

Italian Stock Exchange, the New Dance of the Sectors

More automobile, energy and banks, less luxury, utilities and food: what's changed in recent weeks

by **Gabriele Petrucciani**

More automobile, energy and banks. Less luxury, utilities and food. According to Angelo Meda, Head of Equities at Banor Sim, this might be the correct sector rotation for 2020. "Until a few months ago, there was a strong belief that the economy would slow", explained Meda. Or even that it would slide into recession. "Now the landscape has changed", added the Banor Sim expert, "and the approach to investments is changing, too, with more cyclical sectors that, for several weeks, have been excelling in the Italian stock exchange indices. Moreover, we must begin to think in terms of mini-cycles". Before, after seven years of expansion, three years of recession followed. Now, Meda notes, we must think in terms of months. "The cycles are shorter in duration and intensity. In this world, sector rotations are much more powerful, and very little is required to drive the markets in one direction rather than another". The recent recovery of the cyclical sectors is an excellent example of this.

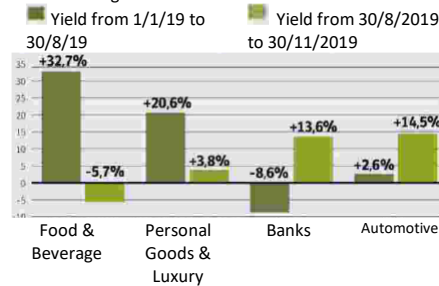
All that was needed was some positive news about the trade war between the USA and China and about the expansive policies of Christine Lagarde, the new head of the ECB, to ward off the ghosts of the recession and bring back flows in sectors such as banks and energy, which are closely linked to the economic cycle.

The formula

Meda pays close attention, especially to the banks, large ones, that are earning market shares also due to restructuring. "The dividends are good, and the capital is in order. At the moment, I see no reason why they would lose value. Today, the system is secure, therefore the downside (*editor's note*: the potential for loss) is limited. Only a recession, which I believe to be unlikely, could change the state of things. But even if it did happen, any decline in Italian Stock Exchange prices would be seen as an opportunity to buy, also because it would speed up the exit process of smaller listings, benefiting the big names". At the moment, therefore, the 2020 scenario looks positive. Any new alarm bells, however, could bring back tensions on the markets and lead to another sector rotation.

The comparison

The performance of the main sectors of the European Stock Exchanges until summer and in recent months



As can be seen, until the end of August, the food & beverage and personal goods & luxury sectors had considerably better performances (similar to the 4 years prior). From 1st September, the trend changed radically.

Because of this, we must always keep our guard up, "taking up positions on the sector's leaders with high capitalisation and good dividends and avoiding any companies with high debt". In particular, some of the events to monitor carefully include the American presidential elections, scheduled for November 2020. "But the first shocks might already be felt in February, during the primaries", warned Meda. "At that time, we expect an increase in volatility on the markets".



Markets
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Much, however, will depend on the outcome of the votes. For now, the basic scenario sees Trump ahead of the other candidates, "which would not be a problem for the markets", specified Meda. "An Elizabeth Warren victory (*editor's note*: senator from Massachusetts), on the other hand, would have a negative impact due to the reforms that she wants to implement. These include imposing limits on buybacks (*editor's note*: repurchasing own shares) and increasing taxes. The best solution, at least from my perspective, would be Michael Bloomberg, who ran in the primaries with the Democratic Party, even if he is much more Republican. The former mayor of New York would carry on with the White House's current reforms, but would remove the extreme unknown of Trump. In short, we have two profit options out of three, and this also makes us more optimistic". In addition to the American presidential elections, another large question mark hovers over China. Its debt has risen greatly, and the room for manoeuvre is not what it was five years ago. "Keep an eye on Hong Kong, too. While it is mainly a political matter, it has an effect on the market," continued Meda, "and an increase in tensions would be bad".

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