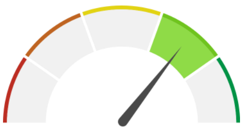
Fideuram Asset Management's View

Edition 08.2024

Macroeconomic Scenario

The past few weeks have seen rather disappointing developments in economic activity indicators in all the major areas of the global economy, but particularly in the US, where July's business confidence data in the manufacturing sector and, above all, labour market conditions were significantly weaker than expected. Combined with the significant downside surprises on inflation in May and June, the deterioration in the labour market makes a more aggressive stance by the Fed more likely at future meetings starting in September, with the market now pricing in well over 100bp of cuts by the end of the year. In the Eurozone, however, inflation surprised to the upside in July but this is not likely to deter the ECB from cutting rates again at its September meeting. Contrary to the other major advanced economy central banks (but in line with our expectations), the BoJ raised rates by 15 basis points at its meeting at the end of July.

Equity Markets



The recent increase in the probability of recession across all asset classes left us with a limited overweight in equities, following the reductions made in recent months. US valuations factoring in growth rates beyond the one-year horizon, a round of weaker macroeconomic data and some technical (positioning, yen carry trade) and sentiment elements probably amplified the downward move. However, some volatility can be expected in the coming months until it is clear whether the macro scenario continues to hold. Against this backdrop, we maintain a modest overweight in equity markets, with a geographical preference for the UK market. We remain neutral on the other areas, carefully assessing both macro developments and the opportunities that may arise if the correction continues.

Europe

SLIGHTLY POSITIVE

United States

NEUTRAL

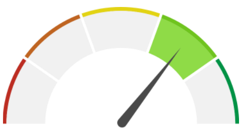
Japan

NEUTRAL

Emerging Markets

NEUTRAL

Bond Markets



The portfolios are overweight in duration, mainly through the overweight in investment grade corporates and subordinated financials. The idea of seeking sources of additional carry over government bonds, given the low equity risk, has led us to look at credit, which has a strong base rate contribution and better quality issuers; it therefore appears more resilient in terms of total return in various contexts.

We remain underweight lower quality credit, particularly high yield, which, as we have seen recently is vulnerable in less favourable cyclical phases, and emerging market debt, which appears more exposed to volatility.

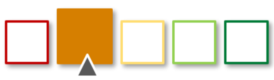
Government

NEUTRAL

Corporate

SLIGHTLY POSITIVE

High Yield



SLIGHTLY NEGATIVE

Emerging Markets

NEUTRAL

INVESTMENT VIEW

Equity Markets

We maintain our overweight in European equities, concentrated in the UK market. Post-election, the institutional and political environment looks more robust, justifying a reabsorption of the valuation discount to other markets that opened up after Brexit. Fundamentals also appear sound and some institutional investors (pension and insurance funds) have historically low positioning.

Europe
SLIGHTLY POSITIVE

In the US, we have been reducing our exposure since last month after a prolonged overweight as valuations approached levels that discount earnings beyond the one-year horizon. We do not currently see the conditions for a significant decline in earnings and valuations and are monitoring macroeconomic developments and the duration of the market correction to assess potential opportunities, including sector opportunities.

United States
NEUTRAL

Since the spring, we have withdrawn our preference for Japan after the sharp rises of the previous months, as we felt that equity prices already reflected fundamental progress in the short term. The current level, after the downturn, seems more in line with the scenario and, in particular, with the impact of the BoJ's restrictive measures on the currency.

Japan
NEUTRAL

We continue to maintain a neutral positioning towards emerging equities. Valuations are attractive both from a historical perspective and in relation to other geographical blocks, particularly towards the markets of developed countries. The possible impact of the US elections on trade policy and China's internal difficulties lead us to adopt a more cautious and selective approach.

Emerging Markets
NEUTRAL

Bond Markets

Government
NEUTRAL

As the beginning of the Fed's rate cuts approaches, expected in September, the market has started to incorporate a significant cycle of reductions. Both the U.S. and German yield curves now reflect monetary policy interventions compatible with a marked slowdown/moderate recession. We are, therefore, reducing our exposure within our portfolios in a context of neutrality and adopting a tactical approach in case rates return to levels of interest for increasing exposure (4.0-4.1% for the U.S. 10-year; 2.4%-2.5% for the German 10-year).

Corporate
SLIGHTLY POSITIVE

The portfolios adopt a strategy of overweighting duration through high-quality credit investments to benefit from high overall returns that still ensures a strong contribution from the base rate and improves resilience during less favourable economic cycles and period of high volatility, such as the recent one.

High Yield
SLIGHTLY NEGATIVE

We have maintained a negative positioning towards the asset class for a long time, preferring cyclical risk through the equity component and seeking carry through higher quality to avoid risks associated with the weaker parts of the market during a prolonged period of high interest rates.

The most recent adjustment makes the spread levels less tight, but we continue to prefer gradually increasing risk exposure, should recessionary scenarios prove to be neither imminent nor prevalent, through equities.

Emerging Markets
NEUTRAL

We maintain a neutral position towards emerging countries. Total return is high, but the macro picture looks more mixed, the disinflationary process is not linear and the upcoming US elections (with varying effects across countries) are contributing to volatility and increased investor selectivity. We hold a preferential position in relation to Indian bonds.

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