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Banks still flying high
Mid-caps back in vogue

PORTFOLIOS

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What are the stocks to aim for between now and the end of the year? Although Piazza Affari's performance has been quite transparent up to now, things could change moving forward. At least they could for the FTSE MIB, the index of the most highly capitalised stocks, which has an 81% weighting on the entire Italian Stock Exchange. This has brought home excellent results thanks to the pepped-up banks. "Since the beginning of the year, the large cap stocks have generally done well, with the FTSE MIB index hitting +27%, mainly on account of the good performance of banks, which have benefited from the rise in interest rates," points out Luigi De Bellis, co-head of the Equita research team. But I don't think Piazza Affari will be able to repeat this performance in the second half of the year - the uncertainties stemming from the next budget law, signs of a weakening cycle, and the banks' strong performance in the first half of the year will make it difficult to repeat."

Some say that a less pessimistic view of the feared recession would allow for a soft landing, i.e. an economic slowdown that in Europe – Italy included – would have less severe consequences than initially expected. If this were to happen yet again, the banks (and insurers and wealth managers) would benefit. This would be all despite a hike in refinancing costs and a reduction in profitability (also affected by the government's tax law on extra revenue: Ed.). For some analysts, the favourites are the sector's blue chip stocks such as Intesa Sanpaolo, Mediobanca and UniCredit.

Others, however, believe that the scenarios leading to recession and soft landing are currently unclear and it would be inappropriate to bet on either the former or the latter. "What is needed instead is prudence and betting not so much on indices but on the quality of companies," argues Angelo Meda, Head of Equities at Banor SIM. The gap between the Star index and the FSTE MID has never been so wide, even though the former has top quality stocks such as Replay, Interpump and Diasorin – companies that have suffered not so much from the recessionary effect as from outflows that have dropped right down to the limit."

Although the Italian stock market is suffering due to the low percentage of Italian institutional investors in the capital of listed companies, with foreign institutional investors making up more than 90% of the total investors in FTSE All-Share listed companies, there is one factor that could be a help at this stage: stocks are cheap – even the most important ones – because they have discount multiples. At this stage, blue chips are also trading below both their historical average and their European competitors. For example, on the P/E front, UniCredit trades at 5 times earnings, with Generali and Eni 8 at times and 6 times earnings respectively. "This is a factor investors should look at when taking into account the quality of the companies, many of which are well capitalised," Meda adds. "With an economic climate that could take a turn for the worse, only the quality of companies will save portfolios, whether they are large caps or small caps. That is why we are aiming at solid companies that are segment leaders such as Nexi, Prysmian and Tenaris."

UNCERTAINTIES STEMMING FROM THE BUDGET LAW AND SIGNS OF A WEAKENING CYCLE WEIGH ON PERFORMANCE

As regards the future comparison between large-cap and small-cap stocks, De Bellis concludes: "Mid and small-cap companies are better positioned because they have posted a greater de-rating, partly due to outflows from Individual Savings Plans (PIR) and declining liquidity." As he explains, Italian mid-small caps are trading at a P/E 2023-24E of 10.5x-10x - with an expected earnings growth of +5% year-on-year on 2023 compared to 2022, and +8% on 2024 compared to 2023 - at a 30/35% discount from the average of the last three years. This discount is up from 20% at the beginning of 2023 and represents an 8% discount to European indices (compared to 4% at the beginning of the year).