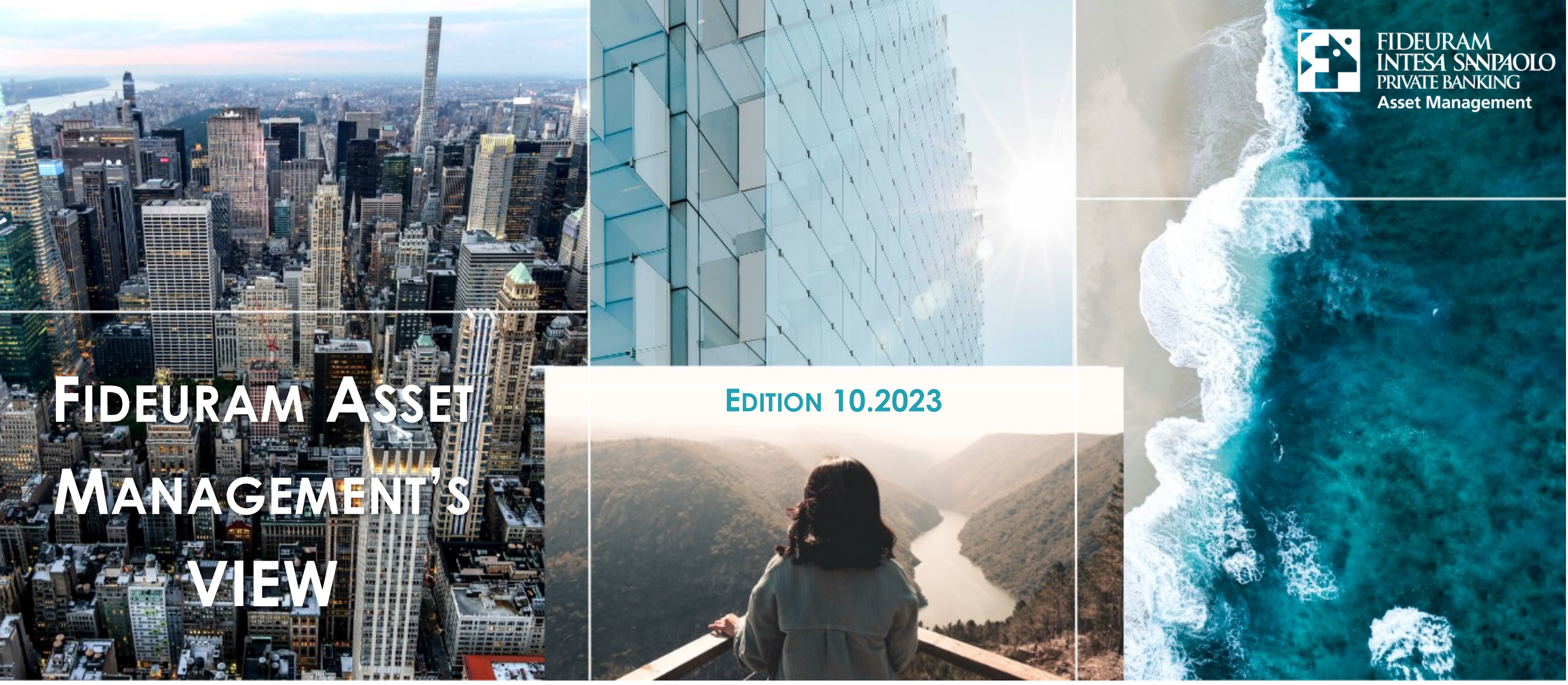


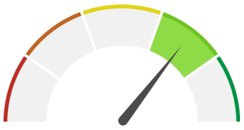
Fideuram Asset Management's View

Edition 10.2023

Macroeconomic Scenario

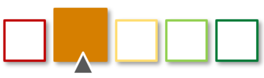
The growth of the global economy recovered in the third quarter, thanks to the sharp acceleration of the US and the recovery of economic activity in China. Our scenario now predicts a significant slowdown in the US economy, but it should be noted that September's figures (primarily consumption and employment) continued to be very robust. The exacerbation of geopolitical tensions in the Middle East also represents a clear element of risk for the global economy. In our baseline scenario the restrictive monetary cycle of the Fed and the ECB has come to an end, however in the short term there are still risks of a further rise (particularly in the case of the Fed at its meeting in mid-December). The persistently high inflation level is also making a turn in the direction of a rate cut very unlikely for the time being.

Equity Markets



The portfolios maintain an equity overweight, which is based on above-expected earnings dynamics thanks to a more favourable cyclical stability. In recent quarters, companies have been able to beat profit growth estimates and we expect that the figures for the third quarter will confirm this trend and highlight an improvement in sequential growth, particularly in the US. The valuations of the US market are not low, however we do not think that the current macroeconomic context will lead to a particularly significant multiples compression. We expect growth to slow down, but overall our cyclical view has improved and no longer includes a recession in the coming quarters. In addition, the idea that bond yields are in the final phase of the rise contributes to a certain stabilisation of valuations. Our preferred geographical areas continue to be the US and Japan, whereas we are neutral to Emerging Markets and China, and underweight in Europe. Among the sectoral and thematic choices, we confirm our favour for cybersecurity, dividend aristocrats and the oil sector.

Europe

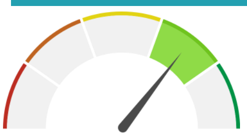


United States

Japan

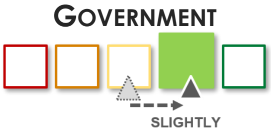
Emerging Markets

Bond Markets

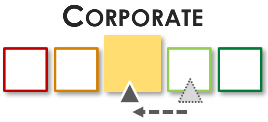


The portfolios have changed their approach by lengthening their duration through the increase in government bonds, both in the US and in Europe, to the detriment of credit risk. The rate hike was very fast and there is the idea of an excess in the short term, but we are also of the opinion that from these levels it is appropriate to have a higher exposure in government bonds. The higher for longer theory postpones the expectation that short-term rates will remain high for a long time and mechanically pushes up longer maturities. However, we think that the persistence of restrictive monetary conditions for a long period of time is not so acceptable to the economy and that rates can at least stabilise in a phase of growth below potential. Despite being our preferred corporate credit sector, we are returning to a neutral view on investment grade also with a view to financing government positions. We are underweight in high yield, which appears to be the segment most vulnerable to tightening financial and credit conditions.

Government

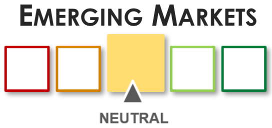


Corporate



High Yield

Emerging Markets

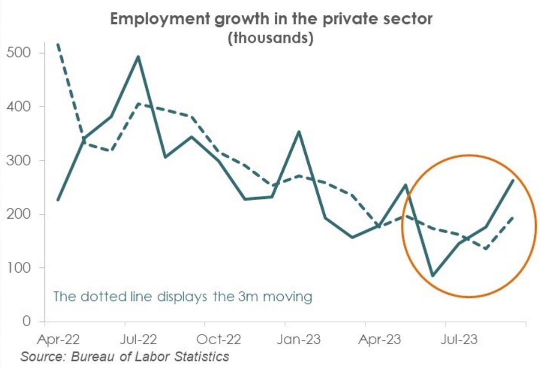


content updated as of October 23rd, 2023

USA: More solid than expected, at least for now

Economic performance recorded a clear improvement during the summer: after four quarters of GDP growth consistently slightly above 2% annualised, our estimate for the third quarter predicts an acceleration to 4.1%, driven mainly by the strength of consumption and exports. **Employment growth also accelerated unexpectedly from July**, with a very strong figure in September. Our scenario, however, continues to **predict a marked slowdown starting from the current quarter**, associated with a continuation of the decline in inflation (especially net of the energy component). It is now widely assumed that the Fed will keep rates unchanged at the next meeting ending on 1 November, however the risks of a further hike at the next meeting in mid-December are not negligible.

Unexpected acceleration in employment growth in recent months



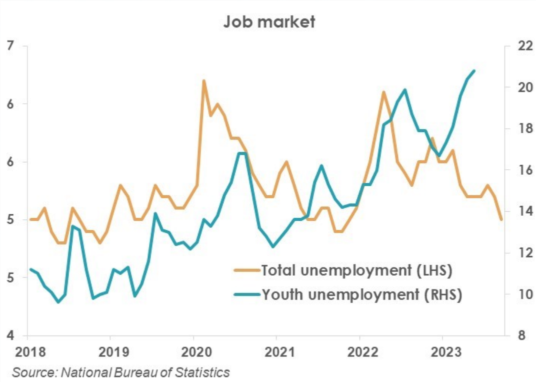
Euro Area: Persistently weak growth

After the marked worsening of the figures during the summer, some **signs of stabilisation have emerged**: therefore, the decumulation of excess inventories in the manufacturing sector is coming to an end and the decline in inflation, which will fall below 4% in the current quarter for the first time in the last two years, supports disposable income and the outlook of private consumption, with a still solid labour market. We maintain the scenario of substantial **stagnation of GDP in the latter part of the year**, however the **downside risks** linked to the evolution of the new conflict in the Middle East, due to the negative repercussions on energy prices and confidence, are weighing on us. The ECB should have made **the last rate hike in September and will now keep them stable** “for a long time” (which has not been specified). Any measures to further reduce excess liquidity will, in our opinion, be cautious and prudent.

China: first signs of stabilisation in the real estate sector

GDP growth in the third quarter exceeded expectations, showing an acceleration to 5.3% annualised from 2% (revised down from 3.2%) in the previous quarter, and can now easily reach the Government’s target for this year set at “around 5%” (we have revised our expectations from 4.9% to 5.2%). The improvement phase that began in August continued in September, with industrial production figures and, above all, retail sales exceeding expectations. Our scenario predicts a continuation of the recovery in the current quarter as well. **Although investments in the real estate sector showed a further deterioration in yoy terms, both sales and new construction showed an improvement.**

In September, the unemployment rate fell to 5%, the lowest level since November 2021



Fideuram Asset Management Economic Forecast

	GDP			Inflation			Monetary Policy Rate		
	2022	2023*	2024*	2022	2023*	2024*	2022	2023*	2024*
US	1.9	2.3	0.9	8.0	4.2	2.8	4.38	5.38	4.63
Eurozone	3.4	0.5	0.5	8.4	5.7	2.7	2.50	4.50	4.25
Japan	1.0	1.9	1.1	2.5	3.1	2.3	-0.10	-0.10	0.00
China	3.0	5.3	4.8	2.0	0.4	1.2	2.75	2.40	2.40

Annual average growth, monetary policy rates are end of period. Refi rate for ECB.

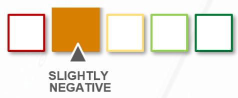
** Fideuram Asset Management Forecasts*

INVESTMENT VIEW

Equity Markets

Despite relatively subdued valuations, we maintain a slight underweight on European equity markets where we see a less favourable macroeconomic situation and lower ability of corporate profits to surprise, and more sequential weakness than the US also due to the different sectoral mix and the lower weight of technology. After the outperformance in the first part of the year, we see a less favourable scenario, due to a context of gradual cyclical weakening as a result of the end of the previous fiscal stimulus, the weakness of Chinese consumption, and the ECB's tightening monetary policy.

Europe



The cyclical stability improves the expected earnings growth, which we expect to be above expectations this quarter as well and to show a sequential improvement thanks also to the contribution of the technology sector. The valuations limit the absolute upside and, in addition to favouring the growth and technological components, we have started a process of gradual increase in the most defensive components as well, to the detriment of the most cyclical components.

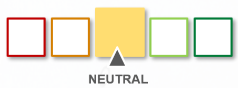
United States

We hold an overweight position due to the mix of attractive valuations and a rise in expected profits that depends on both cyclical (rise in inflation expectations and financial sector profitability thanks to the loosening of the curve control by the BoJ) and structural elements (balance sheet restructuring and increase in investments). If confirmed beyond the cyclical horizon, the exit from deflation may represent a long-term support element for the market, which goes hand in hand with corporate governance progress.

Japan

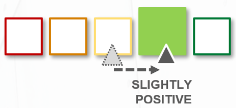
China's economic performance reduces the expected growth estimates of profits, but the valuations are supportive and the expectation of a stimulus phase by the Chinese government authorities remains, despite the fact that so far the measures have disappointed investor expectations .

Emerging Markets



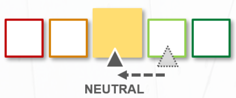
Bond Markets

Government



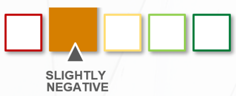
We believe that the rise in ten-year rates close to 3% for the Bund and 5% for the Treasury factors in a cyclical scenario that is decidedly stronger than our baseline, which predicts a decline in growth below potential for the coming quarters accompanied by a gradual reduction in inflation. On peripheral spreads we see room for a modest widening linked to the fiscal dynamics of some countries (Italy) but we do not think of situations other than the normal times of volatility.

Corporate



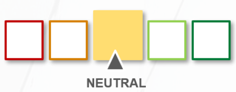
The sector remains our preferred sector within the scope of corporate credit risk. However, we are also returning to a neutral view to finance the increase in weight of government bonds. Overall, the investment grade is characterised by a favourable mix of rates and spreads that stabilises returns at attractive levels, however we prefer the government rate component at this stage due to its greater capacity to protect equity risk.

High Yield



We are underweight on the high-yield segment to reflect the risk of worsening lending standards and the impact on lower-quality loans of an increase in the cost of capital. Expected yields are attractive on a historical basis, and default rates are still low, albeit rising slightly, but in the short term we expect spreads to be vulnerable in the event of a cyclical slowdown and in any event we prefer equities among the risky assets.

Emerging Markets



We are neutral on emerging markets, due to the volatility of base rates and the relatively low level of spreads. In addition, the good performance of local currencies in recent months and the recovery of the dollar leave us more favourable towards higher quality segments and lower fixed income volatility.

EQUITY MARKETS

Positive profit dynamics thanks to a more favourable cyclical stability

The explosion of the conflict in the Middle East introduces greater geopolitical risks into the global scenario. Although it is particularly complex to predict or model the probabilities linked to a possible extension of the conflict, the **market behaviour suggests that it is not necessary to change the investment approach** which currently remains based solely on economic-financial variables.

We therefore maintain our overall favour towards equity exposure without changing the preference structure based on the United States and Japan, in view of substantial neutrality towards emerging markets and China, and an underweight in Europe.

This positive approach is the result of a global growth that proved to be above expectations and which supported earnings dynamics capable of surprising upwards compared to estimates.

In the US, the reporting season has begun and what we expect is – in line with market expectations – a slightly positive earnings growth year-on-year, but which represents an improvement in sequential terms compared to previous quarters. This prospect of income solidity corroborates the positive approach towards equity exposure with particular reference to the United States. The same earnings estimates show lower income capacity for Europe after the outperformance recorded during the first part of the year. The reasons for this misalignment include a different sectoral breakdown compared to the United States, mainly due to a lower weight of technology, a sector that may still represent a key element in terms of earnings growth in a forward-looking perspective.

However, while it is evident that the US market valuations are not cheap, the greater cyclical tightness and rates in the final phase of the rate hike are elements that contribute to a certain stabilisation of the multiples.

We maintain overexposure to the Japanese market for which macroeconomic (reflation, productivity increase) and micro-economic improvements remain, thanks to corporate governance reforms, which are likely to bring further progress in terms of corporate profitability.

We confirm the neutral view towards emerging countries since the possible surprises of a greater incisiveness of economic policy in China are countered by a certain scepticism of the market on the income recovery capacity of the country and the area and geopolitical tensions, with possible repercussions on currency dynamics and the price of commodities.

FIDEURAM INTESA SANPAOLO PRIVATE BANKING Asset Management

BOND MARKETS

More government securities in the portfolios

Recently, we have witnessed a rapid interest rate hike. **In the US**, among the underlying dynamics, it is possible to identify a **greater resilience of economic growth**, the **so-called higher for longer theory, which mechanically pushes up rates on longer maturities, but also imbalances between supply and demand** (need for Treasury refinancing, QT, reduction in purchases from China and Japan, etc.). **A rather similar trend is observed in the dynamics of European core rates, which moved upwards in line with the ECB's monetary policy expectations,** propagating the effect of the current restriction and communication along the curve. However, **there are two elements of differentiation with respect to the US, which include the fiscal aspects and the lower surprise capacity of economic growth**, respectively.

This movement is based on the expectation of a robust growth and inflation scenario that is able to withstand high real rates for a long time. **We believe that the persistence of restrictive monetary conditions for a longer period of time may not be sustained by the economy and that therefore the higher for longer is not a condition of equilibrium for the bond market**. This assumption makes rates at these levels vulnerable in the event of a growth phase below potential.

For these reasons, following the upward movement in yields, we are changing the approach towards the bond component, where an overweight of both European and US government bonds is implemented.

The duration overweight is also defined through the use of inflation-linked government bonds to capture the downward movement of real rates and also as a form of protection against temporary inflation rises.

In view of an increase in duration through the government component, the positioning towards investment grade credit returns from positive to neutral, while the underweight on high-yield credit components and neutrality on emerging bonds remain unchanged.

Within the corporate credit segment, we continue to prefer quality credit due to the high yields, partly stabilised by the greater de-correlation between rate and spread, and the more defensive nature. However, we prefer to reduce exposure in favour of government or government-backed solutions, which are more protective against equity risk, since the tightening of credit conditions for a longer period and the volatility of the base rate may push towards a greater widening of spreads.

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