

Quality stocks at fair prices in the energy, finance and commodities sectors

LONG SHORT STRATEGIES

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Some managers, mainly those who adopt long short strategies, realised months before that things were changing and started shifting their portfolios elsewhere. "We already started moving from growth stocks to value stocks in October, after the Fed's first warning. We believe that value stocks' relative outperformance will continue because interest rates will rise," asserts Michele De Michelis, CIO of Frame AM. "This doesn't mean completely giving up on growth, but rather those stocks that are heavily indebted and don't turn a profit. We have a bearish take on Tesla because we believe the stock's reverse trend isn't over yet."

After a period when everything went up, a market correction seemed likely. "Let's not forget that much of the stock market euphoria was due to the mountain of liquidity that appeared on the markets. This led to a big rise in US tech stocks, especially large caps," says Luca Riboldi, Director of Investments at Banor. "It's thought that 20% of stocks gained more than 80%. But now the wind has changed. As the rates hike intensified, we started to go short on less profitable stocks, i.e. cash-burning companies whose prices had sky-rocketed. We expect this trend to continue for the entire year. It's also because the zero interest rates era is coming to a close, and there will no longer be an urgency to invest at all costs. Finding quality will be more important."

Riboldi and De Michelis both reckon that the tech sector will stay in their portfolios, but only for companies that perform extremely well at high multiples. "We're not opposed to stocks like Apple and Microsoft, but we don't buy them unless we see certain reductions," emphasises Riboldi, "But in the long part of the portfolio we prefer undervalued securities such as commodities, gold, silver and copper. As for industrials, we think that automotive stocks could be interesting while for trading we believe that in this phase cyclic securities such as financials and those penalised by the cycle such as airlines and travel-related are valid. And to close, we don't overlook those with good dividends such as telecoms. In Italy, we like Enel."

Banking and oil take pole position in De Michelis' portfolio. "European banks in particular," he clarifies, "with the successfully restructured UniCredit, a few British banks and also Illimity, which stands out on account of its fintech slant. The oil companies include BP and Royal Dutch for their prospects in renewable energies. We're steering clear of pure defensives such as pharmaceuticals, which are too costly in our view, but we like everything related to solar and wind power (clean energy), which fell sharply in 2021 and which we believe in for the long term."