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Italy's economic growth will be lacklustre for several years to come



Angelo Meda, Head of Equity at Banor SIM, contributes to Fondi&Sicav's investigation into the equity market in Italy

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Angelo Meda, Head of Equity at Banor SIM

The Italian stock exchange is back at the same level as in the first quarter of 2015, having recouped more than 25% with respect to the low point of June 2016. What are your expectations for this year and over the medium term (3-5 years)? What variables do you think might help to push prices up in the medium term?

In the short term, an easing of trade tensions between the US and China, an agreement to postpone Brexit and the Federal Reserve's wait-and-see

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interest rate policy have boosted global stock markets, including Italy's, which has also benefited from a narrowing of the BTP-Bund spread owing to the 5 Star Movement's loss of votes in the regional elections. In the medium term, we remain cautious on the domestic market, however: the process of structural reform (labour, bureaucracy, justice, etc.) has been stalled for several months (not to say years), with the result that expected productivity growth is low and this will affect structural GDP growth in the near future. Moreover, with such a high debt-to-GDP ratio, we don't think it will be possible to enact expansionary fiscal policies and therefore Italy's economic growth will undoubtedly remain lacklustre for several years to come, which will affect the prices of domestic equities.

What are your choices for asset allocation? What sectors or types of stock are overweight in your portfolio?

At the moment we favour a range of sectors that are more cyclical and linked to global economies over more defensive stock. For example, in Italy, luxury goods and food & beverage have achieved very high prices (absolute, relative and historical) and therefore we've reduced our exposure considerably in recent weeks.

Utilities, too, after rising in recent months, have now become less attractive, especially compared with Italian government stock. On the other hand, we find value in some industrial companies (Prysmian, Buzzi, FCA) and in Oil & Gas (ENI, Saras, Tenaris), where debt is under control, management quality is good, and competitive positioning is strong. Finally, as regards the financial sector, we continue to be highly selective in our choices. We believe that another round of consolidations among the smallest banks is necessary to improve the industry's profitability, which is expected to be low for a few years. This is why we favour the first two leading Italian banks (Intesa and Unicredit) over the others, as they have already finished eliminating their bad debts and are large enough to compete at a European level.

Stefania Basso