L'Economia
del CORRIERE DELLA SERA

Date 15-02-2021
Sheet 1 / 2
Page 36

Waltz of the sectors

Stock exchanges, from tech to green securities Who risks a correction?

by **Gabriele Petrucciani**

"The time has come to rotate our portfolios. The parallels with the 2000 crisis are increasingly clearer and the risk of a correction is around the corner". Luca Riboldi, CIO of Banor SIM is convinced. He is asking us to unload our positions, selectively, in the sectors that now present excessively high multiples and instead concentrate more on the sectors left behind that could reap the benefits of an economic recovery.

"The time has come to approach shares with high turnover growth, large debts and and realising losses with caution. These companies, which rose a great deal in the last 18-24 months, are priced for perfection. Small failures in growth would be sufficient for them to fall by 20-30% in one day", he warns.

"Exactly like in 2000, there are many securities today with extremely strained valuations", argues Riboldi. "Furthermore, we are seeing situations that we could define as anomalous, such as SPACs, which are worth more on the stock market than the funds they have raised, and without yet having a target company to acquire. Not to mention IPOs. The US market is seeing gains of up to 100% over the placement price, reaching valuations worth 30-40 times turnover". Essentially, there are many similarities with the dot.com bubble. Then there are the alarm bells rung by a number of indicators, "such as the call/put ratio, which is at its highest in the last 20 years," clarifies the expert from Banor SIM. "This denotes a very strong positivity among investors. Another indicator to watch is the amount of cash in the portfolio, which is around 3% against a historical average of approximately 6-7%".

After all, unlike 20 years ago, today there are not very many alternatives to the stock market. In 2000, the Fed had already been increasing interest rates for a while and it was possible to invest in US 10-year bonds with returns at 6% (4% in Europe). Today, on the other hand, America is seeing bond returns of around 1%, while we are practically at zero in Europe (Germany is actually negative). "At these levels, bond investments make very little sense", specifies Riboldi. "The risk-return ratio clearly favours stocks".

The reason why

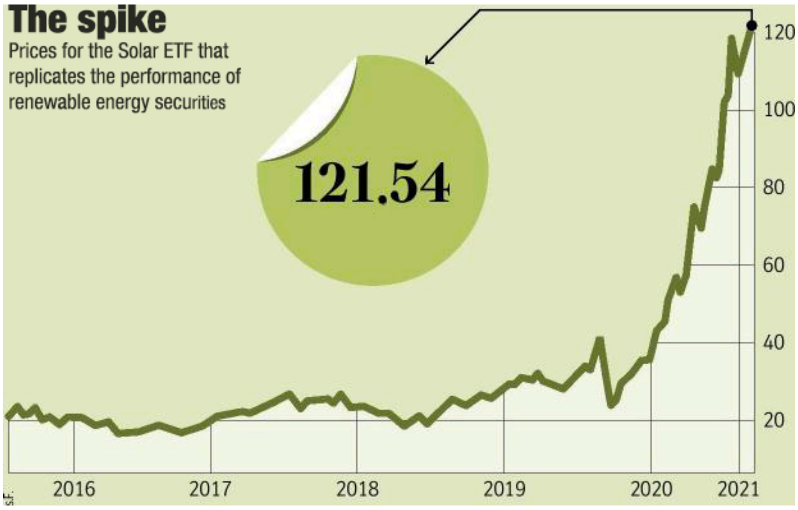
This is why investors continue to focus on equities without even trying to hedge themselves against the risk of possible corrections. This situation has led to the formation of bubbles in various sectors, especially for all the trends that accelerated during the pandemic, so e-commerce, electric cars, telemedicine and video conferencing.

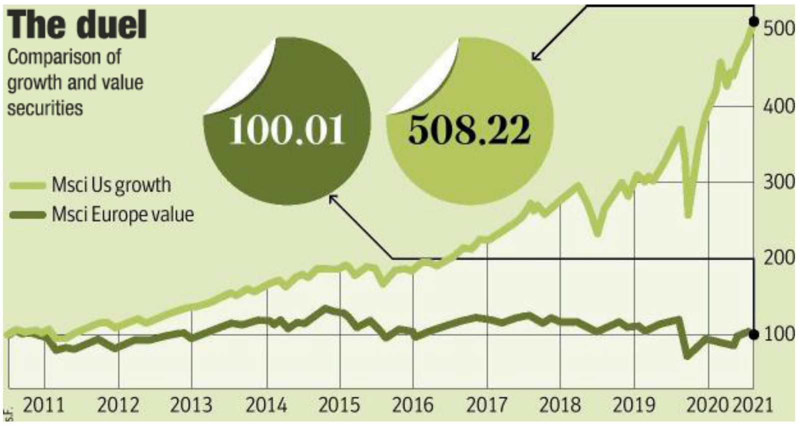
"Even in the world of renewables, there are extremely high valuations", notes Riboldi. "The strong flows into ETFs investing in renewable energy have driven the prices of many companies to unrealistic levels. In addition, the returns on new investments are collapsing. A few years ago, the IRR (Ed: internal rate of return) for solar and wind projects was 16%. Today, it is approximately 6%".

In this scenario, the risk of a strong correction is very high, with the potential downside (risk of downturn) for a number of securities even up to 50 per cent.

"The good news is that there is an economic recovery on the horizon", adds Riboldi. "By the summer, a large part of the population will be vaccinated against the coronavirus, and this will lead to a considerable increase in consumption, a scenario that pushes us to be positive on the sectors more correlated to the economic cycle. Sectors such as finance and insurance, which in the past 5 years have suffered greatly, could now take their revenge. But even securities linked to raw materials, travel and tourism in general represent purchase opportunities. Then there are low-growth companies, such as pharmaceutical securities, which are growing slowly but have low P/E ratios (around 11) and very attractive dividend yields in the range of 3-4%". The time for rotation, therefore, has come.

BANOR SIM
Press clipping for use by recipient only. Reproduction prohibited.





Analysis

Luca Riboldi, CIO of Banor SIM: unload positions in sectors that now have excessively high multiples

Press clipping for use by recipient only. Reproduction prohibited.