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## Castelli (Banor): “Brexit: ECB shield for peripheral spreads”

by Federico Simonelli, 27 June 2016



“It will undoubtedly be a source of uncertainty in the coming months. The timing is uncertain, and particularly uncertain in terms of negotiations between the European Union and the United Kingdom.

We’re looking at a strange sort of dance, in which the possible next Prime Minister, Boris Johnson, has actually said that he doesn’t want to use Article 50 of the Lisbon Treaty to gain time”.

**Francesco Castelli**, head of fixed income at London-based Banor Capital and manager of the **Banor SICAV Euro Bond Absolute Return** fund, is pretty clear that the coming weeks will be a rollercoaster on the markets.

Indeed, it couldn’t be otherwise. But there are also some market opportunities to be grasped. “We already had plenty of liquidity and little exposure to risky assets so right now we’re doing some shopping, albeit with a large dose of caution.

I’ll mention just a few names: certain businesses have suffered sharp repercussions in the last few days, such as HSBC, on which we’ve taken debt exposure. HSBC is a bank with sound fundamentals, a truly international operator that conducts much of its business outside Europe. We think it’s an opportunity”.

Opportunities, says Castelli, “can also be found in the world of Italian banking, where we have bought both equity and debt, despite having previously taken a cautious approach. On Italian debt specifically we are

taking a very positive view; with the Atlante fund we think there will be more bail-ins.

“In the case of equity we’re more prudent: there are a number of sword of Damocles situations. The Unicredit increase is the biggest of these: we don’t know if it will happen and how much it will amount to”.

### **The periphery**

Another key point, says Castelli, is to try to understand what will happen to the countries on Europe’s periphery, from both the political and financial perspectives.

“In Spain we may be seeing signals of greater stability, even if the centrifugal forces in Europe are still intensifying.

We hope that Brexit will be an opportunity for reflection for a Europe that is often too far removed from its citizens. It might turn out to be an opportunity to bring it closer.

As regards peripheral sovereign spreads, this is clearly not the best moment. But for the time being we have the ECB acting as a shield and buying bonds. We believe that the central bank’s actions will dampen down any excessive volatility”.

### **Flight from London?**

And what’s happening to the banks and financial institutions based in London? “I think we’ll be seeing lots of new developments in the coming weeks.

To take just one example, an institute like J.P. Morgan, which had already begun to cut, will now use Brexit as a justification for any future cutbacks. However the most at risk, in our view, are French and German banks.

“There are 300 European banks in London; they moved there because of the language and the European passport. Now they’ll need to reconsider their plans. And, in addition, anyone who had been thinking of moving here to set up shop will have to put their plans on hold for the time being”.

What might the future hold for the British capital? One possibility, concludes Castelli, is to develop an inward investment hub for business by lowering taxes to around 10%, once the country has shed its European constraints.