

# Italian Equity Strategy Monthly

## Estimates Down but Glimpse of a More Constructive Scenario

by Intermonte Research Team

### Italian Equity Market

- **Market outlook.** April was a wild month for financial assets. The full blow of trade tariffs in early April triggered a huge spike in market volatility for equities and bonds followed by a partial recovery as the retreat by the US administration raised hopes of a de-escalation. The Italian equity market lost 1% and is up almost 10% YtD, supported by financial sector consolidation.
- **Investment strategy.** Overall, investment outlook has been strongly impacted by the ongoing uncertainty on tariffs and evolution of inflation/yields. We expect some market volatility to continue in the coming months but in a gradually more constructive environment following the suspension of the introduction of most of the tariffs indicated on 2 April. Developments in negotiations with major blocks - US/EU, US/China - will be crucial, and the uncertainty is undoubtedly damaging the outlook for growth as recently highlighted by various institutions. We expect the positive relative flows into European investment assets vs the US to continue and this, coupled to a less uncertain environment should lead to a good equity market performance in the rest of 2025. This expectation is based on the assumption of a slowdown in economic growth but no recession.
- **Corporate newsflow.** In April, we significantly trimmed estimates by 6% or 7% YtD. That was driven mostly by the start of attempts to divine the impact of tariff announcements on sectors like autos and industrials, and lower assumptions on oil prices for energy. Consumers are also showing signs of fatigue, but the picture remains quite mixed depending on geographical exposure, sensitivity to ForEx, and pricing power. 1Q results are expected to bring little clarity on sectors exposed to trade issues and sensitive to economic growth. Financials are expected to deliver a good quarter despite headwinds on NII and a more volatile investment performance starting from March. Some companies are ditching guidance at this stage, but that is mostly in specific sectors highly exposed to tariffs. In conclusion, we think that in the case of a rapid de-escalation from the worst-case scenario, the damage from tariffs to margins and profits might be manageable and enable many companies to confirm guidance or revise it modestly downward. M&A among Italian financials is still a major theme, with some offers kicking off whose outcomes remain highly uncertain. Given the estimate dynamics, market P/E has grown YtD, and is approaching 12x, therefore almost closing the gap on the historical average. A further positive performance requires no additional significant adjustments to estimates going forward. We have further cut estimates for mid/small caps, but we think that there are interesting opportunities in the sector, requiring proper selection.
- **Portfolio selection:** our portfolio is still quite conservative and overweight on defensive sectors, a strategy that has played out well so far. However, we stand ready to look at opportunities among stocks overly penalized by uncertainty. The stock-picking portfolio was up 1% in April, outperforming the benchmark (FTSEMIB) by close to 125bps (331bps YTD). *See page 7 for more details.*  
 Our stock picking portfolio is up 14.7% YTD with a relative outperformance vs the FTSEMIB of ~330bps (~720bps since the start of 2024). *See page 7 for more details.*  
Large caps to overweight: we add Nexi and Unipol, two domestic stocks with decent outlook and insulated from tariffs while also offering good dividend remuneration. We remove Pirelli and Campari from the overweight list for May.  
Mid/small caps to overweight: we add Maire and Txt and remove Enav and Lottomatica following positive performances.  
Stocks to underweight: we remove Stellantis as the tariff mess appears to be less of a concern; we add Tenaris on poor outlook for the energy sector.  
*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&P500 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:	32.59 %
OUTPERFORM:	37.78 %
NEUTRAL:	29.63 %
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 %
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