

# Italian Equity Strategy Monthly

## Escalation Phase Reaching a Climax

by Intermonte Research Team

### Italian Equity Market

- **Market outlook.** The Italian market was only slightly negative (FTSEMIB -1.57%) against a backdrop of high single-digit declines for global equities amid growing macro uncertainties, announcements on tariffs, and unexciting earnings/guidance. The NASDAQ was the worst index in March, giving up 7.7%.
- **Investment strategy.** We are approaching the crucial stage of the trade reset, with the 2 April deadline expected to see wide-ranging import tariffs imposed across the board by the US. We think this is now largely expected and, at least partially, priced. The continual stop and go and the harsh geopolitical stand-off is set to continue to weigh on investor sentiment towards US equities but after a very negative YTD performance there might be room for a rebound in US equities albeit sentiment remains subdued in this phase. Outperformance by Europe YTD is likely to continue, but we think most of it has already occurred and the implications of economic slowdown on earnings are likely to bring some reassessments of estimates. The increase in long term rates in Europe is also expected to create headwinds for valuations, despite the Italian equity market continuing to trade at compelling multiples vs Europe and, to an even greater degree, US stocks.
- **Corporate newsflow.** Since the start of the FY24 reporting season, estimates on our coverage have been trimmed by ~1% on '25/'26. However, the downward revisions have been significant for industrials like Stellantis, Interpump, and Brembo; energy stocks like Eni, Saipem, and Tenaris; and consumers like Campari, and Amplifon. Estimates have risen for financials and utilities. We are now looking at what will happen to estimates in 1H25 when there are many reasons to expect earnings momentum of banks/utilities to further decouple from that of industrials/consumers. The Italian market is still in the midst of extraordinary deals: there were a few business plan presentations that, in general, did not amount to positive catalysts (Prysmian, Unipol), while no major surprises emerged from the STAR conference meetings, although, in general, Italian mid-caps are expected to react and reposition to try to minimise the effects of trade uncertainties. We tend to remain convinced that the relative valuations of Italian equities are attractive, with the market selling at ~11x, above the last 24 months' multiples but still at a pretty large discount. Headwinds on a further re-rating may come from the trajectory of long-term interest rates in Europe.
- **Portfolio selection:** we recommend a selective approach at this stage, as volatility is likely to increase further amid the loss of clear reference points. Our stock picking has given sterling service YTD and remains defensively biased with overweight on utilities, some financials and quality stocks. We moved the portfolio last month in response to earnings and guidance on top of macro indications.  
Our stock picking portfolio is up 14% YTD with a relative outperformance vs the FTSEMIB close to 200bps (~500bps since the start of 2024). *See page 7 for more details.*  
Large caps to overweight: we are adding Prysmian after the CMD and a very poor performance, replacing Buzzi following the downgrade on limited upside. Among utilities, we switch in SNAM and remove A2A. Other stocks are confirmed including ISP, BAM I among financials, and Leonardo, Pirelli among industrials.  
Mid/small caps to overweight: our selection is confirmed as it reflects our expectations, including a return of interest on quality mid-caps with reasonable earnings visibility and a positive view on some stocks exposed to digital.  
Stocks to underweight: we add Stellantis on the back of the grim outlook and despite the already weak stock performance as we expect a few more quarters of negative newsflow and the impact of tariffs to add to the structural company issues.  
*Our list of preferred stocks to over/underweight is detailed on page 4 of this report.*

#### Italian Equity Market - Asset Allocation by Sector

Positive	Neutral	Negative
UTILITIES	BANKS	INDUSTRIALS
ASSET MANAGEMENT	TELECOM	CONSUMERS
MEDIA		ENERGY
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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Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 31 March 2025 Intermonte's Research Department covered 131 companies.

As of today Intermonte's distribution of stock ratings is as follows:

BUY:	30.60 %
OUTPERFORM:	43.28 %
NEUTRAL:	26.12 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

As at 31 March 2025 the distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (74 in total) is as follows:

BUY:	52.70 %
OUTPERFORM:	29.73 %
NEUTRAL:	17.57 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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