

Italian Equity Strategy Monthly

Watch Out for Summer Swings

by Intermonte Research Team

Italian Equity Market

- **Market outlook.** July was a good month for risky assets thanks to FOMO across the board and hopes of trade agreements. The Italian market posted a solid performance (+3.6% in July / +20% YTD) thanks to support from banks and some specific stocks on positive earnings momentum (Prysmian, Campari) or M&A (Iveco).
- **Investment strategy.** Trade agreements are on the way and most countries are entering the new 'reciprocal tariffs' standard on 7 August. Negotiations are ongoing with major US trade partners, such as China, Canada and Mexico. The US economy has been resilient so far and could benefit from a fiscal boost stemming from the recently-approved Budget bill. However the impact of tariffs on consumers and businesses is yet to be fully understood. Positioning is still favouring market darlings among tech stocks in the US. Looking at the Italian market, in July there has been a stark divergence in performance between sectors, favouring financials vs. utilities. The picture is much more mixed on other sectors, with significant discrepancies within sectors.
- **Corporate newsflow.** Banking sector consolidation remained at centre stage. BPER successfully completed its bid for BPSO, as did IFIS on Illimity, while UCG withdrew its offer on BAM I due to Golden Power restrictions and other uncertainties. Finally BMPS launched its bid on MB, which is due to terminate in early September. M&A involving Iveco and Leonardo was also a major catalyst, and de-listing announcements continued, a trend that seems unlikely to stop. Earnings season was pretty intense, with a mix of positive and negative surprises that mostly reflected our expectations in terms of sector distribution: good indications from financials and utilities and poor overall from industrials and consumers, with some notable exceptions, and weak momentum in the luxury sector was confirmed. In July we revised estimates by -1.2% for 2025 and +1.4% for 2026 (thanks to financials), trimming earnings YTD by 7.5% for 2025 and 4.5% for 2026. This has translated into a massive re-rating for the Italian market, which has moved from a multiple of 10x 1Y forward EPS 12 months ago to the current 12.7x (11.4x on 2026). Multiples are hence now aligned with the historical average, a move driven by the re-rating of banks and the massive cut in estimates on cyclical names. We think that, overall, companies are proving resilient to the current uncertainty, and some are now planning to update investors with business plan / investor day presentations. We have lowered by 50bps our ERP assumptions to 5.5% from 6.0%. Given the current uncertain macro scenario and recent performances we prefer greater exposure to sectors with higher visibility and public long-term investment plans backing their businesses. While we retain our cautious stance on the sector, we believe some luxury stocks are starting to factor in potentially excessively negative long-term scenarios. Financials remain attractive overall, partly thanks to shareholder remuneration plans, but could slacken off in the short term after the recent rally. Utilities could reverse some market underperformance in August, given their defensive profile, and also benefit from the decrease in interest rate expectations.
- **Portfolio selection:** last month our model portfolio posted a sound positive return, outperforming the FTSEMIB by around 90bp. Prysmian was by far the best contributor among our long calls, while Stellantis and Moncler were our best among underweights. The YTD return on the portfolio is 29%, with a relative outperformance of 457bp. See page 7 for more details.

Our list of preferred stocks to over/underweight.

Large caps to overweight: we are removing Prysmian and Iveco following strong performance and Amplifon following a downgrade, adding Campari, Interpump and Unipol.

Mid/small caps to overweight: we confirm our allocation and preferred stocks.

Stocks to underweight: we are removing Moncler (poor performance) and Interpump (upgrade), adding Fila (poor results and outlook expected).

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 FTSEIMIB40 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 newswell.

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:	32.84%
OUTPERFORM:	36.57%
NEUTRAL:	30.59%
UNDERPERFORM:	00.00%
SELL:	00.00%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (79 in total) is as follows:

BUY:	53.16%
OUTPERFORM:	29.11%
NEUTRAL:	17.73%
UNDERPERFORM:	00.00%
SELL:	00.00%

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