Milan, 14 July 2025

Italian Equity Research – Strategy Report

Equity Focus

2Q25 Shopping List: Under the Banner of Uncertainty

by Intermonte Research Team

Italian Equity Market

- **Market performance and macroeconomic backdrop in 2Q25.** US financial markets are setting new highs following a crazy rollercoaster ride in 2Q, which was dominated by uncertainties on trade that remain largely unresolved. April was the month of big trade reset announcements that caused a sharp market rout, followed by a miraculous recovery based on the hope agreements can be reached that will have a manageable impact on growth and earnings. While the US$ weakened significantly, Nvidia's market cap exceeded $4tn. The geopolitical situation was volatile in 2Q, although the 12-day conflict between Israel and Iran did not have a substantial impact on financial markets. These uncertainties are spilling over to 2H25, with markets getting increasingly acquainted with rapid scenario changes, but the volatility makes companies' planning and forecasts very complex: 2H25 appears set to be the least intense period of corporate newsflow for some time.

  The outlook for tariffs remains highly uncertain following the recent letter from the US Administration to the EU, which indicated the introduction of a 30% duty on all imports starting August 1st. While we anticipate that an agreement may be reached before this deadline, the current level of uncertainty is considerable, making it challenging to accurately assess the potential impact. In our view, a plausible outcome could involve the implementation of a base 10% tariff, accompanied by certain exceptions and concessions.

- **Earnings direction and market multiples.** While we cut estimates in April in particular, the picture became more mixed thereafter. Pressure on estimates has mostly been on industrials, as had been expected. The latest wave of estimate revisions also factored in the weaker US$, which we are now modelling at 1.15/1.16 as an average for 2025/2026. Economic growth indicators are a mixed bag, with persistently negative industrial output trends and a worrying further drop in automotive production counterbalanced by quite strong trends for services, which also supports the labour market, albeit in some cases thanks to temporary and/or low paid jobs. We think the 2H25 earnings direction will depend heavily on resolution of the current uncertainties, which would allow companies to execute investment plans put on hold due to the risks of unforeseen headwinds affecting trade conditions. Public investments are expected to provide a significant boost in Europe, as the continent is working on multiyear investment commitments in key sectors like defence, infrastructure and energy. Looking at these variables, our expectations for a return to earnings growth in 2026 (+6.5% YoY) are based on the low level of inventories and the possible solution of current macro and trading uncertainties, while Central Banks are expected to implement expansionary policies in 2H25. The combination of downward earnings revisions and positive performances translated into a generalised re-rating of the market, which is now trading at 12x/11x 2025/2026 earnings.

- **Our expectations for 2Q25 results and selected list.** The 2Q25 reporting season will start in a few days. We think some stocks are already incorporating expectations on 2Q trends following pre-close calls that an increasingly larger number of companies are holding, in some cases even before the quarter ends. Overall, 2Q results were still not affected in any major way by tariffs, with the exception of some specific sectors, but estimates have been adjusted to start to reflect the potential outcome of the trade agreements under discussion. Visibility on guidance for 2025 remains lower than was the case a few months ago, but at the same time some positive trends are continuing to sustain sectors like financials: the sharp drop in financial market performances in April has been recovered, bringing AuM back to previous levels. Commodity prices are reacting massively to trade and geopolitical developments, with no better examples than oil during the short Israel/Iran conflict and copper on tariff threats. This volatility makes modelling and forecasting future earnings trends more complex. Feedback has not always been available, and some stocks are not reporting until September. Having said that, our stock selection reflects a list of stocks on which we think prices are not yet reflecting, or only marginally incorporating, prospective earnings and guidance.

  The 2Q reporting season starts in the week commencing 21 July, with the most concentrated period coming in the last few days of July / early August, before a quiet period in central August and a sting in the tail, mostly for mid/small caps, in September.

  Our main <u>LONG calls on large stocks</u>: **Intesa Sanpaolo, ENEL, Ferrari, Prysmian, Leonardo, Unipol**

  Our main <u>LONG calls on mid/small stocks</u>: **De' Longhi, Fincantieri, Technogym, Webuild, Luve, Maire, TXT**

  Our main <u>SHORT calls</u>: **ENI, Stellantis, Tenaris, Fineco, Moncler, Inwit, Fila, Piaggio**

  Our stock selection for the 2Q25 reporting season is shown on page 2 of this report.

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- 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)

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Frequency of research: quarterly.
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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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