

Italian Equity Strategy Monthly

Stranger Things

by Intermonte Research Team

Italian Equity Market

- **Market outlook.** Markets went on a rollercoaster in January following multiple uncertainties. As 4Q results start to pour in, geopolitical and macro factors are again under the spotlight and have heavily affected FX, yields, and commodity prices. Equity markets ended the month in slightly positive territory after all, confirming a certain stability but with signs that volatility is increasing. Global equity markets rose slightly, as well as the FTSEMIB at +1.3%, which slightly underperformed the midcap index (+3.2%). Energy stocks benefitted from the spike in oil prices, financials delivered a muted performance, while auto OEM, cements, and luxury were the undoubted laggards.
- **Investment strategy & corporate newsflow.** Geopolitical and macroeconomic uncertainty was particularly high last month: US military action in Venezuela, threats of US intervention in Iran, and pressure on Greenland were the focal events. China has seen a purge of military top brass, and the Russia / Ukraine conflict is set for a short-term pause but with no clear path forward despite continuous diplomatic efforts. Although US use of force in Greenland is looking unlikely, the situation appears less than certain. The changeover at the FED with the appointment of Walsh as new the chair adds to the volatile environment. The last days of the month saw a pronounced spike in volatility, with a reverse of the huge rally YTD by precious metals. Earnings indications from tech companies are mixed: investors' attention is still on potential risks to investment returns as announcements continue. Earnings by industrial and banking stocks are quite supportive overall, and our constructive view on equity markets stands on positive expectations regarding liquidity and earnings momentum. A weaker US\$ could be a headwind in the short term although we remain of the view that the average FX €/\$ for FY26 will be in the region of 1.15/1.17. Some spikes in commodity prices also need watching in terms of the potential impact on corporate margins, while Eurozone economic growth surprised positively in 4Q25 at +0.3% but is expected to remain moderate in 2026 at ~+1.0%, with Germany's recovery slowly gaining momentum.
- Italy's reporting season has just started and we expect the significant schedule of company events in the coming months to offer some positive catalysts for stocks in various sectors. We started the year with some adjustments to our earnings forecasts but limited impact overall, and we continue to pencil in 10% earnings growth in 2026. We also expect continuing positive indications in terms of shareholder remuneration, with many stocks scoring particularly well if compared to bond yields, as the FTSEMIB TSR (dividends+SBBS) exceeds 6%. Valuations are relatively less appealing compared to the past given the massive re-rating in 2025, but at under 14x NTM earnings, multiples do not appear to highlight a risk of excess.
- **Portfolio selection:** the recommended portfolio started the year posting a performance in line with the market as we made minor changes to our allocation and some positions weighted on the relative performance.
- Our list of preferred / least preferred stocks has been updated to reflect recent estimates and price movements (more details on pages 4-8 of this report).
- Large caps to overweight: we add A2A, Fincantieri and remove Azimut as we do not expect news on the TNB spin-off in the immediate future.
- Mid/small caps to overweight: we add Pirelli, which looks poised to deliver good operating results and could benefit from a solution to the governance issues, and remove Mondadori.
- Stocks to underweight: we remove Tenaris and add Italgas after the huge performance as we prefer other stocks in the utilities space. Fineco has been pulled out: despite preferring other names in the sector, we think it could benefit from expectations related to its 5 March CMD.

Our preferred list of stocks to over/underweight is on page 5.

Italian Equity Market - Asset Allocation by Sector

| Positive | Neutral | Negative |
|-----------|----------------|-------------|
| CONSUMERS | AM & INSURANCE | ENERGY |
| MEDIA | BANKS | |
| 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 FTSEMBI40 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.

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 2 February 2026 Intermonte's Research Department covered 133 companies. Intermonte's distribution of stock ratings is as follows:

| | |
|---------------|--------|
| BUY: | 32.33% |
| OUTPERFORM: | 39.10% |
| NEUTRAL: | 27.82% |
| 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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