

Italian Equity Strategy Monthly

Markets Running Faster than Earnings

by Intermonte Research Team

Italian Equity Market

- **Market outlook.** June defied seasonality, with US markets posting a solid performance despite a series of geopolitical events that culminated in the 12-day Israel-Iran war. US markets recovered and partially closed the performance gap vs European markets, hitting new records and highlighting a further re-rating on well-above-average valuations. 1H25 closed with a remarkable +16% for the FTSEMIB and +7% for the Eurostoxx600, bolstered by the German DAX and Spanish IBEX. In June, EU markets were slightly negative with some rotation in favour of the energy sector and TIM.
- **Investment strategy.** Geopolitical and macro factors remain centre stage for markets at this point. Agreements between US and China and, probably, India, on tariffs were welcome news. Much attention is now on negotiating trade agreements between the US and EU, which are still in the balance, and the 9 July deadline could be further postponed. The US is still seeking a weaker US\$ and has obtained significant concessions on global minimum tax treatment for big tech, from Canada on tech, and commitments by NATO countries to gradually increase spending. Central banks remain poised for expansionary policies, but the FED will most likely start to cut rates in September rather than at the late July meeting. The likely approval of the 'big, beautiful bill' could create some pressure on US debt sustainability, while Trump is continuing to push for a weak US\$ and lower oil prices.
- **Corporate newsflow.** The overall scenario still looks highly dependent on the developments in trade negotiations, which are tightly limiting company visibility in the short term. This is also testified by the significantly lower number of companies due to present business plans in the coming months. We therefore think that the economic outlook looks weakened by uncertainty, and we see estimates from sectors and stocks supported by public investments (infrastructure, defence, utilities) as better protected than those reliant on discretionary consumption (autos, fashion, apparel). Banking consolidation is also expected to make progress during the summer with the launch of the BMPS offer on MB, and developments on the offers involving UCG/BAMI and BPER/BPSO. Following the buoyant performance in 1H, the Italian market is currently trading at 12.3x/11.4x 2025/2026 earnings, which is clearly still at a large discount to other markets. Earnings direction is expected to be under pressure in the coming months and, as mentioned, we prefer greater exposure to sectors with higher visibility and huge long term investment plans at this stage; we remain on the sidelines regarding sectors exposed to private consumption, despite some having attractive valuations, as they are still at high risk of earnings revisions.
- **Portfolio selection:** Last month was volatile and we missed some quick rotation towards energy during the initial phase of the Iran war and then the recovery staged by economically sensitive plays following the unexpected truce. Our recommended portfolio performed basically in line with the FTSEMIB in June as we somewhat reduced our bets. Overall, our allocation remains skewed towards defensive sectors/stocks. The portfolio's total year-to-date return performance is +23.9%, with a relative outperformance of ~340bps. *See page 7 for more details.*
Large caps to overweight: we make few changes to our preferred stocks, adding BMED in place of Unipol on expectations of a continuing positive trend for asset gatherers.
Mid/small caps to overweight: we confirm our allocation and preferred stocks.
Stocks to underweight: we add Stellantis and Moncler as we still see a tough environment, and remove A2A, Brembo and Poste.
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&PMB40 Index, most of those on the MIDEK 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 30 June 2025 Intermonte's Research Department covered 133 companies. As of today Intermonte's distribution of stock ratings is as follows:

BUY:	31,85 %
OUTPERFORM:	37,78 %
NEUTRAL:	30,37 %
UNDERPERFORM:	00,00 %
SELL:	00,00 %

As at 30 June 2025 the distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (80 in total) is as follows:

BUY:	52,70 %
OUTPERFORM:	29,73 %
NEUTRAL:	17,57 %
UNDERPERFORM:	00,00 %
SELL:	00,00 %

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