All roads lead to Rome

Market Performances (as of February 16th – 10.23 CET)*

	CURRENT	CHANGE 1 WEEK	CHANGE YTD		CURRENT	CHANGE 1 WEEK	CHANGE YTD
MSCI USA Equity Index	6'510	-1.38%	-0.35%	Gold Ounce	5'015	-0.86%	16.09%
MSCI Canada Equity Index	4'195	1.83%	3.25%	Silver Ounce	77.2	-7.40%	7.77%
MSCI Eurozone Equity Index	1'948	-0.74%	3.86%	Oil WTI Future	62.7	-2.64%	9.13%
MSCI Switzerland Equity Index	1'739	0.53%	2.67%	EUR/USD	1.19	-0.40%	1.02%
MSCI Germany Equity Index	220	-0.63%	1.87%	EUR/CHF	0.912	0.07%	2.03%
MSCI Japan Equity Index	2'347	3.38%	12.29%	USD/CHF	0.769	-0.34%	-3.10%
MSCI Emerging Markets Equity Index	1'555	1.01%	10.73%	USD/JPY	153	1.64%	-2.18%
Yield 10Y US Treasuries	4.05	-0.15	-0.12	CAD/USD	0.73	0.38%	-0.83%
Yield 10Y German Bund	2.75	-0.09	-0.10	USD/CNY	6.90	0.45%	-1.20%

Source: Bloomberg, Vontobel SFA
* All equities' performance is measured in USD

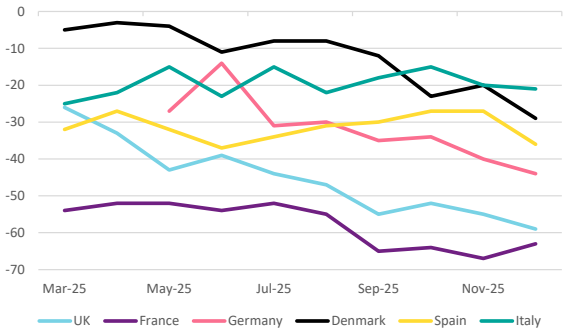
In the past year the return of investors' interest in European equities has been driven by the German fiscal stimulus narrative. However, Europe is a broad market with different pockets of regional specialization, similar to what we see in the US. For instance, peripheral countries have reported strong growth data, like for instance in Spain and Greece, after significant economic reform had been implemented in these countries in the aftermath of the sovereign debt crisis. In this flash we will focus on Italy.

The return of fiscal discipline and political stability

Italy has a multi decade track record of high degree of political instability. However, the current Italian government coalition, headed by Prime Minister Giorgia Meloni, has remained stable with the Prime Minister maintaining firm control for the last 3 years. Meloni was elected Prime Minister in October 2022, with a mandate for the following five years, which she is still currently on track to fulfill. Where several leaders in Europe have been struggling with their approval ratings during 2025, Meloni's approval rating has remained relatively stable (chart 1).

Meloni was initially seen by many members of the political establishment as potentially being overly populist and Eurosceptic, but so far, she has proven to be relatively moderate and has also gained some credibility in terms of foreign policy. Meloni continues to prioritize a solid relationship with the United States rather than the European Union overall.

Chart 1: Net approval ratings



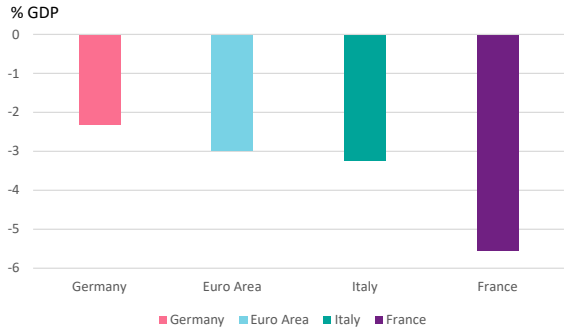
Source: YouGov, data collected until mid-December 2025

Italy has also long been known for its stretched budget metrics. The Minister of Economy and Finance Giancarlo Giorgetti is recognized for his strong ties with former Italian Prime Minister Mario Draghi and is aware of the importance of maintaining the confidence of international financial markets. As such, he advocates budget stability and opposes populist measures that could jeopardize its standing. Italy's deficit to GDP ratio is currently close to 3% and has improved relative to some EU peers, such as France (chart 2). This means that soon Italy may be able to exit the EU's excessive deficit procedure[1]. Italy`s debt/GDP ratio remains the highest among the major EU economies, hovering in the 135-140% range. However, the fiscal outlook has improved, and rating agencies such as S&P, Fitch, and Moody`s have taken a more

[1] The European Commission excessive deficit procedure is trigger when a country crosses the 3% deficit level. The implications are recommendations, monitoring and potential financial sanctions to enforce budgetary discipline.

constructive view of the Italian sovereign rating in recent assessments, citing fiscal discipline and improving deficit/GDP and debt/GDP dynamics.

Chart 2: Budget balance as % of GDP in 2025

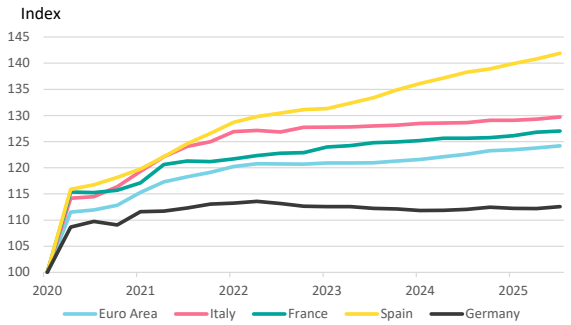


Source: Bloomberg consensus estimate, February 2026

The post-pandemic expansion has also played a major role on the labor market front in sustaining employment, and the sharp erosion in real wages after the recent bout of inflation has made retaining and hiring workers relatively more attractive than capital spending. On the supply side, higher employment rates have been supported by rising participation, particularly among older workers. This reflects both an aging population and the gradual increase in the retirement age.

Despite this resilience, productivity growth has not followed, and sluggish GDP growth remains the key malaise for Italy, hindered by several structural factors, including unfavorable demographics (with just 1.18 average children per woman in 2024), prolonged productivity stagnation, a lack of investment and innovation, educational levels below those of EU peers. In addition to that, the economy remains heavily reliant on traditional sectors, a fragmented industrial base dominated by small businesses with few large players, unattractive legislation, and a burdensome bureaucracy. Productivity per worker is lower than 20 years ago, Italians work longer hours and are older than European peers. While the share of jobs in the manufacturing sector has fallen from 20% to almost 15% since 2000, the share of high value jobs in the service sector has been overtaken by Spain. However, between 2019 and 2025, Italy's real GDP growth has outpaced that of peers like France and Germany, it lagged Spain while still being slightly ahead of the EU average (chart 3). This performance was supported by generous tax relief for home improvements introduced in 2020, which contributed to a rise in the public deficit until 2023, although this is now fading. Italy benefited from the positive impact of the EU's Recovery and Resilience Fund (RRF), which provided funds amounting to EUR192bn. These funds were mainly used to address Italy's digital divide, climate change challenges, and the need for improvements in physical infrastructure. Beyond 2026, the termination of the EU's Recovery Fund poses a risk. From 2030, labor input is expected to contract as participation plateaus. The concentration of new jobs in lower-productivity sectors and persistent skill shortages will further constrain output.

Chart 3: Real GDP developments in Europe since 2020 low

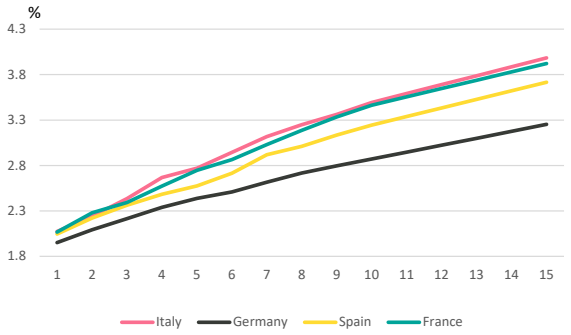


Source: Bloomberg, Vontobel SFA, until Q4 2025

Fixed income

The stability of the Italian political and macroeconomic environment is reflected in the favorable trend in the spread between Italian BTPs[2] and the German Bund as well. For 5-year maturities the spread has dropped to about 30 basis points and about 60 basis points for 10-year maturities. Chart 4 shows that the current Italian bond curve is trading close to France, despite the better French credit rating according to key rating agencies. This is likely a result of better (perceived) market expectation of Italian fiscal conditions in comparison with French.

Chart 4: Government bond yield curves



Source: Bloomberg, Vontobel SFA, February 5th, 2026

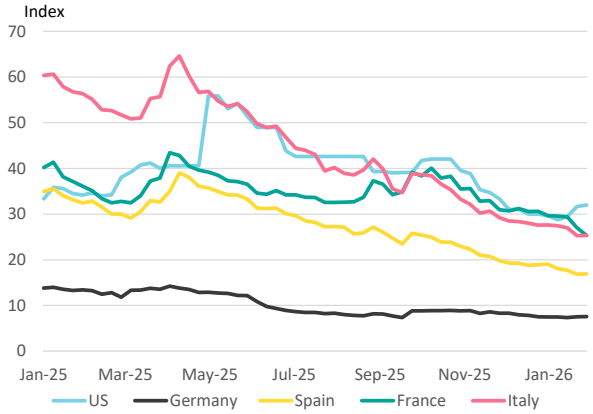
This closely matches CDS pricing as well, which currently stands below 30bps, and significantly lower than spring 2025. For comparison, the CDS spreads on US government bonds are currently slightly above both Italy and France.

Italian bond yields and spreads have come down a long way since the European sovereign debt crisis when the Italian yields peaked at 7%, some 530 basis points above the German 10-year yield. Looking ahead, much of the Italian yield development will depend on improving the trend of fiscal sustainability and revamp growth via

[2] BTP stands for *Buoni del Tesoro Poliennali* (multi-year treasury bonds)

structural reforms. The gradual decline of Eurosceptic movements and the ECB`s demonstrated willingness to act in periods of market stress may support investor sentiment.

Chart 5: CDS spreads

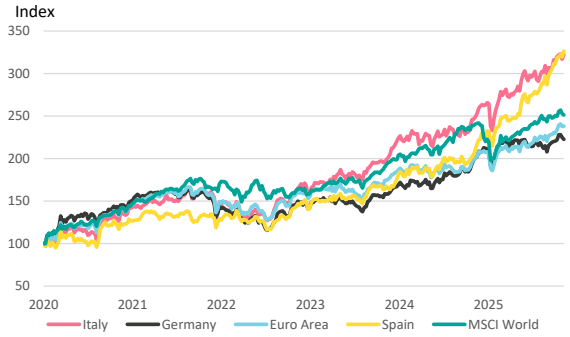


Source: Bloomberg, Vontobel SFA, February 5th 2026

Italian stock market: outperformance versus European peers continued in 2025

In 2025, the Italian stock market outperformed the Stoxx Europe 600 for the fourth consecutive year, driven by strong gains by banks and insurance companies, which account for over 40% of Italian companies' total market cap. Defense companies, telecoms and utilities also contributed. By contrast, consumer, technology, and Medtech acted as a drag. Small and mid-cap stocks underperformed large caps likewise for the fourth year in a row, but the gap narrowed materially compared with the much wider dispersion seen in previous years. Italy's equity market catch-up continued in 2025. After outperforming in 2023 and 2024, the Italian stock market again outperformed many European peers in 2025, ranking among the strongest performers among larger regional markets. Meanwhile, France continued to underperform, as in 2024. Italian SMID stocks, particularly those in the FTSE STAR index, had outperformed the FTSE MIB for several years until 2021. However, the performance of Italian SMIDs deteriorated significantly over 2022-25, with declines in both total shareholder return (TSR) and trading volumes.

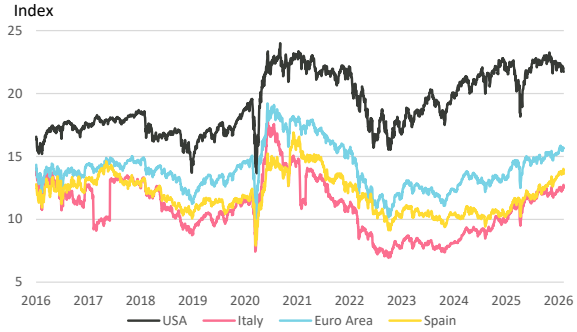
Chart 6: MSCI equity performance (in EUR)



Source: Bloomberg, Vontobel SFA, February 5th, 2026

Despite the outperformance of both Italian and Spanish large cap stocks, valuations remain below those of markets including the US and broader Euro area stock indices based on commonly used metrics such as price-earnings ratios. Chart 7 shows the rise of valuation, as some rerating has taken place, however, the starting point of this increase in 2023 was below 10.

Chart 7: Price Earnings ratios (based on 12-month forward earnings, all MSCI indices)



Source: Bloomberg, Vontobel SFA, February 5th 2026

Price-earnings ratios in Italy are not far above their long-term averages. Historically, the price-earnings ratios were lower than in the Euro area and the US, but even after correcting for this, the valuation gap continues to be notable for the Italian and Spanish markets.

Table 1: Current price earnings ratios versus history

	USA	EURO AREA	ITALY	SPAIN
CURRENT	21.7	15.7	12.5	13.6
LT AVG	17.3	13.2	11.0	11.7
DIFFERENCE	4.4	2.4	1.5	1.9

Source: Bloomberg, Vontobel SFA, February 5th 2026

Conclusion

Under Meloni's leadership, Italy seems to be progressing toward enhanced political stability and fiscal discipline, despite a global climate of heightened political uncertainty. This is a positive development and a good starting point for the years ahead, but more reform is required to improve economic potential.

This better fiscal environment has coincided with improved fixed income conditions, with lower spread levels and higher credit ratings. It has also seen a notable improvement in the Italian equity market, where recent years have seen relative outperformance, partially thanks to a favorable valuation and the significant sector exposure to banks and insurance companies. Italian defense companies were among the contributors to the strong performance. Valuations remain below those of several other major equity markets, based on commonly used metrics.

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