Macro Markets

EURIZON'S INVESTMENT VIEWS
ON MAIN ASSET CLASSES

May 28, 2020

Eurizon Capital SGR S.p.A.
Sede Legale: Piazzetta Giordano dell'Amore, 3 - 20121 Milano - Italia
Capitale sociale euro 99.000.000,00 i.v. - Codice Fiscale e Iscrizione Registro Imprese di Milano n. 04550250015 - Società partecipante al Gruppo IVA "Intesa Sanpaolo", Partita IVA 11991500015 (IT11991500015) - Iscritta all'Albo delle SGR, al n. 3 nella Sezione Gestori di OICVM e al n. 2 nella Sezione Gestori di FIA - Società soggetta all'attività di direzione e coordinamento di Intesa Sanpaolo S.p.A. ed appartenente al Gruppo Bancario Intesa Sanpaolo, iscritto all'Albo dei Gruppi Bancari. Socio Unico: Intesa Sanpaolo S.p.A. - Aderente al Fondo Nazionale di Garanzia

EURIZON ASSET MANAGEMENT

SCENARIO

In short

In the course of the past month, risk assets continued to make up part of the severe losses incurred in March.
The diffusion of the virus remains an important variable to monitor. The contagion is still accelerating at the global level, due to its spreading in some emerging countries where the virus arrived at a later stage, such as Brazil and India. On the other hand, the epidemic seems to be slowing markedly in Europe, and to be gradually retreating in the US.
With the easing of virus containment measures, focus will be increasingly on economic data.
Consensus expectations validate the assumption of a huge air pocket for the global economy in the second quarter of the year, followed by a return to positive growth already in the following quarter.

A closer look

In the course of the past month, risk assets continued to make up part of the severe losses incurred in March. Stocks and spread bonds performed well, with volatility on the decline, and **core government bond rates stable at levels close to recent lows**. Starting in the second half of May, however, the recovery of the stock and spread markets halted, in waiting to assess the recovery of the economy as well as the risks of a reacceleration of the contagion, as social distancing measures are gradually lifted.

The diffusion of the virus remains an important variable to monitor. The contagion is still accelerating at the global level, due to its spreading in some emerging countries where the virus arrived at a later stage, such as Brazil and India. On the other hand, the epidemic seems to be slowing markedly in Europe, and to be gradually retreating in the US. In Asia, there have been instances of a resurgence of the epidemic, but to date the second wave has proven weaker than the first, and more effectively contained. The baseline scenario, that remains to be verified, is that the same dynamic could repeat itself in the event of a second wave of the contagion in Europe or in the US.

With the easing of virus containment measures, focus will be increasingly on economic data. Consensus expectations validate the assumption of a huge air pocket for the global economy in the second quarter of the year, followed by a return to positive growth already in the following quarter. The reacceleration in the second half of 2020 will not be enough, however, to rapidly restore activity to the same levels as at the end of 2019. This is because the lifting of restrictive measures will be gradual, some measures will be kept in place and will require extensive restructuring actions in some sectors, most notably mass tourism.

In this context, **economic policy will continue to be geared to supporting the growth**. In the US, for instance, there is talk of new fiscal stimulus. **Central banks will also maintain an accommodative stance**, both in order to provide direct support to the economy, and to aid governments in issuing the necessary debt to finance fiscal stimulus measures.
On this front, in Europe the debate on the establishment of the Recovery Fund is proceeding in the welcome direction, with the prospect of joint public debt being issued. The details of the project should be perfected in June and, although for the

time being at least four countries of the Union are opposed, the determination with which Germany and France seem to be pursuing the plan should not be ignored.

For what concerns the outlook for the markets, **the main elements of risk are a recovery of the contagion at the global level or a slower than expected reacceleration of the economy,** following the lifting of the restrictive measures. This latter possibility, however, would be offset by the prospect of further monetary and fiscal policy actions.

Under the **baseline scenario**, the monetary policy authorities will maintain an accommodative stance, so a sharp increase in government bond rates seems unlikely. In this context, investors will very probably continue to seek return from risk assets. In absolute terms, spread bonds and stocks seem to hold less appeal at present than has been the case during other market crises (absolute levels of yield-to-maturity, and P/E), but seem interesting in relation to the coupon rate of government bonds with high credit standings.

Scenario focus points

The progressive lifting of economic shutdown measures implies the risk of renewed uncertainty on the evolution of the virus. Another element of risk could be a slower than expected reacceleration of the economy. This latter possibility, however, would be offset by the prospect of further monetary and fiscal policy actions.

Investment themes

The gradual easing of measures to contain contagion in the various countries outlines a scenario of greater uncertainty about the possible re-acceleration of the virus. However, this risk finds compensation in signals of a recovery of activity, the still accommodative stance of the economic authorities, and the ample liquidity available to investors. Based on these considerations, the investment view for Eurizon portfolios is positive on equity and it remains neutral on US duration, negative on German and quasi-core euro area government bonds. Overweighting positioning is confirmed on non-core euro area government bonds, spread bonds and yen.

EURIZON ASSET MANAGEMENT

Investment views

Eurizon Capital SGR's investment views on the main asset classes are outlined below.

ASSET CLASS	VIEW	
EQUITY	- = + POSITIVE (previous: NEUTRAL)	**Positive view on equity.** Positive view taken on stocks. For what concerns geographical allocation, in light of the positive signals on the EU Recovery Fund, we have restored to Neutral our relative view on Europe, to the detriment of the emerging countries. The order of geographical preference is now: (1) USA, (2) Emerging Markets, Japan, Europe, (3) Pacific excl. Japan.
GOVERNMENT BONDS	- = + NEUTRAL USA, NEGATIVE GER AND "QUASI CORE" (previous: NEUTRAL USA, NEGATIVE GER and "QUASI CORE")	**Neutral view on US duration, negative on Germany and quasi-core Euro bonds.** Neutral view confirmed on US duration. Negative view confirmed on German and quasi-core euro area government bonds.
	- = + POSITIVE ON PERIPHERALS (previous: POSITIVE)	**Positive view on peripheral Euro area government bonds.** Overweighting confirmed of non-core Euro area government bonds

(Continued on the next page)

(Continued from previous page)

ASSET CLASS	VIEW	
SPREAD BONDS	POSITIVE (previous: POSITIVE)	**Positive view on spread bonds.** Overweighting of the spread markets confirmed, with the following order of relative preference: (1) Investment Grade, (2) High Yield, (3) Emerging Markets.
CURRENCIES	POSITIVE YEN (previous: POSITIVE YEN)	**Positive view on yen.** Positive view confirmed on the yen.

Further information on financial market trends available in video format at **www.eurizoncapital.com**:

Eurizon View, the monthly update on Eurizon Capital's views on the economic scenario, and expectations for the main asset classes.

Analysis of the month, the monthly publication that offers an overview of the main economic themes that have guided market trends in the past calendar month.