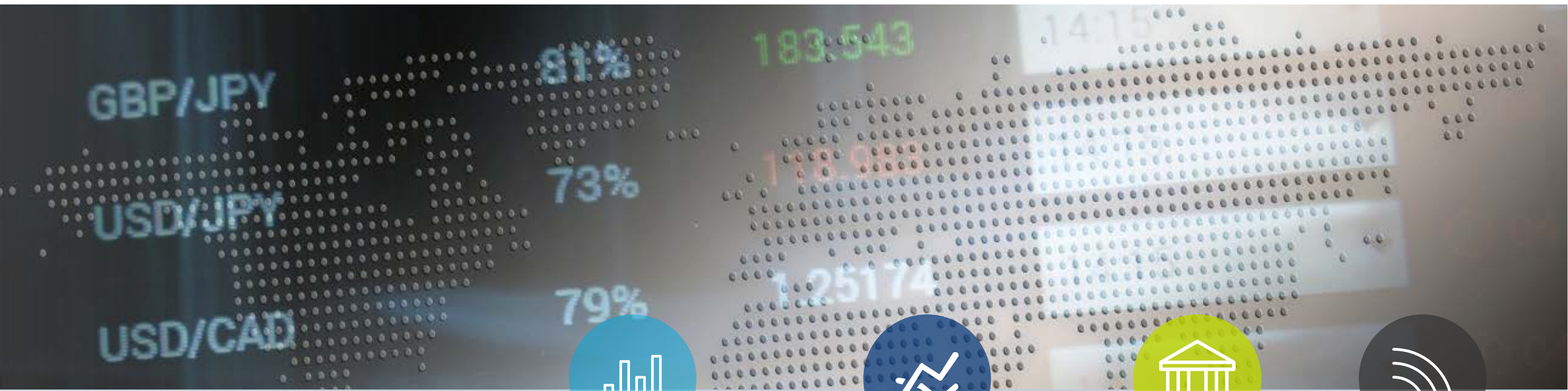
September 2020

Financial Markets Review

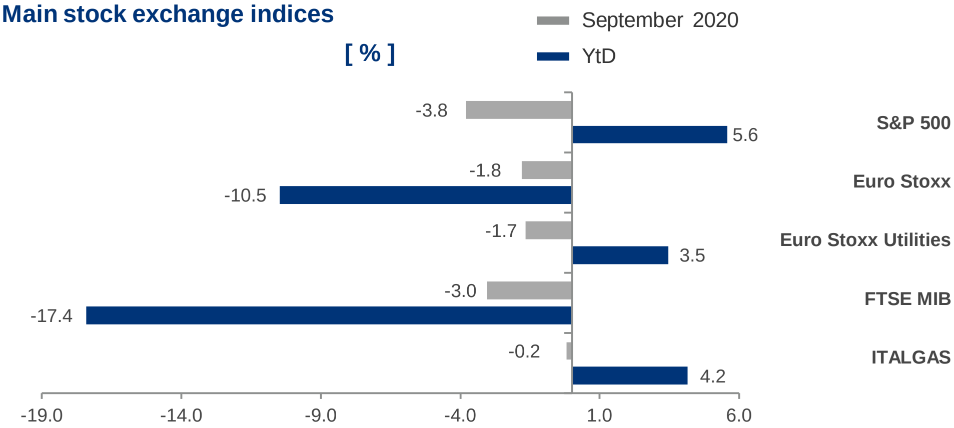


Equity and core yields in moderate decline with fears of new lockdowns and profit-taking after historical/period highs. Decreasing BTP-Bund spread with lower perceived political risk

Financial Markets

Moderate decline in global equities due to a resumption of contagions, with consequent fears of new lockdowns and profit-taking after historical (US) and period (eurozone) highs reached between end of August and beginning of the month. The profit-taking mainly concerned tech (the US, in particular), which had driven the recovery of equity markets, and whose valuations, supported by environmental issues and a change in consumer lifestyle induced by the pandemic, had reached very high levels. The greater exposure of the US markets to the technology sectors resulted in a significant divergence between S&P 500 (-4%) and Euro Stoxx (-2%); the FTSE Mib fell by 3%, continuing to suffer from banks exposure. Consequent contraction in core yields due to the drop in equities, although the increased pressure on ECB for further expansionary measures aimed at avoiding excessive appreciation of the euro and slowdown in the eurozone, as well as the different content of macro data, with eurozone CPI lower than expected vs US labour market data and US core personal consumption deflator higher than expected have determined divergence

Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

between the Bund (-13 bps to -0.52%) and the UST (-2 bps to 0.68%). Despite the re-emergence of risk aversion, net of the 10y BTP benchmark maturity extension, which generated a discontinuity of +5 bps in the Italian yield, the BTP-Bund spread fell by 15 bps (139 bps) as a result of the regional elections, which highlighted government coalition resilience. The contraction in Italian yields has mostly affected long-term maturities, with 30y yield hitting the historical low. EUR/USD -1.8% (1.17) with aforementioned different macro data content, re-emergence of risk aversion and increased pressure on the ECB to adopt further expansionary measures. EUR/GBP + 1.6% (0.91) with sourer Brexit talks and the EU threatening the UK government with sanctions in case of passing legislation aimed at reintroducing a border between Ireland and Northern Ireland.

The oil market

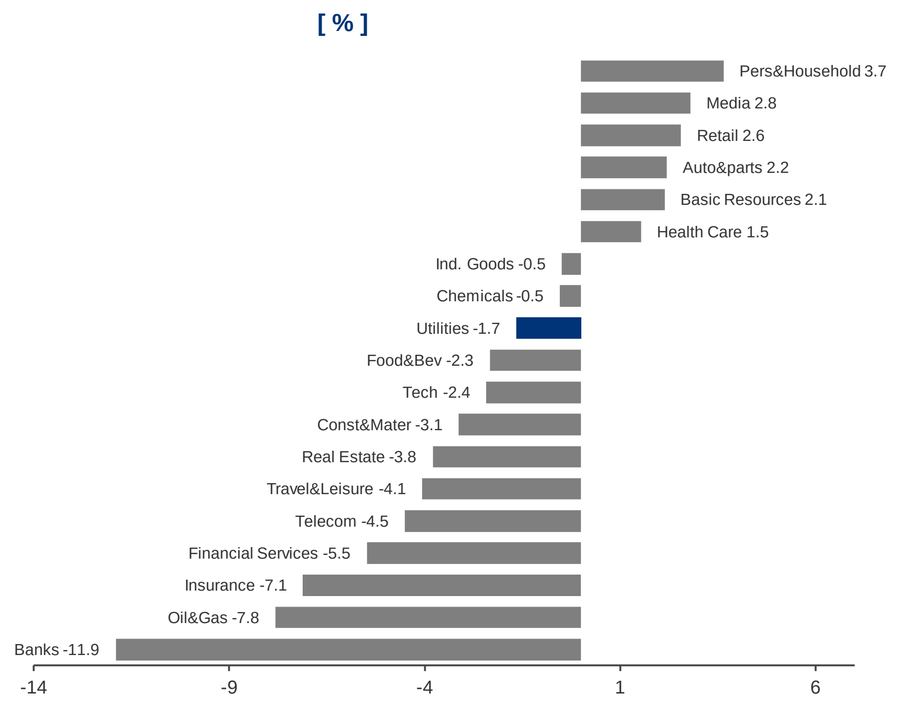
Brent -8% to USD 41/b; in addition to the correction in equities, the trend reflected: 1) Saudi Arabia price cuts due to falling demand at the end of the driving season; 2) Libyan removal of force majeure clause on production plants; 3) Russian production data, which assuming condensed output aligned with that of August would imply exceeding the OPEC+ ceiling. European gas prices + 22%, highest from January, with pressure to stop Nord Stream 2 construction following poisoning of Russian political exponent Navalny and nascent Azerbaijan - Armenia conflict, with the South Caucasian SCP gas pipeline (which supplies the Tanap, which in turn supplies the TAP) which transits a few kilometers from the border with Armenia, with future flows of gas from the Caspian to Europe at risk.

Performance by sector

Financials underperforming with re-emerging risk aversion and confirmation of ultra-accommodative approach by central banks

Financials underperformed due to re-emerging risk aversion and hyper-accommodative central banks approach; despite rising GDP and inflation estimates, the FED envisaged keeping rates at historic lows for at least another 2 years. Banks (-12%) were also burdened by an international investigation into the transfer of funds on behalf of unidentified entities, and therefore probably of an illicit nature. Despite its bond-proxy profile, real estate lost 4% due to the expected contraction of commercial leases with continued smart working. On the opposite side, defensive players outperformed, with personal goods sector (+4%) best performer and exceptions for media, automotive and basic resources (+ 2/3%) induced by M&A newsflow (Prosiebensat.1, FCA/PSA and ArcelorMittal).

Main sectors performance, September 2020



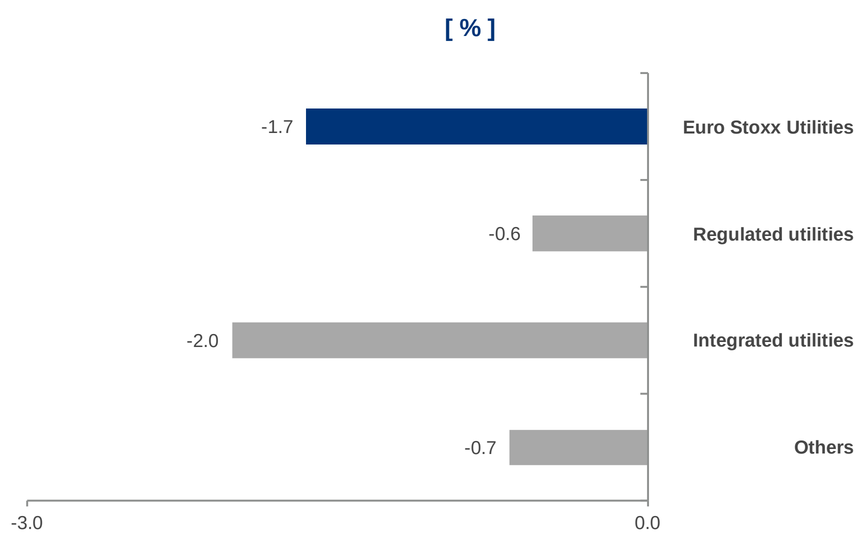
Source: Italgas' elaborations on Bloomberg data

Profit-taking on utilities also; regulated operators beat the sector due to bond-proxy profile

Utilities sector performance

Utilities sector down after YTD outperformance on the back of its defensive profile. Profit-taking concentrated on integrated operators, some of which had recorded huge YTD outperformances thanks to the energy transition; E.ON and RWE -5% and -4% after having advanced by 9% and 25% between the beginning of the year and August, while Enel fell by 2% after the + 12% recorded in the first 8 months. In the water and environmental sector, Suez's 9% gain was offset by an equivalent drop in Veolia due to increased offer (from 15.5 to 18 euro/share) by the latter to take over the 30% stake held by Engie in Suez, which if accepted would open the way to a total voluntary offer at the same transaction price.

September 2020 – Utilities sector and subsectors



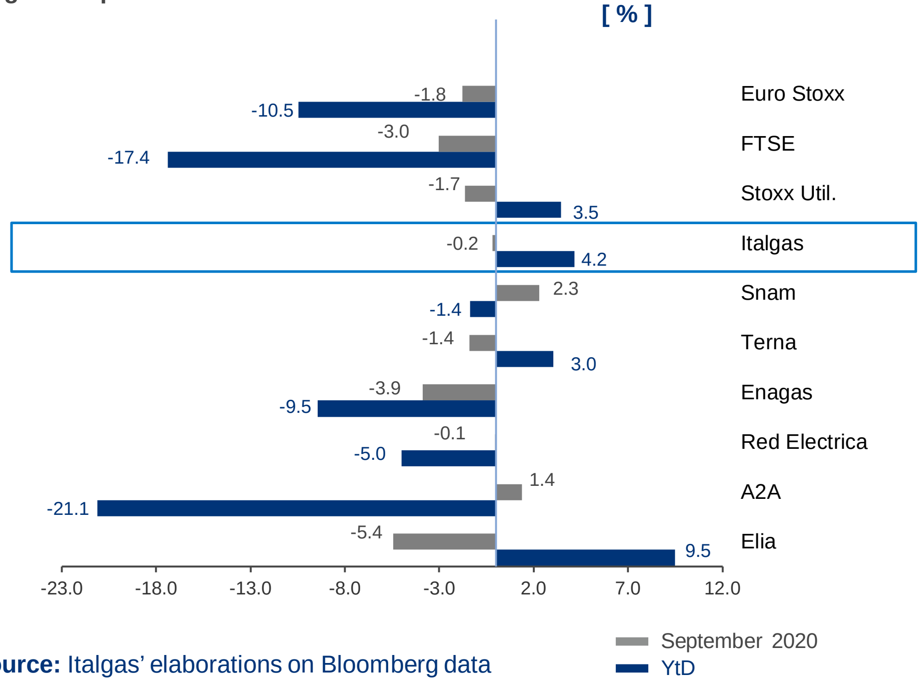
Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Italgas stable against sector index contraction; 9M TSR +4%, 2nd place vs peers panel

Overall outperformance of regulated operators vs sector index according to the aforementioned confirmation of the hyper-accommodative approach by central banks. Italgas, overall unchanged at EUR 5.385, closed the 9M in 2nd position among peers in terms of TSR (+4.2%). Despite the high volatility, with a 2% rise, Snam was the best performer due to the re-emergence of the hydrogen news flow and double upgrade of Goldman Sachs, which brought the rating from Sell to Buy. On the other hand, Elia's (-5%) continued to mitigate the strong outperformance accrued in H1 vs -4% by Enagas, which continued to underperform the market due to exposure to Tallgrass and coverage restart from MS with Underweight.

Italgas and peers



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

29 October	BoD Q3 results and 2020-2026 Strategic Plan
30 October	Press release and Presentation

Corporate News

There are no price sensitive corporate news

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