



Italy vs Spain

- They may be outperforming their European peers in the football but Italy & Spain are lagging in terms of equity market performance.
- Both the FTSE MIB & IBEX 35 are around one sigma cheap versus pan European indices. The chart below shows the [IBEX 35 vs. Stoxx 600](#) Fair Value Gap; the [FTSE MIB vs. Stoxx 600](#) model is slightly less extreme but largely the same. The fall in the spot price of the RV ratio is happening while macro model value remains unchanged.



- Both models are in regime & show **FTSE MIB / IBEX 35 as high beta plays on European recovery**. Rising economic growth/inflation expectations, steeper yield curves, low risk aversion & tight credit spreads are all consistent with Italian / Spanish outperformance.
- Covid - the impact of the Delta variant on the European tourism industry - could be one factor at play. Increasingly though it appears as though **the IBEX & FTSE MIB have priced at least some of the bad news in terms of the economic fall-out**.
- Maybe tonight's Euro 2020 semi-final will provide a sentiment bounce for at least one of the southern European equity markets.

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