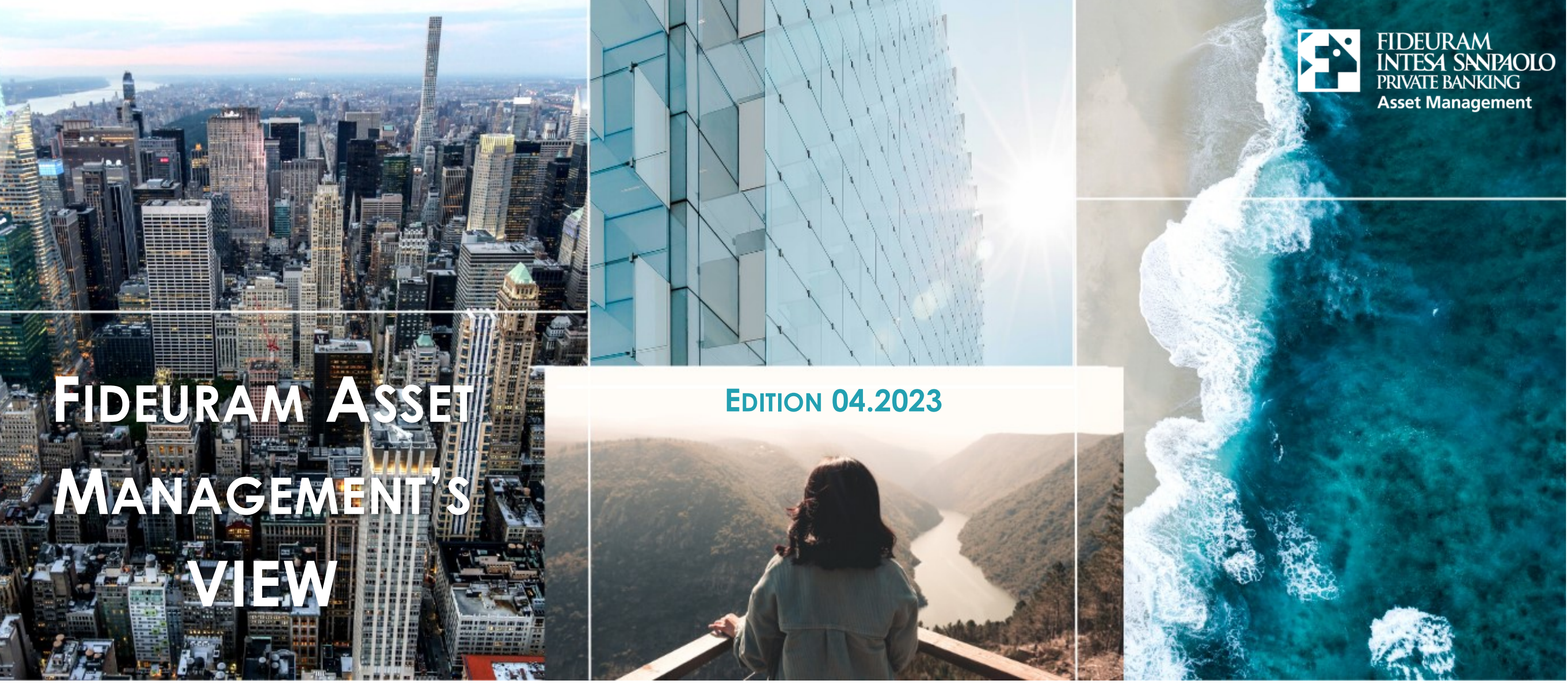


Fideuram Asset Management's View

Edition 04.2023

Macroeconomic Scenario

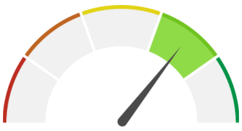
Global economic activity in the first few months of the year was quite buoyant, partly due to the strong acceleration in growth in China in response to the rapid removal of mobility constraints that authorities had previously adopted to contain the spread of COVID. However, one factor of considerable uncertainty remains, particularly in the US, related to the impact on credit conditions of the tensions in the banking system that emerged in March with the failure of Silicon Valley Bank. In view of these risks, we now believe that the FED's rate-raising cycle is likely to end with the 25 bps hike expected at its meeting in early May, although the core inflation dynamics remained strong in March. The ECB is also expected to raise its policy rates by 25 basis points at its meeting in early May, with a further 25 bps hike expected at its following meeting in June. Our scenario for the ECB is that there will be no further rises after June, but there is a very high risk that the tightening cycle will continue after June.

Equity Markets

We remain essentially neutral to equity markets, with an overweight position in emerging markets and China, offset by a slight underweight in Europe. The Chinese and emerging market overweight depends on better expected growth in earnings and discounted valuations than in developed markets. Cyclical resilience and the gas correction have supported Europe, but recent outperformance, the - albeit non-systemic - weakness of some financial institutions, a still hawkish monetary policy and the prospect of a macroeconomic slowdown make us lean toward a modest underweight. We are neutral in the US and Japan. In sectoral and thematic terms, we maintain a diversified approach, but stabilising interest rates are leading us to prefer growth components while, among the more defensive sectors, the theme of companies that increase shareholder returns (dividend aristocrats) looks attractive to us in an environment where corporate profits are weakening.

Europe	United States	Japan	Emerging Markets
SLIGHTLY NEGATIVE	NEUTRAL	NEUTRAL	SLIGHTLY POSITIVE

Bond Markets



The portfolios continue the process of increasing credit quality among bonds and maintain modest duration overweight and substantial credit risk neutrality. The imminent end of the rate hike phase, the weaknesses in the financial sector, the prospect of tighter credit access conditions and the reduction in the bond/equity correlation make government duration attractive. After the fall in rates in recent weeks, we are guiding the rise in the 10-year US Treasury and Bund respectively above 3.5% and 2.5% with a gradual increase in exposure. The only credit segment that remains overweight is investment grade, where the credit quality is better, the expected yield favourable, and the spread/duration mix more balanced. From a medium-term perspective, we continue to look favourably upon emerging bonds, but more tactically in this phase of increased volatility and uncertainty we remain neutral. We are underweight in high yield, which is the segment most vulnerable to tightening credit conditions.

Government	Corporate	High Yield	Emerging Markets
NEUTRAL	SLIGHTLY POSITIVE	SLIGHTLY NEGATIVE	NEUTRAL

USA: Eyes still on the credit terms

Very robust growth in private consumption supported economic activity in the first quarter of the year and **labour market conditions remained very robust**, although **signs of a weakening in labour demand** started to **emerge** at the margin. Price dynamics have clearly slowed, with inflation falling to 5.0% in March from the cyclical peak of 9.1% last June. Excluding the energy component, however, price dynamics remain quite strong, as can be seen from **the relative stability of *core* inflation**. The key factor for the macro scenario remains **the extent of the tightening in credit conditions** and its impact on economic activity as a result of the stress in the banking sector, but that should not prevent the FED from raising rates by 25 bps again in early May, with what we now believe to be the last hike in the tightening cycle.

Euro Area: The ECB still has some way to go

Growth is being confirmed as more robust than expected: lower energy prices are supporting production in more energy-intensive sectors and private spending on services is accelerating. **We have increased the growth forecast in the first quarter to 1% qoq annualized (from 0.5%),** and the first indications for the second quarter suggest a further acceleration. In March, inflation fell from 7.1% to 6.9%, driven down by energy products. **Prices for the rest of the basket, however, from food to core prices** (non-energy commodities and services), **rose further.** Lower risks for growth and persistent concerns about high inflation (core inflation has not yet peaked), keep the ECB determined to continue to raise rates: **we expect a period of smaller increases of 25 bps** instead of 50 **from May**, now close to the terminal rate. But **another 50 bps rise cannot be ruled out and the ECB could continue to increase the rate during the summer, after the June meeting**.

China: China's sprint start

Higher-than-expected first-quarter GDP growth of 9.5% per annum confirmed the strength of the recovery in the post-COVID period. Our growth expectations for 2023 at 6.3%, which has been above consensus for several months, now appear within reach, although it is likely that the strongest acceleration phase was already reached earlier this year, ahead of our expectations. **Growth was driven by the services sector and consumption, after being repressed for quarters by restrictive measures**. In particular, the rapid recovery in consumption was surprising, benefiting from a faster-than-expected reopening. By contrast, investment growth in March was disappointing, and new signs of weakness were noted, in particular in the real estate sector, but these are expected to be only temporary.

INVESTMENT VIEW

Equity Markets

Cyclical resilience and the correction in gas prices support Europe, but the outperformance seen recently, the weakness of some banks - albeit non systemic - and a still hawkish monetary policy mean we remain modestly underweight. The European banking sector has embarked on a path of improved profitability and is trading at attractive prices, but at this stage when difficulties have emerged for some of the weaker companies, we prefer to be more cautious.

Europe — SLIGHTLY NEGATIVE

Supporting factors are better than expected earnings, albeit in a context of gradual slowdown, and the stabilization of medium-long term interest rates favouring higher growth market segments, including technology. However, valuations are higher than in other major geographical areas and we prefer not to increase exposure above the 4000 level for the S&P500.

United States — NEUTRAL

The Japanese market trades at attractive prices and lower than other regions, but earnings growth is not particularly robust, despite the yen's weakness. From a longer-term perspective, we welcome the possibility that the BoJ may loosen its control over the interest rate curve, due to the impact on financial sector profitability and rising inflation expectations.

Japan — NEUTRAL

We are overweight in emerging markets because the recent reopening of the Chinese economy reinforces the expectation of improved corporate earnings. Moreover, after years of underperformance, the relative valuations of China and emerging markets are trading at a good discount compared to those of developed countries.

Emerging Markets — SLIGHTLY POSITIVE

Bond Markets

Government — NEUTRAL

In this phase, government bonds have high volatility, but they provide a source of diversification and protection for portfolios in stress situations. The imminent end of the rate hike phase, the weaknesses in the financial sector, the prospect of tighter credit access conditions and the reduction in the bond/equity correlation make government duration attractive. After the fall in rates in recent weeks, we are guiding the rise in the 10-year US Treasury and Bund respectively above 3.5% and 2.5% with a gradual increase in exposure. Despite the volatility, peripheral spreads remain firm, although the BTP appears expensive, particularly in short-term maturities of the curve.

Corporate — SLIGHTLY POSITIVE

The portfolios are overweight investment grade corporate bonds because the credit quality is better and the increase in volatility of low rates is absorbed by spreads and stabilises the total return. Moreover, corporate curves continue to offer a favourable roll-down compared to government curves, particularly in the US. Despite favouring the financial sector from a longer-term perspective, we maintain its exposure neutral because of the increased uncertainty triggered by recent events in the sector.

High Yield — SLIGHTLY NEGATIVE

We are underweight on the high-yield segment to reflect the risk of worsening credit access conditions and the impact on lower-quality balance sheets of an increase in the cost of capital. Expected yields are attractive on a historical basis, and default rates are still low, albeit rising, but we expect spread volatility to remain high in the short term.

Emerging Markets — NEUTRAL

At this stage where we have increased the quality of fixed income exposure, we do not have an overweight in emerging segments, which are characterised by higher volatility. From a longer-term perspective, we view the asset class more favourably, both in the hard and local currency component. We continue to maintain a limited weighting in Chinese government bonds.

EQUITY MARKETS

China: mix of earnings growth and discounted valuations

After the extremely volatile phase in March following the bankruptcy of US banks SVB and Signature and the difficulties of Credit Suisse, **the Vix has returned to lower levels. The effects of this banking turmoil on equity markets appear contained**, confirming that these were more idiosyncratic than non-systemic criticalities.

In the meantime, **the focus will be on quarterly reporting** to assess the impact of the banking crisis on corporations and, possibly, the signs of a slowdown in economic activity as a result of higher credit costs.

What we expect is consistent with the estimates of analysts who have **progressively lowered earnings growth expectations for the current year**, in the view that a moderate slowdown in the income component is emerging.

This uncertainty linked to the earnings path, cyclical developments and the dynamics of inflation and monetary policy still leaves us **substantially neutral vis-à-vis the equity markets, maintaining the overweight position towards the emerging economies and China compensated by a slight underweight in Europe**. In choosing between the US and Europe, **we maintained a more neutral/tactical stance on the US market and a more cautious one on the European market**, due to the macroeconomic uncertainty that justified a preference for a more defensive composition and higher quality also with respect to higher prices. In the short term, the support of medium-low positioning remains for the US market.

The more favourable positioning towards Chinese and emerging market exposure is the result of the better expected earnings growth in this region following the reopening of the Chinese economy post-lockdown, and discounted valuations of the emerging world relative to developed markets following the underperformance that has built up in recent years. Indeed, since the beginning of the year, we have seen a gradual divergence in both revisions and absolute levels of earnings growth estimates between developed and emerging economies, including China in particular.

From a sector and theme perspective, we continue with our diversified approach. However, stabilising long-term interest rates are leading us to marginally prefer growth components while, among the more defensive sectors, the issue of corporations increasing shareholder returns (dividend aristocrats) looks attractive to us in an environment where corporate profits growth is weakening.

BOND MARKETS

Favour of high-quality credit and duration

The emergence of tensions in the banking sector led to a rapid down turn in yields in both the US and Europe over the past month. Confirmation of non-systemic risk and swift action by regulators has accompanied the **gradual return of 10-year US Treasury and Bund to what we call the fair value area**.

This movement was particularly evident from the analysis of systematic operators' behaviour, which saw an increase in bond exposure then returning to a neutral position. The imminent end of the rate hike phase, the emergence of weaknesses in the financial sector, the prospect of tighter credit access conditions and the reduction in the bond/equity correlation make government duration attractive.

We remain in favour of better quality credit exposure, which is an area with a better risk-return profile in relative terms. On the investment grade segment, the total rates of return are particularly attractive historically and the evidence that the correlation between spread and rate has turned negative allows expected returns to stabilize at higher levels than in the most recent past.

We maintain an **underweight against high yield bonds** that remain exposed to volatility and significant spread widening in the event of a cyclical deterioration. Evidence **is also emerging of the worsening fundamentals with default and downgrades rates** which, albeit low in historical terms, show upward dynamics that looks set to continue in the coming months.

Recent tensions in the banking sector have led to a repricing of the risk premium for financial bonds with a higher degree of subordination. The preference for the higher quality and more liquid bond segment against the cyclical risk expressed through the equity component has led us to adopt a more cautious approach on the asset type as a whole.

Exposure to emerging-market bonds is kept neutral with a view to maintaining a high degree of credit exposure, as the current extra-return on corporate credit is concentrated in the most speculative components and exposed to volatility and cyclical risk. The exposure to Chinese government bonds also remains neutral. **The asset class continues to be a source of diversification in portfolios** because of its low correlation to the bond market. However, the yield advantage over developed markets has disappeared, while there is a wide yield gap in relation to the emerging index in local currency.

FIDEURAM INTESA SANPAOLO PRIVATE BANKING Asset Management

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