

# Italian Equity Strategy Monthly

## Political Issues and Some Question Marks on 2Q Trends

by Intermonte Research Team

### Italian Equity Market

- **Market outlook.** The performance in June was hit by EU elections and consequent uncertainties linked to snap French legislative elections. US indexes performed pretty well while France was the laggard and Italy gave up almost 3%, taking the performance YtD to ca. +10%. Mid and small caps are recovering from a poor relative performance vs large cap.
- **Investment strategy.** The widening of spreads between periphery and core Europe was back on the agenda following the political crisis in France, with the domestic market already retrenched by ca. 10% from the peak. The uncertain political landscape is therefore largely priced in but nonetheless we expect more volatility in the coming days until the second round of legislative elections (July 7) provides more clues on the future political landscape. Policies on interest rates are set to remain unchanged in the summer months while liquidity in the US should improve following FED QE on US Treasuries starting in July. Geopolitics remain complex. Tensions on tariffs, most recently triggered by the EU on Chinese electric cars are a potential burden for future economic expansion and for specific sectors like autos, luxury goods and consumers in general. Fiscal policies are unlikely to be supportive at this stage considering the budgetary restrictions brought in by the stability pact in the EU and the upcoming negotiations between the new EU Commission and several countries breaching budgetary rules on deficit and debt, including Italy and France.
- **Corporate.** The 2Q24 reporting season is due to start soon amid contrasting indications on various fronts. The focus will be on margin expansion and cash-flow generation trends. Semis and auto industries are expected to deliver weak results while we are more confident on luxury and premiums brands posting positive indications. Financials are set to report another solid print thanks to continuing supportive yields and markets. We expect decent results from utilities and energy stocks. At this stage, on our estimates, the Italian market is trading at 9.8x/9.4x 2024/2025 while estimate revisions were a mixed bag overall (ca. +0.5% in June).
- **Portfolio selection:** Our portfolio reported a slightly positive relative performance last month, sustained mostly by underweights. We basically confirm our stock selection but reduce exposure to financials, keeping utilities overweight and adding energy among our favourite sectors. In the short term, international, high-quality names are most likely to outperform the current uncertain political and economic scenario.  
 Changes to our stock selection for July are as follows:  
Large caps to overweight: we basically confirm our stock selection but reduce exposure to financials by removing BAMl and add Saipem. We confirm Eni, Enel, A2A among utilities/energy.  
Mid/small caps to overweight: we add Iren and Fincantieri (new coverage) to the list of preferred mid-caps and remove Banca Generali and MFE.  
Stocks to Underweight: we remove Prysmian after a poor performance in June and assuming the stock's exposure to US and international markets could be a plus in the current environment.

#### Italian Equity Market - Asset Allocation by Sector

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

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 of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&PMB40 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.

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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As at 31 March 2024 Intermonte's Research Department covered 116 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	25.21 %
OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (50 in total) is as follows:

BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
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Emittente	%	Long/Short
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