

AFTER REACHING AGREEMENT IN THE EU

EUROPE VERSUS THE US THE SECURITIES AND FUNDS TO WIN IN THE STOCK MARKETby **Gadda, Connetto, Monti 36****Stock exchanges, making money with the USA-EU challenge**

During acceleration phases, the Old Continent tends to fare better, but the outlook is still unclear
The Recovery Fund will help, even though the positive effect is already taken for granted in part. Go for
banks and utilities

Better management of the epidemic plays its part in favour of Europe: the markets are uneasy with the
situation in America

by **Pieremilio Gadda**

The fact that the Recovery Fund is a political success for Europe is a matter on which operators converge without exception, or almost. What is more interesting, however, is to ask questions about the scope of the agreement from an investment perspective. Does this agreement, which was so difficult to reach, justify portfolio adjustments, perhaps, a decisive shift on to European securities, possibly to the detriment of the US?

"If the agreed program is a good result from a reporting point of view because it represents a step in the right direction in the integration process, in dimensional terms, it is worth about 5% of the GDP of the area. It's a different story for Italy, which could secure close to 210 billion between grants and loans, or about 14% of its gross domestic product (2020 estimate)", calculates Marco Mossetti, Global Equity Manager at Credit Suisse.

Of course, probabilistic terms are a must as the release—pending the go-ahead of national parliaments—of the resources

that have been made available depends on the European Council's approval of each country's recovery plan by a qualified majority, as proposed by the Commission. And with an emergency mechanism which, at the request of one of the members of the EU, in the case of "gross deviations" from the plans as submitted, could slow the transfer of funds. But without a real right to veto, which was what Holland had hoped for. In short, there are still some creases to iron out.

Opinions

"But it's a good thing that there is a control system because Italy already has access to an enormous amount of money through European funds and, so far, it has shown that it is bad at spending the money properly", recalled Massimiliano Cagliero, founder and CEO of Banor. In general, what some commentators define as "a Marshall Plan for Europe" has already been, for the most part, anticipated by the markets, as Europe's outperformance of Wall

Street in this last month demonstrates. "There is room for further narrowing of yield spreads in the periphery," said Mossetti.

A beneficial movement, as he explained, above all for utilities and banks, which are, in turn, sustained by the consolidation process. On the other hand, there are other reasons that, according to the Credit Suisse asset manager, would justify a further recovery of Europe with respect to the American market. Europe has fared decidedly better than the US in managing the health crisis. Contamination appears to be largely under control, while, on the other side of the Atlantic, cases have once again started to increase alarmingly. "This means that the American locomotive will struggle to recover in the next quarter, while there are more encouraging signs from Europe", said Mossetti. As Cagliero recalled, the acceleration phases of the economy are precisely those in which "Europe tends to perform better. But I do not expect a very clear outperformance. Until such time as Germany is once again

running at full speed, the outlook will not be bright. And, in any case, it does not mean that US securities should be sold because they have already come a long way. If we exclude the first seven stocks from the American basket, which by themselves are worth half of Nasdaq and 30% of the S&P 500, we are negative by about 10 percentage points since the beginning of the year". After all, added Cagliero, there is no reason why the progress of

the tech giants, which are the favourites in this phase, should get stuck. "They benefit from a growth trajectory that seems to be irreversible". If anything, what is worrying about the US is the election on 3 November. "The market already attributes a good chance of victory for Joe Biden, at around 55%. The political risk, though, is growing because an overwhelming victory by the Democratic Party in the White House and in both chambers

would cause investors to fear an economic policy that does not attribute great importance to the interests of the business world, with a possible increase in corporate taxes from 21 to 28%. It could mean a potential drop of 5% in the aggregate profits for the S&P 500 in 2021", Mossetti calculates. That would be disturbing.

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