L'Economia del CORRIERE DELLA SERA

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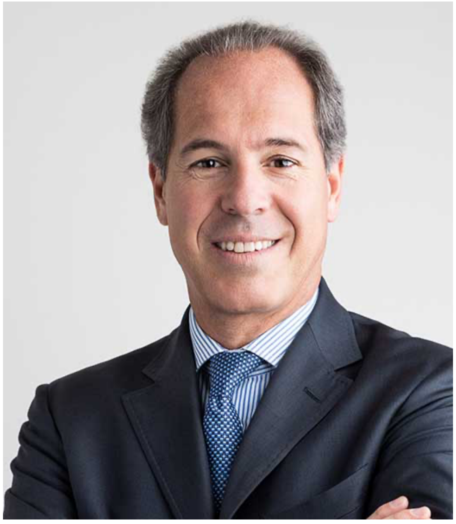
Sheet 1 / 2



Luca Riboldi
of the company

Seek cover of US bonds, emerging markets and gold

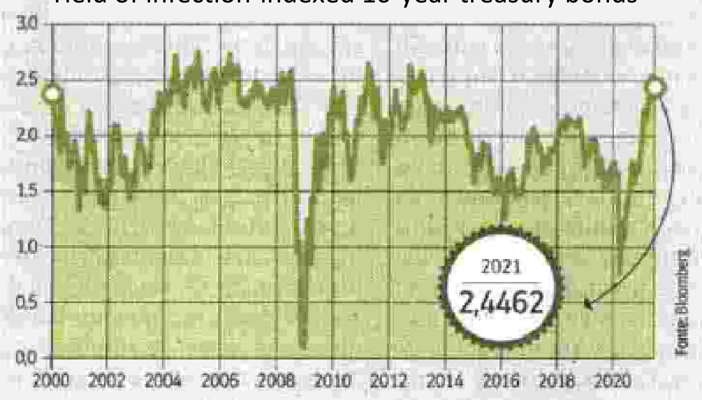
A diversified portfolio on less expensive stock exchanges, US securities and precious metals can beat the uncertainty linked to the cost of living.

by Gabriele Petrucciani

Fears are growing around inflation, with the market literally broken in two, "between those who think we are entering modern monetary theory (*Ed:* the idea that the state can print money practically without limits) and which envisages a limit to the rise in ten-year interest rates accepted by the Fed and by governments and those who, on the other hand, believe CIO that the American central bank will focus on the expected inflation, ready to intervene if it increases excessively". According to Luca Riboldi, CIO of Banor SIM, now the expected level in the consumer price index, which is obtained from the return on TIPS (Treasury Inflation-Protected Securities), is estimated at 2.5% for 10 years, which is exactly the top of the trading range of the last two decades. "Historically, every time we have reached these levels, policy makers have always ensured that inflation did not increase further," argues Riboldi. "How? Firstly with tapering (Ed: less quantitative easing, i.e. reduction in monetary stimuli), then by increasing short-term rates, so as to cool off inflation expectations. Today, the markets have flattened and are moving laterally, waiting to understand what the economic policy makers will do. The method of investing and the (re)positioning of the portfolio will depend on the monetary decisions".

Of course, if the ten-year rates in America were to go over 2.5% and if the Fed were to embrace modern monetary theory, "we could find ourselves with an inflation above 2% and negative real interest rates for a prolonged period", warns Riboldi. "In this scenario, money inevitably loses purchasing power, as a result of the increase in the cost of living. The only way to protect ourselves is through real assets".

A roller coaster ride
Yield of infection-indexed 10-year treasury bonds



Looking to the United States, where it is advisable to act with caution, the best option is to have a diversified approach, suggests the Banor SIM expert, so with a positioning on stocks that are financially viable, perhaps in sectors that were penalised by the pandemic like energy, telecommunications, finance and foodstuffs; more cyclical securities, with medium to low growth, of good quality and with dividend yields between 4% and 6% which help to protect the portfolio from an increase in inflation.

The formula

“An area that we really like is the emerging markets”, continues Riboldi. “The markets are at their lowest levels in the last 20 years compared to Wall Street, because in some areas, like Brazil and India, the pandemic is still going strong. We are seeing many opportunities, with a lot of undervaluations that tell us to have a significant presence in the emerging stock. We also advise including other asset classes in the portfolio, such as gold and raw materials in general, but with a percentage no greater than 5-10%”.

In terms of bonds, however, Riboldi is very cautious, considering that the real yields are negative in both euros and dollars: “As it stands we are only invested in short-term bonds as somewhere to park liquidity, with a weighting in the portfolio between 20 and 30 percent. It may also make sense to invest in the US 10-year bond, which offers a 1.7% yield, to hedge against any unexpected shocks, but consider that the long-term segment of bonds now has a higher risk, and so it is best not to have an exposure greater than 15 percent”.

This composition of the bond portfolio represents a healthy compromise as we wait to understand what the central banks will do. “Having a low duration in the portfolio allows us to protect the ammunition to be used for new opportunities that could arrive, while the presence of 7 to 10-year treasury bonds covers our back in case of an economic growth incident”, concludes Riboldi.