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It's the "new season" for spreads, and the rush is on for corporate bonds

The analysts: no shocks on the horizon, yields of over 3% on the market

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From the Trump unknowns to the threats posed by politics in Europe, to the uncertainties over central bank moves and the effects of Brexit. The map of the risks overshadowing the stock exchanges is putting pressure on investors, who must decide what action to take to ensure they're not caught unprepared. In 2017 there will be elections in France, Holland and possibly Italy, and then, in September, in Germany. The nearer we get to these crucial votes, the more agitated the markets will become. The words of Marine Le Pen last week, and her proposal for an immediate exit from the euro, have already shown their effects on the BTP/Bund spread, which is back above 200 points.

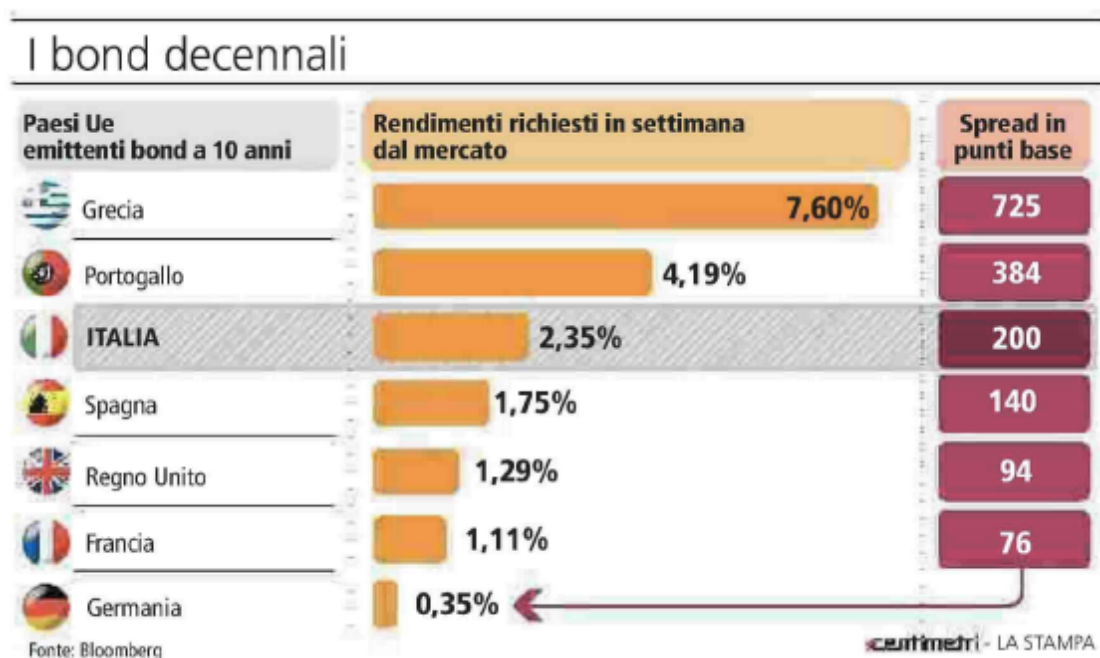
"For now, we're not seeing any scenarios that would cause a lasting upset in market confidence", says Piergiacomo Braganti, head of investment banking at Banca Albertini Syz. "Another factor helping to defuse the threats arriving from the world of politics is the good performance of the European economies, which are all expanding. Except for Italy, which is dragging its feet". However, the coming months will see their fair share of turbulence. This time, government bonds months will suffer most, in particular long-term products. So what to do? On the stocks front, the time might have come to increase exposure, with lower proportions in fixed income products. "Bonds are becoming riskier and paying really low rates", says Braganti. "Better to increase the portion in shares, with the focus on exchange-traded funds (ETFs) and mutual funds". In Braganti's view, in Piazza Affari (the Italian stock market) it's worth taking a look at service companies and bank stocks. Overall, Piazza Affari is one of the most under-valued securities listings, but it's also one that pays higher dividends that provide shelter from risks.

"Quantitative easing (QE) is still in place and Draghi and the ECB's monetary policy is still extremely accommodative. But the current uncertainty risks penalising the government bonds of peripheral European countries and those of indebted countries like Italy", says Tomaso Mariotti, bonds manager at Banor SIM. Right now we advise caution in bond allocations in investors' portfolios. Bonds should have a low average duration, three years at most, while portfolios should have high liquidity to use in the event of a future resumption of market volatility. And investors should avoid long-term government bonds".

So where should they focus? "For bonds, a choice of corporate products and, in particular, a combination of high-yield instruments in the portfolio, could help. However, they should be selected carefully, and offer attractive rates with relatively low maturity". The right mix might be made up of high-yield bonds from IVS, a leading Italian vending machine company, listed on Milan's MOT market and accessible in small amounts. It offers a return of over 3% with maturity in 2022 but could also be called in by the issuer in November next year, thus reducing the duration. Again on the MOT, another high-yield bond that's suitable for individual investors is Tamburi, an independent investment bank, with maturity in 2020, coupon at 4.75% and return of around 2.7%. Investors can obtain a similar rate from the bonds issued by Alerion – a company specialising in electricity production from renewable sources, especially wind (2022).

For investors looking for more stability, these products can be combined with bonds with a degree of risk similar to that of the corresponding government bonds, such as the Mediobanca 2023 variable rate issuance – which rises, therefore, with inflation. Its coupon is linked to 3-month Euribor plus 1%, but at the moment is already paying 1% – the guaranteed minimum rate.

Ten-year bonds



Source: Bloomberg