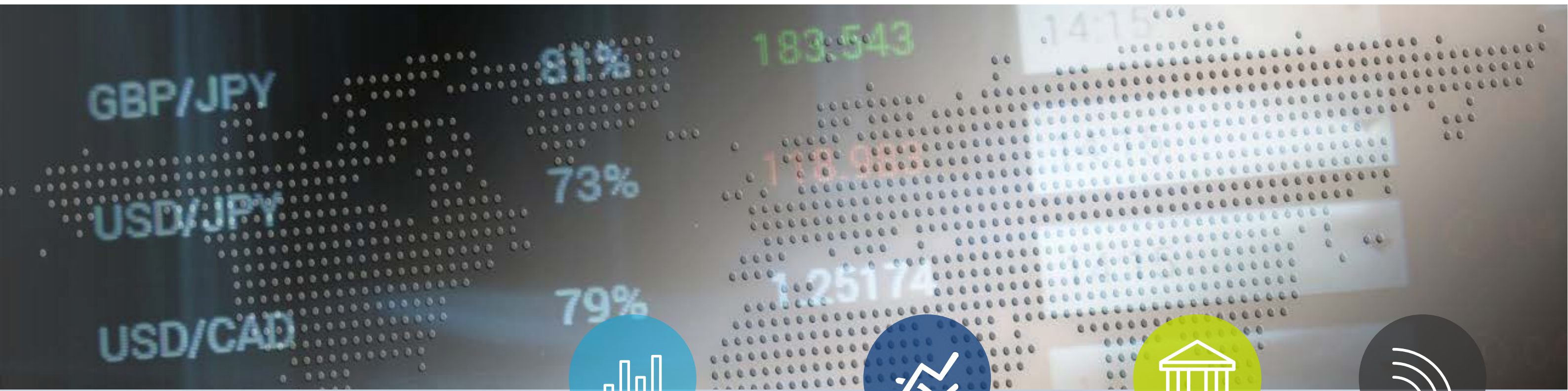
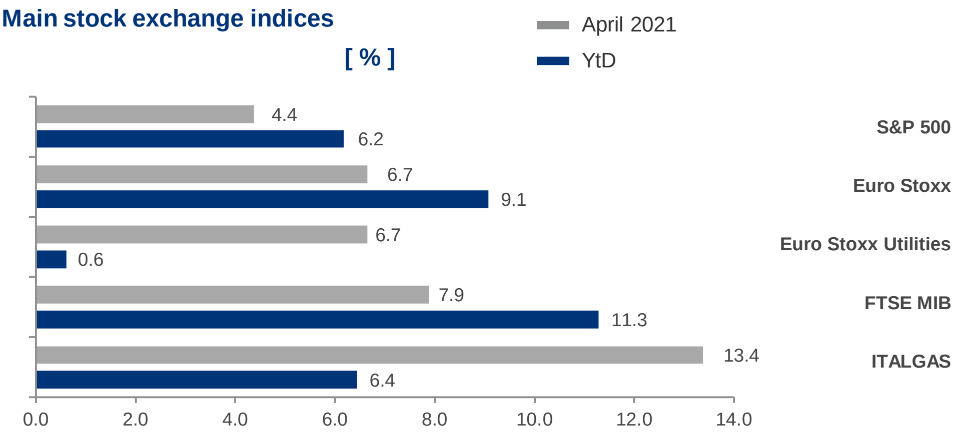
Financial Markets Review



Global equities hit new historical highs with better-than-expected macro data and confirmed ultra-accommodative central banks. Treasury-Bund yields spread falls back after strong March rally, driving EUR/USD recovery after 5-month lows

Financial Markets

Global equities extended all-time highs, supported by continuation of the US infrastructure plan effect of 2.3 tn USD, still better than expected macro data (maxi increase in Chinese GDP in Q1 (+18% y/y), which brought to 5% the average growth in the two-year period Q1 2019 - Q1 2021, almost equivalent to the pre-Covid figure, as well as US, Eurozone and UK manufacturing PMIs at all-time highs and initial US unemployment claims at the lowest since the beginning of the pandemic) and ultra-accommodative central banks. The S&P 500 advanced by 5% vs Euro Stoxx +2%, with the underperformance of the Eurozone benchmark attributable to the significant recovery of the EUR/USD. Significant underperformance instead for the FTSE Mib (-2%), which more than reversed the gain matured in Q1 due to the exposure to the weakest sectors of the month, namely oil (ENI -5%) and automotive (Stellantis -6%). Divergence in core sovereign yields, with Bund yield +9 bps at -0.20% vs UST -11 bps at 1.63%, mitigating the opposite trend in March. The rise in the German yield, returned to pre-Covid levels, reflected increased supply due to new issuances tackling the recession and further rise in breakeven inflation, to the highest level since 11/2018. Central banks confirmed their ultra-expansionary approach, declaring they do not have plans for liquidity restriction under consideration. Despite improved risk appetite and the aforementioned ECB approach, adjusted by BTP benchmark maturity extension, the BTP-Bund spread closed at +10 bps (111 bps) due to new sovereign issuances aimed at financing public spending to mitigate the recession. The euro appreciated by 2.5% vs the USD and by 2.2% vs the GBP (to 1.20 and 0.87), recovering after falling to 5 and 13 months lows respectively. Compared to the USD, the trend also reflected aforementioned divergence of the respective sovereign yields, the extension of the risk-on phase and the inverse dollar/oil correlation.



Source: Italgas' elaborations on Bloomberg data

The oil market

Oil +7% (67 USD/b) with: 1) OPEC+ decision to leave the original production cuts unchanged in April, and subsequently proceed with a gradual recovery, with production to be increased by less than the expected monthly ceiling of 0.5 mbd; 2) significant contraction in the US inventories and upward revision of global demand estimates by both OPEC and IEA; 3) BP CEO statements on the return of Chinese demand to pre-Covid levels; 4) extension of the risk-on context. The trend was offset by a US initiative to promote a law aimed at submitting OPEC+ to an Antitrust investigation due to the jointly decided production cuts, as well as by expectations on the outcome of the negotiations relating to Iranian nuclear power, with the possibility of removing the US sanctions on oil imports from the country.

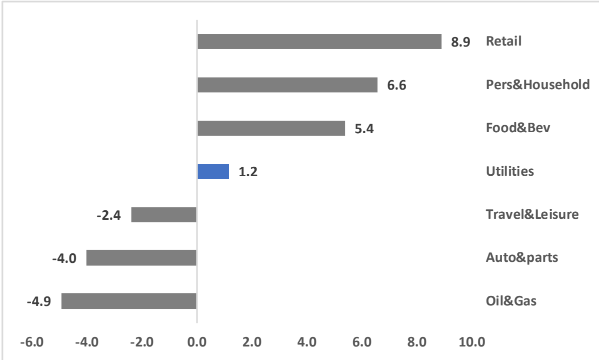
Performance by sector

Lacking underlying dynamics on fixed income, trends reflected quarterly results and specific sector news flow

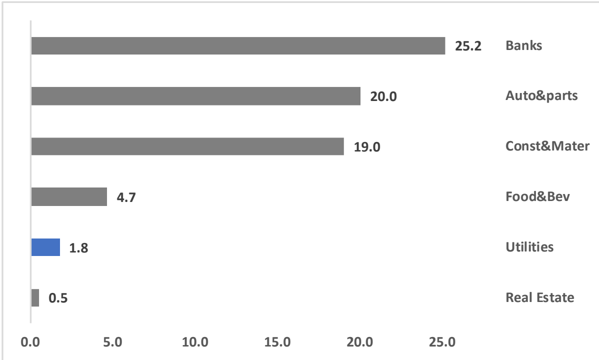
As equities rose along with substantial stability in core yields, there is no underlying sector dynamics in favor of financials vs bond-proxies and defensive on the opposite side, with the movements therefore induced by quarterly results or specific sector news. With increases between 5% and 9%, food, personal goods and retail were best performers with better-than-expected quarterly results at Heineken, Hermes, LVMH (all +11%) and Kering (+13%) respectively. On the other hand, tourism, automotive and oil&gas decreased between 2% and 5%, respectively due to: 1) rights issue announcement by Lufthansa; 2) warnings by various manufacturers on production bottlenecks due to lack of microprocessors; 3) rotation, in the energy sector, from oil to renewables after a large YTD underperformance of the latter.

Sector performance; utilities e 3 main ups/downs

April 2021 [%]



YTD 2021 [%]



Source: Italgas' elaborations on Bloomberg data

Utilities moderately underperformed with profit taking on regulated and Enel's weak expected results

Utilities sector performance

Utilities (+1.2%) underperformed by around 1 pp the Eurozone benchmark, equally penalized by regulated and integrated operators. The former (around -1%) mitigated a strong outperformance in March, while despite German forward electricity prices at a high from 06/2011 with CO2 at all-time high, integrated names (overall unch.) were affected by Enel's weakness (-3%) due to expected contraction of Q1 results. Strong appreciation, on the other hand, for most exposed operators to renewables (Verbund +11%, EDP Renovaveis +9%) reflecting the aforementioned dynamics of German forward prices. Veolia and Suez ("Others" sector; +21% and +10% respectively) closed at the top of the sector following the definition of a merger agreement.

Utilities sector and subsectors

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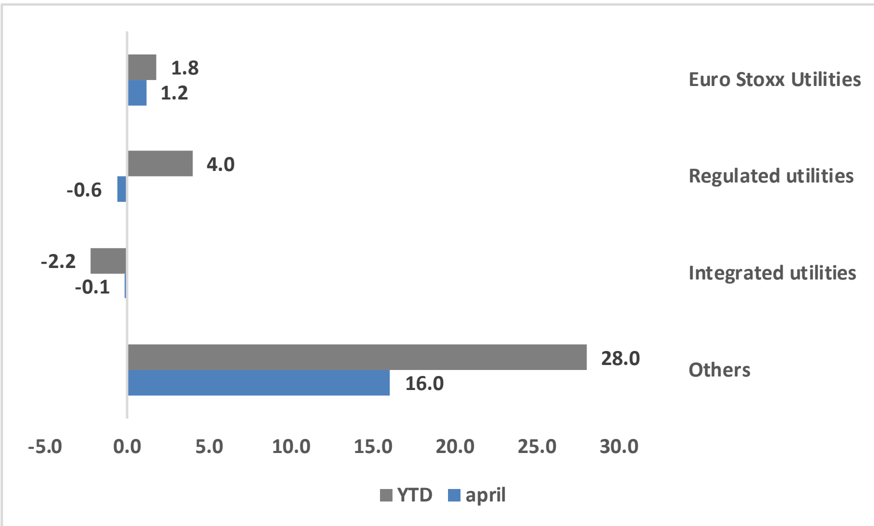
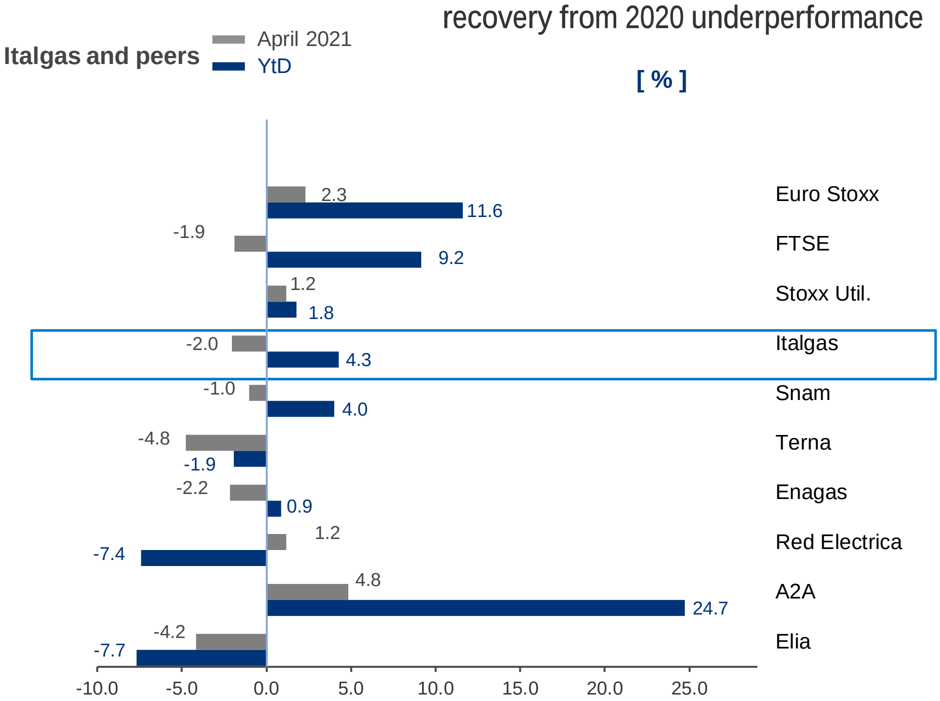


Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Italgas (-2%) mitigated strong March outperformance. A2A still best performer with powergen exposure and progressive recovery from 2020 underperformance

Italgas (-2%) underperformed the eurozone sector index due to the mitigation of the consistent outperformance realized in March, when the stock closed at the top of the panel of regulated peers. With contractions of 4% and 5%, Elia and Terna were the worst performers respectively due to continued reabsorption of the marked outperformance achieved in 2020 (Elia) and exclusion from the S&P Global Clean Energy Index, against the expected entry with a share of 2.7% (Terna). On the other hand, A2A (+5%) is still the best performer due to its exposure to powergen (German forward electricity prices on multi-year highs) and gradual recovery after a large underperformance in 2020, when the stock declined by 17%.



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

04 May	BoD Q1 results
05 May	Press Release and Conference Call

Corporate News

Agreement with Energie Rete Gas for the development of gas networks in Valle d'Aosta

On April 2nd Italgas and Energie Rete Gas, the gas transportation company of the Energetica Group, reached an exclusive agreement related to the infrastructures in operation, under construction and development owned by Energie Rete Gas and located in the Valle d'Aosta region. The agreement provides for the acquisition by Italgas of approximately 150 kms of networks owned by Energie Rete Gas in operation, under construction and development, which will become integral part of the Italgas distribution network in the region. The value of the transaction includes a RAB of approximately 16 mn euro for networks currently in operation, which will increase to approximately 85 mn euro with the completion of those under construction and development. "This operation - commented Italgas CEO, Paolo Gallo - allows us to join forces with an important company in the Valle d'Aosta region, achieving a significant objective: accelerating the development of the regional distribution network compared to the plan presented in the tender, thus generating significant benefits for the territory. In the particular times we are living through, investments in infrastructure represent one of the most effective tools for contributing to the relaunch of the local economy, creating value and work for the communities".

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