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LA STAMPA
QUOTIDIANO: TURIN

FRANCO CASTELLI (BANOR)

"Better Europe than the US if you're betting on stocks"

FRANCESCO CASTELL
FIXED INCOME BANOR CAPITAL

"The start of 2019, with all probability, will see a continuation of the negative trends that were expected and indeed materialised in 2018", states Francesco Castelli, Head of Fixed Income at Banor Capital. The global economic slowdown is becoming more and more pronounced and caution among operators is growing.

What do the markets fear most right now?

"In 2018 we reduced the level of risk in our portfolios and we continue to advise caution. Apart from the possibility of an actual recession, on which we remain 'agnostic', the risk of a 'profits recession' seems clear: a reduction in companies' profits, which are the variable that really counts for the stock markets".

What are your projections for the coming months?

"Monetary policy has already done a lot over the last decade and can now only provide a marginal help. All we can do is wait. We feel that the bearish markets will continue but we're gradually getting nearer to interesting buying levels".

Which are the best geographical regions to bet on in this new year?

“Although we remain prudent, we prefer European to US stocks, which we think are over-valued. The emerging markets certainly offer interesting prices but the current volatility suggests we should keep our allocations low. If we’re talking about bonds, however, products in US dollars seem more interesting, relatively speaking. Even if we keep to high-quality issuers, investors can easily build up portfolios with a yield of over 3%. More aggressive investors who are more open to risk could, however, consider exposure to commodities, whether agricultural or energy. Both of these segments are at very low price levels right now. On a historical basis, that is”.

What should investors avoid in 2019?

In the stock market, the recent fall has confirmed that some market areas, especially in America, were over-valued. However it’s also true that the price/earnings ratio didn’t seem too high in these segments, but this value was inflated by cyclical factors. Other metrics too, such as the relationship between share price and company sales, indicated market over-evaluation, which unfortunately is still the case now. These aspects confirm our caution where shares are concerned. In line with that caution, we also recommend a low-risk approach for high-yield securities, in other words corporate bonds. They may be high yield but they’re also high risk. At this stage of the economic cycle, it’s typical to see a rise in company failures, a circumstance that won’t help this class of assets in the coming months”. s.ric –