Azimut Global Network

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

Main Events

UK CPI — 22.05
Year-over-year inflation is expected to decline substantially, with the headline number falling back to the 2% target

GLOBAL CONFIDENCE — 23.05
PMI data on developed countries will help assess whether the global economy still has positive momentum or not

US GDP — 30.05
The second reading of U.S. GDP for the first quarter is expected to show a further downward revision

EU CPI — 31.05
Eurozone inflation is expected to make further progress toward the EBC's 2% target

Developed Markets: Q1.2024 Earnings Season Monitor

- **The reporting season in the United States continues to show better-than-expected numbers. Nevertheless, market reactions were less positive than usual**
- **European companies still showed negative earnings growth, but the trend is expected to reverse from the current quarter, and the number of companies reporting better than expected has risen**
- **In general, earnings growth has broadened, with the proportion of stocks that have had more upgrades than downgrades continuing to improve, which is positive for equity markets**

At the time of writing, 90% of developed market corporations have reported their Q1 results, generally revealing a better than expected trend in each of the 3 macro areas analyzed (USA, Europe, Japan).

The United States has once again shown resilience and growth, achieving a year-over-year EPS growth of approximately +5%. This growth, indicative of the robust nature of the US market, contrasts with the (likely) last quarter of negative growth in Europe, where the PMI bottoming is indicating a return to growth already from Q2. Anyway, when excluding the drag from the energy sector, European EPS growth would already be back to flat.

United States (S&P 500)
The January-March quarter witnessed a 4% growth in sales and a 5% growth in EPS. The percentage of companies beating sales estimates was at a healthy 55%, however still lower than the long-term average of 60% and in line with the level of Q4 (57%). The lowest sales beat ratios were found in utilities, consumer sectors (both discretionary and staples), and materials. In contrast, financials and real estate had the highest beat ratios. Focusing on earnings, 78% of companies surpassed consensus estimates, in line with the historical average of 76%. Interestingly there was a broad-based high ratio of companies beating EPS estimates across all sectors, with Staples (88%) and IT (86%) having the highest

(continued)

United States (S&P 500)

	No. of cos reported / Total	% reported	% cos beating EPS estimates	% cos Missing EPS estimates	EPS surprise	%yoy EPS growth	% cos beating Sales estimates	% cos Missing Sales estimates	Sales surprise	%yoy Sales growth
S&P500	**439 / 499**	**88%**	**78%**	**18%**	**8%**	**5%**	**55%**	**31%**	**1%**	**4%**
Energy	22 / 23	96%	68%	27%	1%	-26%	59%	36%	2%	-4%
Materials	28 / 28	100%	75%	25%	6%	-22%	39%	46%	0%	-5%
Industrials	74 / 77	96%	81%	15%	5%	5%	49%	35%	1%	4%
Discretionary	37 / 52	71%	73%	27%	20%	41%	54%	32%	0%	7%
Staples	25 / 38	66%	88%	8%	7%	6%	60%	28%	0%	-1%
Healthcare	59 / 64	92%	86%	12%	10%	-26%	64%	25%	0%	6%
Financials	70 / 71	99%	74%	23%	9%	11%	59%	20%	4%	8%
IT	44 / 65	68%	86%	11%	4%	9%	55%	20%	1%	3%
Com. Services	18 / 19	95%	78%	22%	12%	42%	28%	44%	0%	7%
Utilities	31 / 31	100%	71%	23%	9%	30%	32%	61%	-6%	-9%
Real Estate	31 / 31	100%	74%	10%	4%	11%	87%	13%	11%	18%
Ex-Financials & Real Estate	**338 / 396**	**85%**	**80%**	**18%**	**8%**	**2%**	**51%**	**35%**	**0%**	**3%**
Ex-Energy	**417 / 475**	**88%**	**79%**	**17%**	**9%**	**8%**	**55%**	**31%**	**1%**	**5%**
Cyclicals	**183 / 222**	**82%**	**80%**	**18%**	**8%**	**10%**	**50%**	**33%**	**1%**	**4%**
Defensives	**133 / 151**	**88%**	**82%**	**15%**	**10%**	**3%**	**51%**	**37%**	**0%**	**4%**

Source: J.P. Morgan

Regarding market response, however, despite the generally better than expected delivery, stock price was rather subdued with both stocks that missed estimates being penalized by more than usual, and stocks that have beaten expectations being on average down on the day. This indicates a market response that was relatively more bearish than average and consistent with strong prior performance and perhaps some overstretched positioning.

FAANG:

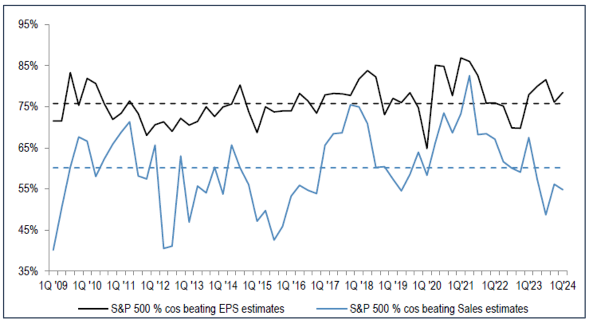
During Q1, the big tech firms continued to flex their muscles, driven largely by AI advancements. Microsoft's overall revenue saw a healthy 17% YoY growth in constant currency. Notably, Azure outperformed with a 31% growth, topping the 28% guidance. Office 365 Commercial matched its 15% growth expectation, and the operating margin outstripped consensus by about 175 basis points, reinforcing Microsoft's strong footing in the cloud arena.

Alphabet's growth in Search and YouTube Ads accelerated for the fifth straight quarter, signaling robust advertiser and consumer confidence. Amazon exceeded expectations, with Q1 revenue at $144.4 billion, marking a 13% YoY rise. AWS also impressed with a 17% YoY growth. Their GAAP operating income of $15.3 billion (10.6% margin) surpassed the high end of guidance by 27.5%, thanks to expanding margins in North American Retail and AWS. AI's impact was evident, boosting cloud growth for the second consecutive quarter.

Meta reported a 27% YoY revenue increase in Q1, up from 22% in the previous quarter. However, projected Q2 growth is expected to slow to 18% YoY (19% ex-FX), below the 20% consensus, and the company also raised its FY24 expense and capex outlooks. Despite this, Meta's investment in AI and efficiency continued to support its advertising business.

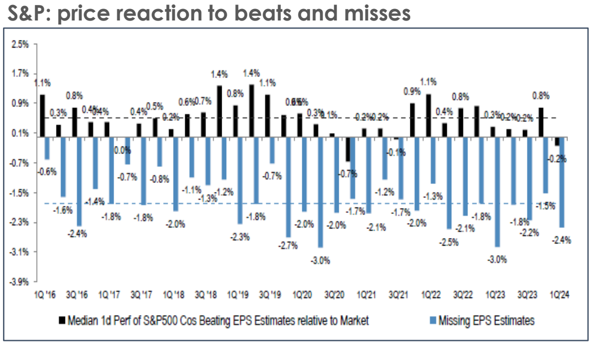
Apple's results were solid, aligning with expectations and slightly beating guidance. Concerns about China were addressed but remain a key focus. Apple expressed strong confidence in the potential of Generative AI and announced a massive $110 billion stock buyback.

S&P: % of companies beating quarterly EPS / SALES



Source: J.P. Morgan

S&P: price reaction to beats and misses



Source: J.P. Morgan

(continued)

Europe (Stoxx 600)

	No. of cos reported / Total	% reported	% cos beating EPS estimates	% cos Missing EPS estimates	EPS surprise	%yoy EPS growth	% cos beating Sales estimates	% cos Missing Sales estimates	Sales surprise	%yoy Sales growth
Stoxx600	**326 / 403**	**81%**	**58%**	**42%**	**4%**	**-8%**	**45%**	**40%**	**-1%**	**-3%**
Energy	13 / 16	81%	69%	31%	0%	-31%	46%	54%	-4%	-12%
Materials	32 / 38	84%	64%	36%	15%	-20%	28%	63%	-4%	-10%
Industrials	67 / 80	84%	51%	49%	0%	-7%	43%	48%	0%	0%
Discretionary	33 / 38	87%	53%	47%	-2%	-23%	47%	31%	0%	-2%
Staples	29 / 32	91%	71%	29%	6%	8%	48%	37%	1%	1%
Healthcare	29 / 38	76%	57%	43%	7%	15%	45%	38%	2%	0%
Financials	57 / 73	78%	72%	28%	8%	7%	69%	15%	2%	3%
IT	21 / 21	100%	39%	61%	3%	-26%	24%	62%	-2%	-8%
Com. Services	19 / 28	68%	33%	67%	-1%	4%	33%	22%	1%	3%
Utilities	10 / 19	53%	43%	57%	-10%	9%	33%	44%	-14%	-24%
Real Estate	16 / 20	80%	67%	33%	4%	-7%	42%	58%	3%	5%
Ex-Financials & Real Estate	**253 / 310**	**82%**	**54%**	**46%**	**2%**	**-15%**	**40%**	**45%**	**-1%**	**-4%**
Ex-Energy	**313 / 387**	**81%**	**57%**	**43%**	**5%**	**-1%**	**45%**	**39%**	**0%**	**-1%**
Cyclicals	**153 / 177**	**86%**	**52%**	**48%**	**1%**	**-19%**	**38%**	**49%**	**-1%**	**-3%**
Defensives	**87 / 117**	**74%**	**54%**	**46%**	**4%**	**12%**	**42%**	**35%**	**0%**	**-2%**

Source: J.P. Morgan

Cloud revenues for Google, Amazon, and Microsoft reaccelerated, driven by AI. CapEx for these companies plus Meta is expected to soar from $139 billion in 2023 to $234 billion in 2025, a $95 billion jump. NVIDIA, benefiting from this surge, has seen revenues climb by about $80 billion, underscoring the strong CapEx environment.

In summary, Q1 highlighted the robust growth and strategic AI investments of major tech players, setting a promising stage for the future.

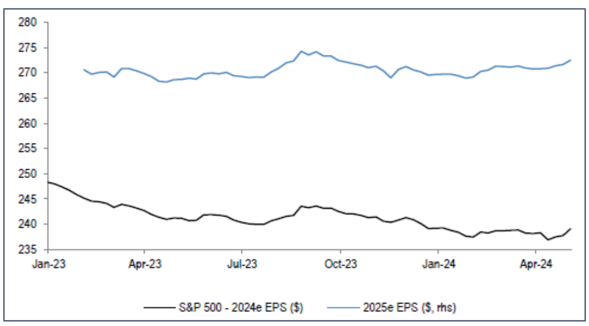
EUROPE (STOXX 600)

Examining Europe, despite the negative EPS growth, numbers were generally ahead of expectations. The much awaited recovery of soft data (PMI) in the region, coupled with a good level of macro data surprise (Citi economic surprise index), is giving hope to investors that Europe is back to growth already starting from the Q2. For what concerns the Q1, the overall Stoxx 600 saw a revenue decline of -3%, with a negative surprise margin of -1% driven mainly by Utilities, Energy, and Materials. Income, on the more positive side, decreased by -8% overall with a positive EPS surprise of 4%.

Like the scenario in the USA, sectors dependent on commodities faced greater challenges than others, resulting in a very low ratio of companies beating sales expectations. When shifting focus to income, the staples and financials sectors (again, as in Q4 2023) stood out as two of the best in terms of the ratio of companies beating EPS expectations, while IT and Communication services significantly dragged down this metric.

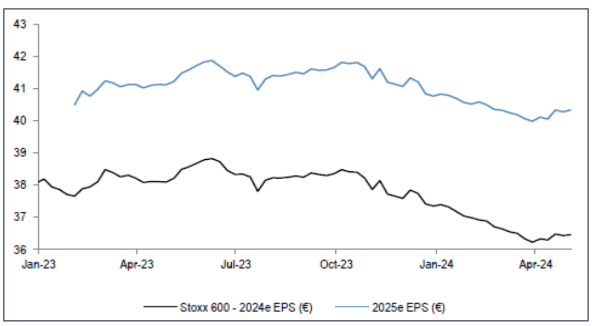
Regarding the outlook, European earnings expectations have finally found the bottom and started a recovery not seen since Q3 2023. Forecasts for the current fiscal year suggest a 4.5% growth for 2024 compared to 2023 and a 10% growth for 2025."

S&P500: 2024 and 2025 EPS estimates evolution



Source: J.P. Morgan

STOXX 600: 2024 and 2025 EPS estimates evolution



Source: J.P. Morgan

(continued)

Japan (TOPIX)

	No. of cos reported / Total	% reported	% cos beating EPS estimates	% cos Missing EPS estimates	EPS surprise	%yoy EPS growth	% cos beating Sales estimates	% cos Missing Sales estimates	Sales surprise	%yoy Sales growth
Topix	**817 / 2119**	**39%**	**60%**	**40%**	**6%**	**14%**	**52%**	**39%**	**1%**	**4%**
Energy	3 / 19	16%	-	-	-	-45%	-	-	-	0%
Materials	60 / 197	30%	58%	42%	7%	53%	40%	50%	-3%	4%
Industrials	215 / 575	37%	60%	40%	8%	14%	54%	41%	0%	3%
Discretionary	155 / 396	39%	65%	35%	18%	52%	48%	38%	5%	9%
Staples	85 / 184	46%	83%	17%	46%	29%	55%	25%	2%	4%
Healthcare	33 / 102	32%	38%	62%	-26%	-31%	52%	43%	7%	9%
Financials	48 / 147	33%	38%	63%	-58%	75%	47%	40%	3%	16%
IT	136 / 305	45%	49%	51%	-2%	-1%	54%	37%	1%	4%
Com. Services	44 / 115	38%	90%	10%	42%	38%	63%	33%	-1%	2%
Utilities	18 / 24	75%	75%	25%	105%	-51%	40%	60%	-6%	-15%
Real Estate	20 / 54	37%	67%	33%	-2%	2%	55%	45%	-9%	2%
Ex-Financials & Real Estate	**749 / 1917**	**39%**	**61%**	**39%**	**12%**	**13%**	**52%**	**38%**	**1%**	**3%**
Ex-Energy	**814 / 2100**	**39%**	**60%**	**40%**	**6%**	**14%**	**52%**	**39%**	**1%**	**4%**
Cyclicals	**566 / 1473**	**38%**	**57%**	**43%**	**10%**	**23%**	**51%**	**40%**	**2%**	**5%**
Defensives	**180 / 425**	**42%**	**72%**	**28%**	**19%**	**-14%**	**55%**	**35%**	**0%**	**-1%**

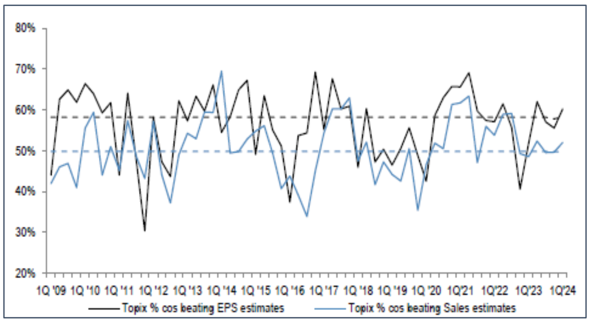
Source: J.P. Morgan

JAPAN (TOPIX)

Japanese companies fared broadly in line with consensus at a sales level while much better at the earnings level, showing a 4% and 14% growth respectively. On the top line, only Utilities recorded negative growth, and strong numbers came out from financials and healthcare. On the EPS growth, again utilities were a laggard, this time accompanied by healthcare, while on the brighter side Financials, Discretionary and Materials grew their earnings at a growth rate superior than 50%.

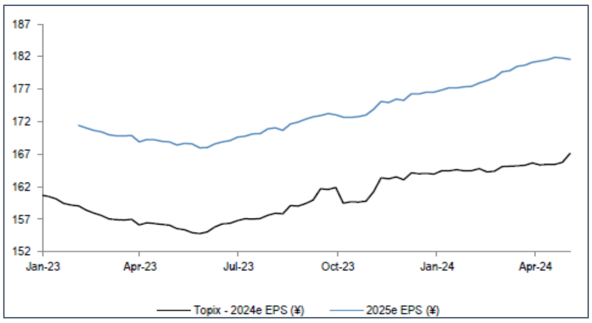
Looking ahead for Japan, the current and next fiscal years are expected to show a strong high single digit EPS growth after the recent upgrades.

TOPIX: % of companies beating quarterly EPS / SALES



Source: J.P. Morgan

TOPIX: 2024 and 2025 EPS estimates



Source: J.P. Morgan

Under the hood: broadening trend with most stocks & sectors seeing upgrades

Earning growth has been broadening and we see this by the proportion of companies with upgrades, positive revisions across most sectors and across size.

For instance, revisions breadth, that is the proportion of stocks seeing more upgrade than downgrade has continued to improve. Most S&P 500 and STOXX 600 companies are seeing upgrades to their margin estimates.

In terms of sectors, over the past three months, Travel & Leisure, Media, and Industrials have seen the largest upgrades in Europe, while Basic Resources, Food & Beverage, and Utilities have faced the most downgrades. In the US, Semi, Media, and Retailing have experienced the most upgrades, with Pharma, Durables, and Auto seeing the largest downgrades.

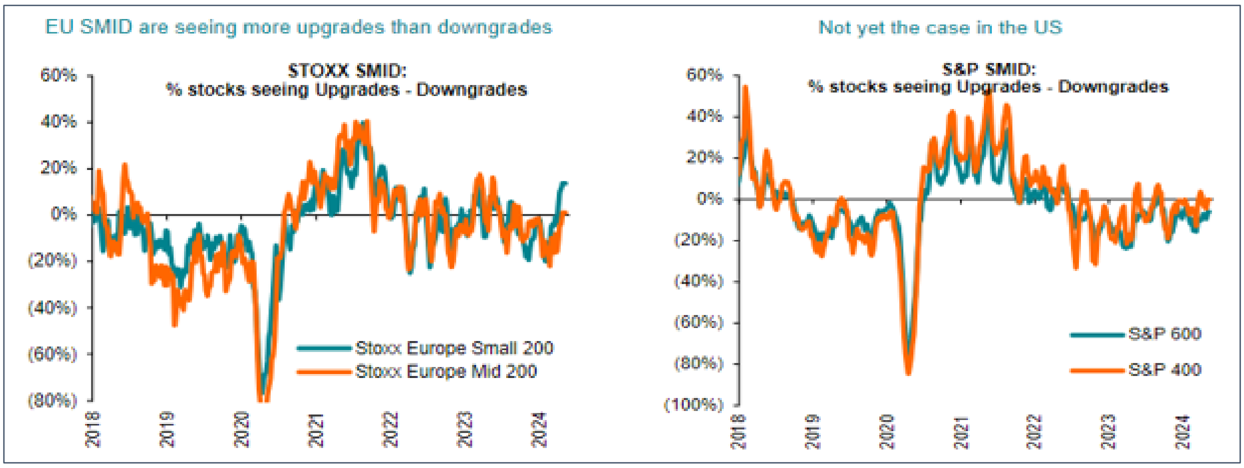
(continued)

Estimates on forward Net income margin: Europe and the USA

Source: Exane, Datastream

Additionally, Small/Mid Caps, a previously overlooked market segment, are gaining traction due to this broadening trend, with their valuations remaining deeply discounted. The proportion of EU Small and Mid-Cap stocks receiving upgrades now exceeds those facing downgrades. In the US, there has been some improvement, with upgrades and downgrades now more balanced for Midcaps. However, Small caps are still experiencing more downgrades than upgrades.

Small & Mid Caps Upgrades–Downgrades: Europe and the USA



Source: Exane, Datastream

Asset Allocation View

	−	=	+
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 maintained our recommendation on Developed Market Equities back to **Neutral**. The recovery that began in mid-April may still have room to go, considering the results of the reporting season. Moreover, Powell's dovish stance at the last FOMC meeting, and weaker-than-expected data also beginning to appear in the United States could lead to diminished pressure from interest rates.

US		Europe		Japan	
	=		=		=

Emerging Markets

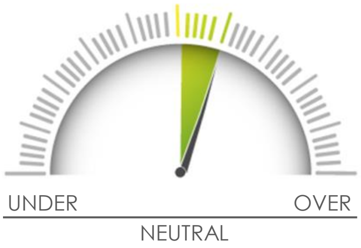
UNDER OVER
NEUTRAL

We also kept our **Slightly Overweight** recommendation on Emerging Markets Equities. The recent correction in interest rates, and the mild weakening of the dollar, could continue to support the positive trend on emerging markets. The Chinese stock market is continuing its recovery thanks to the re-positioning of foreign investors, whose sentiment is improving due to the approval of a few measures to support the real estate sector. Nevertheless, in the very short term, the Chinese market remains vulnerable to a consolidation after the rally of the past three months.

Asia ex-Japan		EEMEA		LATAM	
	=		−		=

Fixed Income

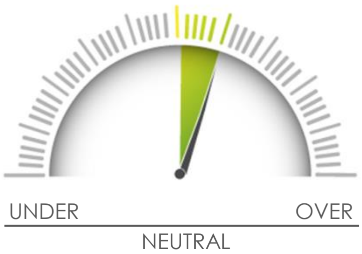
Developed Markets Sovereign



We confirmed our **Slightly Overweight** recommendation for Developed Markets Sovereign Bonds. We continue to believe that rates will stabilize around current levels, due to Powell's reassurance that rates will not be raised further, combined with weaker-than-expected macroeconomic data in the United States . The committee continues to prefer the short and medium segments of the yield curves. Conversely, we remain cautious about the long end, considering the possibility that the ongoing bull steepening could extend further.

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

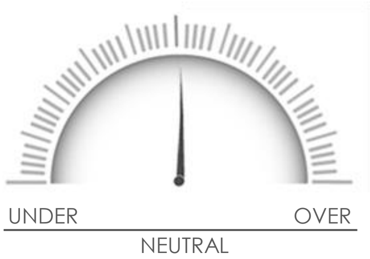
Developed Markets Corporate



We kept our **Slightly Overweight** recommendation on Developed Markets Corporates. We maintain our preference for investment-grade corporate bonds due to the persistently narrow spreads. Given the current low volatility environment, the carry trade strategy remains paramount.

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

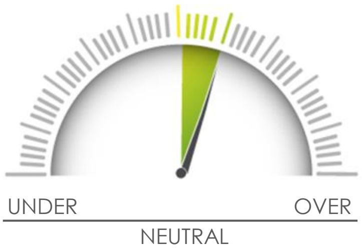
Emerging Markets



We also maintained our **Neutral** recommendation for Emerging Market bonds. On the one hand, the stabilization of interest rates in Western countries and the possibility of them being cut in the second half of the year represent a positive development for the asset class. On the other hand, any weakening of global growth would represent a headwind. Consequently, we offer a relatively more cautious recommendation compared to other bond strategies.

Local Currency	=	Hard Currency IG	−	Hard Currency HY	−

Commodities



We confirmed our **Slightly Overweight** recommendation on Commodities. Precious metals remain our preferred commodities, serving as a portfolio hedge amid unexpected geopolitical tensions and sustained inflationary pressures. Additionally, precious metals are gaining from substantial purchases by central banks, especially such as the Bank of China. Energy commodities could see a boost from increased demand for electricity necessary for artificial intelligence, while industrial commodities may benefit from rising demand in China.

Precious	+	Energy	+	Industrial	+	Agricultural	=

Currencies

The Committee kept the **Neutral** stance on the US Dollar. After weakening slightly in the past few days due to Powell's more dovish than expected press conference, the dollar is now considered fairly priced.

The view on the Euro is **Neutral** as well. The fact that the ECB is expected to cut rates before the Fed is counterbalanced by the slightly better-than-expected macroeconomic data coming out in Europe, particularly confidence data.

The view on the **Chinese Renminbi** is confirmed to **Negative**. For several weeks, the Renminbi has been trading near the upper boundary of the permitted fluctuation band with respect to the central bank's fixing. In the past, when such a situation persisted for a while, it was followed by a devaluation of the Chinese currency. Another reason that could lead China to let the renminbi weaken is the depreciation of the yen, which reduces China's competitiveness.

The outlook for other **emerging market currencies** is **Neutral**. Among emerging currencies, the committee is now preferring the Turkish Lira.

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