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Opportunistic buys, short-term BTPs and CCTs doing well. Francesco Castelli, head of Fixed Income at Banor Capital, replies to Fondi&Sicav's questions on the political uncertainties of the euro zone.

The uncertainties surrounding the forthcoming elections in some euro zone countries are only penalising French government bonds and those of "peripheral" countries. Do you think the volatility we're seeing in spreads can offer buying opportunities for bonds? And if so, of what duration?

From a geographical point of view we feel that the market's fears over the soundness of the euro are totally exaggerated: a return to the franc is a topic that presidential candidate Le Pen is using to gain visibility in the press. Le Pen will probably get through to the second round but (as happened in the past to her father) she's unlikely to be elected by a majority of French voters, especially if she persists with such an extremist position. The market weaknesses caused by this political scenario should in principle be exploited. However, we prefer to take advantage of them through issues linked to the credit market (subordinated bank securities, for example). On the government bonds market, even if we exclude the recent dips, we shouldn't forget that yields are still extremely low: for months we've been urging investors to act with the utmost caution and to go for low duration. Any opportunistic purchases should therefore focus on low-duration Treasury bonds (BTPs) (3-2 years) or Treasury credit certificates (CCTs), with a variable rate coupon.

But stocks, on the contrary, have held up well. Do stock markets in Europe have sound fundamentals, and are they enjoying stronger growth and a pick-up in inflation, or is this just the driver effect exerted by the records Wall Street has been seeing?

Yes, it's true, the European stock markets have performed well. As always, Wall Street acts as a driver for world markets, but in this case we think there are also reasons for optimism on the domestic front. The European economy is continuing to provide encouraging signals of growth and European stocks are valued at more attractive levels than we're seeing in the US market (one of our reasons for believing that Europe will outperform). In a situation of economic recovery, the cyclical securities most exposed to the effects of that recovery (especially domestic) and financial securities (which could benefit from a rise in rates, especially in the second half of the year), should be over-weighted.