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AZIMUT GLOBAL VIEW

14.10.24

Main Events

UK CPI
After higher-than-expected core inflation in several Western countries, attention is now focused on the UK to determine if this inflationary pressure is part of a broader global trend

16.10

ECB MEETING
The larger-than-expected cut by the Fed fueled expectations of a 25 bps cut by the ECB, even though Lagarde made a push back in September

17.10

CHINESE DATA
Further weakening in retail sales, industrial production and investment could prompt the Chinese government to give more guidance on fiscal stimulus

18.10

GLOBAL PMI
Will the recent central bank pivot have resulted in improved business sentiment?

24.10

RESURGENCE OF US EXCEPTIONALISM

- **US Nonfarm payroll reported a 254k increase in September, beating consensus expectations of a 150k increase. The US ISM services indicator also increased more than expected to 54.9, the highest level since February 2023**
- **In light of recent economic and employment data, it's likely that the Fed will proceed at a slower pace in its rate-cutting cycle, opting for 25bp cuts rather than 50bp**
- **The rally in Chinese equities partially reversed after domestic authorities' announcements disappointed market expectations. However, sentiment was stabilized by further communications from the Ministry of Finance (MOF), now leaving investors waiting for the next National People's Congress (NPC) meeting**

After a period when US exceptionalism appeared to be waning, recent data indicates renewed strength in both economic growth and the labor market.

Labor supply growth in the US is expected to slow over the coming months, hampered by the ongoing decline in immigration. It is estimated that a sustained pace of jobs growth of 150'000/160'000 per month will be necessary to stabilize the unemployment rate at its current 4% level. Following the disappointing August report, the 3-month average payroll growth rate had fallen to 116'000, well below the aforementioned level required to keep the unemployment rate stable.

The latest employment data were thus welcome news, as stronger than expected September payrolls of 254,000, combined with a cumulative 72,000 upward revision to prior months, brought the 3-month average to a much healthier 186,000.

Most of the latest gain was in private-sector jobs, which increased 223'000, more than double the pace of the prior few months. The improvement was also broad-based, as the diffusion index measuring the job gains across industries rose 5.8% to 57.6%, the highest level since January.

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

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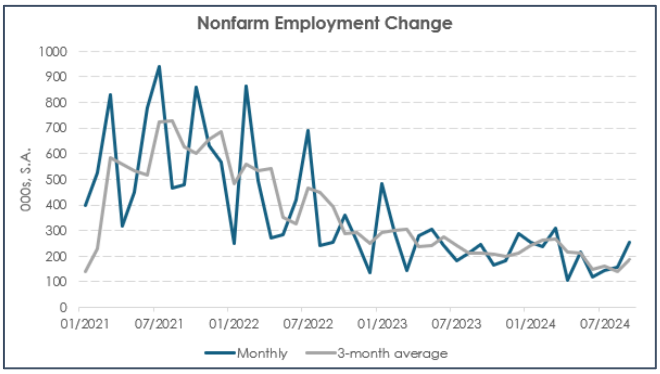
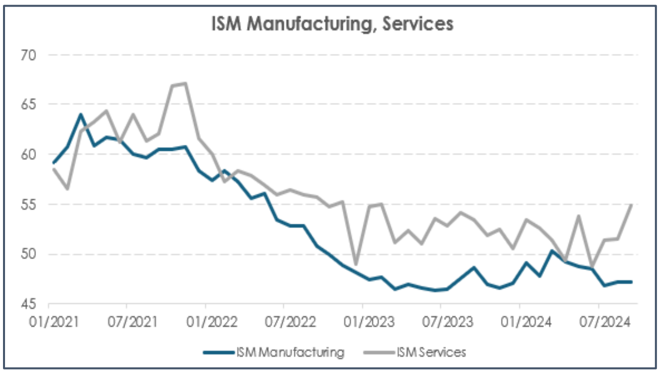


Source: Bloomberg, BLS



Source: Bloomberg, ISM

The unemployment rate declined 17bps to 4.05% in September, reflecting a 430'000 gain in the household survey with an unchanged participation rate. The latest nonfarm payrolls release supports the view that the recent rise in unemployment largely reflected a temporary difficulty absorbing a surge in immigrant job supply rather than a deterioration in labor demand. In this regard, the US economy's appetite for labor was also confirmed by the JOLTS report, which showed job openings climbing back above 8 million, notably above pre-pandemic levels.

On a less encouraging note, average hourly earnings increased by 0.37% in September, above expectations, and were revised up to 0.5% in August, somehow reigniting concerns about a potential resurgence of inflationary pressures over the coming months.

The latest ISM survey continued to highlight diverging paths for manufacturing activity and services, with the latter consistently outperforming. While the ISM manufacturing index remained unchanged in September at 47.2, signaling subdued activity in the manufacturing sector, the ISM services index climbed to 54.9, the highest level since February 2023, painting a much rosier picture in the services sector.

In terms of implications for the Fed, it is reasonable to expect that the recent rebound in labor market data will push the FOMC towards a less aggressive easing path. It is likely that the Fed will now dial down the Fed Funds Rate in 25bp steps for a few meetings. The rates market is also embracing this view, with current pricing implying a cumulative 50bp of cuts from now until the end of the year, aligning with the Fed's dot-plot.

On the other side of the Pacific Ocean, investors are still debating about the size of the Chinese fiscal stimulus. The surge in Chinese equities recorded in late September partly reversed, as investors were disappointed by the lack of detail provided by the National Development and Reform Commission, which gave no specific hints about the new local government special bond issuance. Chinese equities dropped over 7% in a day, with other volatile sessions following.

The situation stabilized after the Minister of Finance (MOF) Lan Fo'an held a press conference to provide clarifications. In his remarks, Minister Lan expanded on four points:

- Raising the government debt limit "by a relatively large amount in a one-off effort" to accelerate local government debt resolution, with the magnitude of debt resolution being the largest in recent years; increasing local government funding by 400 billion yuan through the unspent bond issuance quota accumulated from previous years.
- Issuing additional central government special bonds (CGSB) to help large state-owned banks replenish their equity capital.
- Allowing local government special bonds (LGSB) to be used for land acquisition and redevelopment, as well as the purchase of housing inventory.
- Increasing the transfer payment to students.

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Although lacking full details on the size of the stimulus, the Minister delivered strong guidance and conveyed a clear message that the government has sufficient room for additional borrowing to support local governments and the property sector. When asked directly about the size of the stimulus, the Minister stated, “We will promptly disclose [details] to the general public after the proper legal procedures have been passed.” The term "legal procedures" refers to approval by the National People’s Congress (NPC) Standing Committee, which will hold its next meeting in late October or early November.

The most important upcoming event will be the next ECB meeting on October 17th. Investors widely anticipate that the Governing Council will deliver another 25bp cut, reflecting further deterioration in economic activity and the continued easing of inflationary pressures in the Eurozone.

The Governing Council will likely keep the door open for additional easing at the December meeting, while reiterating its data dependence and avoiding pre-commitment to a specific easing path.

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

We have kept our **Neutral** recommendation on Developed Market Equities. We expect markets to remain range-bound near current levels in the near term, likely until the US election, unless there are surprises during the upcoming reporting season. The potential for further central bank easing, abundant liquidity, and strong economic data are balanced by high valuations. Among developed markets, we are more cautious on Japan due to its higher volatility and the strength of the yen.

US	=	**Europe**	=	**Japan**	−

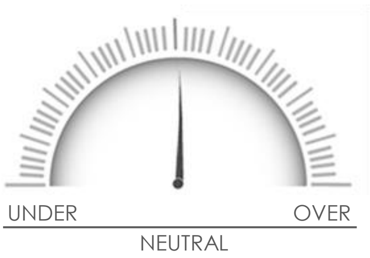
Emerging Markets

We have maintained our **Neutral** recommendation on Emerging Markets Equities. After the consolidation following the holiday week, we believe the Chinese market has the potential to rise again, driven by still steeply discounted valuations and forthcoming stimulus measures. Although these measures lack full detail, they should support a re-rating of the Chinese market in the medium term. Looking ahead, a recovery in the Chinese economy could boost commodities, benefiting Latin America, where we maintain a positive outlook, though it is tempered by political concerns.

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

Fixed Income

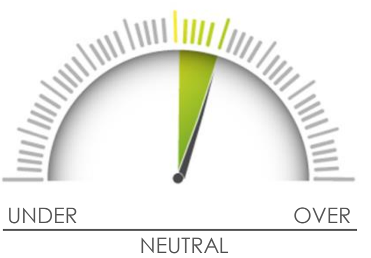
Developed Markets Sovereign



We have maintained our **Neutral** recommendation on Developed Markets Sovereign Bonds. Surprisingly strong U.S. labor market data and persistent inflation have prompted the market to adjust expectations for Fed rate cuts. Risk-free rates have rebounded by about 50 basis points from their lows, returning to more attractive levels, though the correction may still have further to go. If rates slightly above current levels are offered, they should be viewed as an opportunity to reaccumulate duration, though caution is warranted until the outcome of the U.S. elections in early November.

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

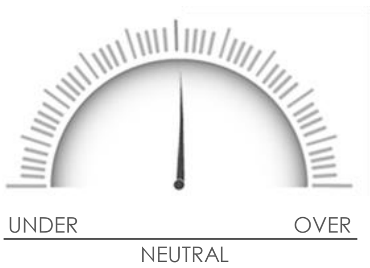
Developed Markets Corporate



We have kept our **Slightly Overweight** recommendation on Developed Markets Corporates. The search for yield in the fixed income market will continue to favor corporate bonds, as evidenced by strong demand in the primary market. Within corporates, we maintain a preference for investment-grade bonds over high-yield bonds.

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

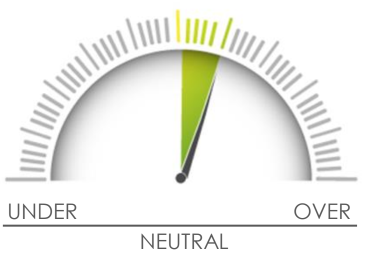
Emerging Markets



We have also maintained our **Neutral** recommendation for Emerging Market bonds. China's stimulus measures could increase demand for the asset class; however, spreads are already quite tight, particularly for low-beta bonds.

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

Commodities



We confirmed our **Slightly Overweight** recommendation on Commodities. We remain positive on precious metals, which typically outperform during periods of monetary policy easing and serve as a portfolio hedge against unexpected geopolitical tensions and political uncertainties. We are also bullish on industrial metals, expecting a rebound in Chinese demand once the fiscal stimulus is fully enacted.

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

Currencies

The Committee kept the **Neutral** stance on the US Dollar, but no longer with a bearish bias. The stronger CPI and employment data have tempered expectations of a series of large cuts by the Fed. The spread between U.S. rates and those of the rest of the world shifted in favor of the U.S. dollar again, explaining the recent move.

The view on the Euro remains **Neutral**, but no longer with a bullish bias. The reason for the change of stance are the same as those mentioned for the US dollar, in reverse. Additionally, macroeconomic data in the Eurozone continue to disappoint, diminishing the chance of a stronger euro.

The **Neutral** view on the **Chinese Renminbi** remains unchanged. Expectations of strong inflows following the announcement of the economic stimulus are fading due to a lack of clarity about the scope of the supportive measures.

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**	=