L'Economia del CORRIERE DELLA SERA
Weekly
Date 30-03-2020
Page 44
Sheet 1/2

We are focusing on energy, cash and dividends

No one knows if the stock lists have reached their limit. But we can try to start up again with some topics

by Pieremilio Gadda

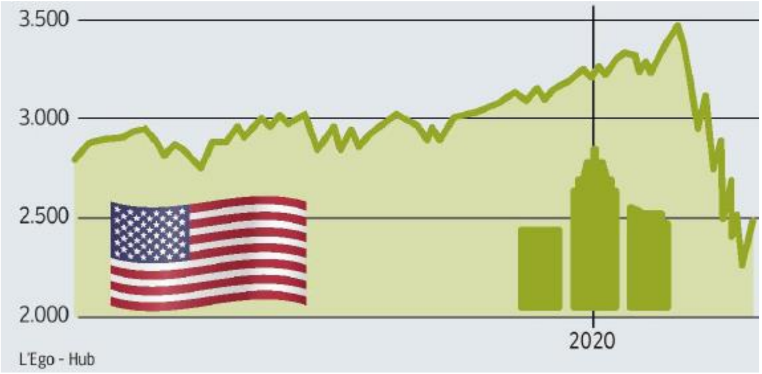
On the one hand, we have the unlimited purchase plans of the Federal Reserve and the European Central Bank. On the other, there is the 2 trillion dollars the United States brought to the table, which is 9.3% of GDP. Plus, we have another 341 billion between Germany, Italy, Spain, the United Kingdom, Japan and the euro zone, the latter still uncertain about which measures to take. That is 2,340 billion dollars all together, a veritable bazooka of fiscal stimulus, which last week offered investors a foothold to regain some confidence.

The strategy

After all, after a drop of 30 percentage points for Wall Street in just one month, -40% at Piazza Affari, some operators believed that the stock exchange decline would open doors to new purchasing opportunities.
As a matter of fact, the valuations already seem to reflect a healthy dose of bad news about the impact that the pandemic shock will have on the global economy. "In recent weeks we have started to buy again. Compared to February's heavily underweight stock market—we were convinced that the market was underestimating the risk of a pandemic with global implications—we are now neutral," explains Luca Riboldi, Investment Manager at Banor SIM.
Have we already reached the bottom of the correction? "This may be the case. It is very difficult to provide an answer. In order to move with more confidence on the stock market we must have greater visibility across three aspects: Europe's reaction to the health emergency, the development of the infection in America—and its impact on the economy—and the persistence of improving figures in terms of containing the epidemic in Asia. If there were a fresh outbreak, it would take much longer to return to activity at pre-crisis levels."
The point for clarification, explains the Banor Investment Manager, revolves around the duration of the recession and its depth. The market now reflects a fall in profits of around 25-30% for 2020, and analysts expect a drop in the US GDP of 6-7% in the second quarter (on an annualised basis). But that is not to say that, after three terrible months (including economically) caused by lockdown—the block on activities imposed by many countries' authorities with varying levels of stringency—the recovery will be spirited.
Meanwhile, according to Riboldi, we can already find relatively attractive points of entry, as long as we are willing to tolerate new bursts of volatility and have enough time before us. "For example, we are positive about energy", he explains. The sector has been hit hard by the price war between Saudi Arabia and Russia following the failed OPEC meeting, which should have found an agreement on cuts to crude oil production to support the prices. "The valuations have reached their lowest levels in the last 30 years and beyond. In general, the cyclical sectors are at a good price," says Riboldi. "They already reflect a recession. We are less excited, however, by the automotive industry."
Now more than ever, investors' attention should be on companies that are very financially solid. The emergency will have an impact on income statements, but companies that have cash or little debt will be favoured. Similarly, there is interest around high-dividend stocks. "In the Food & Beverage sector and in Italian utilities, we are now finding stocks that offer a 6.5% return on dividends", reminds the CIO. For their part, the banks are vulnerable, they will be dealing with an inevitable increase in non-performing loans. "On the financial side," specifies Riboldi, "we prefer to give the perpetual subordinated bonds component a chance, where we might find returns of 13-15%."

Highs and lows

The performance of the Wall Street S&P 500 index in the past year



Ideas

Luca Riboldi, Head of Investments at Banor SIM:
How deep will the recession be?
The market reflects a cut of 25-30%