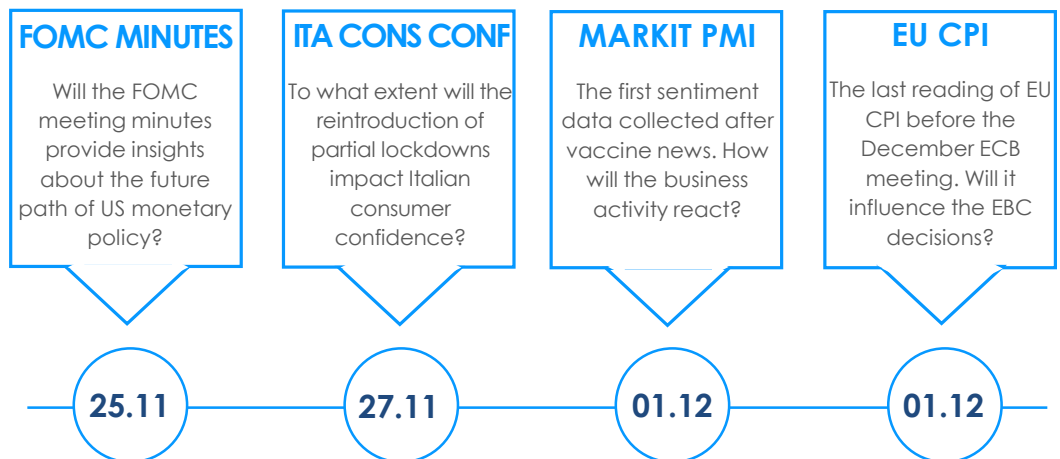


Main Events

Azimut Global Network

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



Time is different for some

On November 15th, fifteen Nations (the 10 ASEAN Nations plus China, Japan, South Korea, Japan and Australia) representing about one third of the global population and global GDP entered into a free-trade agreement, the Regional Comprehensive Economic Partnership (RCEP), making it the biggest trade block in history, bigger than both the US-Mexico-Canada Agreement and the European Union.

This pact has the goal of eliminating 90% of the tariffs on imports over the next 20 years. It sets common trade rules between its signatories, bundling together the various free trade agreements that ASEAN Nations have with the five other Asia Pacific countries into a single framework. The most important rule is the "rule of origin", which excludes tariffs on products or part of products developed within the block. This rule might give companies in RCEP countries an incentive to look within the trade region for suppliers.

Even if the pact was originally conceived and sponsored by the ASEAN Nations back in 2011, it had the full support of China as an alternative to the Trans-Pacific Partnership (TPP) signed in 2016 that included many Asian countries but excluded China. Trump withdrew the US from the TPP later in 2017. The timing of the agreement couldn't be more significant as it blows a coup to the "America First" policy immediately after Trump's defeat in the latest elections, and it demonstrates that Asian Nations are moving forward on the pre-Trump search for regional economic integration, multilateralism and free trade. Chinese premier Li Keqiang unsurprisingly declared it "a victory of multilateralism and free trade".

The political significance of the agreement is also reinforced by the absence of India among the signatories. India was involved since the very beginning in discussions that eventually lead to the agreement, but then one year ago it opted out alleging potential adverse impacts on its economy because of the cheaper imports from China. The escalation of the trade war between US and China and the fact that Modi was the only Asian leader to openly support Trump may have played a role in the withdrawal of India. It is worth noting that all the signatories, China included, have reaffirmed their intention to welcome back India in the pact at any time.

(continued)

Regardless of India's decision, it is a fact that the relevance of China in Asian and global affairs will continue to grow substantially, whilst that of the US has been a continuous freefall ever since Trump was sworn in office and it will be very difficult for Biden to try to reverse this trend.

But Asia and China are not only moving counter-trend in their approach to international trade and cooperation. They demonstrated to be much more effective in controlling the spread of the covid-19. China and Asia have not been affected by a second wave of infections, contrary to what is happening in the supposedly "advanced" economies, thanks to a very effective system of contact tracing.

Most importantly, China learned from the 2008 experience. During the Great Financial Crisis China reacted by applying a copycat of the reactive response executed by Western monetary authorities, i.e.: injecting a lot of liquidity in the financial system, lowering rates and making great recourse to fiscal deficit to sustain the economy. These policies ended up with a sharp increase of bad loans, real estate bubble, excessive debt from state owned enterprises, etc.

In 2020 they did not repeat the same mistakes of 2008, as the monetary and fiscal expansions have been much more different as demonstrated by the two graphs below.



Source: Bloomberg



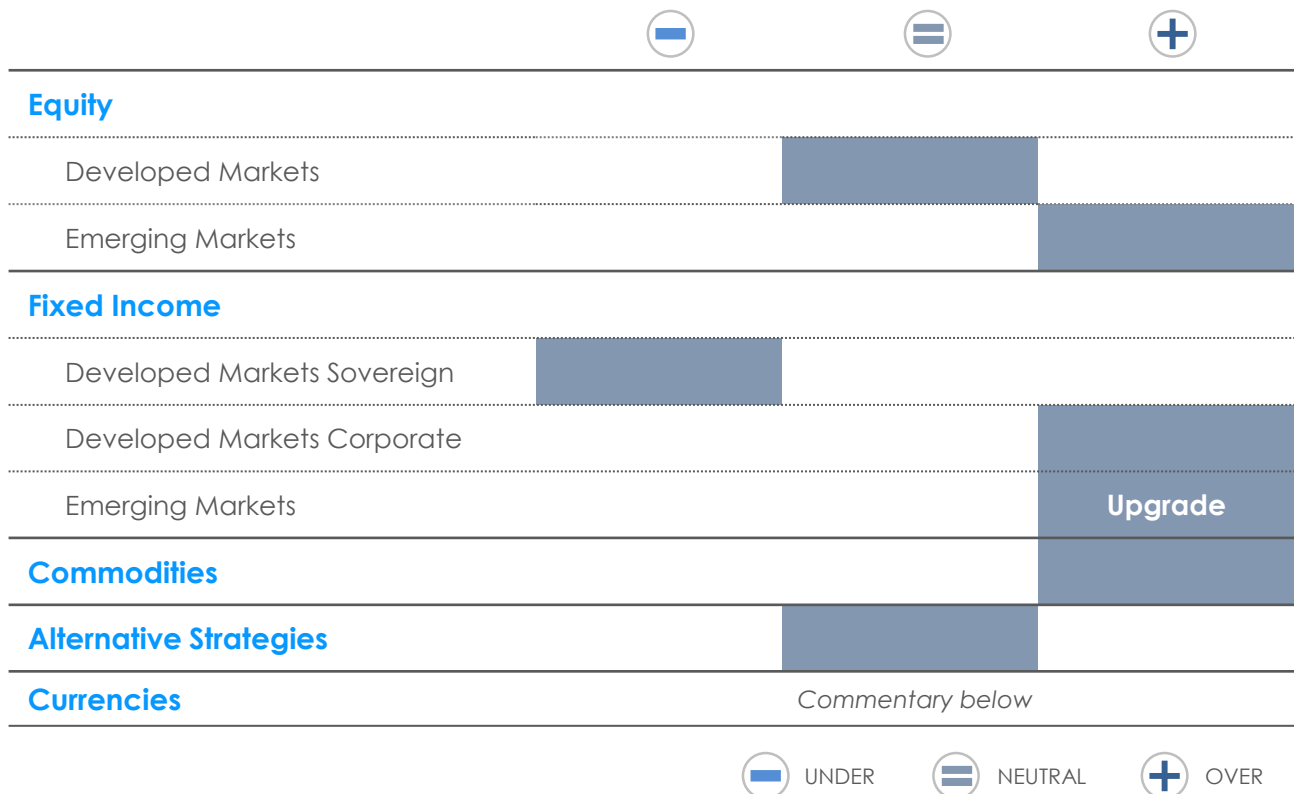
Source: Bloomberg

The M2 growth in 2020 increased by about 10%, just slightly above the recent year's low and well below the peak of +30% in 2008. In terms of fiscal spending, this year the cumulative expenditure has been substantially unchanged from 2019 (-0,6%), well below any previous year and the about +30% recorded in 2008-2009.

This is in stark contrast with what happened in Western countries, where central bank balance sheets and fiscal spending exploded to the upside. While these moves have eased the economic pain of the pandemic in the short term, they also ingenerated a buying frenzy into risky assets and set the stage for future instability once the true costs of those measures will become evident.

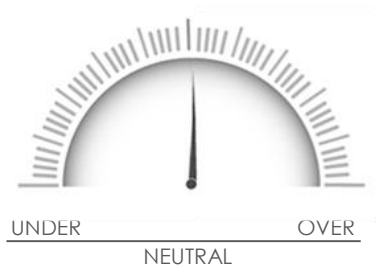
Several years ago the financial markets were betting on a possible decoupling of emerging markets from developed countries. Developing countries were expected to progress on their own growth path irrespective of what was happening in the rest of the world. At that time this theory proved to be a too early call, as emerging markets were not yet resilient enough. Maybe this time it could be different, at least for Asia.

Asset Allocation View



Equity

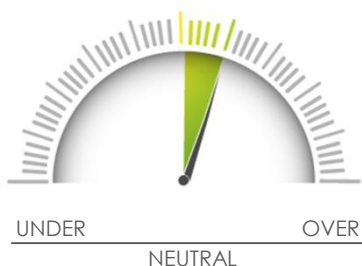
Developed Markets



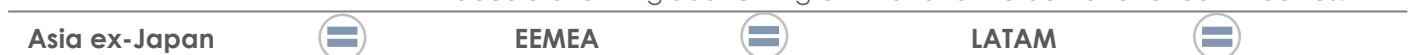
We kept the neutral recommendation on Developed Markets equity. The current overbought conditions may lead to short term retracements, if occurs, can be seen as temporary and should be considered as a long term buying opportunity. The view is supported by the expectation of several effective vaccines to be available in the short time, which should reinforce investor expectations for a rapid pick-up of earnings, mostly from the more cyclical stocks. In the long run, Europe and Japan with stock markets more exposed to Value theme could benefit more, but the recent outperformance vs. the US justifies an equal recommendation on all markets.



Emerging Markets

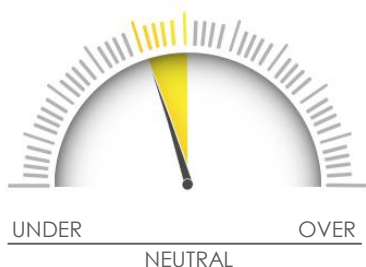


We keep our slightly positive recommendation on Emerging Markets unchanged. Even if emerging markets will benefit from the economic rebound that should be ingenerated by the distribution of the vaccine, in the short term the overbought conditions may lead to potential retracement. When presented itself, the corrections should be considered as long term buying opportunities. All three main regions could be equally attractive. Asia will be less reactive to the upside to covid-19 containment, but it will benefit from a strong and endogenous economic growth. Emerging Europe and Latam will be more volatile and sensitive to acceleration in global GDP growth and to the demand for commodities.



Fixed Income

Developed Markets Sovereign



We kept our slightly underweight recommendation for Developed Markets sovereign bonds. While the vaccine news should have a negative impact on the prices of sovereign bonds, the ongoing QEs (some expected to be increased before year-end) could maintain yields compressed in the mid/long term. As the short-end of the curves will be more anchored, the long-end could be more exposed to the risk of rising yield, hence it would be appropriate to consider steepener strategies in order to protect the portfolios.

EU Core



EU Periphery



US Treasury



Japanese JGB



Developed Markets Corporate



We keep the recommendation unchanged on Developed Markets corporates. The vaccine news should expedite the return to normalcy in day-to-day life and therefore reduce the probability of protracted economic weakness translating into higher defaults. This allows for spreads to narrow further also afforded by the ongoing QEs. This will benefit mostly high yields where spread compression has been slower than that of investment grade bonds.

IG Europe



IG US



HY Europe



HY US



Emerging Markets



We strongly upgraded our recommendation on the asset class from neutral to overweight. The EM should benefit both from Biden's victory and the discovery of the vaccines. Specifically, those emerging markets more dependent on exports will be the biggest beneficiaries. It is projected that EM bonds could benefit both from a spread compression and a recovery in the value of their currencies, due to the enormous amount of negative yielding debt in developed markets.

Local Currency



Hard Currency IG



Hard Currency HY



Commodities



We maintain our bullish view on the asset class. Precious metals could be sustained by the ample liquidity and could serve as a hedge against the debasement of most currency after the huge monetary interventions of this year. Energy and industrial metals should benefit from the expectation of a quick and prompt recovery as soon as the vaccines are distributed, which is expected to enable people to come back to the pre-covid-19 living conditions.

Precious



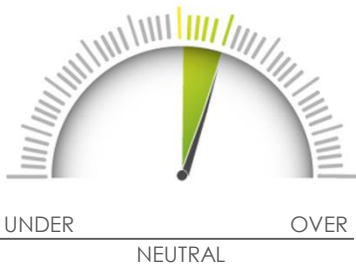
Energy



Industrial



Alternative Strategies



We keep our recommendation as slightly positive on liquid alternative strategies because of the diminished expected returns on other asset classes. This implies that other asset classes now have greater downside risk and could be vulnerable to volatility as well. Therefore alternative/uncorrelated strategies are more compelling on a relative basis.

Low Volatility

Medium Volatility

High Volatility


Currencies

We maintained the positive view on the Euro in the short term as the availability of the vaccine should trigger a quick and strong economic recovery, which will benefit Europe as one of the regions most exposed to value. We kept our negative view on the US dollar as the vaccine should lead to a more risk-prone environment which is usually associated with a weak USD. Also, as the US assets largely outperformed rest of the world's assets, a short term rotation out of US into other countries could contribute to a weaker USD.

We upgraded to neutral the view on the Japanese yen as the country may attract foreign investments if the focus on value stocks, which are well represented in the main equity indices, continues in the next future.

On Emerging Markets currencies, we maintain our positive view as the risk-on environment ingenerated by the news of the vaccine and the related expectation of a stronger recovery should make investor more willing to increase risks in their portfolios. Also, a risk-prone environment typically favors emerging market currencies.

Euro

USD

Yen

Emerging


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