THE MANAGER

“The economy is winding up for the post-coronavirus bounce”

by Angelo Curiosi

INTERVIEW WITH LUCA RIBOLDI, DIRECTOR OF INVESTMENTS AT BANOR SIM: "STATE AID HAS ALMOST OFFSET THE EFFECTS OF THE PANDEMIC. BUT WHEN THE VIRUS LIFTS, THERE WILL BE A HEADLONG RUSH“

Luca Riboldi, Director of Investments at Banor Sim, gives *investire* an outline of his own perspective on the current economic scenario

The tax measures approved by governments amount to 20% of GDP in the US and 10% of GDP in Europe. These are huge aid packages and, in the US market, it will almost go further than offsetting the effects of the pandemic. We believe that these tax measures will lead to a sharp increase in debt – a problem we will all face in the years to come”. These are the balanced and insightful remarks of **Luca Riboldi**, Director of Investments at **Banor Sim**, who gives *investire* an outline of his own perspective on the economic scenario and market prospects for the latter part of the year.

How do you see economic trends developing in the third quarter?

Global GDP was very negative in the second quarter and was weak in Europe and in the United States. In China, the impact straddled the first and second quarters and, in fact, showed a marked improvement early in the third quarter. In the US, however, the second quarter GDP saw an annualised drop of 33% over the previous year, but the third quarter is expected to recover by 25% on the previous year. We estimate that, globally, the pandemic will have a 4.5-5% impact on 2020 GDP, with a 3.5-4% recovery in 2021. In recent months, we have seen the central banks adopt a very expansionary monetary policy, which is pushing real interest rates further and further down. Very negative interest rates – around -1% in the US and Germany – boost the purchase of real goods because the investment does not protect the purchasing power of the capital.

The finger of blame points at the Tech Giants. Main Street, as always, is delighted when the monopolies are on the ropes. But Wall Street might tremble because it is concerned with big guys and not the small fries. What do you think?

It is not easy to stop the Tech Giants because, in many cases, they have become more powerful than governments. No wonder countries like Denmark have created an ambassador who talks to the five mega caps: **Facebook, Amazon, Apple, Netflix and Google**. The American anti-trust legislation has been surpassed and, in addition, the Americans have another problem: China now has players that are just as strong, such as **Tencent, Alibaba, Baidu and Huawei**. It is unthinkable that the US would limit the power of its technology behemoths if China does not take a similar position. I expect the technology war going on between the US and China to escalate further. On the stock markets, a concentrated rise of the top five stocks is dangerous – also in view of their $2 trillion share of the market – because it exposes them to the risk of sharp correction if there was to be an attack on these giants. It is pretty certain that taxes will go up for subsidised companies, but it will be a tough task for the next US president to address the issue and contain the strength of the tech giants.

It's a complicated time for “value” stocks. The banking and financial sector is hemmed in between new competitors, ever more stringent regulatory conditions and non-performing loans. The energy sector is bedevilled by a pricing slump that shows no signs of recovery. What can we expect?
It is a very difficult time for the financial sector, especially in a macroeconomic environment that has been antagonistic to financial stocks for 10 years. The banks and insurance companies, above all, have suffered, with the continued decline in interest rates, which is an important part of their budgets.

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However, valuations account for this scenario, and there is no more room for further significant decline, especially if we see some short-term economic recovery. When COVID-19 disappears, the economy will rebound strongly and interest rates will probably pick up. Overall, it will be a better environment for banks in the medium term, but the situation will remain difficult over the long term. In addition, the European financial sector is going through a process of consolidation, as the US did years ago, leading to a very small number of large banks. It’s a sector where technology, fintech and start-up companies are also competitors. It will therefore be a market for a few large, pre-eminent banks that can afford large investments in technology and efficiency and are able to hold their own. But the price will be high: 80% of European banks will disappear within 10 years.
Things are a bit different for the energy sector. With the coronavirus emergency and the lockdown, the demand for air transport collapsed, and this, in turn, affected the price of oil when it was already under strain from the push towards decarbonisation. It became a perfect storm, with a very substantial drop in stocks. Valuations already account for this and, when COVID-19 is finally behind us,oil prices will not rise much above $40-50, but the energy securities environment will be very favourable for 3-4 years. A lack of investment over several years means that, as soon as demand recovers, there may be excess demand, resulting in soaring prices. In the long run, with environmental issues playing an increasingly important role, the oil market will shrink, while methane will have better luck. We will see companies downsizing and more and more refineries using biofuels. The current assessments are, however, very interesting.

The world waits with bated breath for the presidential elections in November, but even if Trump loses, there’s no doubt that after COVID-19 China is looking less friendly and reliable than before. It is still a worthwhile target?
China is a technologically-strong country and has taken over significant slices of the world economy. The US is trying to stop China’s advance and the attack on Huawei is one example of that. They can no longer afford to give China free rein to enter the US and Western European markets, especially since it’s not reciprocal. We need only think of Google, which cannot operate on Chinese soil. This discord between the two powers is creating different technological standards, as is well illustrated by the 5G issue or the semiconductors market. China remains an attractive market with a rapidly growing economy. Valuations are lower than in Europe and America. Even excluding Chinese securities that are very exposed to Western markets, there is still a huge whole market on which to focus.

ESG parameters, which Banor has followed since more innocent times, are now fashionable. Maybe too fashionable. Isn't there perhaps too much social and green washing in this segment that previously seemed so edifying?
Profit in itself is increasingly seen as something regrettable. The ESG issue now applies to all sectors, not just those considered polluting or negligent. That's what the company does to satisfy the various requests that come from investors, from the communities in which it operates and from its customers. Every company has to be virtuous across all social, environmental and governance issues. To fall behind on even just one of these aspects can lead to serious adverse consequences that are difficult to recover from.