Il Sole 24 ORE
QUOTIDIANO: MILANO

FROM 2009 TO DATE -26% ON THE ITALIAN STOCK EXCHANGE

The lost decade for credit at Piazza Affari

Maximilian Cellino

The period from 2009 to date has been a decade in the sign of Taurus for Stock Markets, but not for all of them. Speaking of banks, European and Italian ones in particular, it does not take much to define the last decade as a "lost decade", at least if you consider the performance of stocks. While markets at a continental level have more than doubled their worth (+138%), the financial sector limited its recovery to 32%, and, on a global scale, the tripled prices of the MSCI World index (+210%) can be set against the +141% of the banks. The results at Piazza Affari were far poorer in all respects. However, in this case, the 71% gain in the FTSE Italia All Share index is even set against a 26% loss for credit institutions (parity is reached only taking into account the coupons).

There are two main reasons which explain why shares from the financial sector have been moving with the handbrake on for some time now. The first is a general reason and it is due to a sort of distrust on the part of investors towards the protagonists who effectively triggered the previous financial crisis, the worst of the century. The second reason regards more specifically Europe, where some peculiar factors, such as the regulatory belt tightening that followed the storm (which, only for the Italian banks, required capital increases of € 74 billion, still continuing even to this day, as opposed to the United States, where it actually stopped in 2016) and the phenomenon of negative indices, block many of the ambitions of the banks' stocks.

The positive side of the coin is that the crisis and the last 10 years have produced banks that, in theory, have more solid foundations and are more secure. One way to look at it is that the obsessive attention paid to capital ratios to the detriment of profitability can be seen in the better performance of bonds linked to the financial sector, which, while underperforming the rest of the bond market in Europe (also because they are not included in the asset repurchase plans of the ECB, at least for the moment), have all in all kept the gap acceptable.

All the more so because, when it comes to banks, the range of bonds issued is much more varied: covered bonds, senior securities, intermediate ones, such as non-preferred seniors, and subordinated securities, such as Lower Tier 2 or Additional Tier 1 which, as Francesco Castelli, Head of Fixed Income at Banor Capital explains, "require specialist analyses and dedicated investors, contributing to raising the risk premium". This is a complexity that, in a sense, even provides the investor with greater guarantees and that, in theory, can render this type of instrument attractive. "Financial institution bonds," confirmed the asset manager, "remain an important opportunity in a bond framework, with only a few alternatives, because investors are well paid for taking a risk on European banks and, in our opinion, the dangers of bankruptcy in the sector are limited. Today's banks will fare much better than in 2008 because a decade of regulatory pressures has rendered them less vulnerable to risk and they are more capitalised".

On the other hand, the situation is quite different with respect to equities, where the valuation of banks remains at the lowest levels of the decade (for Italian banks, Equita estimates an average stock price of less than half the book value of the assets, 0.44 to be precise, as opposed to values above 1 before the crisis), but no specific positive developments are in sight. The impact of zero interest rates, which has contributed to reducing the interest margin of Italian banks in the first half of the year by as much as 467 million, represents a real "tax" on credit institutions, and new reductions in the cost of money by the ECB could, according to the most popular estimates with analysts, lead to a profit cut of about 10 percent.

At the European level, it is rather difficult to achieve the synergies that everyone is hoping for because mega cross-border mergers that could give rise to "champions" capable of challenging the USA heavyweights are discouraged by policy and regulations. Of course "mergers will go ahead, at least at local level—including Italy—banks will be more efficient, better capitalised and, perhaps, they will be less adversely hit by the economic slowdown", conceded Castelli. However, the common feeling is that getting back to pre-crisis levels, and clearly we are talking about 2007, will take another decade, or more.

Stock Market Comparisons

Performance % since 9/3/2009

USA Banks	449.4
S&P 500	332.3
MSCI WORLD Index	210.1
MSCI WORLD Index - Banks	141.4
STOXX EUROPE 600	137.9
FTSE ITALIA ALL SHARE	71.4
STOXX EUROPE 600 - Banks	32.5
FTSE ITALIA - Banks	-26.3

Source: Thomson Reuters

74

BILLION IN CAPITAL INCREASES

From 2009 to date, Italian banks had to increase their capital by 74 billion to strengthen their assets

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