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PIAZZA AFFARI

The Bull ready to roar again, spurred on by the Chinese Rabbit

Roberta Amoruso and Andrea Bassi

After a year best forgotten, market signals kindle cautious optimism
Here are the investments suggested by managers. Corporate bonds are also on the agenda

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MoltoEconomia

Il Toro torna a scalpitare spinto dal Coniglio cinese

PORTFOLIO Equities and bonds – the year of the resurgence

How are expectations changing after a 2022 that the financial markets will want to forget? MoltoEconomia asked London-based Banor Capital, Banca Mediolanum and Swiss manager Pictet. The picture that emerges is encouraging, but with due need for caution

There is a widespread feeling that 2022, one of the worst years in the recent history of both equity and bond markets, is thankfully behind us. The year saw a perfect storm hit the world's financial markets with a violence unlike anything in the past decade. And this is starkly evident at the end of the first month of 2023, as we witness the proven damage caused by all-pervasive rising inflation, which has been unusually rapid, difficult to predict and has triggered a rate hike. A further cause of the damage is, of course, the Russia-Ukraine conflict, itself also difficult to predict. But as often happens in the face of such calamities, very interesting equity and bond investment opportunities can be found among the debris.

How do we pick our way through the vast array of offers? Mindful that reporting individual equity or bond proposals may potentially breach saver protection rules, *MoltoEconomia* approached three leading advisory firms and asked them their opinions on the market situation and where to steer portfolios. They are Banor Capital, Switzerland's Pictet (CHF 700 billion under management) and Banca Mediolanum (over € 100 billion). An encouraging picture emerges, but one that signals due need for caution, especially in view of the monetary policies that central banks will pursue.

BANOR'S OPTIMISM

According to Gianmarco Rania, Head of Equities at Banor Capital and manager of the Banor SICAV European Dividend Plus fund, "we still expect short-term volatility due to the likelihood of signs of recession, albeit less marked than feared, and a slowdown in consumption." But the "sharp market correction has led to the extreme undervaluation of European securities, which are trading close to their lowest levels in 20 years."

That is why Banor believes that European equities today have very high potential, also in terms of dividend yields, which are currently hovering close to an average yield of 5%." But what are the sectors to aim for? "Despite the high risk of recession and falling earnings, cyclical sectors (industrials, financials and commodities) offer an excellent entry point." However, as far as bonds are concerned, "the annus horribilis of 2022 has created excellent investment opportunities, especially in the corporate sector: we find, in fact, yields to maturity of 4-5% for high quality or investment grade companies, rising to 7-8% for high yield, lower quality securities." But Rania advises caution: "The investment must have a medium to long-term time horizon."

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Banor's proposal for very cautious "Bot-people" savers nevertheless demands a minimum of diversification, with an asset allocation that focuses 70 per cent on bonds including 1-3 year government bonds (20%), Global Investment Grade bonds (20%), US High Yield securities (5%), Emerging Market Hard Currency bonds (10%), European High Yield bonds (5%) and Emerging Market Local Currency stocks (10%). The 25% allocated to equities are topped off with 5% of US Value/Cyclical stocks (financials, commodities, industrials), 5% of European Value/Cyclical stocks, and 2.5% each of European and US small-cap cyclical stocks.

Potential in Europe and opportunities in the USA, technology's homeland But also keeping a close eye on emerging economies

But 5% is reserved for Japan, with an identical weighting for Emerging Market equities (focused on Asia). Some room is left for a minimum portion of gold stocks (5%). In turn, a "balanced" portfolio can allocate 45% to equities, more or less doubling the individual positions (see table on page, ed.). A more aggressive approach would instead raise the shares portion to 70%.

PICTET'S PRUDENCE

Banor's optimism is not wholeheartedly shared by Pictet Asset Management. Their specialists say we should be under no illusions about the speed of any possible U-turn by central banks on the rate front. The Federal Reserve and the ECB have repeatedly – and quite recently – made it clear that they want to remain vigilant on the monetary policy front. This seems a good reason to "stay tactically cautious as regards duration", despite the rise in 10-year yields.

Inflation expected in the US indexed government bonds market is distinctly optimistic at just above 2% on any horizon. This is also evidenced in the valuation of US equities, which now trade at 17 times earnings, bolstered by the certainty of falling inflation. "And it is earnings," points out Marco Piersimoni, Senior Investment Manager at Pictet, "that will become key in the coming sessions, with the profitable period starting in the final quarter of 2022." Piersimoni reckons that, although fears about ever higher rates have calmed somewhat, there is still the chance of "further shrinkage of margins and eventual disappointment."

The outlook for non-US equities does, however, look more promising: European equities are benefiting from the fall in energy prices, while the mild winter has soothed any worries over possible restrictions on the European and German industrial system in particular. The picture for the emerging markets looks even better, with China in the lead (see article on page 16). Piersimoni again: "In 2023, we will see a widening growth differential between developed and emerging countries, as well as the speeding up of disinflation and possible monetary calming brought forward in developed areas." Hence his preference for financial assets – both equities and bonds – in the coming quarters: expected yields are certainly more attractive than in 2022.

MEDIOLANUM AND THE TRANSITION

For Vittorio Gaudio, Director of Asset Management Development at Banca Mediolanum, the dawning of 2023 offers clear opportunities on bond and equity fronts alike. "After years of zero returns, fixed income is once again a source of profitability and coupon flow," he comments. "On the other hand, the stock markets are now showing cheaper valuations and are the means of participating in these epoch-making transformations we're seeing: the move from energy to digital and from mobility to health." So, a moderate investment profile, biased towards bonds, should include a component in euro government bonds, coupled with quality corporate bonds (investment grade) now at all-time high rates. Emerging Country issuers (in local currency) should also be added to boost overall profitability.

More dynamic savers should, however, aim for "a dominant equity component (50 per cent for a balanced profile, up to 80 per cent

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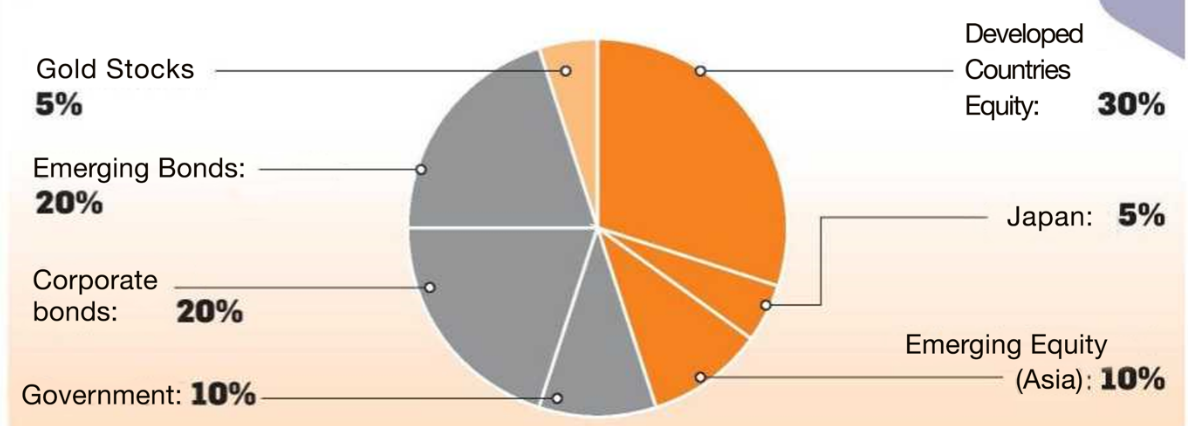
for a more aggressive profile). Asia (together with the Emerging Countries in general) and Europe are the choices for 2023. But the US should not be neglected, especially as regards technology stocks, which can again be bought at reasonable levels, thanks to temporary issues that have failed to weaken their long-term growth potential."

Portfolios side-by-side

BALANCED

Equity	**45%**
USA Cyclical /Value stocks (Financial, Commodities, Industrial)	10%
European Cyclical /Value stocks (Financial, Commodities, Industrial)	10%
USA small-cap cyclical stocks	5%
European small-cap cyclical stocks	5%
Japan Equity	5%
Emerging Markets Equity (focus on Asia)	10%
Bonds	**50%**
Short-term Government Bonds (1- 3 years)	10%
Global Investment Grade Bonds	10%
USA High Yield Bonds	5%
Emerging Market Hard Currency Bonds	10%
European High Yield Bonds	5%
Emerging Market Local Currency Bonds	10%
Alternatives	**5%**
Gold Stocks	5%



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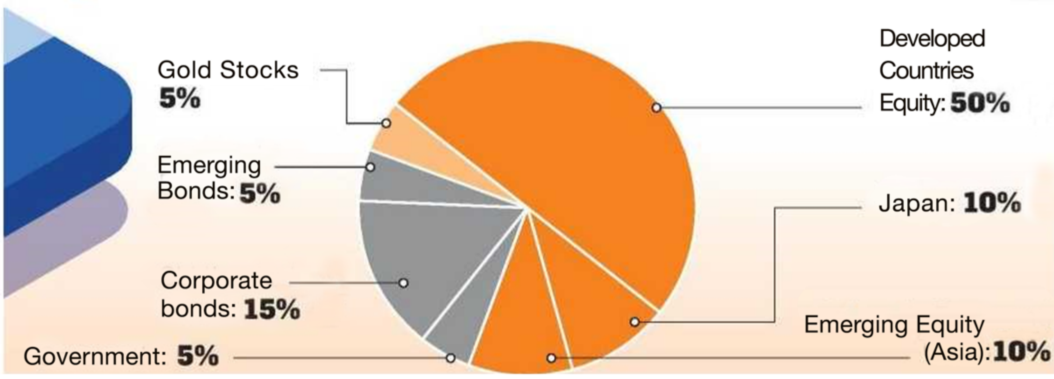
AGGRESSIVE

Equity	**70%**
USA Cyclical /Value stocks (Financial, Commodities, Industrial)	20%
European Cyclical /Value stocks (Financial, Commodities, Industrial)	15%
USA small-cap cyclical stocks	10%
European small-cap cyclical stocks	5%
Japan Equity	10%
Emerging Markets Equity (focus on Asia)	10%
Bonds	**25%**
Short-term Government Bonds (1- 3 years)	5%
Global Investment Grade Bonds	5%
USA High Yield Bonds	5%
Emerging Market Hard Currency Bonds	2,5%
European High Yield Bonds	5%
Emerging Market Local Currency Bonds	2,5%
Alternatives	**5%**
Gold Stocks	5%



WORDS

Value/Cyclical Stocks
They are priced below the value of the fundamentals: companies in mature sectors, sound but with limited or cyclical growth and earnings linked to the business cycle.

Growth Stocks
They have higher valuations in terms of the price/expected earnings ratio due to their high growth potential. One example is tech stocks.

High Yield
Corporate bonds with high yields because they have a low credit rating and therefore a higher default risk.

Investment Grade
Medium-high quality bonds with ratings above the threshold set by the ratings agencies. They are safe, low-risk investments.