

The Biden era begins, even for Wall Street. “Green and infrastructure preferred sectors, but watch for bubbles”

by Raffaele Ricciardi



Cagliero, CEO of Banor SIM, looks at the risks of the excessive valuations in some technology companies linked to new energies. In the market's eyes, the new presidency is paradoxically less “perfect” following the victory in Georgia which paved the way for the Democrats. Capital will not change for China, while Europe has much to profit from. Here are the best positioned Italian companies

MILAN - “The present-day Biden is no longer the ‘perfect’ one that the markets were expecting. Paradoxically, the victory in Georgia has deprived him of the Republican counterweight in the Senate and in the eyes of investors this strengthens the most aggressive part of the Democratic party. What he is starting today nevertheless remains a favourable presidency for the American economy and finance, as history has taught us: Wall Street has always reacted better with a Democrat in the White House”. Massimiliano Cagliero, CEO and founder of Banor SIM, is watching America with great personal interest (former Goldman employee, American wife). Concerning the Republican environment, he does not mince his words in describing the Trump presidency as “the worst thing that could have happened to the largest economy in the world”. Biden promises a clean break: he will inaugurate the mandate by rejoining the Paris climate agreement.

A lot has been said about the renewed drive for green: is it the sector with the most to gain?

The market started to predict this some time ago. The new president has placed two major spending programmes on the table. Two trillion dollars for infrastructure, 1.3 trillion of which for renewables. Plus the 1.9 trillion dollar programme that aims to bring subsidies directly into the wallets of American citizens and businesses. The green sector will undoubtedly have a lot to benefit from. Not only the companies that do renewables in the strict sense, but the wider sector, too.

Can you think of an example in particular, even of an Italian company that might benefit from this?

For example, there is Prysmian, which produces cables. Enel, which also has many renewables in America. ERG, Falck Renewables or Buzzi for infrastructure projects. I have not ruled out the luxury sector, because once it recovers, America will hit the ground running. Some giants have already taken up position, such as LVMH with Tiffany.

Tech has been the symbol of the US stock race, despite Covid. Is it risking a bubble?

Important differentiations are needed here. If you are asking me whether Amazon, Apple or Microsoft will explode three years from now, I will respond with a firm 'no'. These companies have created barriers against entry into their markets and have strong enough capital not to fear setbacks. I am more worried about some valuations that I find in America's green tech. Tesla, I think, is a perfect representation. Multiples of 70-100 times the revenue (not the profit!) are concerning.

Do you see other possibilities for redemption?

The most attentive managers with whom we have daily dialogue are buying exquisite shopping malls: those valuations fell. These are stocks that suffered a major blow from the pandemic, but have prospects for recovery. Automotive has been left battered and bruised by recent months, but I would be more trusting of a stock in the portfolio capable of expressing value in the long term and offering a dividend rather than venturing out into a risky green gamble.

The new trade relations will be a central theme. How will things change with Beijing?

I think the only correct thing that Trump did – of the many shameful things – was to raise the issue of China, but in the wrong way. I expect Biden to continue in this "closed" manner, with different tones but effective continuity. The numbers on the GDP of Beijing also show how much the Asian economy is starting to speed up again: the USA will seek to limit this.

Is it true that Europe stands to gain the most from the Biden presidency?

I am unsure about the markets, if the euro continues to grow stronger it will start to be a problem. But politically and commercially there is no doubt: Europe needs a strong ally and Biden's agenda is more favourable for our companies, while Trump was focused on defending local work and business.

Are you worried about the inflation pressure expected for Biden's spending plans? Will the Fed react?

The market clearly tells us that there is a drive to bring rates up. There will be some inflation, perhaps enough to create some disturbance on a ten-year security. But there is a big difference between this and a move by the Fed. As for the dollar, in my opinion the short bets by many managers are very risky (*Ed.* "short" in that they are betting on a downturn). I would quote Buffett and the rule he gave at his last Berkshire Hathaway presentation: "Never bet against America". It may well be in decline, but it is still the most powerful country in the world and I would not go against the United States in the next fifteen years.