

# Italian Equity Strategy Monthly

## February Gets Underway with Tariffs on the Table

by Intermonte Research Team

Italian Equity Market

■ **Market outlook.** 2025 has started with a further acceleration in banking sector consolidation and the presentation of a few business plans. The Italian market posted a positive performance in January at +6.7%, in line with the good performance of the EuroStoxx, which has outperformed US markets since the beginning of the year.

■ **Investment strategy.** The Trump administration is set to decide on key elements of economic policy, especially tariffs, but the worst-case scenario should be avoided. A reversal in cyclical stocks' earnings trends also appears unlikely in the short term, and while indications are mixed in sectors like luxury there is a prevailing sense that the situation is stabilising. The domestic financial arena has witnessed a further acceleration in M&A, with unexpected bids by BMPS on Mediobanca and IFIS on Illimity. So far the EU's competitive plans have failed to provide material investment catalysts, as they lack clear commitments on the scope and timing of measures, while some flows out of overcrowded trades on US markets have benefitted European stocks, including some laggards.

Italian market multiples have increased to almost 11x 1-year forward earnings following a continuation of the 2024 re-rating in January, with markets starting strongly on broadly unchanged earnings. We expect positive indications from dividends to be announced along with FY results, especially from financial stocks which could benefit from positive financial market trends. Cyclically-adjusted price/ earnings (CAPE) has also increased, now exceeding the previous average, but we think the Italian market still has upside potential considering the discount at which it is trading to European and international counterparts.

■ **Corporate newsflow.** 4Q24 and 1Q25 are expected to show a continuation of the earnings momentum built up during 2024: financial sectors account for most of the positive expectations, while weak trends are expected for industrials and consumers. FY25 guidance will definitely be the main point of focus, as the key question remains when fortunes may reverse for industrial sectors, and conversely if and when banks will be affected by a lower interest-rate environment (we forecast NII to drop 7% this year on average). Recent business plan presentations were broadly in line with expectations, but nonetheless positive for the stocks concerned, with more in the pipeline in the coming months.

■ **Portfolio selection:** we are making some changes to our stock selection to reflect our 2025 outlook. We are adding some stocks we deem to have high quality and good visibility, which in some cases performed poorly in 2024. Following the great start of Italian equity market we confirm a positive bias towards dividend payers and limit exposure to cyclical stocks. Mid and small caps continued to underperform large caps that are also benefitting from speculative appeal, especially among financials.

Our stock picking portfolio was up almost 7% in January, in line with market performance. We are adding more exposure on high-conviction ideas among mid-caps that we believe have strong potential.

*Our list of preferred stocks to over/underweight is detailed on page 4 of this report*

Large caps to overweight: we are adding Ferrari and Amplifon following recent upgrades and removing Campari and Brunello Cucinelli, the latter following a very sound performance.

Mid/small caps to overweight: we are adding Iren to the list of our preferred utilities.

Stocks to underweight: we are adding DiaSorin due to a lack of short-term catalysts.

### Italian Equity Market - Asset Allocation by Sector

Positive	Neutral	Negative
UTILITIES	BANKS	INDUSTRIALS
ASSET MANAGEMENT	ENERGY	CONSUMERS
MEDIA	TELECOM	
	INSURANCE	

Source: Intermonte SIM

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&PMB40 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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As at 31 December 2024 Intermonte's Research Department covered 132 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	31.34 %
OUTPERFORM:	43.28 %
NEUTRAL:	25.38 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (71 in total) is as follows:

BUY:	50.70 %
OUTPERFORM:	29.58 %
NEUTRAL:	19.72 %
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