13 September 2016

Il Sole 24 Ore

Third session in the red and high volatility in European and Asian listings: only Wall Street regaining ground thanks to the Fed's caution on the monetary squeeze

Stock markets and rates, markets tense

Milan's Piazza Affari (down 1.84%) is Europe's worst. Pressure growing on bank stocks, MPS and UniCredit in the spotlight

The European stock markets – influenced by the Fed's moves on rates – have closed in the red but without a debacle. After a difficult start (with Milan going as low as -3%), Wall Street's recovery, after more prudent statements, has lessened the tensions. Piazza Affari, in last place at -1.84%, has felt the effects of the banks. UniCredit is down 3.76%, with the market pondering on the extent and scope of a recapitalisation that everyone views as likely. MPS is also down (by 3.43%), while the appointment of Marco Morelli as CEO is imminent.

The tricky question of rates: the sectors to monitor

But if rates rise again, it's European financial stocks that could benefit the most

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It's getting harder and harder to make choices for your portfolio. The context remains complex: economic growth is anything but buoyant, at least in the countries of the West, and the monetary policy adopted by the central banks is not always consistent. For some months there's been talk of a rise in US rates, while the ECB continues on its path of quantitative easing. And then, deflation has become a reality and not just a threat – a threat with which companies will have to co-exist. But Luca Riboldi, Chief investment Officer at Banor SIM, is convinced that the central banks' monetary policy has come to the end of its run. "At the G20, too, there was talk of expansionary fiscal policies and even Germany has stated that we need to begin relaxing fiscal pressure. So, if governments respond with appropriate policies to the large amounts of liquidity that the ECB has injected to the system, we'll be able to see economic growth again". A vision, therefore, that leaves plenty of room for optimism as to a possible improvement in the overall picture.

If we look to the other side of the Atlantic, where the scenario is very different from Europe's, most operators are fairly certain that the Fed will increase interest rates in September or, at the latest, in December. With all that that involves, and of course making the due distinctions. Many observers think that a rise in September could take investors by surprise,

considering that at the moment the probability of this happening is estimated to be just 20%. "A possibility that could lead to an over-performance of financial stocks with respect to more defensive sectors, thanks to a steeper yield curve". The point is explained by Valentijn van Nieuwenhuijzen, chief strategist at NN Investment Partners. In his view, the boost in profits, which are again positive – for the first time since mid-2015 –, is one factor benefiting financial stocks, which right now are very depressed, especially in Europe. "The momentum of dividends has also improved significantly. Without forgetting that in July bond yields, an important driver of profitability in this sector, seem to have touched bottom – and the only way they can go is up".

There is another reason for this broad consensus on financial stocks: valuations are at extremely low levels. "They have touched bottom", adds Mario Spreafico, Schoeder's [sic] investment director in Italy. "And if underpinned by fundamentals that are looking up, they could lead the recovery of the segment". On the same wavelength is Riboldi, who adds: "From the perspective of a structural increase in interest rates, and taking a medium-term outlook, the financial sector at the global level can only benefit. Italian bank securities, irrespective of the problems linked to the capital increases of certain banks, will move in the same direction".

EMERGING MARKETS
Industrial companies with much of their sales in luxury goods and automobiles

But over and above financial securities, which sectors should investors choose at a time when rates are at their lowest levels? "Utilities, undoubtedly", comments Spreafico. "These companies have a physiological indebtedness and can therefore benefit now from low rates because they're managing to pay generous dividends". And this applies just as much in Europe as it does in the USA. Moreover, many managers are taking a positive view, within the industrial sector, of "emerging consumers", i.e. companies that have achieved sales in the emerging economies, which were very much in vogue from 2009 to 2012 and were then in part forgotten.

"But in recent months the emerging countries have raised their heads above the parapet again, especially China, India and Brazil", adds Spreafico. "Sectors like fashion, luxury, automobiles, components, food in general and all the classic non-cyclical consumer sectors can benefit".

Back in Italy, Alberto Chiandetti, manager of the Fidelity Italy fund, takes a positive view of industrial and consumer sector securities, both directly exposed to the Italian economy. "I'm finding certain securities in the financial sector particularly interesting, such as the asset gatherers: companies that continue to attract investment flows leaving the banking sector. Lastly, right now I prefer sound companies with the potential for structural growth that isn't related to the performance of the economy, or companies undergoing restructuring".

The sectors that it might be best to ignore in a situation of rising rates include safe stocks such as food, drink, tobacco and pharmaceuticals. “They have grown a lot in recent years, they have very high margins, but they’re paying the price of a situation of persisting low rates”, concludes Riboldi.

And in the meantime, it’s energy securities that are paying the price of the excessive volatility of the oil price.

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Winners and losers – Europe

Winners and losers – World