QN ECONOMIA & LAVORO

Date	30-03-2020
Page	13
Sheet	1

"Glass half full? Yes, but with careful assessment"

Markets, the analysis by Banor SIM

Luca Riboldi, Director of Investments: good stimuli from the central banks, focus on bonds

by Achille Perego

MILAN

A particularly negative first quarter in every country, with stock market prices already reflecting an intense recession. For 2020, the American GDP is estimated to decrease by 6-7%, and even by 20% just for the second quarter of the year. The decrease will be offset by a 2-trillion-dollar manoeuvre.

This means that the financial market "infected" by the Coronavirus lies in the hands of the news and therefore, of our emotions. "If more bad news is reported one day," explains Luca Riboldi (**top left**), Director of Investments at Banor SIM, "the prevalent scenario becomes that of the financial crash, and everyone rushes to sell. On a day where there is more good news, we go back to buying, caught up in the anxiety of missing a one-off train."

At the end of another week of extremely high volatility, which type of news is more prevalent, good or bad?

"At the moment, the focus has shifted to 'glass half full'. The Fed has implemented a plan of unlimited stimuli, guaranteeing the system sufficient levels of liquidity. The fiscal plan approved by the American government will aim to help businesses and families to overcome this time of forced economic deadlock. In Europe, notable efforts have been adopted by governments to tackle the crisis, efforts which have made it possible to break down barriers that, until recently, were unmovable, such as the idea of issuing coronavirus bonds, which are nothing but a kind of eurobond. Looking at China, it seems like the Covid-19 epidemic is now under control, though the evolution of international cases must be monitored."

What are the risks?

"If there were issues containing the epidemic during the return to (near) normality, with another 6 negative months, this would add negativity to an already very precarious context. The drop in American GDP might then reach 10-12%. We would also need to assess how the bond market changes following the introduction of fiscal stimuli, and at the end of 2020, all countries will certainly be more in debt than before, thus increasing issuer risk."

The strong downturn in stock market listings has also created investment opportunities.

"On the stock market we are seeing very interesting 5-10 year valuations and have seized those opportunities. A sector worthy of particular attention is energy, which has low valuations that have not been seen for over thirty years. Even some cyclical sectors have low valuations, such as auto and steel. With the reduced valuations, we have selected financially solid companies with low debt. Purchases have also involved high-quality companies in defensive sectors (utilities, fast-moving consumer goods) and companies that distribute high dividends over 6.5%."

And financial securities?

"In terms of banks, we are finding some perpetual subordinated financial securities more attractive than equity securities. The rather lively consolidation that we had predicted this year has clearly suffered a significant slowdown, and we are seeing this kind of activity freeze, at least until September."

PROS AND CONS

"In the market, we are seeing very interesting 10-15 year valuations and have seized those opportunities"