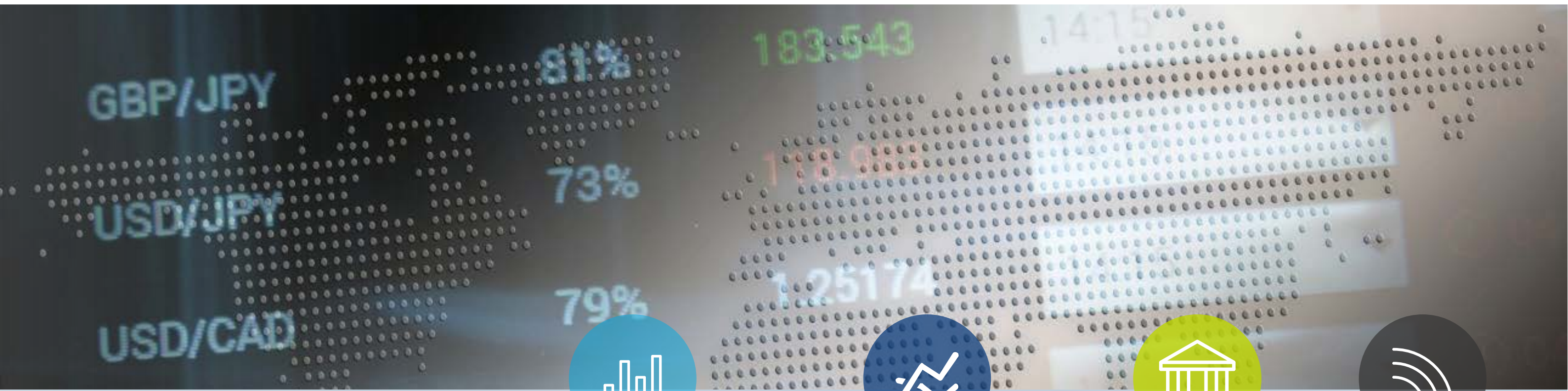
November 2020

Financial Markets Review



Largest ever monthly rise for global equities with vaccine announcements, clear US election outcome and repeated central banks support; inelasticity of core yields in the upward adjustment while BTP-Bund spread at lowest since 04/2018

Financial Markets

Largest ever monthly rise for global equities in November, with the dynamics supported by: 1) preliminary data from Pfizer/BioNTech and Moderna vaccines, which showed very high levels of efficacy, and that of AstraZeneca vaccine, which, although less effective, has lower production costs and greater ease of storage; 2) reduced US political uncertainty, with electoral outcome clear enough to avoid legal aftermath, and Trump that declared willingness to ensure transition to Biden executive, despite initial resistance; 3) expectations of continued support from central banks despite improved vaccine-induced outlook and better than expected macro data/Q3 results; 4) free trade agreement signed between the main countries of the Asia-Pacific area (RCEP). Euro Stoxx +17%, at the highest since the end of February, with FTSE Mib (+23%) outperforming due to the mitigation of the opposite dynamic recorded in the downward phase. More moderate rise for S&P 500 (+11%), despite hitting again an all-time high. Despite a strong risk-on context and better than expected macro data, core yields have been inelastic in the upward adjustment

Main stock exchange indices

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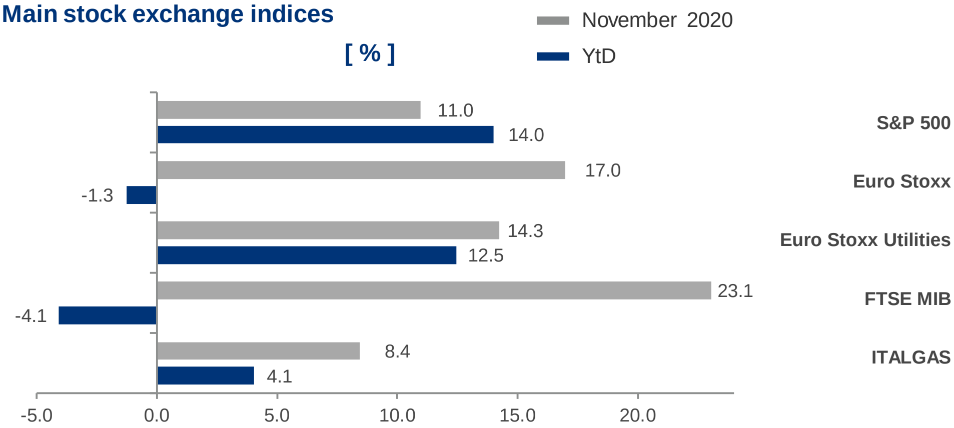


Source: Italgas' elaborations on Bloomberg data

(Bund +6 bps vs UST -3 bps, at -0.57% and 0.84%) due to the ongoing support from central banks. The ECB President said that the economic recovery will not be linear despite the improvements that will result from the new health treatments, with a consequent need for further monetary and fiscal support. Despite new budget deviation of 8 bn euros in order to further boost the public spending and support the economy, the BTP-Bund spread closed sharply down (-19 bps to 120 bps; at the lowest level from 04/2018) reflecting risk-on sentiment and cited repeated ECB support. EUR/USD +2.4% at 1.19, highest from 05/18 reflecting the risk-on phase and inverse correlation between commodities prices and US currency. EUR/GBP -0.5% to 0.90 with better-than-expected UK macro data and expectations of finalization of Brexit negotiations.

The oil market

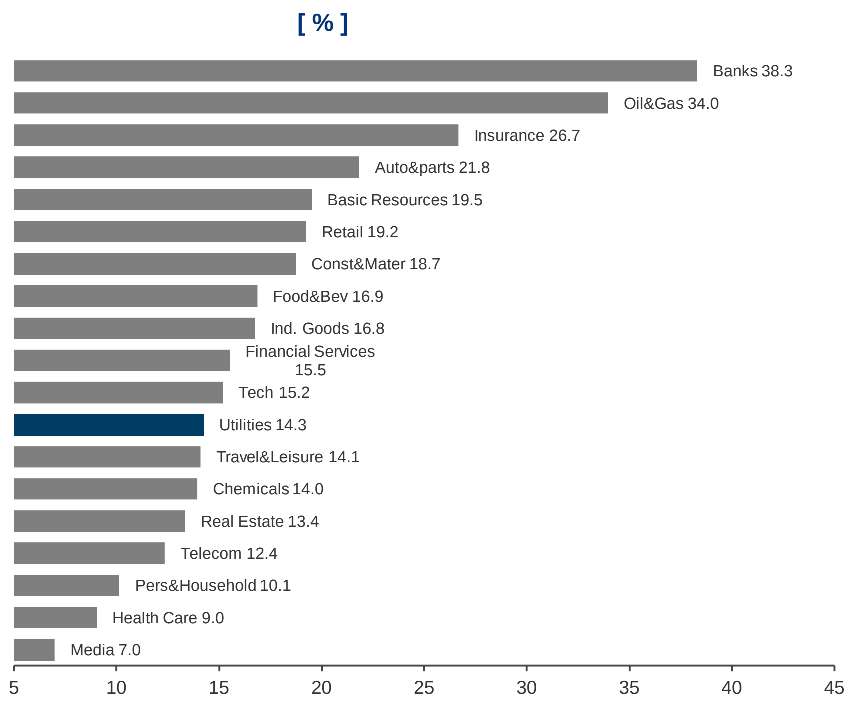
Brent + 28% at 47.2 USD/b with improved outlook, as well as progress in OPEC + talks to postpone by 3 to 6 months the 2 mbd production increase otherwise expected from 01 January. Divergence for gas prices, with Henry Hub -17% due to temperatures above the seasonal average vs TTF + 13% with weather effects and strengthened targets on electricity production from renewable sources and in particular from wind by the UK / EU (new UK Government Green Plan and EU strategy on offshore wind development) more than offset by the drop in Norwegian production due to strikes linked to salary levels and safety at work and the EU plan to strengthen the CO2 emissions market by reducing free allocations to the various sectors, resulting in a switch from coal to gas in power generation.

Performance by sector

Sector dynamics advantaging cyclicals and financials with improved risk appetite and repositioning after large contraction; core yields stability limits defensive underperformance

Consistently with the re-emergence of strong risk appetite, the sector dynamics saw repositioning in favor of cyclicals and financials. Banks and oil&gas were by far the best performers, up 38% and 34% respectively. Defensives and bond-proxies on the opposite side, although the overall stability of core yields mitigated their under-performance. Also noteworthy the underperformance of: 1) the health care sector (+ 9%), as the announcement of the vaccines wrong-footed the manufacturers of other health devices that contain the pandemic; 2) the media sector (+ 7%), as a function of Vivendi and Wolters Kluwer both basically unchanged, as they are perceived as "stay-at-home stocks" due to their business focused on home entertainment.

Main sectors performance, November 2020



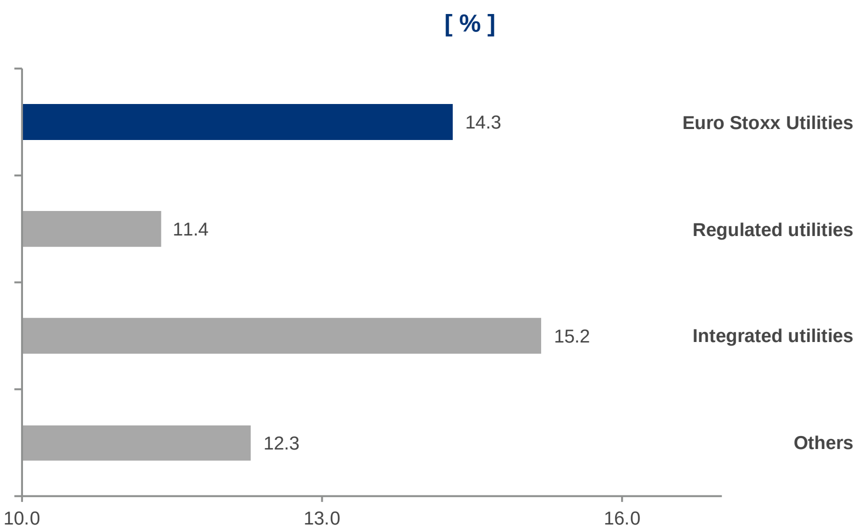
Source: Italgas' elaborations on Bloomberg data

Utilities sector replicates the market; regulated operators lagged behind integrated ones

Utilities sector performance

Consistently with the already described trends, the utilities sector (+ 14%) underperformed the general eurozone index. Within the sector the regulated operators, more exposed to the dynamics of bond yields, underperformed the integrated companies and those operating in water and environment. The biggest increases were achieved by: 1) EdF (+ 28%), due to progress in the France/EU negotiations on the reform of the nuclear industry; 2) Enel (+ 25%), reflecting the sharp capex increase in the industrial plan and consequent guidance of Ebitda and net profit above consensus; 3) Naturgy (+ 23%), due to the sale of activities in South America.

November 2020 – Utilities sector and subsectors

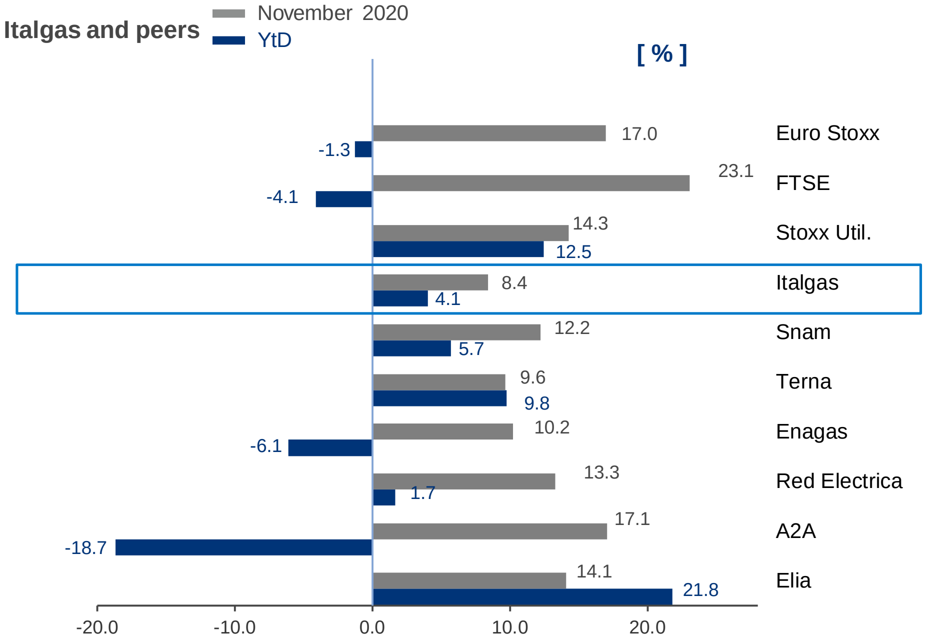


Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Italgas + 8%; despite TP/rating upgrades post business plan, the stock lagged the sector index with risk appetite resurgence

Italgas grew by 8%. Despite the update of the industrial plan (30/10) and the TP/rating upgrades by various brokers, the stock underperformed the eurozone sector index by 6 percentage points due to the dynamics highlighted above, more favorable to merchant operators. Among peers, the progress of 17% of A2A (best performer) stood out due to the lower exposure to regulated activities, as well as Elia's 14% raise after the significant retracement (21 percentage points) recorded between June and October. In terms of YTD TSR Elia (+ 22%) is by far the best performer, while Italgas (+ 4%) ranks 4th, at a moderate distance from Snam (+ 6%).



Source: Italgas' elaborations on Bloomberg data

Agenda
Corporate events

2021 financial calendar not yet approved

Corporate News

There are no price sensitive corporate news

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