Italian Equity Strategy Monthly

A Glorious 2025, Now Into the Run-Up to the Olympics

by Intermonte Research Team

Italian Equity Market

- **Market outlook.** The performance of the Italian equity market in 2025 was particularly strong (FTSE MIB +31.5% / FTSE All Shares +31.0%). Once again in 2025, the Italian index proved to be among the best-performing markets, mainly supported by the contribution of its key sectors, and in particular banks, financials more broadly, and utilities. The Italian index managed to hit new record highs. There was a strong re-rating despite downward revisions to earnings estimates, especially for 2025, with aggregate earnings expected to have closed 5% below 2024. This comes despite earnings growth at financial stocks, which account for 47% of total FTSE MIB aggregate earnings. The best-performing stocks in 2025 were again financials and defence stocks, while the main disappointments were Amplifon, Ferrari, and Nexi. The Italian market partially closed the valuation gap to other global indices, although it remains hefty. The market also benefited from a more favourable country-risk environment, with a sharp contraction in government bond spreads supported by political stability and fiscal discipline.
- **Investment strategy & corporate newsflow.** Current geopolitical and macroeconomic uncertainty notwithstanding, we believe there are a number of positive elements supporting a constructive view on equity markets: 1) liquidity remains abundant, and supportive fiscal policies in the US and Germany, as well as monetary policy (primarily the Fed), are expected to sustain markets in a US election year (mid-term elections in early November), with inflationary pressures less evident than in the recent past; 2) significant geopolitical risks persist, but in the short term temporary solutions may emerge, with tensions likely to resurface no earlier than late 2026; 3) growing productivity gains driven by AI. While we acknowledge excesses in the sector, we believe the adoption of new technologies will have a positive impact on economic growth.

  As for Italy, the overall backdrop remains favourable. Although growth remains very modest, the positive effects of the NRRP will continue in 2026, while fiscal discipline helps limit the risk of unexpected increases in government bond yields. Our latest earnings growth estimates for 2026 point to double-digit growth, although visibility remains limited at this stage. Growth is also linked to a cyclical recovery in industrial and consumer sectors, which are coming off a challenging 2025 and may benefit from a gradually improving, albeit still uncertain, macro environment. 1H26 is expected to be a particularly eventful period from a corporate standpoint, with many companies not only releasing annual guidance but also presenting multi-year targets, which could act as important catalysts. Among the sectors with the strongest expected newsflow, financials stand out, with several Capital Markets Days scheduled, including BMPS, BPER, ISP, Fineco, and Poste. A number of key events are also expected in other sectors such as utilities, consumer goods, and industrials. The main events of 1H26 are listed on page 10. We continue to expect attractive signals from dividends, with potential upside surprises from buyback announcements. The dividend yield of the Italian market remains appealing in a scenario of stable or slightly declining interest rates.
- **Portfolio selection**: the recommended portfolio closed 2025 up 42.2%, outperforming the Italian market benchmark by 390bp.
  We are updating our list of preferred stocks in light of recent recommendation changes (more details on pages 4-8 of this report).
  Large caps to overweight: we are adding Stellantis following our recent upgrade, replacing Interpump which goes into the mid/small caps bracket.
  Mid/small caps to overweight: we are adding Maire (good indications expected) and Sys-Dat, while removing De' Longhi and Esprinet, which are getting closer to our fair value.
  Stocks to underweight: Poste comes out as it is set to benefit from recent developments at TIM and the upcoming February CMD. *Our preferred list of stocks to over/underweight is on page 5.*

Italian Equity Market - Asset Allocation by Sector

Positive	Neutral	Negative
ASSET MANAGEMENT	BANKS	ENERGY
INSURANCE	TELECOM	UTILITIES
CONSUMERS	INDUSTRIALS	
MEDIA		

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 FTSEMIB40 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:	32.33%
OUTPERFORM:	38.35%
NEUTRAL:	28.57%
UNDERPERFORM:	00.75%
SELL:	00.00%

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:	31.08%
NEUTRAL:	14.87%
UNDERPERFORM:	01.35%
SELL:	00.00%

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