

# Italian Equity Strategy Monthly

## Year-End Rally Contingent Upon Liquidity Conditions

by Intermonte Research Team

Italian Equity Market

■ **Market outlook.** We are sailing towards the end of the year having navigated through a choppy November, especially for tech stocks and with a spike in volatility. The Italian market was almost flat, with solid performances from financials and utilities, but mixed reactions to 3Q results in sectors such as consumers and industrials. Looking at the YTD performance, the Italian FTSEMIB has gone well so far at ~+27%, with large caps continuing to outperform mid and small caps. Market trends in December are likely to be heavily driven by liquidity conditions, FED indications and potential enduring jitters on tech stocks (Nvidia down more than 10% in November dragging Nasdaq performance).

■ **Investment strategy & corporate newsflow.** Liquidity appears to be the most relevant topic on investors' radar screen. Given recent tensions, bond markets will remain under scrutiny and be at the core of future Fed decisions, with an interest rate cut now looking quite unlikely in December. We expect liquidity conditions to ease as of the second half of December, supporting a more favourable market environment. Investor mood will still be heavily influenced by gyrations in AI investments and winners and losers in the sector, as in many cases valuations are puzzling and require aggressive assumptions on future returns that are far from a sure thing. Going into 2026 we expect the US to maintain an expansionary fiscal stance given the mid-term elections in November 2026. This should translate into a supportive liquidity outlook for equity markets.

In this context we think the Italian economy and markets are facing very slow growth, but in our projections we see an earnings rebound for the Italian market in 2026, primarily driven by cyclical sectors like industrials and consumers. While visibility is not great, we think many companies are expected to face an improving environment following a more stable trade set-up. ForEx and energy prices could continue to act as headwinds, but to a lesser extent than in 2025. A gradual unwinding of excessively restrictive regulations could support a revamp in some industrial sectors. Italian stocks reported good results overall in 3Q, with more than 50% exceeding expectations and a slight positive revision in overall estimates. However, several stocks (Diasorin, Inwit, Amplifon, Nexi, STM) suffered significant negative reactions to weak indications and outlook. We downgraded a few stocks last month, such as ENEL and Banco BPM on limited residual upside, while upgrading Fincantieri following poor performance. From a valuation standpoint, looking at 2026 we see some upside potential given the improved value proposition relative to other asset classes. There might be opportunities to take on exposure to sectors like luxury and some industrials, as there are glimpses of an inflection in operating trends. In our view, the defence sector remains an attractive investment. We are also keeping a positive stance on a number of financial stocks, as we expect earnings to stabilise at solid levels, with positive prospects for shareholder remuneration. We are turning Neutral on utilities following a solid sector performance.

■ **Portfolio selection:** We are updating our list of preferred stocks to overweight and underweight for December (more details on pages 4-8 of this report).

Large caps to overweight: we are adding BPER to replace Intesa Sanpaolo based on greater upside potential, and Lottomatica following our recent upgrade, removing Nexi as while we remain positive, we see limited short-term newsflow.

Mid/small caps to overweight: we are adding OVS, which is well-placed to continue to report strong results, and removing Pharmanutra following the stock rally.

Stocks to underweight: we are adding Poste due to limited upside potential.

*See page 5 for our list of preferred stocks to over/underweight.*

### Italian Equity Market - Asset Allocation by Sector

Positive	Neutral	Negative
ASSET MANAGEMENT	BANKS	ENERGY
INSURANCE	TELECOM	UTILITIES
CONSUMERS	INDUSTRIALS	
MEDIA		

Source: Intermonte SIM

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium between 5.5% - 6.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the FTSEIMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 1 December 2025 Intermonte's Research Department covered 132 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	31.82%
OUTPERFORM:	37.12%
NEUTRAL:	30.30%
UNDERPERFORM:	00.76%
SELL:	00.00%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (77 in total) is as follows:

BUY:	50.65%
OUTPERFORM:	29.87%
NEUTRAL:	18.18%
UNDERPERFORM:	01.30%
SELL:	00.00%

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