Main Events

CHINA RETAIL SALES	US RETAIL SALES	WORLD PMI	US CONSUMER CONFIDENCE
Year-on-year retail sales are expected to rebound from the lowest level since the reopening in late 2022	After last month's significant miss, retail sales are expected to rebound moderately	June PMI data from several developed countries will help gauge the resiliency of the global economy	With mixed indications from labor statistics, confidence can be used to check the effective health of the U.S. Consumer
18.06	18.06	21.06	25.06

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

EUROPE UNDER STRESS

- **The EU elections did not result in a significant change in the composition of the Parliament. However, Macron's decision to call snap elections rattled markets**
- **Market fears, however, are seen as exaggerated, considering that the only concrete risk at the moment could be a further fiscal slippage in France**
- **In the US, payroll numbers continue to seem overstated, while the Fed proved more hawkish than expected, reducing the number of cuts projected for 2024 to just one**

The week just ended was expected to be pivotal. And so it was. But not for the reasons the market expected, namely the Fed meeting along with the new projections and dot plot. Wreaking havoc on the markets was Macron's decision to call snap elections in France in the aftermath of the European elections.

The European elections, actually, have not significantly changed the status quo. The centrist European People's Party (EPP) gained 14 seats to 190, the left-wing Socialists and Democrats (S&D) party lost 3 seats to 136, and the Green Party suffered the largest defeat, dropping from 71 to 52 seats (it should be noted, however, that the total number of seats increased in these elections from 705 to 720). The extremist parties, particularly the right-wing parties, did see an increase, but not enough to put them in a prominent position.

The anti-establishment vote has been particularly strong in France and, to a slightly lesser extent, in Germany. But Macron's decision to dissolve the national parliament and call parliamentary elections (not presidential, Macron will remain in office) was seen as a desperate and, above all, ill-considered move.

Many have drawn parallels with Cameron's decision in 2016 to call a referendum on Brexit. We disagree, as there is absolutely no risk to the European Union. Primarily because this is a national election and not a referendum on leaving the euro. Secondly because Marine Le Pen's party, since 2022 officially led by Jordan

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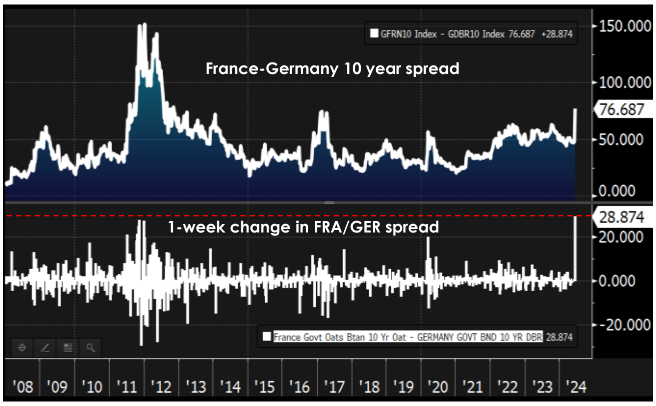
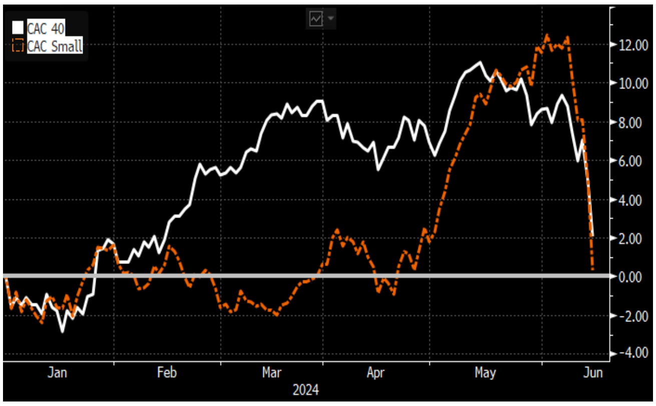


Source: Bloomberg



Source: Bloomberg

Bardella, has long ago dropped any idea of leaving the EU. Third, because even if an anti-establishment party succeeds in forming a government, it generally becomes much more "aligned" when it is in power than when it was in the opposition. This dynamic has been observed several times in Italy in recent decades. There are no reasons why this time is different.

The only reasonable concern, from what can be observed at the moment, is that if Le Pen's party (Rassemblement National, or "RN") succeeds in forming a government, could implement fiscal policies that would further undermine public finances.

France's budget deficit in 2023 was 5.5%, one of the highest in Europe after Italy's (7.4%), while public debt, though down from 118% post-pandemic, is expected to rise slightly in the coming years. Based on these dynamics, Fitch downgraded France in 2023, and S&P did the same shortly before the European elections. The possibility of RN causing further budget slippage is therefore a cause for concern. Additionally, the decision by the left-wing parties to present a united front to confront RN further reduces the chances of candidates from centrist parties to win seats in the new parliament. The far right and far left could thus be the two main vote-gatherers in the next election. And a parliament with a majority of populists is potentially more likely to increase government spending. But other worries are unfounded for the time being.

However, the markets reacted very badly. Contributing to the meltdown was another wrong decision by Macron, namely to call elections on the spot, as early as June 30. It is reasonable to expect that the average investor would have cautiously reduced exposure to Europe and even more so to France in the run-up to that election, considering that the outcome may not be the best one for markets. But three weeks is an extremely limited time horizon from a financial perspective. Especially considering that all investment flows will be one-sided.

The France-Germany spread rose 29 bps in the week, the biggest increase in history, even larger than during the darkest moments of the European periphery crisis in 2011. The French stock index, CAC 40, lost more than 6% despite including a number of multinational companies, including luxury brands that do much of their business outside of France. But it was the small-cap index that suffered the most, plunging by 11%, because of the greater dependence of small caps to the domestic economy, and their lower liquidity. Both indexes nearly wiped out all their YTD gains.

To make matters worse, around the same time, the EU announced an increase in tariffs on Chinese electric vehicles. This move could cause China to retaliate. It is well known that the European economy is mainly driven by exports, as domestic consumption has always remained sluggish. China is a major export market for European goods, especially luxury goods, including automobiles. Not surprisingly, automakers, particularly high-end automakers, and luxury brands suffered greatly last week. Fortunately, for now China seems to be considering only the imposition of tariffs on pork imports. If retaliation were limited to that, the impact would be minor, at least from financial markets' perspective.

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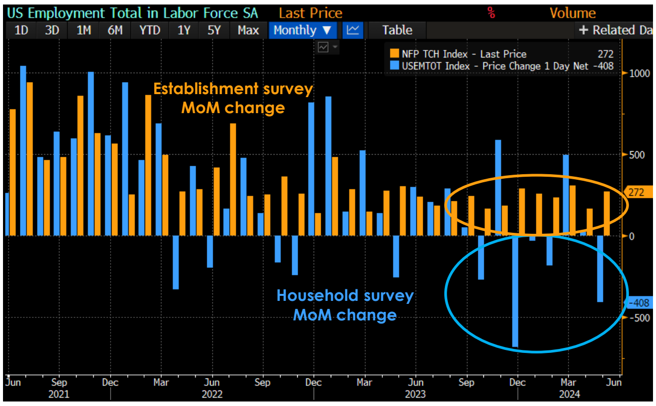

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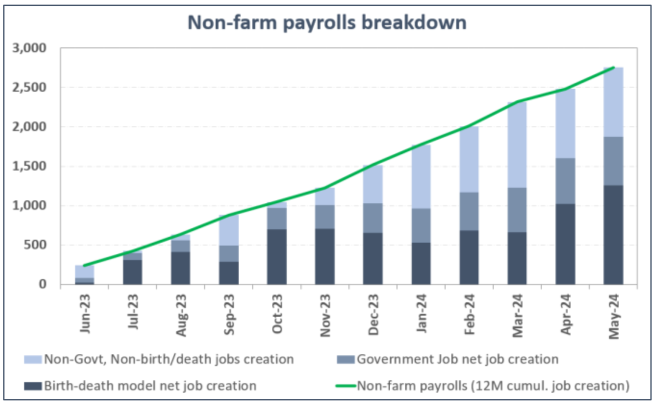

Source: Bloomberg, Azimut elaboration

We therefore believe it is possible that Europe will remain under pressure until the elections, but that, barring a landslide victory by the RN, financial markets may rebound in the first part of July, retracing at least part of the ongoing correction. As for the medium term, an assessment can only be made after the election result will be known.

After this long section on EU elections, we cannot, however, neglect the other two major events of the past two weeks, labor data and the Fed.

The data on nonfarm payrolls were once again apparently strong. However, the inconsistencies we discussed in the previous report have become even more apparent.

As explained earlier, there are two main labor market surveys, the household survey and the establishment survey. The non-farm payroll (establishment) survey, the one most closely monitored, has been showing much better data than the household survey for more than six months. From December 2023 to date, nonfarm payrolls show more than 2 million more jobs created than the household survey. As for the May figure alone, nonfarm payrolls report 272,000 new jobs, while based on the household survey, 408,000 would have been lost. The recent pickup in initial unemployment claims seems to validate the household survey's indications.

We also cannot emphasize how the non-farm payroll figure has been heavily distorted by the so-called "birth-death" model over the past year. This model is supposed to correct the total number of jobs created based on an estimate of how many new businesses were created (birth) and how many closed (death). It is not possible to verify the data produced by this model, which is a kind of "black box."

Of the 2.75 million jobs created in the past 12 months based on the non-farm payroll report, as many as 1.25 million are ascribed to the birth-death model. In May alone, compared with a total of 272,000 new jobs, 231,000 were attributable solely to this model. Moreover, in the past year the government alone has created about 600,000 jobs. If we exclude the contribution of the birth-death model and new government jobs, which are hardly indicative of a strong economy, less than 900,000 jobs have actually been created in the past year, or only about one-third of the total reported by nonfarm payrolls.

The story does not end there. If we split the employment data into full-time jobs and part-time jobs, we see that the former are declining (-1.5 million in the last year), while the latter are increasing (+2.2 million). We cannot consider part-time jobs the same as full-time jobs. In this case, the overall figure for nonfarm payrolls leads to an overestimation of the "quality" of jobs.

Also, if we divide the figure by citizenship, the number of employed natives (U.S. citizens) decreased by 1.4 million in the last year, while "aliens" (people living in the U.S. but not U.S. citizens) got 1.2 million new jobs. The overall employment figures again overestimate the strength of U.S. workers, as new jobs have gone mostly to immigrants, whose numbers have increased sharply during the Biden presidency. But for U.S. citizens, who are responsible for most of the consumption, the situation is not as rosy as portrayed.

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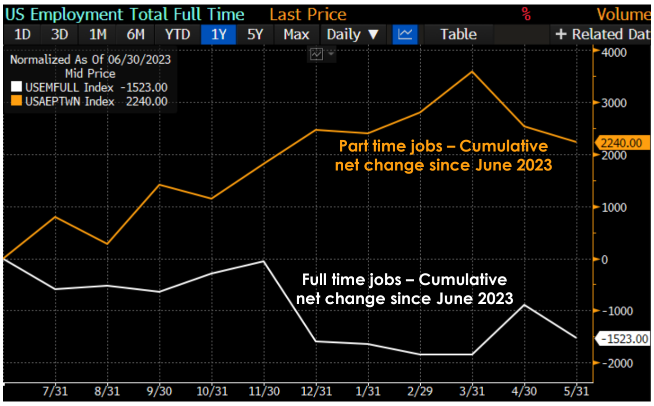

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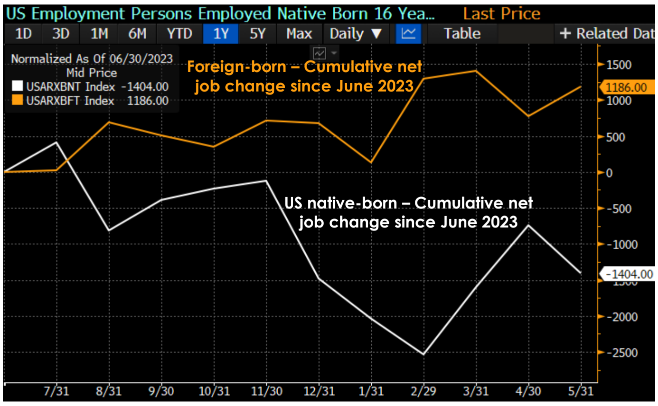

Source: Bloomberg

To conclude, a few words about the Fed. The U.S. central bank seems to be increasingly out-of-tune with reality. In December, when inflation was far from being defeated, the Fed unsolicited penciled three cuts for 2024. In the first months of the year, when stronger-than-expected inflation data kept coming out every month, the Fed downplayed the importance of those data. Now that inflation has been coming out in line or lower than expected for two consecutive months, the number of expected cuts (as indicated by the newly updated dots) has dropped to just one. In addition, the "terminal rate" or "neutral rate" has been raised further.

Given this latest twist, should the economy slow, it is possible that the Fed may be reticent to lower rates as fast as necessary. And that possibility seems to be less and less remote, as per what we wrote in this and in previous reports.

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Asset Allocation View

	Under (−)	Neutral (=)	Over (+)
Equity			
Developed Markets		■	
Emerging Markets			■
Fixed Income			
Developed Markets Sovereign		Downgrade	
Developed Markets Corporate			■
Emerging Markets		■	
Commodities			■
Currencies		*Commentary below*	

UNDER NEUTRAL OVER

Equity

Developed Markets

We kept our recommendation on Developed Market Equities as **Neutral**. The developments in Europe discussed in the prologue to this report may continue to keep the Old Continent under pressure, at least until the French elections at the end of the month. In addition, the more hawkish-than-expected attitude by the Fed, which reduced the number of cuts for 2024 to only one and raised the terminal rate may weigh on stocks. On the other hand, the positive momentum may continue, despite increasingly stretched valuations.

US	Neutral	**Europe**	Neutral	**Japan**	Neutral

Emerging Markets

We also kept our **Slightly Overweight** recommendation on Emerging Markets Equities. The recent developments in Mexico and Brazil are prompting investors to reallocate their exposure within the emerging market universe. The biggest beneficiaries of this shift in allocation are Asian markets, particularly China and India, where a continuation of the bullish trend is seen as possible.

Asia ex-Japan	Neutral	**EEMEA**	Under	**LATAM**	Neutral

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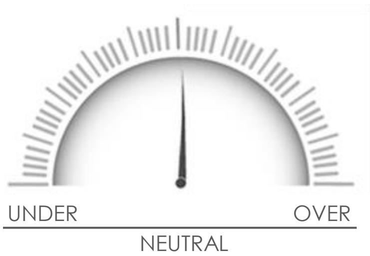
Fixed Income

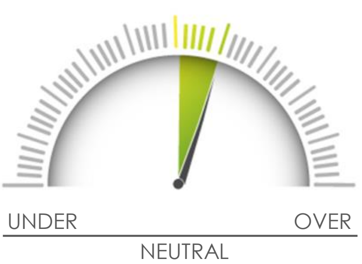
Developed Markets Sovereign



We lowered our recommendation for Developed Markets Sovereign Bonds to **Neutral**. After the sharp decline in yields in recent weeks, particularly on the two curves perceived as "safe haven assets," the United States and Germany, we believe there is limited room for a further decline in yields in the immediate term. Should the French elections turn out to be less of a concern than anticipated so far, a partial reversal of recent movements is possible. However, it is realistic to assume that French and Italian spreads over Germany will settle in the medium term at a level not too far from the current one, and not returning to the pre-election levels.

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

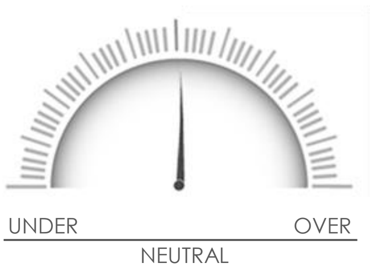
Developed Markets Corporate



We kept our **Slightly Overweight** recommendation on Developed Markets Corporates. We maintain our preference for investment grade corporate bonds due to their persistently narrow spreads.

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

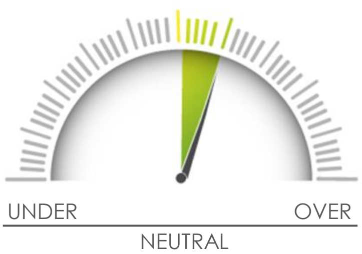
Emerging Markets



We also maintained our **Neutral** recommendation for Emerging Market bonds.

Local Currency	=	Hard Currency IG	−	Hard Currency HY	−

Commodities



We confirmed our **Slightly Overweight** recommendation on Commodities. Precious metals have remained our only favorite commodities as they serve as a portfolio hedge in case of unexpected geopolitical tensions, sustained inflationary pressures and political uncertainties. Additionally, precious metals are gaining from substantial purchases by central banks, particularly by the Bank of China. In contrast, we are increasingly cautious on commodities that are more linked to the business cycle.

Precious	+	Energy	=	Industrial	=	Agricultural	=

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Currencies

The Committee kept the **Neutral** stance on the US Dollar. The 2 percent strengthening in recent days can be attributed entirely to the outcome of the European elections and especially Macron's decision to call snap elections, and the current exchange rate is considered to be fair.

The view on the Euro is **Neutral** as well for the same reason, in reverse, mentioned for the US Dollar.

The view on the **Chinese Renminbi** is confirmed to **Negative**. China is gradually letting the Renminbi weaken, although market rates continue to remain close to the upper limit of the allowed fluctuation band against the central bank's fixing. This means there is still ample selling pressure and downside risk for the currency.

The outlook for other **emerging market currencies** is **Neutral**. Among emerging currencies, the Committee favors the Turkish Lira.

Euro	=	USD	=	CNY	=	Other EM	=

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