Intermonte

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Italian Equity Research – Strategy Report

Italian Equity Strategy Monthly

Tariffs Conundrum Triggers V-Shaped Recovery Amid Uncertainty

by Intermonte Research Team

Italian Equity Market

- **Market outlook.** May closed with a substantial recovery in the markets following April's negative performance. The Italian market posted a 7% increase for the month and is up 17% year-to-date, with mid- and small-cap stocks also rebounding. The strongest gains were seen among stocks most affected by the April tariff announcements.
- **Investment strategy.** Tariffs remain the primary factor likely to influence market performance in the near term. The outcome of legal decisions regarding the legitimacy of reciprocal tariffs, and especially the ongoing negotiations with China and the EU, are expected to have a significant impact on market sentiment in the coming months. The base case scenario now assumes that the worst-case outcome on tariffs will be avoided, with various concessions leading to a more stable environment from the summer onwards for the sectors and companies involved. The macroeconomic outlook remains complex and challenging: we anticipate further stop-and-go phases driven by news flow on trade and geopolitical issues, with limited catalysts from corporate earnings until the release of 2Q results later in July. A resurface of tensions on Taiwan and introduction of 50% tariffs in steel are the latest developments to monitor on highly sensitive topics for markets.
- **Corporate newsflow.** 1Q 2025 results were generally reassuring given the high degree of uncertainty. Excluding the automotive sector—where many companies suspended guidance—most sectors confirmed their outlook, and many indications point to improved expectations in 2H25, also due to more favourable comparison effects. In May, estimates for the Italian market were revised slightly upward (+1.3% for 2025 / +1.85% for 2026), in contrast to the sharp cuts seen in April. However, the year-to-date trend remains negative, with average estimate reductions of 6% for '25/'26, resulting in a significant re-rating that leads to the Italian market trading at 12.3x/11.4x '25/'26 earnings, more in line with the historical average. We believe part of this re-rating is linked to flows into European equities that began in 2H24, while financial sector stocks continued to perform well, driven by consolidation processes, as did defence and utilities stocks. May saw a strong recovery for industrial and consumer stocks (Iveco, Prysmian, Amplifon, Interpump, Pirelli, Stellantis). Few major events are scheduled in the coming months, with Ferrari's CMD set for October.
- **Portfolio selection**: The recommended portfolio delivered a positive performance of 8.5% for the month, but underperformed the FTSEMIB by approximately 20bps, penalized by a higher allocation to defensive stocks. The portfolio's year-to-date performance is +24%, with a relative outperformance of over 300bps, thanks to strong contributions from financials, utilities, select mid-caps, and an underweight on sectors such as energy and industrials. During the month, we made several changes to take profits on certain stocks and increase exposure to names and sectors more penalized by the trade war theme. *See page 7 for more details*

  Large caps to overweight: we are adding Iveco despite its recent positive performance, on expectations that the spin-off of its defence business could continue to support the stock, while removing Snam after its recent performance and limited upside.

  Mid/small caps to overweight: we are adding Technogym and Somec, while removing Iren and Media for Europe due to the less clear situation in Germany.

  Stocks to underweight: we are adding A2A and Buzzi, where we see limited upside for both, and removing Tenaris, one of the worst-performing stocks year-to-date.

  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
ASSET MANAGEMENT	BANKS		CONSUMERS
INSURANCE	MEDIA	▼	ENERGY
UTILITIES	TELECOM		
	INDUSTRIALS	▲	

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 between 5.5%-6.0% are being used.
Frequency of research: quarterly.
Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX 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.
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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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BUY:	32.59 %
OUTPERFORM:	37.78 %
NEUTRAL:	29.63 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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