

Italian Equity Strategy Monthly

Rotation in the Making

by Intermonte Research Team

Italian Equity Market

- **Market outlook.** October was a generally positive month for markets thanks to favourable liquidity conditions. Fears around some worrying situations on the US subprime credit front appear at the moment to be limited and specific, while indications from companies, especially in the tech sector, have been positive. The Italian market saw a modest rise (+2%), lower than other indices such as Eurostoxx and the Nasdaq, reflecting a sectorial trend less favourable to financials.
- **Investment strategy & corporate newsflow.** We are in the midst of reporting season: reactions to results, and forward guidance for the coming quarters in particular, are having a significant effect on stocks in the short term. However, beyond the earnings season, we are starting to see early signs of a tentative sector rotation, with investors gradually shifting towards names more exposed to a recovery in consumer spending and beginning to re-rate industrial companies in cyclical segments after a prolonged period of underperformance that had largely benefited financials. Expectations for a revision of earnings trends still lack clarity but after the pronounced uncertainty of the last few quarters due to trade wars and, unfortunately, those involving bombs and bloodshed, there appear to be prospects for improvement. On the one hand, we see further sharp downward revisions of estimates as less likely; on the other, we see a more favourable regulatory framework, with gradual correction expected for some excessively impactful initiatives, especially in the automotive sector. In this context, liquidity remains abundant and monetary policies are expected to be expansionary in the absence of surprises on inflation. Further rate cuts by the FED and ECB in the latter part of 2025 are possible (FED) but not probable (ECB). This scenario has encouraged a further polarisation of markets in favour of American technological megacaps, which have reached stratospheric capitalizations. Looking at the Italian market, we think that investability as a whole remains appealing as evidenced by the narrowing of the spread and strong demand, including retail, for public debt, as seen in the latest BTP Valore issue, which raised €16.6bn. The search for positive earnings trends is shifting away from banks, following their contribution, towards other sectors that have suffered a sharp slowdown in profitability over the last 2/3 years on rising interest rates and pressure on consumption due to inflation. We therefore think it is worthwhile looking at opportunities among stocks in segments from luxury, where we recently revised up the ratings of Moncler and Brunello Cucinelli, to consumer, given the recent upgrade of Amplifon and the positive view confirmed on Campari. Good opportunities also exist among industrials, where there are stories that are ripe to benefit from a better profitability trend and a re-rating, first and foremost Interpump. At the same time, we are more selective on the banking sector, although there are stories that are benefitting from the consolidation phase, such as BMPS and BPER. We expect a good trend for earnings in the AM sector thanks to support from inflows and market performance. Finally, in the utilities sector, we see more limited leeway for further upside after the good stock market performance. We also remain convinced that mid-small caps offer several interesting opportunities; these are increasingly likely to be rediscovered due to an improving scenario for investment flows and to the upcoming launch of funds on the back of the National Strategic Fund, which could raise up to €1bn.
- **Portfolio selection:** here are the changes for November, details on pages 4-8 of the report.
Large caps to overweight: Banca Mediolanum and Moncler added, Enel and Unipol removed.
Mid/small caps to overweight: Esprinet added, Luve removed following the stock rally.
Stocks to underweight: IREN, Tenaris and UniCredit added, Eni and Stellantis removed.

See page 5 for our list of preferred stocks to over/underweight.

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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GUIDE TO FUNDAMENTAL RESEARCH

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 FTSEMIIB40 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.

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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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As at 3 November 2025 Intermonte's Research Department covered 131 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	32.06%
OUTPERFORM:	38.93%
NEUTRAL:	28.25%
UNDERPERFORM:	00.76%
SELL:	00.00%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (76 in total) is as follows:

BUY:	51.32%
OUTPERFORM:	30.26%
NEUTRAL:	17.10%
UNDERPERFORM:	01.32%
SELL:	00.00%

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