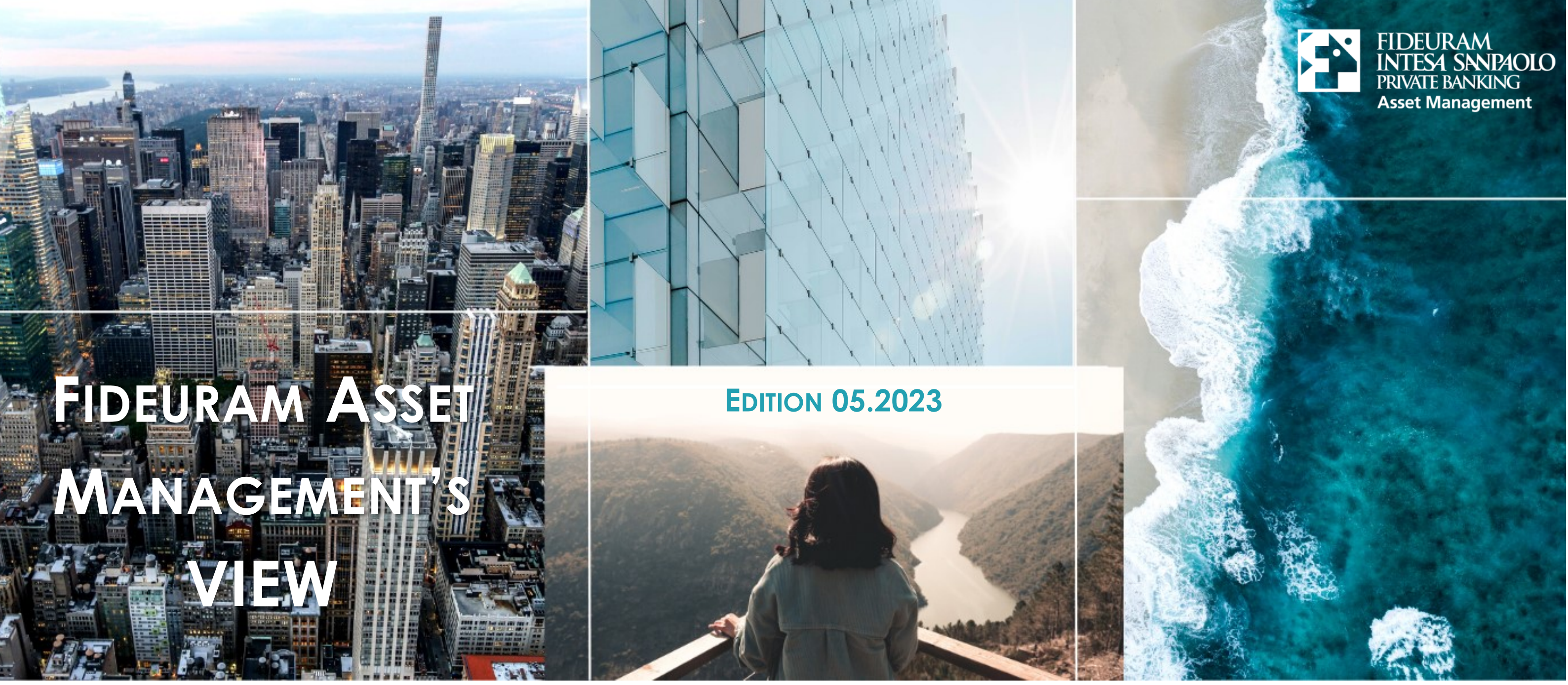


Fideuram Asset Management's View

Edition 05.2023

Macroeconomic Scenario

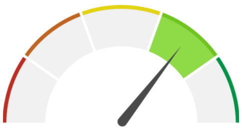
Over the past few weeks we have not made any significant changes to our global growth and inflation scenario, with the only significant exception being the surprising drop in inflation in China over the past few months, despite the economy's strong recovery at the beginning of the year (which - incidentally - was called into question by the rather weak data recorded in April). In the US, data on growth and on the labour market do not at the moment seem compatible with an upcoming recession during the summer, and we therefore do not rule out having to postpone the onset of the recession further. Core inflation, on the other hand, is proving to be quite high, as expected, both in the US and in Europe. Consequently, the short-term risks for the Fed, which should have completed its tightening cycle with the rate hike in early May, remain headed in the direction of another hike, while for the ECB, after the hikes expected at its next meetings in June and July, the risk is of a further hike at its September meeting as well.

Equity Markets

We are neutral to equity markets, but with an overweight position in emerging markets and China, offset by a slight underweight in Europe. The overweight in China and emerging markets reflects better expected earnings growth in this region linked to the reopening of the Chinese economy post-lockdown, and discounted valuations following the underperformance that has built up in recent years. The macroeconomic backdrop and the gas price correction have supported Europe, but we believe that the ability to surprise further is limited and after the outperformance of previous months we maintain a modest underweight, which we also believe to be able to increase in the period ahead. We are neutral in the US and Japan. From a sectoral and thematic perspective, the stabilisation of long-term interest rates leads us to a marginal preference for growth and defensive components.

Europe	United States	Japan	Emerging Markets
Slightly negative	Neutral	Neutral	Slightly positive

Bond Markets



We maintain a modest overweight in terms of duration and substantial credit risk neutrality and favour higher quality corporate credit segments. The imminent end of the rate hike phase, the weaknesses in the financial sector, tighter credit access conditions and the reduction in the bond/equity correlation make government duration attractive. However, we do not have a strong overweight position since the curves of core countries already price in a reduction in official interest rates compared to the central banks' reference scenario. The only credit risk segment that remains overweight is investment grade, where the credit quality is better, the expected yield favourable, and the spread/duration mix more balanced. 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
Neutral	Slightly positive	Slightly negative	Neutral

MACROECONOMIC SCENARIO

USA: Eyes still on the credit terms

GDP growth in the first quarter (1.1% annualised) was slightly below expectations, since the expected strength in consumption was more than offset by a large negative contribution in inventories. **Growth is expected to accelerate again in the current quarter**, despite a marked slowdown in consumption, thanks to the end of the negative contribution from inventories. Indications from the labour market remained very robust, with the unemployment rate reaching a new cyclical low at 3.4% in April. Some more encouraging signs came from core inflation, which, however, remains far from the Fed's target, which raised rates by 25 bps at its meeting in early May, as widely expected, **signalling, again in line with expectations, a break in the tightening cycle**. Our baseline scenario does not predict any further rate hikes after the one in May.

Euro Area: Stubborn inflation

Between the end of 2022 and the beginning of 2023, GDP **growth was essentially zero,** however in Germany GDP fell by 1%. Falling gas prices, peak inflation and China's reopening have improved the outlook and GDP growth is expected to accelerate in the second quarter: it is the domestic demand for services, together with net exports, that is driving the recovery. Inflation peaked at the end of 2022 and is now declining quite rapidly, however **it is core inflation (excluding food and energy) that is of concern to the ECB because of its persistence:** the rise in prices in the service sector has not yet petered out and core inflation will remain at its current high level (5.6-5.7%) throughout the summer. Therefore, the ECB, after having reduced the pace of rate hikes at its May meeting to 25 bps (from the previous 50, and before that 75), **will raise rates again in June and July, and there is a risk that a further hike will also be decided in September**.

China: lull in economic recovery

After peaking in the first quarter, April's data showed a significant slowdown in economic activity in China. In particular, industrial production and investment, while showing a yoy acceleration due to a favourable base effect, slowed down on a sequential basis. Conversely, consumption remained more robust and should continue to support growth. **A deceleration of growth in Q2 was widely expected, although April's data suggest a much weaker-than-expected performance.** We have therefore revised downwards our growth expectations for the current quarter from 6.6% to 5.3% annualised, with additional downside risks; average growth for this year remains just above 6% (6.1% from the previous 6.3%).

INVESTMENT VIEW

Equity Markets

Europe — SLIGHTLY NEGATIVE

The macroeconomic backdrop and the gas price correction have supported Europe, but the ability to surprise further is limited and after the outperformance of previous months we maintain a modest underweight, which we also believe to be able to increase in the period ahead against evidence of a cyclical slowdown. We believe that the European banking sector is on a path of improving profitability and is attractively valued, but we prefer to be more cautious at this stage.

United States — NEUTRAL

Earnings growth is above expectations, although gradually slowing. Also, stabilising medium/long-term interest rates at the margin define a more favourable environment for the growth and technology components. However, valuations are higher than in other geographies, and we prefer not to increase market exposure to the current level reached by the S&P500, and if anything, to reduce it in conditions of further strength that would bring the index into the upper part of our fair value range.

Japan — NEUTRAL

Japan trades at prices lower than other regions, but earnings growth is not particularly robust, despite the yen's weakness. We look favourably on the possibility that the BoJ may loosen its control of the interest rate curve, favouring the profitability of the financial sector and the rise in inflation expectations, the sustainability of which is a favourable factor for the market.

Emerging Markets — SLIGHTLY POSITIVE

We are overweight in emerging markets because the recent reopening of the Chinese economy reinforces the expectation of improved corporate profits. 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.

Bond Markets

Government — NEUTRAL

Although the ECB may continue to raise official rates, the room for upward movement of the long end of the European curve is limited by the slowdown in the economic cycle. In the US, the money market is already expecting a Fed rate cut soon, ahead of the Fed's own scenario. We see a fair valuation area for the ten-year Treasury between 3.5 and 3.8% and for the Bund at around 2.5% and consider a government bond buying activity at the upper end of this range.

Corporate — SLIGHTLY POSITIVE

We are overweight since the credit quality is better and the reduction of the correlation between base rate and spread stabilises total return. Moreover, corporate curves continue to offer a favourable roll-down compared to government curves, particularly the USA one. We maintain exposure to the financial sector 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 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 we expect spreads to be vulnerable in the event of a cyclical slowdown.

Emerging Markets — NEUTRAL

At this stage where we favour exposure to the higher quality fixed income segments, we do not have an overweight in emerging segments, which are characterised by higher volatility. We maintain a limited weight in Chinese government bonds, despite their contribution to portfolio diversification, due to lower yield attractiveness compared to other bond segments.

EQUITY MARKETS

EQUITY RALLY LED BY BIG TECH STOCKS

The results of the reporting season for the first quarter of 2023 showed **both in the US and Europe**, albeit with some sectoral differences between the two areas, a substantial **ability to beat estimates on the part of companies**, in the context of a gradual downward revision of earnings growth expectations.

However, companies' **earnings outlook appears more complicated**, in view of worsening credit access conditions and, more generally, the uncertain development of the economic cycle, all of which are hindering the re-acceleration of earnings growth in the coming quarters.

In terms of performance, equities proved to be the best segment since the beginning of the year, thanks in part to the support provided by the stabilisation of rates, a positioning that was particularly low, especially in the first few months of the year, and a resilience of the macroeconomic scenario above expectations. An analysis of the performance of the S&P 500 shows that this was largely driven by the rally of big tech companies, not only due to positive earnings and less cyclical performance sensitivity of these stocks, but also by euphoria over the potential impacts on productivity and margins arising from artificial intelligence implementation. Although at present it appears difficult to precisely quantify the impacts of the adoption of artificial intelligence programmes, it is nevertheless clear that these companies are at the forefront of the research and application process.

The other topic that has gone back to arousing investors' interest is that of Japanese equities, thanks to some new developments.

The main one is represented by the first signs of a possible transition of the economy to a new inflationary phase from a previous deflationary structure from which a positive effect on the structure of corporate earnings can be expected in the medium to long term. A further element is represented by the reforms implemented by the Japanese Stock Exchange, leading to an increase in buyback announcements which, given the strong liquidity, low debt costs and attractive book valuations, may contribute to a further improvement in corporate ROE in the medium term. Finally, a further element is represented by Japan's stability in terms of geopolitical risk.

The overall equity positioning remains neutral with a preference for China and the emerging markets, against a marginal underweight in Europe. We maintain a positive positioning towards emerging markets and China due to expected earnings growth spreads relative to developed areas following the reopening of China's post-lockdown economy, and due to discounted valuations following accumulated underperformance in recent years. Exposure to the US, whose shares trade at the upper end of our valuation range, is neutral. ive to us in an environment where corporate profits growth is weakening.

BOND MARKETS

PREFERENCE FOR GOVERNMENT BOND DURATION AND QUALITY CREDIT

With regard to bonds, in the absence of drivers, the scenario did not record any significant changes. Government bond duration gained some attractiveness with the approaching end of the rate hike phase, the emergence of weaknesses in the financial sector, the prospects of tighter credit access conditions and the reduction in the correlation between bonds and equity. In terms of positioning, the duration overweight is not particularly strong because the curves of the core countries are already anticipating a reduction in official interest rates compared to the central banks' reference scenario and the announcements emerging from recent meetings.

We maintain our relative preference for investment grade bonds. Although spreads do not fully price in recessionary risks, comparative valuations support both the equity universe and the high-yield segment. The better quality is also more defensive in a context of expected cyclical downturns, and the decorrelation between spread and rate cushions the effects of frequent scenario changes, protecting total return.

Conversely, **our positioning towards high-yield credit is negative**: although fundamentals are still well set, the segment still appears to us to be exposed to rising downgrade and default rates and possible worsening liquidity conditions. Indeed, part of the asset class return comes from the more speculative segments, which we prefer to underweight in this uncertain phase.

We maintain a neutral approach to emerging bonds. In the hard currency segment at the spread level, the outperformance against corporate credit in advanced countries is concentrated in the more speculative segments, which are more sensitive to volatility factors and to the deterioration of the economic scenario. We therefore see no room in the short term for significant returns compared to other asset classes. In terms of local currency debt, the stabilisation of inflation and expectations of a monetary policy reversal work in favour of the segment, even though mixed expectations remain over local currencies. There is also less relative attractiveness compared to developed country rates in both nominal and real terms. Similarly, we maintain a limited exposure to Chinese government bonds. The asset class remains an element of portfolio diversification, even though the yield advantage vis-à-vis developed markets has narrowed while the yield gap with respect to the local currency emerging markets has widened. Recent data from China point to a more modest growth and inflation scenario, reinforcing expectations of possible economic policy interventions.

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