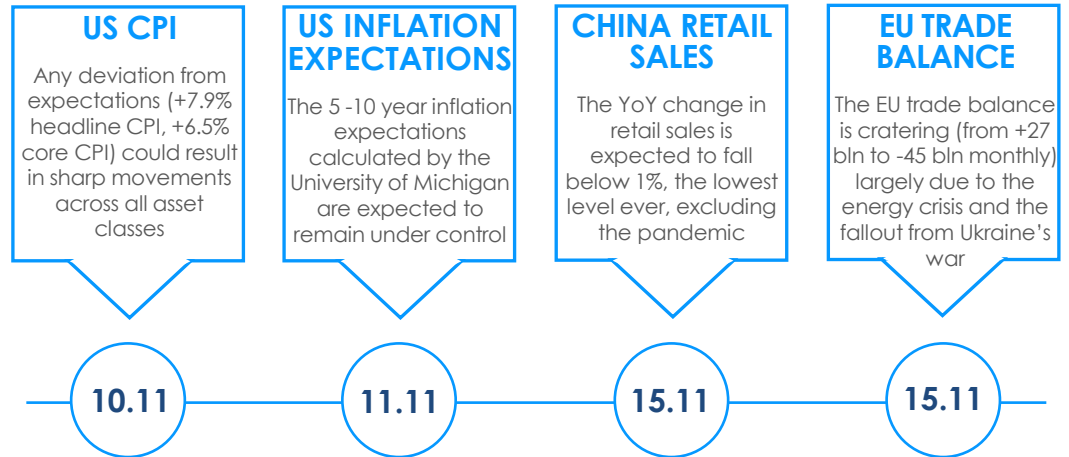


## Main Events

### 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
- \* Sydney
- \* Taipei



## CENTRAL BANKS BREAK RANKS

- **Some Western central banks have either lowered their pace of rate hikes, or hinted at less restrictive monetary policies in the coming months**
- **Only the Federal Reserve remained committed to raising rates further, potentially even above market expectations**
- **In the short term, the dovish stance of some central banks could prompt an extension of the rebound that began in mid-October, but the growing risk of a global slowdown and the Fed's hawkish stance could limit the upside.**

Beginning in the second half of October, financial markets began to rebound after September's steep correction, fueled by growing hopes that the famous and long-awaited pivot by central banks might actually materialize.

Indeed, the first meeting of developed-country central banks confirmed this hypothesis.

The Bank of Canada, first to meet, unexpectedly slowed its rate hike pace to 50 bps (vs. an expected 75 bps) amid concerns that the domestic economy is already flirting with a recession. The Governor said that "this tightening phase will draw to a close. We are getting closer, but we aren't there yet," while also stating that the fight against inflation is not over and that more rate hikes will follow.

The Royal Bank of Australia, which already surprised the market in early October by lifting rates by only 25 bps, confirmed the slower pace of rate hikes with a further quarter-percentage point hike again in early November, bringing rates to 2.85 percent, on the expectation that inflation will peak around 8 percent in the latter part of the year before starting to fall toward 4.75 percent in 2023 and a little above 3 percent in 2024.

The RBA also lowered growth estimates to 1.5 percent in 2023, and signaled that there could be further downside as the effects of rate hikes have yet to be fully absorbed by both households and the housing market.

## (continued)

In late October it was the ECB's turn who raised the interest rates by 75 basis points, in line with expectations, and confirming that further hikes will be necessary, with the size determined on a case-by-case basis at each meeting. For the time being, the market is continuing to regard a further 75 bps hike as the most likely option. As expected, there was still no discussion of QT at this meeting, although Lagarde said at the press conference that it will be discussed at the December meeting, when the economic staff projections will also be updated.

The only notable surprise during the press conference was the statement that "with this third major policy rate increase in a row, the Governing Council has made substantial progress in withdrawing monetary policy accommodation." It is difficult to understand how such a statement can be made considering that rates in the EU are at 1.5 percent amidst inflation that has just hit a new high at 10.7 percent (0.7 percent above expectations), and producer prices north of 40 percent. Nevertheless, the market obviously interpreted this statement as a dovish pivot by the ECB, so much so that after the meeting the market revised expectations for the maximum level that will be reached by ECB rates decisively downward (from 3% pre-meeting to 2.5% post-meeting).

However, the central bank that most wrongfooted the market was the Bank of England. Not for raising rates by 75 basis points as predicted, but for saying that market expectations about the peak level of UK official rates are unrealistically high. For the past year or so, namely, since the central banks have been trying to get out of the "transitory inflation" trap they had put themselves in, all the major Western central banks have consistently passed an unambiguous message, namely that the market was materially underestimating the magnitude of the rate hikes needed to bring inflation back under control.

In this wave of dovishness, only the U.S. central bank has broken ranks. It is perhaps more accurate to say that other central banks have broken ranks with the Fed, which has remained committed to its inflation-control strategy and consistent with previous statements.

The Federal Reserve raised interest rates by 0.75 percent for the fourth time in a row, as expected. The statement that at some point it will become appropriate to slow down the pace of rate hikes should not be interpreted as a dovish pivot: the Fed had clearly said since the beginning of the year that its strategy was to frontload the hikes so that it can later make an accurate assessment of the effects on the economy caused by the hikes already implemented. The possibility of a slowdown in rate hikes toward the end of the year has been anticipated since the summer and cannot be described as a surprise.

It should also be noted that the United States has the highest level of interest rates among developed countries, at 4 percent, as well as the smallest difference between official rates and inflation (although still negative by more than 4 percentage points). Furthermore, Powell reiterated during the conference that market expectations about the maximum level that interest rates will reach are too low, and that the only real question that remains unanswered is how long interest rates will have to remain at such higher levels.

The diverging path of central bank policies can be explained by countries' varying strength and ability to deal with higher interest rates. Because the United States is largely self-sufficient in many commodities, it has entered this period of high inflation and rising interest rates in much better shape than other countries, as well as being more immune to the conflict in Ukraine. Because of the greater strength of its economy, the Federal Reserve can afford to implement a more restrictive monetary policy than other countries.

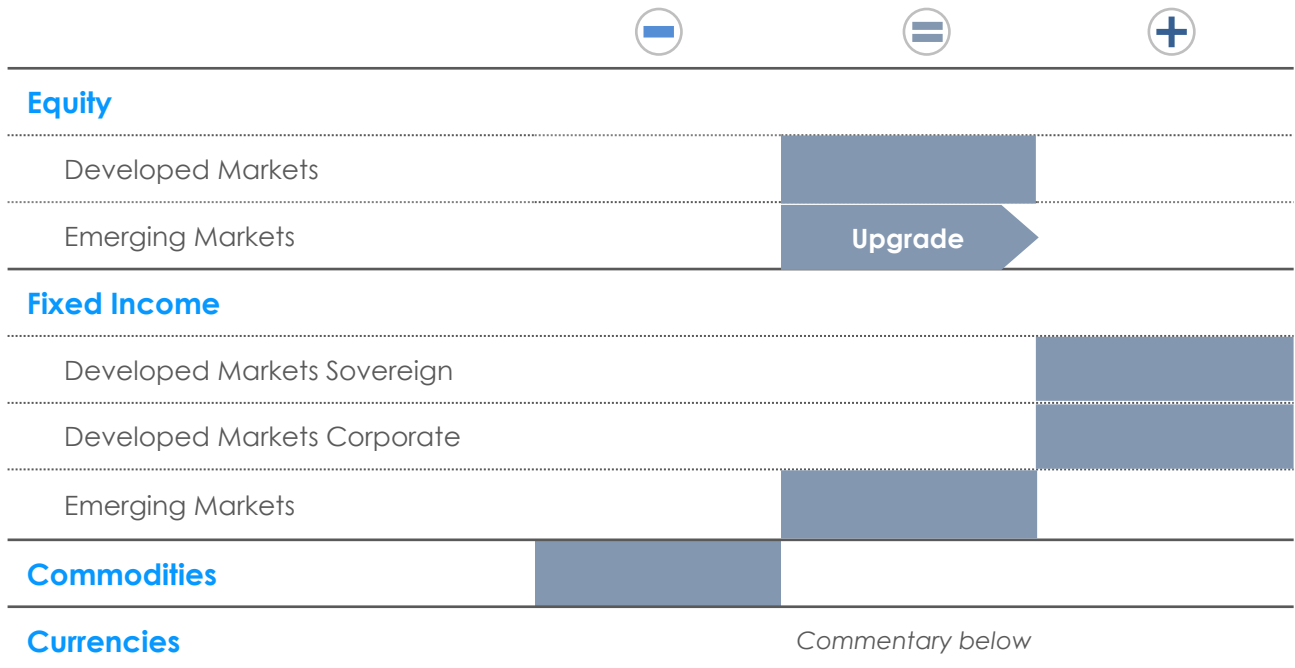
In the rest of the world, instead, there are growing risks of an economic slowdown. Additionally, U.S. monetary policy affects not only the U.S. economy, but also the entire world. As a result, despite the fact that inflation in several developed countries is often higher than in the United States, the respective central banks are increasingly concerned that raising interest rates too much could harm the domestic growth, and are thus beginning to slow monetary tightening.

## (continued)

In terms of financial markets, a dovish pivot by several Western central banks is clearly a cause for optimism. Not surprisingly, since the second half of October, ex-US markets have outperformed the United States precisely because of the expectation of more accommodative central banks. The Federal Reserve, on the other hand, is by far the most important central bank for financial markets, and it has instead surprised more hawkishly. Additionally, the fact that all central banks, including the Fed, now regard the risk of recession as increasingly material certainly cannot be seen as supportive for financial assets.

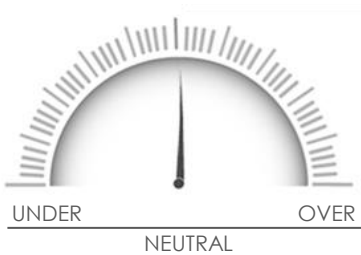
It is therefore recommended to continue to maintain a cautious approach on portfolios.

# Asset Allocation View



## Equity

### Developed Markets



We confirmed our **Neutral** recommendation on Developed Markets Equities. The dovish pivot by some central banks discussed in the prologue may favor a continuation of the current rebound. On the other hand, the hawkish stance maintained by the Fed and higher interest rates may limit the upside. In addition, the reporting season, although decent overall, is beginning to show signs of weakness especially in technology stocks, which currently are the most heavily weighted sector in the MSCI World.

US



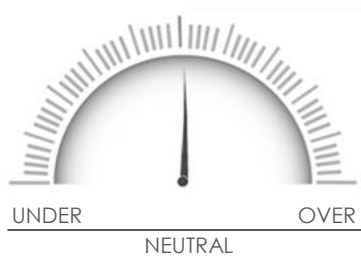
Europe



Japan



### Emerging Markets



We upgraded our recommendation on Emerging Markets Equities to **Neutral**. With the exception of the Fed, the dovish pivot by some Western central banks may result in a capital reversal to emerging countries, whose valuations are at a steep discount to developed countries, particularly the United States. In terms of China, growing expectations of a relaxation of Covid containment policies, as well as a lower risk of Chinese companies being delisted from the US stock market, could fuel a rebound in the Chinese market.

Asia ex-Japan



EEMEA



LATAM



## Fixed Income

### Developed Markets Sovereign



We have maintained our **Slightly Overweight** recommendation on Developed Markets Sovereign Bonds. The dovish pivot by some central banks should reduce the risk of further significant increases in rates. Therefore, maintaining short-term positions seems no longer needed. The long end of the curves may once again act as portfolio hedges in the event of spikes in risk aversion, and in particular for US Treasuries. The short end of the curves is seen as the one with the best risk-adjusted returns, again, particularly in the US.

EU Core



EU Periphery



US Treasury



Japanese JGB



### Developed Markets Corporate



We reiterated our **Overweight** recommendation on Developed Markets Corporates. Considering that the risk of further rises in the risk-free is now viewed as limited, investment grade corporate bonds and hybrid bonds in particular are now an investment option to be seriously considered given the high level also reached by spreads as well as the risk-free. We remain cautious on high yields.

IG Europe



IG US



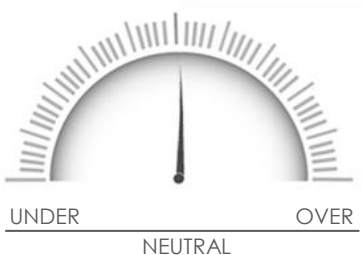
HY Europe



HY US



### Emerging Markets



We maintained our **Neutral** recommendation on Emerging Market bonds. Although developing market bonds may benefit from the dovish turn of some central banks, some caution is still warranted because the Federal Reserve, the most important central bank for emerging markets, has reaffirmed its commitment to bring inflation under control. However, the asset class's significantly higher spread should reduce the risk of further declines. We continue to prefer emerging market bonds denominated in local currency.

Local Currency



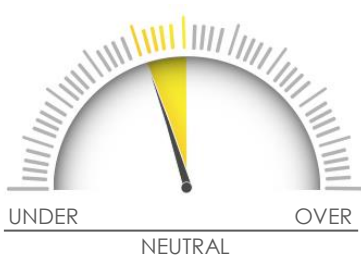
Hard Currency IG



Hard Currency HY



## Commodities



We maintain our **Slightly Underweight** recommendation on Commodities. With no ability to generate cash flow, precious metals face increasing competition from government bonds, especially as official interest rates rise. Considering the possibility of a relaxation of the Covid-containment measures in China, it is possible that Energy and Industrial metals sectors may extend the rebound from the recent lows.

Precious



Energy



Industrial



Agricultural



## Currencies

The Committee confirmed its **Neutral** View on the US Dollar. In the short term, the CPI figures due out on Thursday will determine the fate of the US dollar. If they are higher than expected, the US dollar may resume its rise, aided by a more hawkish central bank. If it falls below that level, the current correction is likely to be extended.

The view on the Euro is also **Neutral**. The slightly dovish turn by the ECB may lead to a rebound in the common currency.

The view on the **Chinese Renminbi** has been confirmed as **Neutral**. The growing hopes of an easing of anti-Covid measures in China could prompt a return of interest of international investors for Chinese assets, whose valuations are at a deep discount compared to other developed or emerging countries.

On the **other emerging market currencies**, we maintain a **Neutral** stance considering on the one hand the risk of a possible global slowdown, and on the other hand the dovish turn by some Western central banks.

Euro		USD		CNY		Other EM	
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