A FOCUS ON FINANCIALS

OPPORTUNITY IN EURO ZONE BANKS AND INSURERS BUOYED BY SOLVENCY II

ASK THE EXPERT: AN INTERVIEW WITH **CLAUDIA PANSERI,**
GLOBAL EQUITY STRATEGIST AT SOCIETE GENERALE PRIVATE BANKING

Following the European Central Bank's (ECB) unveiling of a bond-buying program to safeguard the euro in September, many banks are now expected to withstand the euro zone crisis that emerged from Greece nearly three years ago. Risks are tamed as Greece steadily undergoes its bailout and Spain is expected to embrace the ECB's offer for assistance. Set for implementation in January 2014, Solvency II, the largest-ever change to European insurance solvency regulations, is improving the credit quality of the euro zone financial sector, thus making subordinated debt investment more appealing. Claudia Panseri, global equity strategist at Societe Generale Private Banking, offers guidance on investing in financials.

Q: Why is it a good time to invest in the financials market?

A: The financial sector has core value, plus it's safer than buying companies or sectors that are exposed to the slowing or negative growth in the euro zone. Banks and insurance stocks are inexpensive and benefit from the ECB intervention.

Q: What are the risks associated with the recent positive performance?

A: There is a very low probability of a Greek exit from the euro without an intervention from the ECB. In the highly unlikely event that Spain fails to accept assistance from the ECB, there could be a sell-off of foreign equities, particularly financials.

Expectations in the euro zone are so low that it's quite easy to meet them.

Claudia Panseri, Global Equity Strategist at Societe Generale Private Banking

Unlike in the U.S., where expectations for profit growth are still very high, in Europe a lot has been discounted.

The main risk is that depression or recession will probably touch the U.S under tightening fiscal policy. If the U.S. faces the fiscal cliff, we will see a global rise in nonperforming loans. This is a real risk, not only for the U.S., but also for European and emerging markets.

Q: Do you believe that Solvency II poses a risk for insurers?

A: No. Solvency II is reducing the risk premium on the insurance sector in Europe by shoring up capital and should reinforce the sector's resilience while improving its credit quality. As a result, it should highlight the attractiveness of French and German insurers relative to their global peers since they are able to pay high and safe dividends.

Q: What is the potential impact of a strong correlation between credit and equities when it comes to investing in European banks?

A: It depends on the risk profile of the client. I would suggest investing in euro banks, even Italian banks, because the dividend yield is quite huge. I do not believe that Italian banks are at risk. Spain is not at risk at all, as long as it asks for help from the ECB.

There is a huge correlation between subordinated corporate bonds and banks' relative performance. However, subordinated bonds are less risky than equities. Indeed, since the ECB launched the Long-Term Refinancing Operation (LTRO) late last year, the ECB has provided liquidity to banks, reducing their risk of default. Banking stocks are attractive for longer-term investors willing to play a value opportunity. ■