

THE ANALYSIS. IN THIS PHASE, A MORE FLEXIBLE PORTFOLIO CAN SEIZE OPPORTUNITIES LINKED WITH VOLATILITY AND ADAPT BETTER TO OUTLOOK CHANGES

Safer with international companies Liquidity meets the challenge of market reversals

ENI Piysmian, Leonardo, Amplifon, Technogym, Fila, UniCredit and Intesa are among the most reliable companies

ANGELO MEDA*

The result of the European elections did not generate significant surprises at a continental level. The proportional representation electoral system and the high level of fragmentation of parties will not lead to changes in the current political balance of the main European institutions. The market's attention, on the other hand, was directed at the nationalist parties and specific results in some countries. In the first case, the wave of extremist parties, that seem to have found an upper limit to their expansion, has stopped, and that can be considered good news.

As in the past, the markets do not immediately translate electoral results into possible impacts for governments in the various countries. The European vote, with an electoral campaign that was more centred on EU themes, did not generate, for the greater part of EU countries, immediate effects but can be considered to be a litmus test of the main political trends. In this respect, a consolidation of traditional parties can be viewed as a sign of continuity in EU politics, a fundamental condition for the basis of a return to economic growth in Europe, which has one of the weakest expansion rates worldwide. Italy stands out from the crowd. The League's victory risks raising the level of conflict with the EU at a time when there should be discussions regarding corrective measures for the budget law, the future budget law, a time when the distribution of appointments begins for the presidency of both the European Commission, as well the European Central Bank, where Mario Draghi will leave his position at the end of October. Tensions will immediately be reflected in the yield spread, which will be one of the main indicators to keep under control in the coming months.

Another factor to monitor carefully in the second half of the year will be the outlook for global growth, in particular developments in the USA-China trade war, given that every slowdown in the process of globalization, the driver of economic growth in the last century, will lead to a fall in growth or even a recession.

Since Donald Trump has been president of the United States, we have learnt how declarations and tweets have to be read with caution and that, very often, animated tones are used in the spirit of a negotiation, but the risk of approaching an escalation of import duties, tariffs and restrictions exists.

The bond markets are currently paying the consequences of a major slowdown in the economy, with interest rates reaching their minimum values over the last 24-36 months in the main world areas, while there seem to be less concerns in stock markets, where interest rates are only a few percentage points below their all-time maximum, as registered a few weeks ago. Other asset classes also report anomalies. The strength of the dollar is associated with a weakness in the world economy, while the strong recovery of the oil sector seems to clash with this assumption.

It is therefore essential, in this scenario, to build a dynamic asset allocation that is ready to seize opportunities associated with volatility, but also ready to change positioning in the event that there is a sudden change of direction in the indications regarding economic growth. For these reasons, we recommend avoiding investments that involve a high risk associated with a low return (for example "core European Government bonds, high yield bonds, shares of companies with high debt)

in favour of global companies of high quality, bond investments from reliable companies and US government bonds, but with a low interest rate risk. For investors with a medium risk profile, we recommend a so-called “Barbell” portfolio, i.e. a portfolio with a risk component (high dividend value shares, corporate bonds and, selectively, investments in emerging countries) combined with a high liquidity component, which would be ready to seize opportunities in the event of market reversals. Raw materials deserve a small role in portfolios. Even though there is no indication of inflation dynamics on the horizon, low interest rates favour maintaining gold ownership, even just as a value stabiliser.

Moving on to our Italian market, considering the uncertainty surrounding BTPs and their consequent impact on the balance sheet of banks, we prefer more global securities, less exposed to the performance of the domestic economy, but with a significant potential for revaluation like ENI, Prysmian and Leonardo. In the smaller companies segment, we appreciate the growth of Amplifon, Technogym and Fila. And lastly, on the financial front, we prefer to invest in two main banks, Intesa and Unicredit (even in subordinate shares), or in securities such as Nexi, Fineco or Illimity Bank that benefit from centuries-old tradition of innovation.

* Head of equities at **Banor** SIM
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