Main Events

Azimut Global Network

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

CHINESE CPI — 11.05
A faster-than-expected increase could dampen expectations that monetary policy will be eased to support economic growth

US CPI — 11.05
Despite the Fed's emphasis on inflation control, any upward or downward surprise could cause market volatility

EU TRADE BALANCE — 16.05
Will Euro's devaluation have helped to sustain growth through a higher trade surplus?

US RETAIL SALES — 17.05
Will US consumers continue to spend at a high pace or will a stagflationary scenario become more likely?

Q1 2022 EARNINGS SEASON MONITOR

- **Corporate results for the first quarter of 2022 were overall strong, with profits and sales easily exceeding market expectations**
- **Financials and defensive sectors such as staples, healthcare and utilities generally topped analysts' estimates. In contrast, consumer discretionary was hit by the reduction in purchasing power caused by high inflation**
- **Companies have been more reluctant to give guidance for the next quarters as a sign of uncertainty and low visibility**

At the time of writing, around 60% of developed market corporates have reported Q1 earnings, thus far showing a general positive surprise on both sales and earnings. Considering the severe correction affecting the major global equity indices, and particularly US indices, it is important to carefully monitor corporate results and especially the guidance, in order to better navigate this period of volatility.

The January-March quarter for corporates in the US saw a 12.5% increase in sales and 9% EPS growth. The surprise factor (how much actual results are above or below consensus) on the top line is 2%, while net profit is 7%; additionally, the percentage of companies beating estimates is very high, at 81% for EPS and more than 73% for revenue. These numbers suggest that corporate earnings continue to remain very strong in the first quarter, despite several headwinds such as waning fiscal stimulus, lower purchasing power, the war in Ukraine and falling markets.

Looking at the sector level in greater detail, discretionary and communication services were the 2 worst sectors in terms of surprise while Staples, Financials and Healthcare fared much better. Not surprisingly, in a time of heightened uncertainty, stocks' reaction to positive surprises have been less rewarding than average, while negative surprises have been punished more than average.

(continued)

S&P 500: EARNINGS

Exhibit 2. 2022Q1 Earnings Scorecard

Sector	Above %	Match %	Below %	Surprise Factor	Reported Total #	Index Total #	% of Mrkt Cap
Consumer Discretionary	63%	-	37%	7%	30	59	11.5%
Consumer Staples	91%	9%	-	8.3%	22	32	6.7%
Energy	86%	-	14%	4.5%	14	21	4.2%
Financials	79%	-	21%	10.1%	58	66	10.9%
Health Care	80%	5%	15%	8.9%	40	65	14.0%
Industrials	91%	-	9%	2.0%	56	71	7.8%
Materials	79%	5%	16%	9.6%	19	28	2.7%
Real Estate	79%	5%	16%	7.5%	19	30	2.8%
Technology	84%	2%	14%	6.0%	44	76	27.6%
Communication Services	71%	7%	21%	4.1%	14	23	8.8%
Utilities	77%	-	23%	6.0%	13	29	2.8%
S&P 500	**81.2%**	**2.4%**	**16.4%**	**7.1%**	**329**	**500**	

Source: I/B/E/S data from Refinitiv (May 3, 2022)

It is also worth noting that during the month of April, estimates for Q1 2022 EPS increased significantly for some defensive sectors such as staples, healthcare, and utilities, while decreasing for the discretionary sector (see table below). We see this trend as consistent with the current market worries around the shift in spending from discretionary to essential goods as a result of high inflation.

Exhibit 3. 2022Q1 Blended (Reported & Estimated) Earnings Growth

Sector	Today	1 Apr	1 Jan	1 Oct	1 Jul	1 Apr
Consumer Discretionary	-29.2%	-11.9%	-0.6%	8.7%	15.4%	54.5%
Consumer Staples	7.2%	1.9%	5.2%	5.9%	5.6%	10.2%
Energy	261.0%	233.5%	165.3%	105.6%	77.0%	85.8%
Financials	-17.7%	-21.4%	-18.7%	-20.2%	-20.4%	5.1%
Health Care	15.6%	10.2%	11.9%	6.1%	-1.4%	6.5%
Industrials	38.9%	36.8%	54.9%	64.6%	62.8%	78.8%
Materials	43.6%	35.0%	35.4%	28.3%	13.0%	6.0%
Real Estate	23.8%	16.0%	10.1%	8.0%	5.0%	5.5%
Technology	13.1%	8.7%	6.2%	5.1%	2.8%	11.1%
Communication Services	-4.2%	-5.2%	0.0%	2.0%	-0.4%	16.5%
Utilities	10.6%	6.7%	6.6%	7.0%	7.7%	6.3%
S&P 500	**9.3%**	**6.4%**	**7.5%**	**5.8%**	**2.9%**	**16.7%**

Looking at the operating margin, a highly debated element in this inflationary environment, we see it coming down from last year's level. Using the net profit margin as a proxy for market profitability (even though this is not properly an operational item) the % margin fell by 60bps yoy to 12,2%. It is worth noting that operating margins are currently at an all-time high, so a contraction is likely from a statistical point of view, and even more so if the economy slows down. Lower margins would translate into lower profits.

What about the Q2 outlook? Only17 companies have issued a positive EPS guidance so far, while 26 have issued negative guidance. We interpret the unwillingness to provide guidance for the next quarter as an indication of uncertainty and low visibility over the current trend.

In Europe, the first quarter has seen a 19% increase in revenue and a 35% increase in net profit year over year. These numbers appear to be quite high, especially when compared to the Q1 in the US. Comparably speaking, Europe had a much easier Q1 2021 owing to a later post Covid economic recovery, and quarterly results were at least partially affected by the war in Ukraine. The surprise factor is also quite remarkable, at 5% on the top line and 14% on the EPS.

At a sector level, the highest surprise factor is seen in Financials, Energy and industrials.

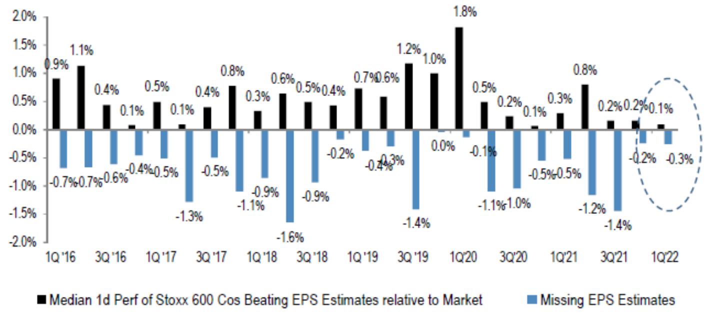
(continued)

Sector	Above %	Match %	Below %	Surprise Factor %	Reported Total #	Cos. w/ Ests. Total #
Basic Materials	93%	0%	7%	14%	14	30
Consumer Cyclicals	73%	0%	27%	5%	15	41
Consumer Non-Cyclicals	83%	0%	17%	12%	6	18
Energy	78%	0%	22%	20%	9	18
Financials	65%	0%	35%	17%	26	54
Healthcare	67%	0%	33%	6%	12	33
Industrials	67%	10%	24%	16%	21	48
Technology	70%	5%	25%	7%	20	41
Real Estate	71%	0%	29%	3%	7	15
Utilities	100%	0%	0%	179%	1	15
STOXX 600	**72.5%**	**2.3%**	**25.2%**	**14.4%**	**131**	**313**

Source: I/B/E/S data from Refinitiv (May3, 2022)

As far as the reaction to the results are concerned the picture is similar to the US market, where misses are declining more than beats (chart below).

Figure 12: European stock price reaction* to quarterly EPS beats/misses



Source: JP Morgan (April 29, 2022)

As of May 5, 2022, approximately 20 companies reported in Italy: 13 large-cap (out of 40 constituents of the FTSEMIB index) and 6 mid-cap (out of 60 companies in the mid-cap Index). Overall, companies' results followed the European trend: both revenues and net incomes have increased.

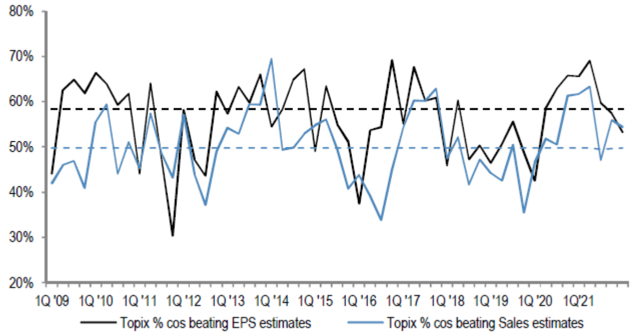
In Japan, around 53% of companies beat EPS estimates with an overall EPS growth of 11%. On the top line, growth is running at 7% with 54% of the companies beating consensus.

	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	**409 / 2136**	**19%**	**53%**	**41%**	**14%**	**11%**	**54%**	**38%**	**6%**	**7%**
Energy	2 / 18	11%	-	-	40%	98%	-	-	17%	34%
Materials	27 / 200	14%	57%	29%	12%	45%	54%	31%	1%	20%
Industrials	88 / 573	15%	60%	40%	22%	78%	49%	39%	11%	17%
Discretionary	99 / 407	24%	52%	44%	22%	-9%	50%	46%	2%	0%
Staples	48 / 178	27%	36%	55%	16%	13%	60%	25%	2%	8%
Healthcare	12 / 101	12%	25%	75%	-2%	1%	67%	22%	2%	7%
Financials	20 / 140	14%	50%	50%	18%	18%	33%	67%	28%	2%
IT	71 / 323	22%	57%	32%	18%	37%	51%	46%	1%	10%
Com. Services	22 / 117	19%	60%	40%	-10%	-49%	69%	15%	0%	3%
Utilities	8 / 24	33%	67%	33%	-	-	100%	0%	18%	8%
Real Estate	11 / 54	20%	40%	40%	2%	-22%	40%	60%	-2%	0%
Ex-Financials & Real Estate	**377 / 1941**	**19%**	**54%**	**41%**	**14%**	**11%**	**55%**	**37%**	**4%**	**10%**
Ex-Energy	**407 / 2118**	**19%**	**53%**	**41%**	**14%**	**10%**	**54%**	**38%**	**5%**	**8%**

(continued)

While the percentage of companies beating has increased in the US and Europe in Q1 compared to Q4 2021, there has been a sequential decline in Japan (see chart below), raising concerns about the domestic economy's strength.

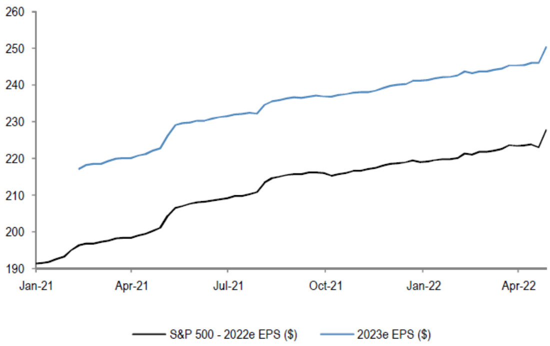
Figure 10: Topix quarterly EPS and Sales growth



<u>Change In Estimates</u>

In terms of expected earnings, the positive surprise in Q1 is causing a mechanical lift in FY 2022 estimates, which continue to rise despite the market's cautious stance.

Figure 17: S&P500 2022e and '23e EPS



Source: JP Morgan (April 29, 2022)

Table 6: '22e and '23e consensus EPS growth expectations

	2022e EPS Growth, %		2023e EPS Growth, %	
	Current	Jan '22	Current	Jan '22
MSCI World	10.2%	7.1%	7.9%	8.6%
S&P 500	10.1%	8.7%	9.9%	10.1%
Stoxx 600	11.6%	7.1%	5.8%	6.8%
Euro Stoxx	8.5%	8.2%	7.7%	8.7%
FTSE 100	14.5%	4.2%	1.9%	3.1%
Topix*	7.3%	8.2%	6.1%	7.2%
EM	10.5%	5.4%	9.2%	9.9%

Source: JP Morgan (April 29, 2022)

As previously stated, the increasing uncertainty and caution displayed by companies lowering or withdrawing guidance may result in a downward revision of EPS estimates in the coming quarters.

However, it is worth noting that corporate guidance has historically not been the best leading indicator during times of uncertainty. We then argue that the current risks, such as high inflation, rising real interest rates, a lingering war, and global supply chain disruptions, all necessitate caution when approaching equity markets.

Consequently, when it comes to inflation, we do favor sectors that are clear beneficiaries during an inflationary period, such as infrastructure, and companies that are clear price leaders and can at least offset their cost inflation through price increases.

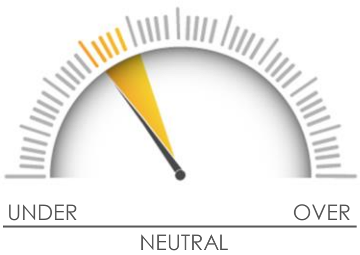
Asset Allocation View

	−	=	+
Equity			
Developed Markets	■		
Emerging Markets	■		
Fixed Income			
Developed Markets Sovereign			■
Developed Markets Corporate			■
Emerging Markets	■		
Commodities		Downgrade	
Currencies		*Commentary below*	

− UNDER = NEUTRAL + OVER

Equity

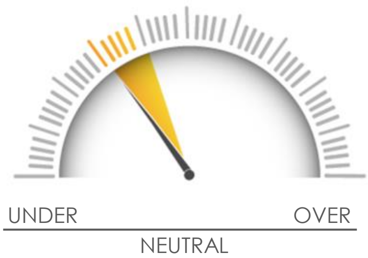
Developed Markets



We maintained our **Underweight** recommendation on Developed Markets Equities. Although the reporting season has been generally strong, as elaborated in the prologue, the Committee remains cautious on equity markets due to outspokenly restrictive central banks, increases in nominal and real rates, geopolitical tensions, Chinese lockdowns, and supply chain disruptions. This week's CPI report could be a catalyst for a short-term rebound. If inflationary pressures begin to ease, a short-term rebound from these levels is possible, especially in the market segments that have been hardest hit.

US	=	**Europe**	=	**Japan**	=

Emerging Markets



We kept our **Underweight** recommendation on Emerging Markets Equities. Hawkish central banks, increases in nominal and real rates in developed countries and geopolitical tensions warrant a cautious stance on Emerging Markets. We remain wary of China among emerging markets, not just because the zero-Covid policy appears too aggressive given the scope of the contagion, but also because the monetary and fiscal actions announced thus far are too restricted to be truly effective.

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

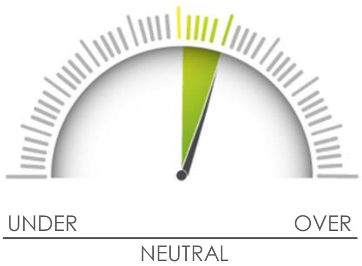
Fixed Income

Developed Markets Sovereign

We maintained our **Slightly Overweight** rating on Developed Markets Sovereign Bonds. Interest rates have risen significantly in recent weeks around the world, reaching levels from which at least a short-term retracement is possible. The CPI data on Wednesday, if it shows lower inflationary pressures, could be the catalyst. We are turning temporarily bullish on the long end of the yield curve because we anticipate higher rates in the medium to long term. We continue to favor government bonds with short residual maturities as a safe haven because they offer limited downside.

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

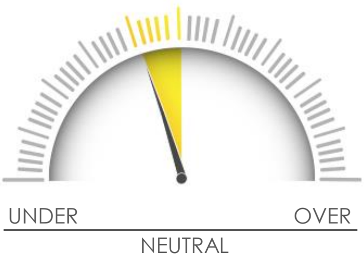
Developed Markets Corporate



We kept our recommendation on Developed Markets Corporates to **Slightly Overweight**. The decision to maintain the recommendation is primarily motivated by the fact that spreads have not yet reached sufficiently attractive levels in light of the numerous concerns we are currently facing (potential economic slowdown, hawkish central banks, and geopolitical risks). Within corporates, we prefer short-dated, high-grade corporate bonds, because they are less vulnerable to duration and/or spread risks. We remain cautious on high-yield bonds.

IG Europe	=	**IG US**	=	**HY Europe**	–	**HY US**	–

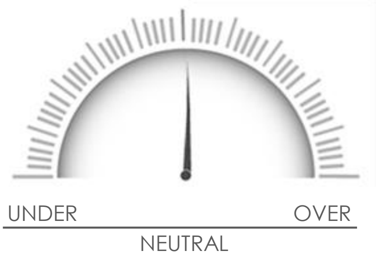
Emerging Markets



We maintained our **Slightly Underweight** recommendation on Emerging Market bonds. Despite spreads reaching high levels, it is reasonable to expect developing market bonds to remain under stress as long as Western central banks continue to release progressively hawkish statements.

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

Commodities



We downgraded our Commodities recommendation to Neutral. Given the central bank's willingness to fight inflation and China's continued lockdowns, the risks of a slowdown in the second half of the year are increasing. We continue to prefer precious metals among commodities, particularly because of their safe haven status in light of the current developments in Ukraine. We also have a relatively positive outlook on agricultural commodities, which we believe will remain strong in light of supply disruptions. We are becoming increasingly cautious about other commodities.

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

Currencies

The Committee downgraded its view on the US dollar from positive to neutral. After strong outperformance against the major currencies, supported by widening rate differentials and growing concerns in the rest of the world, it is increasingly likely that the US dollar could experience a short term retracement.

The view on the euro has been upgraded from negative to neutral. Like most currencies, the euro has fallen materially in the recent past. As argued earlier in the report, there is a possibility that US inflation will start to decline in the YoY reading, while in Europe it will continue to rise. As the market expects vigorous actions from the Fed and only limited moves from the ECB, any repricing of inflation expectations and/or central bank actions may lead to a short-term rebound in the euro.

The view on the Chinese Renminbi continues to be negative due to the widespread lockdowns which are hurting growth of the domestic economy, as well as expectations of looser monetary policies and the ambiguous position of China with respect to the conflict in Ukraine.

We maintain our Neutral recommendation for other emerging market currencies.

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