Confidence might return once the number of infected cases has changed course, says Banor SIM

EUROPEAN EQUITY, CAUTION REQUIRED

Keep an eye on utilities, ESG, beverage and some tech securities

by **Francesca Ripa**

The slowdown of the global economy began in February when infected cases of the Coronavirus broke out of China. The international stock markets closed in strong decline. Government bond markets reported positive performances, with the exception of Italy. Corporates and high yields closed negatively, and even the general commodities index reported a widely negative performance. Meanwhile, the world economic growth expectations for 2020 were revised downwards, the real interest rates decreased compared to January in both Europe and the United States, and inflation also fell in both regions.

How can we steer a straight course for European equity while we wait for this plight to pass? Uncertainties around the international macroeconomic slowdown linked to the Coronavirus epidemic are forcing managers to allocate more cautiously.

It is best to avoid profoundly cyclical securities and companies with high debt and focus on the quality and sustainability of profits, comments **Angelo Meda**, Head of Equities at Banor SIM. "Due to the extent and extreme diversity of the potential scenarios," explains Meda, "we cannot predict what will be most probable or how long the uncertainty will last, which is the markets' greatest enemy. We can limit ourselves to analysing all the possible effects over a period of months, especially in terms of GDP, as Standard & Poor's and Goldman Sachs have already done. Without excluding the possibility of a high number before that decimal point. Italy's current situation is akin to a patient in cardiac arrest. We need know when the defibrillator will arrive so that we can administer the correct shock. Of course, it is sobering to see the Chinese market still travelling close to maximum levels. The country has uncompromising control over its citizens. It closed the stock exchanges for a week and managed to recover following the initial collapse. We are now at the stage China was in January. When the number of people infected by the Coronavirus in Italy and Europe changes course after reaching its peak, the confidence level can be recovered. It is part of our human psychology after a flurry of bad news. When something positive finally arrives, we can begin to hope again, and clear skies will return." According to the expert at Banor SIM, we must still consider the structural effects of this crisis, which will change habits and the approach to globalisation. "At this moment in time, we must be rational. The central banks have used the stimuli at their disposal. Now, they will implement the fiscal policies that Mario Draghi was appealing for years ago. Equities will still have some incoming flows, but they will be extremely select: no cars or planes, but utilities and ESG sectors, beverage and some technology. The spotlight will then be on GDP and even the US elections. But I repeat, the magic number to watch now is the number of new cases outside of China. When the second derivative begins to fall, there will be recovery. "In the meantime," adds Meda, "we are at the mercy of the screening policies of different countries."

For Banor SIM, the stock market, through selectiveness and caution, is still preferable to the bond market, but at the moment, there is an unfavourable yield-to-risk ratio. A post COVID-19 scenario will risk a large hike in rates for the economic recovery that will follow. In addition to the Coronavirus, the main risk factors continue to be economic protectionism, geopolitical tensions in the Middle East, the American elections and populism in Europe.

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Angelo Meda, responsabile azionario di Banor SIM

Una sala riunioni della sede di Banor SIM

A meeting room at the Banor SIM office

Angelo Meda, Head of Equities at Banor SIM