

Italian Government: No Stranger To Political Change

Major Banks Are Resilient

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The Italian federal government, comprising a volatile, complex coalition of Rightist, Centrist and Leftist parties, appears to be in the midst of change (again), driven by stresses including inflation, drought, the effects of the Russia-Ukraine war and inherent political rivalries. The possibility of early elections in 2022 are high. Mario Draghi, former head of the European Central Bank, who was made prime minister in early 2021 as a unifying leader to head a technocratic government to try to address some of Italy's chronic financial and other challenges, has submitted his resignation to Italian President Sergio Mattarella, who rejected it. Talks are ongoing. A solution to these stresses might be possible, given the importance of passing the budget, and implementing certain reforms for Italy to receive European pandemic recovery funds. Nevertheless, PM Draghi has always been viewed as an interim figure, and Italy is well known for short-lived governments, so these stresses are not surprising.

Italian banks are accustomed to operating in the country's changing political environment, and the two largest banks – UniCredit and Intesa – are in sound shape. Intesa, the larger of the two, is also the largest domestic bank, with a diversified business model that features significant asset and wealth management, and insurance, businesses. Intesa has significantly de-risked over the years, and has strong cost controls. UniCredit is more internationally diversified, with Germany and Austria as major markets. It, too, has substantially de-risked in recent years, and has substantial fee businesses. Costs have been well managed. While there are reasonable concerns about weaker loan quality and profit performance in a recession, Spectrum believes that these two large Italian banks have the management and capital resources needed to weather such challenges, and remain in sound financial and competitive shape.

John J. Kriz
Senior Vice President

Joseph Urciuoli
Head of Research

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