ITALIAN BANKS RECOVERING. HOW CAN YOU TRADE THE SECTOR?

Wisdomtree EU
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Before the Italians went to the polls at the end of last year, it looked like the 'no' vote would fuel an irreversible financial crisis. The rejection of Renzi's referendum was yet another blow to the EU and a sign of a rising populist sentiment gathering pace. The biggest threat however was undoubtedly Italy's debt-laden banks – especially Banca Monte dei Paschi di Siena (MPS).

Now, with good news on the horizon, shares in Italian banks are kicking off the new year with a series of strong rises – albeit from a very low base. At the time of writing, the European Central Bank looks poised to bail out the bank and others in the sector despite the expected price tag of MPS's rescue package rising to €8.8bn.

The FTSE Italia All-Share Banks Index rose 2% on 3 January, hitting its highest intraday level since 31 May and putting it on track for its highest close since the same date. The climb followed a 2.25% rise on 2 January. Italian financial stocks have continued to rise faster than the wider market. The FTSE MIB, Italy's broader benchmark index, climbed 0.6% on the morning of 3 January.

Whilst investors have welcomed the government's intervention (to the tune of €20bn) to help Italy's third-largest bank, analysts have warned the bailout may not be the end of difficulties in the wider sector, with seven other Italian banks in various stages of distress.

So it may be time to act now.

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