

Piazza Affari prepares for the autumn rally

The reasons behind the rally: an estimated 27,500 points. According to Swissquote, the FTSE MIB upturn will also be supported by a push from banks and insurance companies. For Banor, the focus will be on old economy stocks



Gianmarco Rania, Banor Capital

Piazza Affari is preparing for a great autumn. After reaching 25,500 at the start of June, the FTSE MIB has finally recovered from the losses at the start of the pandemic. "Following the disastrous decrease of around 45% in March 2020, the Italian index has now shown an extremely strong recovery. There is no doubt that, in the short term, especially if we look at the technical parameters, our index seems to have reached a level indicative of slight consolidation, especially in light of the upcoming summer", explained Gianmarco Rania of Banor Capital. But if we look slightly ahead and according to the predictions by Swissquote, "After a slight pullback following the strong phase of current momentum, **the index will speed up again, aiming for around 27,500 points for the end of the year**", explained Stefano Giani.

Given that 25,000 points is an area of prices that has been tried and tested several times in the last decade, "Now there may be several good reasons to be optimistic. There is good momentum in the prices, which could drive stocks to higher levels. The central banks remain absolutely accommodative, and therefore the inflation of assets will continue to rise. Cash will remain in equities because the other asset classes, starting with bonds, have potentially lower returns".

Thirdly, "Other baskets have performed better in the last year. The EURO STOXX 50 is 6% above the pre-pandemic highs, Germany's DAX 14% (this one has a greater concentration of industrial stocks) and the U.S. S&P 500 up at +26%", explained Giani. Finally, S&P has increased the GDP growth estimate to +4.9% over this year, in addition to similar growth in 2022. "The improvement in the outlook will positively impact on the confidence of small and medium business owners, but especially the confidence of overseas investors", added Swissquote, suggesting that we can finally expect "an improvement in international trade and in our exports. We know how much this variable is essential for our economy, and we are the second biggest EU country in terms of the balance of trade".

These figures show how other stocks, in many cases, remain favourites in our basket, with a consequent loss of competitiveness for the companies within it compared to other global players that are able to attract more cash.

The driving sectors

Because of this, **“The performance of the banking and insurance sector** will be essential for the recovery of the prices in our index and the definitive breakthrough to over 25,000 points. Stocks such as Intesa Sanpaolo and Unicredit are being quoted much below their 5-year maximums, but we believe these multiples can grow in the short/medium term”, according to Swissquote. **The energy sector will also provide a shock:** “Stocks like Eni have only partially benefited from the recovery in oil prices”.

For Banor, “Another reason for the positive outlook on the Italian index can be found in its composition. In fact, the FTSE MIB, unlike other European indices, is exposed to more sectors linked to the “old economy” such as finance, utilities and industry, which will benefit more from the post-COVID economic recovery. In particular, finance (banks and insurance companies) accounts for nearly 30% of the index. This is the sector that historically has been most sensitive to an upturn in interest rates, which normally accompanies expansive economic phases. Furthermore, it benefits from the so-called steepening of the interest rate curve, which increases revenue and profits, especially in the banking sector”, explained Banor, adding that, “Alongside the two largest Italian credit entities (Unicredit and Intesa), there are then a number of medium-sized institutions (Banco Popolare, BPER and Banca Popolare Sondrio) which represent an attractive target thanks to their smaller size, regional presence and potential creation of synergy in the event of a merger”.

Utilities are another sector with much influence over the index (23.5%). “In our opinion, the sector will benefit in the coming years from the strong development in renewable energy, the cornerstone of the EU Next Generation fund and the primary objective of the European Green Deal”.

One of the biggest Climate Champions in Europe is Enel, which is highly exposed to renewable energy investments and is at the forefront of the race to decarbonise the energy sector. Enel alone represents nearly 18% of the FTSE MIB.

Finally, **industrial stocks** make up a good portion of the index, alongside all the sectors linked to the post-pandemic recovery and reopening. “Consider, for example, construction and infrastructure, to which the PNRR (Italy’s national recovery and resilience plan) allocates more than 30 billion euro, or tourism, which dropped from 13% of the GDP in 2019 to only 7% in 2020 and lost nearly 50% during the crisis. The government will put aside nearly 8 billion euro to protect one of the most strategic sectors in the Italian economy.

Some of the most attractive companies in this area (even if not directly present in the FTSE MIB) are **Buzzi, Webuild and Marr**, whose market capitalisation is only a fraction (1-4 billion) of the total investments envisaged in the respective sectors”, concluded Banor.