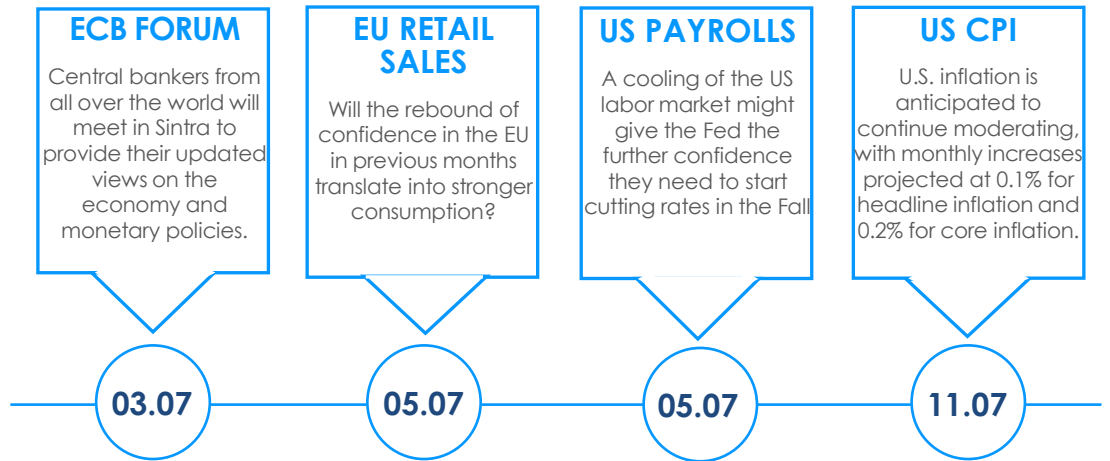


## Main Events

### 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



## FRENCH ELECTION

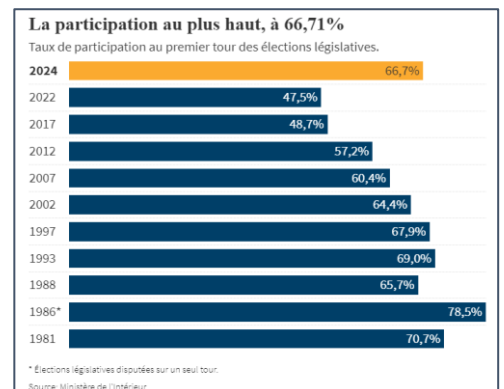
- **The far right and far left parties are the two clear winners of the first round of elections in France, winning about 60% of the votes with a record turnout**
- **Although projections suggest that the Rassemblement National will fall short of a majority, surprises cannot be ruled out in the second round, especially in constituencies where the runoff will be between far-right and far-left candidates only**
- **Financial markets reacted positively, believing that with a hung parliament, major reforms or fiscal slippages would not be possible**

The first round of the French elections gave no conclusive indication of the future composition of the parliament. Nevertheless, it is worth delving into some of the main evidence from this vote, while awaiting the final results next Sunday.

The first evidence is that two out of every three French citizens went to the polls, bringing election turnout to the highest level in 30 years, in sharp contrast to the increase in abstentionism seen in recent elections. This higher turnout translates into a much higher significance gives much higher significance to the vote itself.

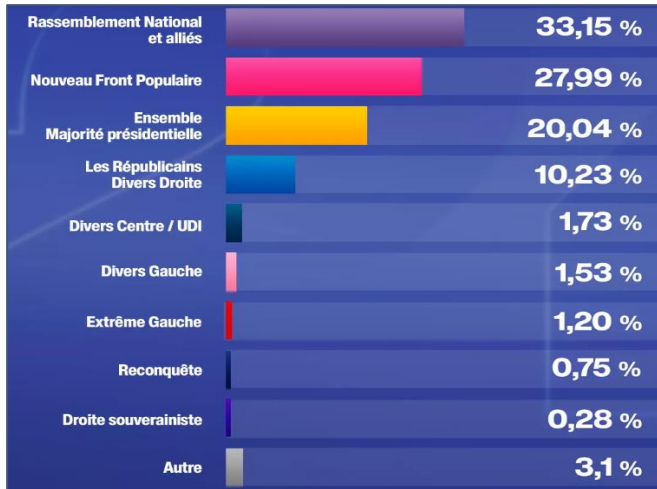
Considering the number of votes that the far right and far left received together, 60%, it would be a big mistake to downplay the significance of this discontent vote.

The second evidence is that the RN (Rassemblement National) won about one-third of the total votes, almost double the result from the legislative elections two years ago, and emerged as the leading party in France for the first time in its history. Yet, according to official projections, it still falls short of winning a majority.



Source: Le Figaro

(continued)



Source: France24.com

The left-wing coalition (NFP, Nouveau Front Populaire) formed just after the announcement of snap elections, achieved 28% of the vote, relegating Macron's party (Ensemble) to third place with 20%.

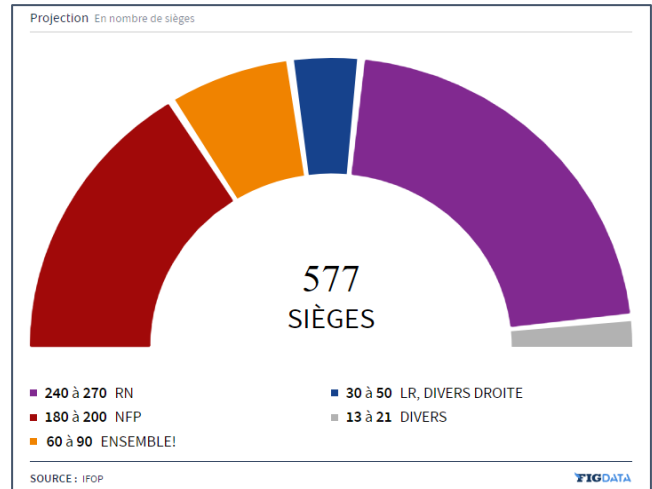
As a reminder, the electoral system in France is a two-round system with uninominal constituencies. This means that there are 577 constituencies (one for each parliamentary seat), and in each constituency the candidate who gets more than 50% in the first round is elected, otherwise a runoff must take place.

The outcome of the election will therefore be decided by the second round, in which candidates who received at least 12.5% of the vote in the first round participate. Based on the results of the first round there will be about half of the constituencies where the runoff will be held with three or more candidates.

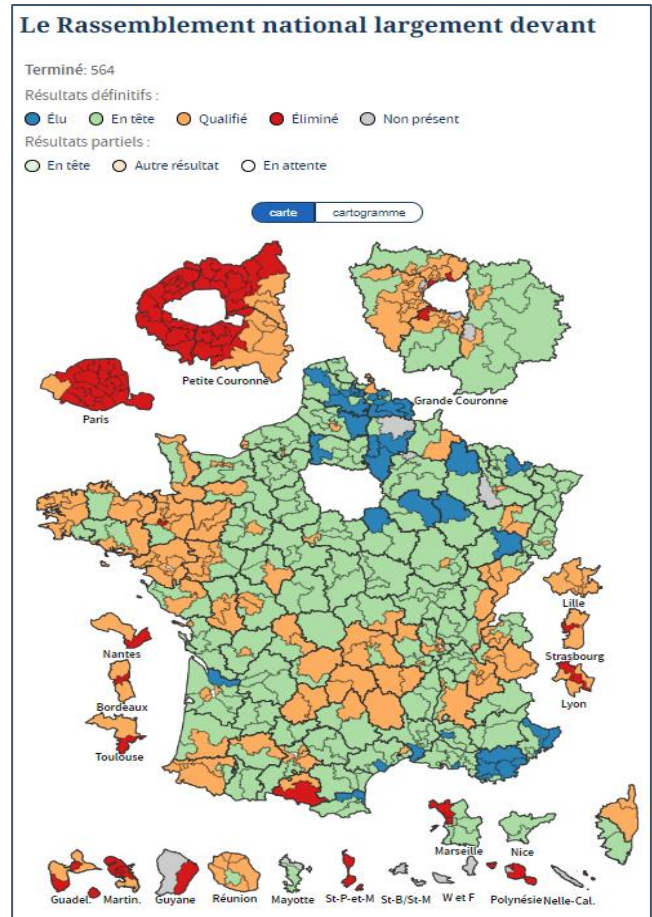
To try to prevent the RN from winning a majority where there are three candidates in the runoff, it might be possible that Ensemble and NFP decide not to compete, agreeing to withdraw from the second round their candidate who received the fewest votes. The only exception seems to be if there is a candidate from Mélenchon's party (La France Insoumise, or "France Unbowed" which is one of the NFP's coalition parties) in the second round, in which case Ensemble's candidate will still participate.

The purpose of this maneuver is to prevent the votes of those who want to prevent the RN from getting a majority from being dispersed over multiple candidates. Basically, Ensemble and NFP want to put the French citizens in front of the choice: vote for or against the RN. This strategy has always worked in the past. But it worked mainly because the candidate opposing the RN was usually a centrist/moderate.

This time, however, the RN will advance to the second round with its candidate generally in the first place (see map on page), with the sole exception of Paris and the surrounding area, where no RN candidate has made it to the runoff. In most cases, therefore, the two contending candidates might be from the RN and the NFP.



Source: Le Figaro



Source: Le Figaro

## (continued)

Face with the dilemma of having to choose between a far-right or far-left candidate, it is not certain how the moderate French electorate will react. While the RN in recent years has tried to portray itself as being less extremist, this is not as true for the leftist coalition that includes Mélenchon's La France Insoumise (LFI). Relying on the traditional reaction function of French voters could therefore leave room for surprises. Although unlikely, one cannot rule out the possibility that the current projections could be disproved.

It should be noted that Jordan Bardella, party leader of the RN, has declared that he will decline to become prime minister if his party does not win an absolute majority in parliament. In that case, the onus to form a government will be on the parties that have put so much effort into preventing the RN from gaining a majority.

Unfortunately, there does not seem to be a viable majority alternative to the RN. The NFP is a coalition created only a few days ago without a real electoral program and with the sole intent of gaining as many seats as possible to minimize the RN's hopes of forming a government. It is therefore realistic to assume that once in parliament, the various parties that form the NFP will split. Moreover, a coalition between the far left and centrists would be unthinkable, since the latter are as opposed to the LFI's programs as they are to the RN's.

To complicate matters further, Article 12 of the French Constitution stipulates that Parliament cannot be dissolved before at least one year has passed since the last election. France could end up with a hung parliament throughout next year, with a minority government having to negotiate the approval of each measure with one or more of the parties that are not part of the minority coalition. It would therefore not be realistically possible to pass any major measure or reform, thwarting the desire for a change of course in French politics so clearly demanded by the French people through the recent protest vote. Eventually, this may lead to even more radical choices by voters in the next election.

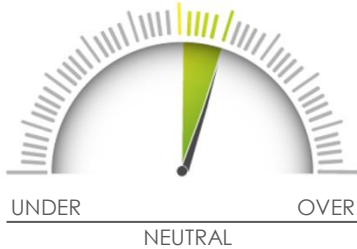
Given the reaction after the first round, it appears that markets are betting that the most likely outcome after the runoff is a hung parliament. This scenario is apparently the market's favorite, considering that without a stable majority from any party or coalition, at least for the next twelve months nothing major can happen, including the risk of further fiscal slippage from France.

This was especially evident by the reaction of safe haven assets such as German and U.S. government bonds. Their yields soared, retracing much of the decline that followed Macron's decision to call snap elections. However, French government bond rates have continued to rise and are not that far off the highs of last October. Nonetheless, the spread with Germany has narrowed slightly. The French stock index, the CAC40, jumped 2.8% immediately after Monday's open, but gave up most of its gains and closed up only 1%. Any deviation from the scenario of a hung parliament may cause additional volatility.



## Fixed Income

### Developed Markets Sovereign



We have increased our recommendation for Developed Markets Sovereign Bonds back to **Slightly Overweight**. In the last few sessions, there has been a significant rebound in interest rates on all major curves, particularly on the long ends. After the tactical downgrade in the previous report, yields have returned to attractive levels, justifying the upgrade.

EU Core



EU Periphery



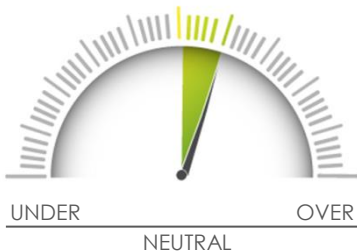
US Treasury



Japanese JGB



### Developed Markets Corporate



We maintained 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



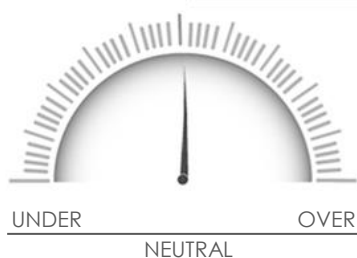
HY Europe



HY US



### Emerging Markets



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

Local Currency



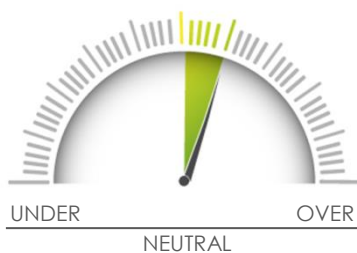
Hard Currency IG



Hard Currency HY



## Commodities



We confirmed our **Slightly Overweight** recommendation on Commodities. Precious metals are our preferred commodities as they serve as a portfolio hedge in case of unexpected geopolitical tensions, sustained inflationary pressures, and political uncertainties. In contrast, we are increasingly cautious about commodities that are more closely linked to the business cycle..

Precious



Energy



Industrial



Agricultural



## Currencies

The Committee kept the **Neutral** stance on the US Dollar. We continue to believe that the greenback is fairly valued, considering the weaker-than-expected data from the United States on the one hand and the political uncertainties still hanging over the EU on the other.

The view on the Euro is **Neutral** as well.

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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