AZIMUT GLOBAL VIEW

13.04.26

Main Events

US PPI
March producer price data could provide an early indication of how real the risk is that rising commodity prices will spill over into the rest of the economy
14.04

CHINESE DATA
The first quarter GDP is expected to show an acceleration, but all other data for March point to slower readings
16.04

US RETAIL SALES
Retail sales are projected to increase by 1.2% MoM, a barely positive gain in real terms
21.04

GLOBAL PMI
April's preliminary PMI data could provide a more reliable and less reactive indication of business sentiment one month after the outbreak of the war in Iran
23.04

Azimut Global Network

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

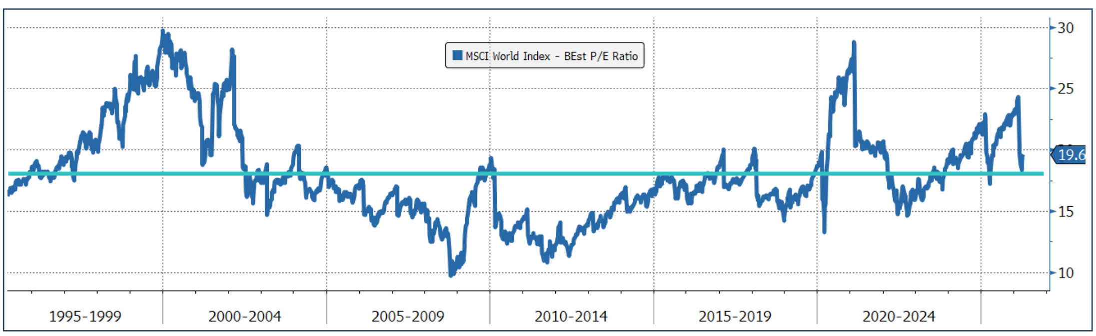
ZOOMING OUT FROM THE SHORT-TERM VOLATILITY

- **The recent pullback in stock markets, combined with the steady improvement in EPS forecasts, has brought stock valuations close to their long-term historical average**
- **Stocks related to growth/technology/artificial intelligence, as well as emerging markets, are considered particularly attractive now, and offer a favorable entry point**
- **In the fixed-income sector, although central banks are unlikely to consider easing monetary policy in the near term—in part to avoid repeating the mistake of 2022—investors can take advantage of higher yields to boost their portfolio returns**

Nearly six weeks after hostilities began in Iran, it is still unclear how long the conflict might last, with Trump continuing to send mixed messages on his intentions. The most likely scenario continues to be that of a short conflict, given that the negative consequences of the war are being felt not only in Iran but also in the United States—as well as in the rest of the world, which has not been consulted on the matter. Pressure is mounting on all sides to find a solution.

Since it is impossible to predict a specific scenario, the only rational approach for making investment decisions is to adopt a longer-term perspective and try to draw useful insights from recent market movements as a basis for portfolio construction.

Let's start with stock markets, since they have proven to be remarkably resilient: the MSCI All Country World is down only about 1% terms from its all-time high.



Source: Bloomberg

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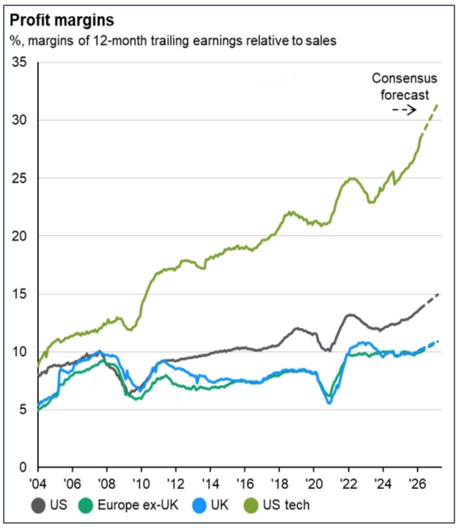

Source: J.P. Morgan Asset Management

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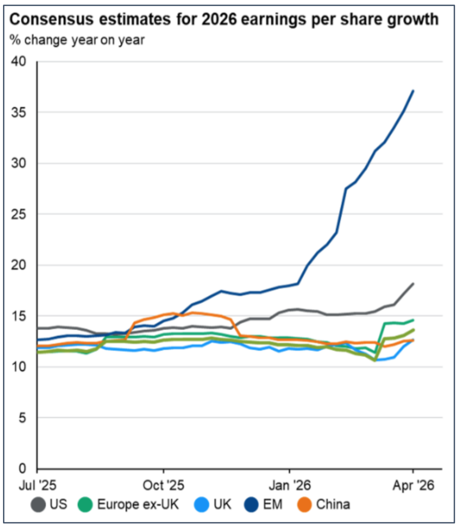

Source: J.P. Morgan Asset Management

This resilience can be attributed primarily to a dramatic improvement in fundamentals: the 12-month forward P/E ratio of the MSCI All Country World Index at its March low touched its 30-year average.

This outcome was driven by a combination of factors. The most expensive segment of the market—U.S. equities from a geographic perspective and the technology/growth sector from a sectoral perspective—underperformed, with some of these stocks even posting nominal declines in the preceding months. At the same time, however, margins and expected earnings for the coming quarters continued to rise. These two dynamics caused valuations of the top 10 stocks in the S&P 500 (a proxy of the Magnificent 7 and other large tech companies) to plummet, bringing the gap relative to the remaining 490 stocks back to the same levels seen at the 2022 low. As a result, there is a broad consensus on the need to accumulate technology and growth stocks at current valuations, with most recommending an overweight position.

Despite the aforementioned underperformance/correction experienced by some growth stocks, U.S. stock indices and the MSCI World Index have not declined that much in absolute terms, as the rest of the market has benefited from a significant and welcome re-rating. Since the other stocks were trading at a considerable discount, the rally in recent months has simply brought the valuations of the rest of the market back to more normal levels—certainly not expensive ones. Therefore, the rotation that has taken place recently has been a healthy one, bringing the major stock indices back to a more balanced situation and restoring their upside potential.

Geographically speaking, the region where confidence in the possibility of a significant recovery is lowest is Europe. This is due both to the region’s dependence on energy imports—which inevitably leads to higher energy and electricity prices—and to the structural factors that have historically hindered growth in the Eurozone. Furthermore, actual spending on infrastructure and defense is being deployed more slowly than expected and does not appear to be stimulating broader economic growth.

The two regions believed to be most promising are the United States and emerging markets. The United States stands out thanks to the significant weight that major technology and artificial intelligence companies hold in the main indices; these are currently trading at very attractive levels, as discussed earlier. As for emerging markets, in addition to trading at much lower valuations than developed markets, they are showing the highest year-over-year EPS growth rates (chart top right). Furthermore, emerging markets offer an attractive mix: some countries are major net exporters of commodities, a favorable factor should the conflict escalate, while other countries (such as South Korea and Taiwan) are home to leading technology companies, whose valuations have improved significantly also in these markets. Finally, in the event of a swift resolution to the conflict, Asia is the region of the world that would benefit the most, as it is the one most dependent on imports transiting through the Strait of Hormuz.

Turning to another asset class, the decline in bonds was more pronounced than that of stocks, when adjusted for the different levels of intrinsic volatility of the two asset classes.

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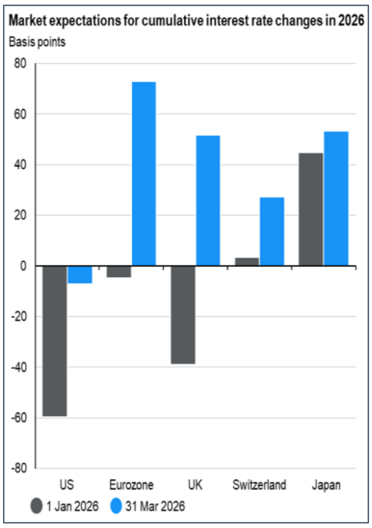
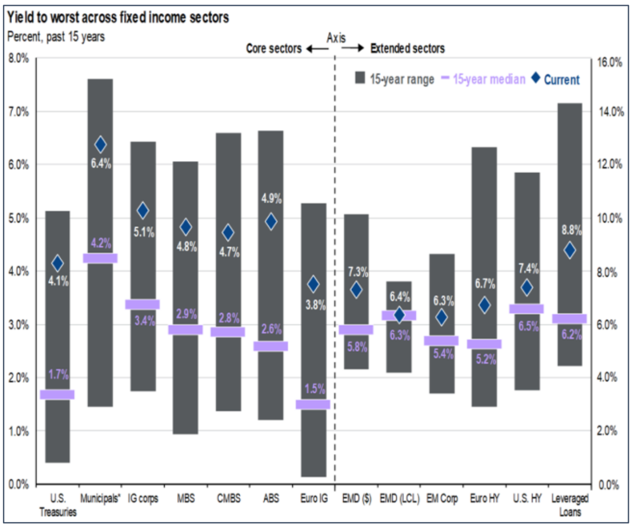
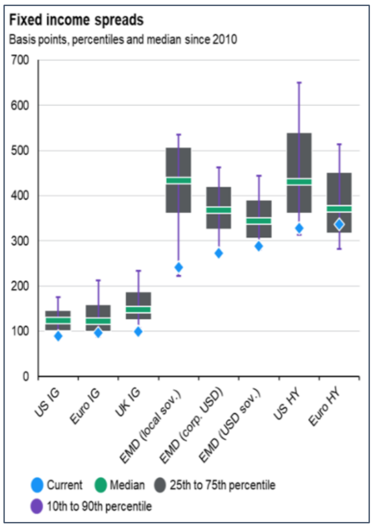


Source: J.P. Morgan Asset Management



Source: J.P. Morgan Asset Management



Source: J.P. Morgan Asset Management

This is down to the recent spike in energy commodity prices, which has fueled fears of a resurgence in inflation, especially if inflation expectations were to move higher. Even before the war, some central banks—notably the Fed—were not entirely convinced that inflation had been definitively defeated. Having clearly misjudged inflationary dynamics in 2021-2022, this time central banks might be more inclined to tighten monetary policy more than necessary, to avoid repeating the same mistake at such a short interval. Proof of this is that the Fed has clearly ruled out any possibility of a rate cut in the near term, the ECB has hinted at the possibility of a couple of rate hikes, and the Reserve Bank of Australia has already raised rates twice, the first time even before the war in Iran. Financial markets have taken note: compared with forecasts at the start of the year, implied benchmark rates have risen by 50 to 100 basis points across most major Western yield curves.

The consensus view is that this central bank and market stance is unlikely to change significantly in the near term, which implies limited upside potential (i.e.: decrease in rates) for the time being. However, the bright side of this is that the increase in risk-free rates has brought yields to maturity on corporate and emerging market bonds back to more attractive levels in absolute terms, thereby offering a higher carry. In the credit sector, nevertheless, some caution is still warranted, as spreads have not widened that significantly and are still very close to all-time lows; particularly in riskier segments, the current level of spreads does not yet seem adequate to compensate for the heightened risk environment stemming from the conflict.

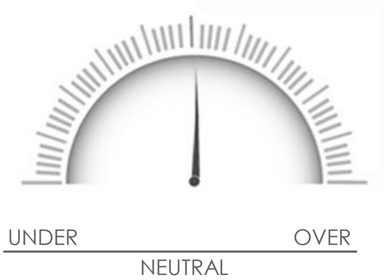
Asset Allocation View

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

− UNDER = NEUTRAL + OVER

Equity

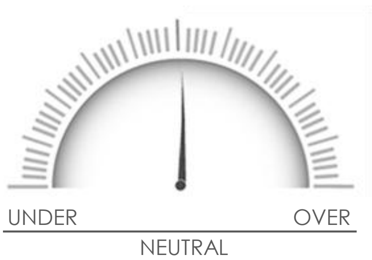
Developed Markets



We maintained a **Neutral** recommendation on Developed Market equities. As outlined in the prologue to this report, equity markets appear to be the asset class with the better relative outlook. This is evidenced by the fact that equity markets managed to recoup a significant portion of their losses as soon as signs of easing tensions emerged. The combination of EPS estimates, which continue to be revised upward, and the relatively limited correction that has occurred has allowed valuations to return to more attractive levels. Only in the event of an escalation of the conflict or a clear prolongation of the conflict would equities be vulnerable to further corrections, due to the increased likelihood of a recession and the need to revise EPS downward. Among developed countries, Europe is seen as the most affected region and, consequently, the area toward which the committee harbors the greatest caution

US	=	**Europe**	−	**Japan**	=

Emerging Markets

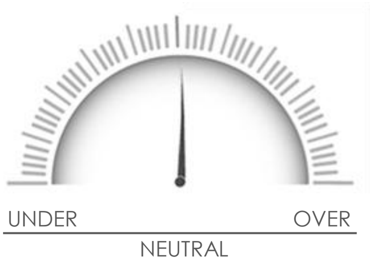


We kept our **Neutral** stance on Emerging Market equities. The considerations outlined above for developed countries also apply to emerging markets; moreover, emerging markets are currently trading at lower valuations, a factor that enhances their relative attractiveness. In addition, many of these markets possess substantial reserves and are net exporters of commodities, enabling them to benefit from the ongoing rise in commodity prices. Finally, emerging markets are also regarded as having the greatest potential for a rebound should the conflict come to an end, particularly in Asia as the region is the most dependent on imports transiting through the Strait of Hormuz.

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

Fixed Income

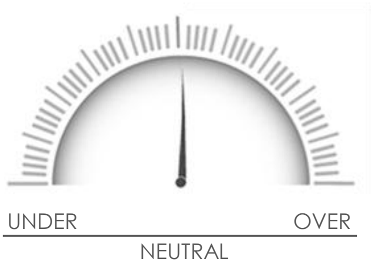
Developed Markets Sovereign



We have downgraded our recommendation on Developed Market sovereign bonds to **Neutral**. As noted in the prologue, the committee's outlook has become more cautious, given that the current surge in commodity prices could shift inflation expectations among both consumers and central banks. As for the latter, it is likely that—especially in light of the 2022 blunder, when the risk of inflation was clearly underestimated—they may opt to rule out any possibility of rate cuts in the short term (Fed) or even contemplate precautionary hikes (rest of the developed world). Therefore, in the short-term rates are expected to remain rangebound, or have limited room to fall from current levels.

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

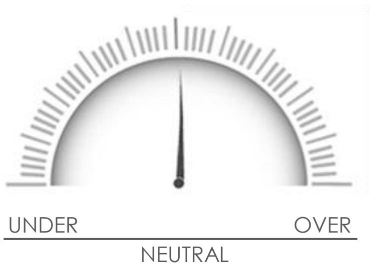
Developed Markets Corporate



We also lowered to **Neutral** the recommendation on Developed Market corporate bonds. One of the reasons underpinning the change is the downgrade on government bonds, given that the yield to maturity of corporate bonds is the sum of the risk-free rate and the spread. The other reason relates to spreads themselves: it is widely believed that their recent widening—although it has pushed spreads away from the multi-year lows reached shortly before the conflict—is not yet sufficient to adequately compensate for the increased risks stemming from the ongoing war in Iran. Within credit, investment-grade bonds remain the preferred allocation over high-yield bonds.

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

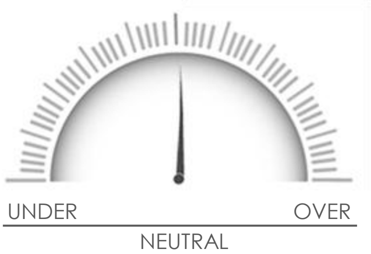
Emerging Markets



We have downgraded our recommendation on Emerging Markets Debt to **Neutral** as well. The reasons are the same as those just outlined for developed countries' corporate bonds. Also, investments in emerging markets are typically among the first to be cut back during geopolitical crises and/or periods of rapidly rising risk aversion.

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

Commodities



Our recommendation for commodities remains **Neutral**. While precious metals are experiencing elevated volatility, they continue to serve as a vital portfolio hedge against rising geopolitical uncertainty, and the recent correction is seen as an interesting opportunity for accumulation, particularly given that a weak dollar further supports the bull case for precious metals. Meanwhile, the recent surge in oil and natural gas prices is driving significant momentum within the Energy sector.

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

Currencies

We maintained our **Neutral** recommendation on the US Dollar. Although the dollar might continue to play its typical role as a "safe haven," as long as the conflict persists, in the medium term—and particularly if a ceasefire is reached—the risk of a decline remains.

The view on the Euro remains **Neutral** as well. The euro has been relatively weak since the start of the conflict, reflecting the higher vulnearbilities of the European economy, and particularly the greater dependence on energy imports. However, the statements from a number of ECB governors that a rate hike is possible in 2026 in response to the spike in energy prices could support the single currency.

We have maintained our recommendation on the **Chinese Renminbi** to **Neutral with a bullish bias**.

The outlook for other **emerging markets currencies** has been confirmed as **Neutral with a bullish bias**, with a preference for currencies of countries that are net exporters of energy commodities.

Euro	=	**USD**	=	**CNY**	=	**Other EM**	+