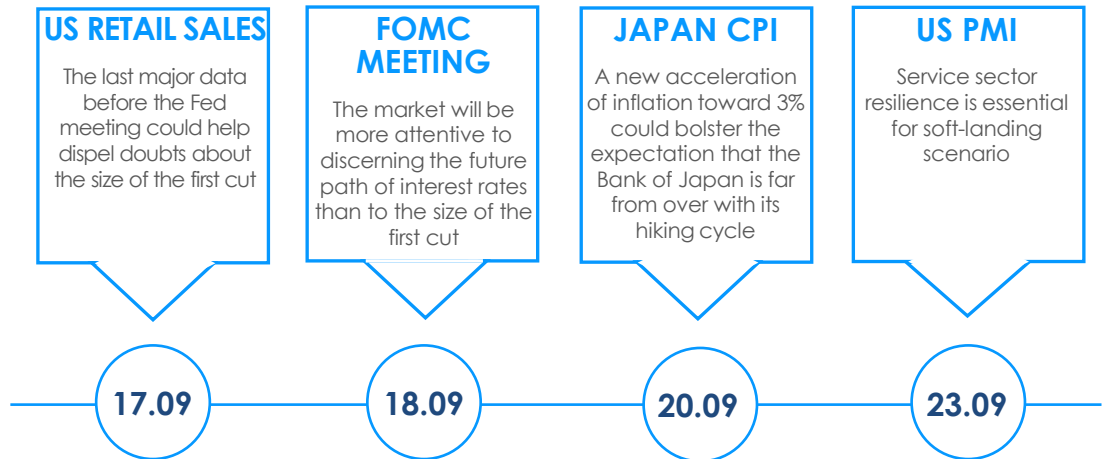


Main Events

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



DISSENTERS ARE WELCOME

- **The ECB delivered a “hawkish cut,” downplaying the ongoing economic slowdown in the EU and tempering expectations of a series of rate cuts**
- **Macroeconomic data in the U.S. confirmed the ongoing slowdown in the labor market, and the reduction in inflation despite the resilience of sticky components**
- **The best scenario for markets is one in which the Fed's decision is not unanimous, regardless of whether the cut is 25 or 50 bps**

After the considerable expectations raised at the Jackson Hole meeting, the time has come for Western central banks to deliver on their promises to begin a major round of rate cuts.

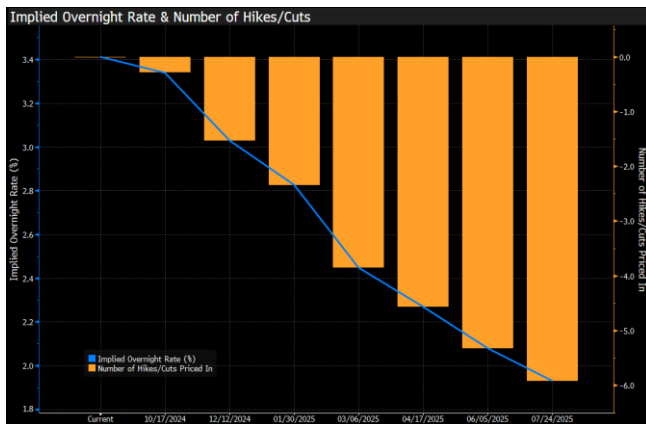
The first to meet was the European Central Bank, which, unfortunately, once again didn't miss an opportunity to confirm its total lack of flexibility and responsiveness.

The updated staff projections show that inflation will decline faster than expected, reaching the ECB's target as early as the second half of 2025. Growth expectations for all years up to 2026 have been revised downward by one decimal. During the press conference Lagarde also emphasized several times that the European economy and more particularly manufacturing in Germany is struggling, the wage growth is continuing to moderate, and that a short-lived rebound in inflation is possible in the months ahead, but solely due to an unfavorable base effect, i.e. nothing worrisome or lasting.

Notwithstanding the above, it was reiterated that it is necessary to proceed cautiously in cutting rates, and that decisions will be made on a meeting by meeting basis, continuing to follow the “data-dependent” approach. Therefore, after this meeting's 25 basis point cut, given the ECB's total lack of care for Europe's economic woes, it is likely that the next cut will not occur until December.

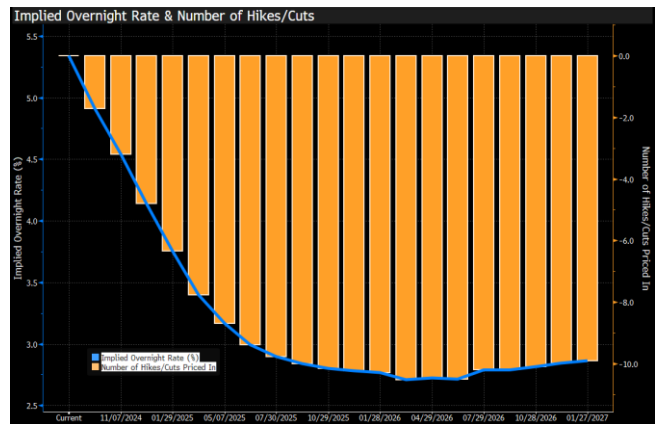
(continued)

ECB – Implied overnight rates and number of hikes/cuts



Source: Bloomberg

FED – Implied overnight rates and number of hikes/cuts



Source: Bloomberg

But of course all eyes are on what the Federal Reserve will do, and even more importantly, what it will communicate at Wednesday's meeting.

Labor market data released after Jackson Hole confirmed the ongoing slowdown. The number of job openings fell by 300,000 (on a prior figure revised down by 200,000), returning to pre-pandemic levels. Nonfarm payrolls came in at +142k, lower than the +165k expected. The overall figure of +142k hides a reduction in full-time employees of 438k. In addition, data for the previous two months was revised downward by 86k.

CPI was broadly in line with expectations, confirming the downward trend in inflation. Overall inflation increased by 2.5 percent year-on-year, down from 2.9 percent previously. However, core inflation remained stable at 3.2 percent and "supercore" inflation ("core services ex housing") at 4.6 percent. Although the resilience of the sticky components of inflation does not argue in favor of aggressive cuts, Powell made it clear in his Jackson Hole speech that from now on it is the health of the labor market that will matter most, rather than the path of inflation. As a result, the market currently assigns a slightly higher probability to a 50 basis point cut than to one of 25 basis points. Deciding one way or the other will likely depend on Tuesday's retail sales data.

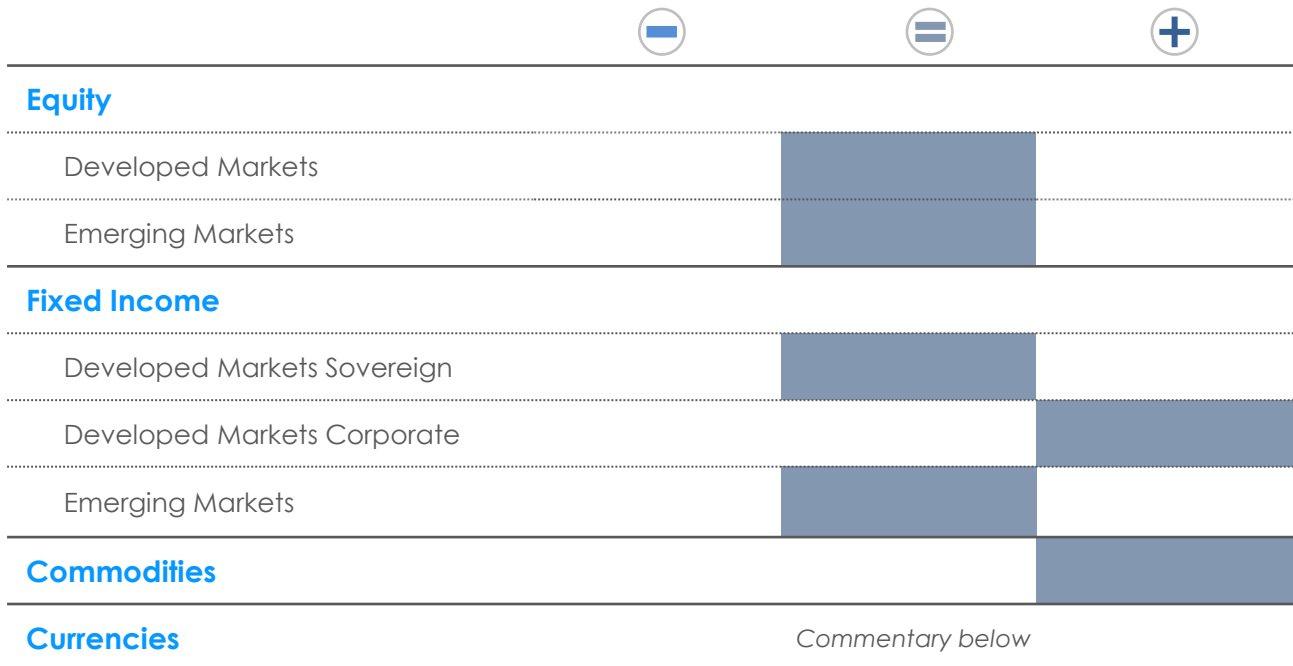
More than the size of the cut, what will really matter is how the cut is presented, starting with whether the decision is unanimous or if there are dissenters.

The hypothesis of a unanimous decision is probably the most negative one. If the cut were 25 basis points, the market would be concerned that the Fed is behind the curve, raising the likelihood of incurring a recession due to an overly tight monetary policy. If, on the other hand, everyone agreed on a 50 basis points cut, there would be widespread concern that the Fed is panicking and that a recession is perhaps already underway.

A 25 basis point cut with a few dissenters who would have preferred 50 basis points, or a 50 basis point cut with a few dissenters who would have preferred 25 basis points, would instead signal the existence of a lively debate within the Fed board. In the former case, the Fed would appear not too concerned about the current slowdown, but ready to act more forcefully if future macroeconomic data warranted it; in the latter case, on the other hand, the Fed would appear as highly reactive to a changed macroeconomic scenario, but without showing any panic. Therefore, the best-case scenario for the market is likely to be one of a non-unanimous decision, regardless of the size of the cut.

However, it cannot be ignored that financial markets are currently pricing a goldilocks scenario: U.S. rates are discounting nearly 5 cuts (120 basis points) by year-end, while equity markets are back close to all-time highs. Some short-term volatility is therefore possible, even if one of the two most favorable scenarios materializes, but it is likely to be short-lived, unless concrete evidence of a more pronounced slowdown emerges.

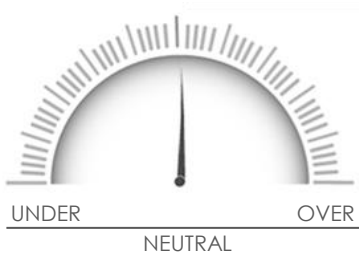
Asset Allocation View



UNDER NEUTRAL OVER

Equity

Developed Markets



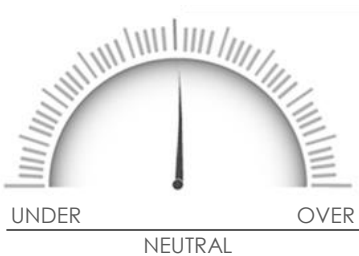
We have maintained our **Neutral** recommendation on Developed Market Equities. Equity markets have already fully discounted the start of a cycle of rate cuts by the Federal Reserve and seem confident that this will lead to the much-hoped-for soft landing. In light of this optimistic scenario, short-term volatility is possible if surprises emerge during the press conference. However, as long as the economic data remain robust, any correction could be short-lived.

US

Europe

Japan

Emerging Markets



We have maintained our **Neutral** recommendation on Emerging Markets Equities. Valuations remain favorable and at a significant discount to developed markets, and the prospect of a rate-cutting cycle by Western central banks is certainly a positive development for emerging countries. Additionally, the possibility a weaker dollar if the Fed cuts rates aggressively is also supportive of emerging countries. However, the continued lack of stimulus measures in China, despite worsening macroeconomic data, suggests that Chinese equities may continue to underperform other emerging markets.

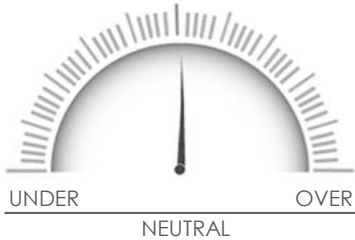
Asia ex-Japan

EEMEA

LATAM

Fixed Income

Developed Markets Sovereign



We maintained our **Neutral** recommendation for Developed Markets Sovereign Bonds. The rally in government bonds has continued in recent weeks, with the US curve now discounting nearly five 25-basis point cuts by the Federal Reserve by the end of the year. In the short term, it is challenging to envision further upside for U.S. Treasuries under the baseline scenario of a soft landing. However, given that the inflation outlook should continue to moderate and the business cycle is slowing, we neither see any significant downside risks for bonds in the medium term, hence the neutral recommendation.

EU Core



EU Periphery



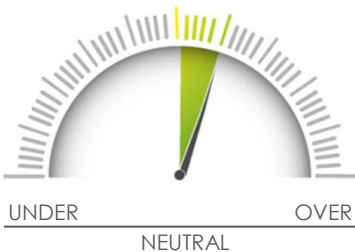
US Treasury



Japanese JGB



Developed Markets Corporate



We have maintained our **slightly Overweight** recommendation on Developed Markets Corporates. Considering that the positive contribution from duration is likely to be limited in the future, as mentioned above, within the fixed income market, the search for yield will continue to support corporate bonds. Among corporates, we continue to prefer investment-grade bonds over high-yield bonds.

IG Europe



IG US



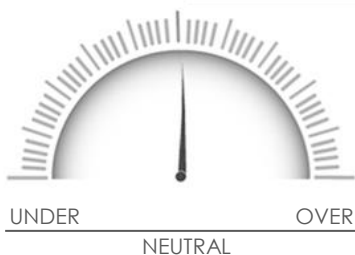
HY Europe



HY US



Emerging Markets



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

Local Currency



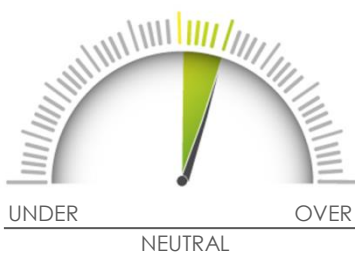
Hard Currency IG



Hard Currency HY



Commodities



We have confirmed our **Slightly Overweight** recommendation on Commodities. Within commodities, we remain positive on precious metals, which tend to outperform in times of monetary policy easing, in addition to serving as a portfolio hedge in the event of unexpected geopolitical tensions and political uncertainties. In contrast, we are more cautious on cyclical commodities, which could come under pressure if economic growth slows further.

Precious



Energy



Industrial



Agricultural



Currencies

The Committee kept the **Neutral** stance on the US Dollar. After depreciating in recent weeks on rising expectations of a first 50 basis point cut by the Fed, the dollar could stabilize around these levels unless the Federal Reserve proves particularly dovish at Wednesday's meeting. In the short term, from a technical analysis point of view, it will be important to see whether or not the long-term downward trendline hovering around 1.1250 will be able to hold.

The view on the Euro is **Neutral** as well. Lagarde's hawkish attitude during the press conference following the ECB meeting bolstered the Euro. In the short term, further appreciation is possible only if the Fed turns out to be more dovish than expected.

We maintained the **Neutral** view on the **Chinese Renminbi**. Even if the Chinese government continues to refrain from any fiscal stimulus, the prospect of a dovish Fed could relieve pressure on the Renminbi in the short term.

The outlook for other **emerging market currencies** is **Neutral**. Among emerging currencies, in the current environment the Committee favors Asian currencies.

Euro 	USD 	CNY 	Other EM 
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