August 2020

Financial Markets Review

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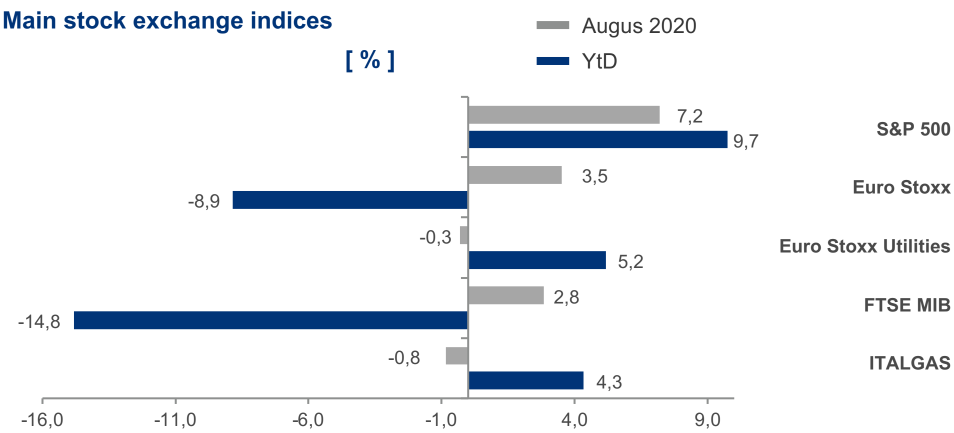
Equities continued to rise with macro data and extention of fiscal supports, but the eurozone vs US gap remains due to the appreciation of EUR / USD and exposure to technology. Core yields up with breakeven inflation recovery

Financial Markets



Source: Italgas' elaboration on Bloomberg data

Equities continued to rise in August, supported by: 1) better than expected macro data (Chinese and Eurozone manufacturing PMI, US manufacturing ISM, German confidence indices); 2) expectations to extend expansive fiscal policies, with the German government allocating an additional 10bn euro to extend the underemployed workers' wage supplement program; 3) expectation of simpler procedures for the approval of vaccines and Covid treatments by the US administration. S&P 500 + 7%, on new historical highs, while the Euro Stoxx and the FTSE Mib appreciated by about 3%, with the eurozone benchmark returning close to the July and early March highs. The difference in performance between US equities and the eurozone was generated by the appreciation of EUR/USD, as well as a greater exposure to tech stocks of the US index, which includes, among other things, a group of FAANG stocks (Facebook, Apple, Amazon, Netflix, Google), whose business was bolstered by the pandemia-induced consumer lifestyles. Consistent rise in core yields (Bund +13 bps at -0.40%; UST +18 bps at 0.70%) as a function of the above described factors that supported the rise in equities and the recovery of breakeven inflation (back to pre-Covid levels in the US). The FED announced at the Jackson Hole meeting its decisions to change its target in terms of inflation, with a 2% threshold considered as an average value over time, and consequent willingness to accept periods of inflation greater than 2% without increasing rates of interest This did not produced any impact being already reflected in consensus. Spread BTP-Bund -5 bps (149 bps) with risk-on sentiment, despite Q2 Italian GDP lower than preliminary figures. EUR/USD (+1.3% at 1.19) updated max from 05/2018 with risk-on sentiment and core deflator of US personal consumption expenditure (among the main FED references to measure inflation) below expectations. EUR/GBP -0.8% to 0.89 on resumption of Brexit negotiations and relaxing statements by the UK chief negotiator.

The oil market

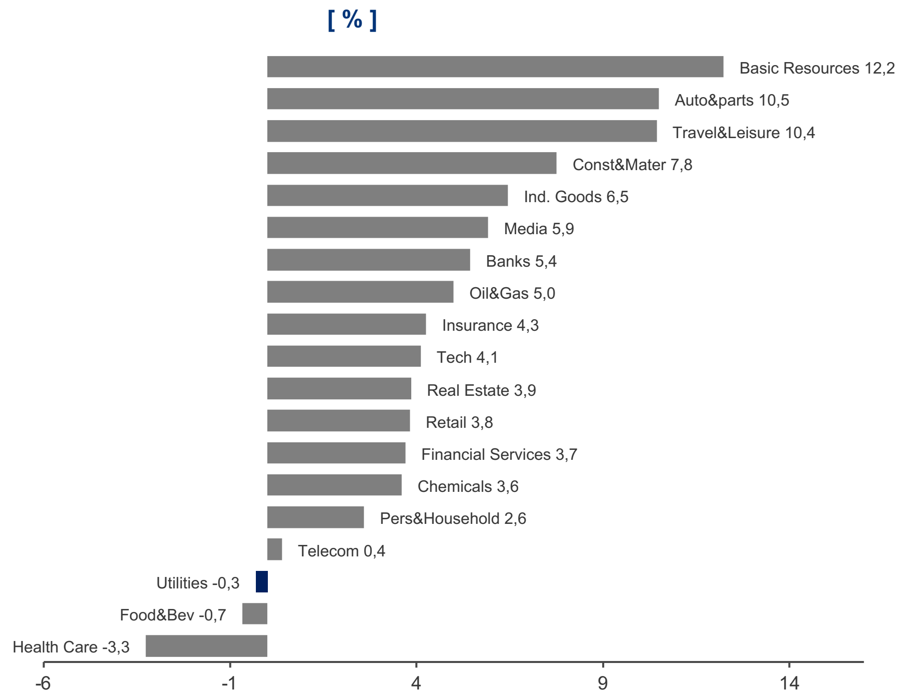
Brent prices (+ 4% to 44.4 USD/b) reached the new highs since March due to the interruption of more than 80% of US production in the Gulf of Mexico as a result of the passage of tropical storms, as well as decreasing US crude stocks of about 10 mboe in the month and US drills numbers stable at 11-year lows. Of note the sharp rise (+ 34%) in gas prices in the US market due to the aforementioned production interruptions in the Gulf of Mexico together with the increased demand for electricity for air conditioning resulting from high temperatures in the month. The rise in prices was even higher in the European market (+ 100% at the Dutch hub TTF) due to the block of LNG exports from the Gulf of Mexico and the reduction in supplies from Norway due to scheduled maintenance.

Performance by sector

Evident portfolio rotation from defensive into industrials and cyclicals with improved risk appetite and higher core yields

The sector dynamics largely reflected the improved risk appetite underlying the bullish phase, with outperformance of the industrials and cyclicals (mining and steel + 12%, automotive + 11%) and consequent underperformance of defensives and bond-proxies, which were affected by the rise in core bond yields. With a 3% decline, the pharmaceutical / healthcare sector was the worst performer reflecting the contraction of Philips and Siemens Healthineers (-13% and -10%) respectively induced by the downward revision of the 2020 guidance after the US health department canceled a maxi order for Covid fans, and the announcement of the offer on the US peer Varian, financed through a capital increase.

Main sectors performance, August 2020



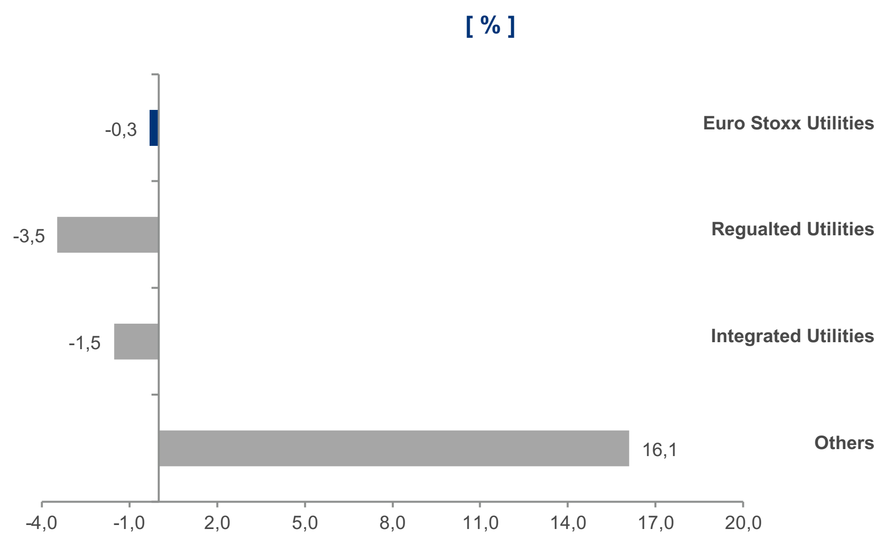
Source: Italgas' elaboration on Bloomberg data

Utilities among worst performers with sector rotation towards cyclicals; Veolia's offer on Suez limits correction

Utilities sector performance

The Utilities sector closed the month almost unchanged and among worst performers. Regulated operators were the most penalized (-3%) due to the aforementioned rise in core bond yields. However, the sector index limited the correction as a function of the rise in water and environmental operators (+ 16%) after Veolia (+ 5% depending on the synergies expected from the merger) launched an offer for the 30% stake held by Engie in Suez (+ 30%), which if accepted would give way to a totalitarian voluntary offer on the latter.

August 2020 - Utilities sector and subsectors

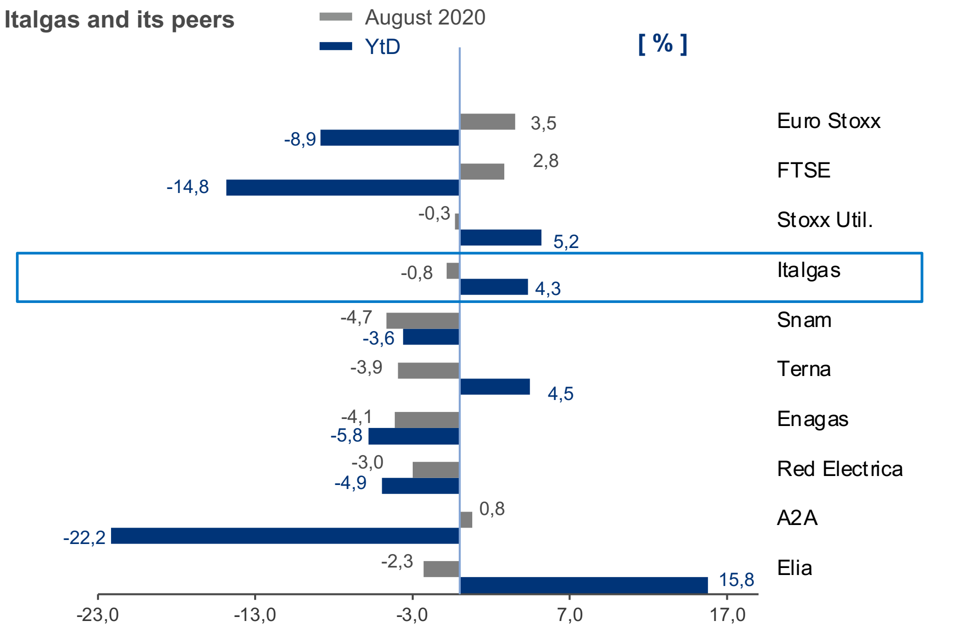


Source: Italgas' elaboration on Bloomberg data

Italgas and its peers in Borsa

Italgas (-1%) penalized by sector rotation, but the stock shows ample outperformance vs fully regulated peers

Contraction of about 1% for Italgas to 5,395 euros, penalized by sector rotation towards cyclicals induced by improved outlook and recovery of breakeven inflation, leading to higher core sovereign yields. The stock, however, outperformed (by 200-400 bps approximately) the Italian and Spanish regulated peers. This dynamic matured in the first half of the month, probably still reflecting the Q2 results supported by operational efficiencies. A2A (+ 1% approximately) was the best performer in terms of exposure to merchant activities. This on the other hand explains A2A's significant underperformance since the beginning of the year relative to the panel represented



Source: Italgas' elaboration on Bloomberg data

Agenda
Corporate events

29 October Board Meeting Q3 resutls and Strategic Plan 2020-2026

30 October Press release and Presentation

Corporate News

No price sensitive press releases in the month

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