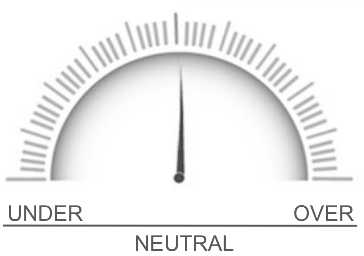
Emerging Markets



We have maintained our **Slightly Overweight** recommendation on Emerging Market Bonds. The rapid narrowing of spreads on developed market bonds makes emerging market bond spreads relatively more attractive than similarly rated bonds issued by developed markets. Additionally, US Dollar weakness and the continued diversification away from U.S. assets by international investors could further support capital flows into emerging markets.

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

Commodities



We have maintained our **Neutral** recommendation on Commodities. Within the asset class, we continue to strongly favor precious metals, supported by dollar weakness. Over the longer term, demand for precious metals should remain resilient, driven by a potentially weaker dollar, central banks purchases and ongoing concerns over fiscal slippage in public finances globally. At the same time, caution remains warranted for cyclical commodities, in the case of a slowdown in the global economy.

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

Currencies

The consensus view on the US dollar is **Neutral with a bearish bias**. Following Jerome Powell's clear signal in Jackson Hole of potential interest rate cuts in the coming months, the committee does not anticipate any near-term recovery for the dollar.

The view on the Euro si **Neutral with a bullish bias**, mostly as a reflex of the view on the US Dollar.

We have maintained our **Neutral** stance on the **Chinese Renminbi**, awaiting more clarity on the outcome of the ongoing trade negotiations with the United States.

The outlook for other **emerging market currencies** has been confirmed as **Neutral with a bullish bias**. The massive YTD outperformance of emerging debt strategies has been gaining momentum among investors, despite the uncertainties still surrounding trade relationships.

Euro	USD	CNY	Other EM
=	−	=	+