

Miners Are Worth A Look After Trailing By 40%

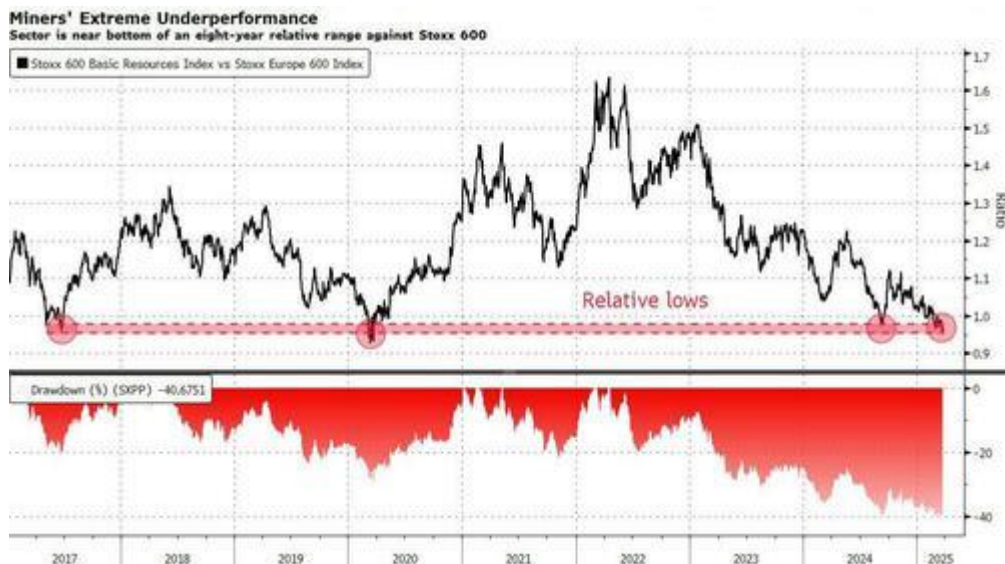
BY TYLER DURDEN

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By Michael Msika, Bloomberg markets live reporter and strategist

Soaring metals prices and China's pro-growth pivot are prompting investors to rethink the negativity around mining stocks.

A ratio of Europe's basic resources index against the broader market has fallen over 40% since a peak in 2022 and is now at the bottom of an eight-year range. **That historic weakness presents an opportunity for investors looking to get exposure to a better outlook in China and the prospect of greater metals demand.**



"Improving sentiment on Chinese equities could help reverse some of the underperformance of the mining sector," say JPMorgan strategists led by Mislav Matejka, who double-upgraded miners to overweight from underweight this week.

A weakening dollar, relatively low levels of metal inventories in China and concerns around US tariffs on imports are all pushing up commodity prices, they say. Indeed, the industrial metals complex has already surged nearly 10% this year. That offers a sharp contrast to the Stoxx 600 basic resources index, up less than 3% and underperforming the broader European market for a third consecutive year.

Copper is particularly in focus. **Tariffs threats have spurred Comex prices toward the \$11,500 per ton mark.** Some are predicting another leg up, and LME prices are already being pulled higher. Meanwhile there is potential for more industry demand. **European manufacturing PMIs have picked up, Germany is planning stimulus on infrastructure and defense, and China aims to hit 5% GDP growth this year.**

Miners and Copper

Sector could bounce on further China stimulus, copper rebound

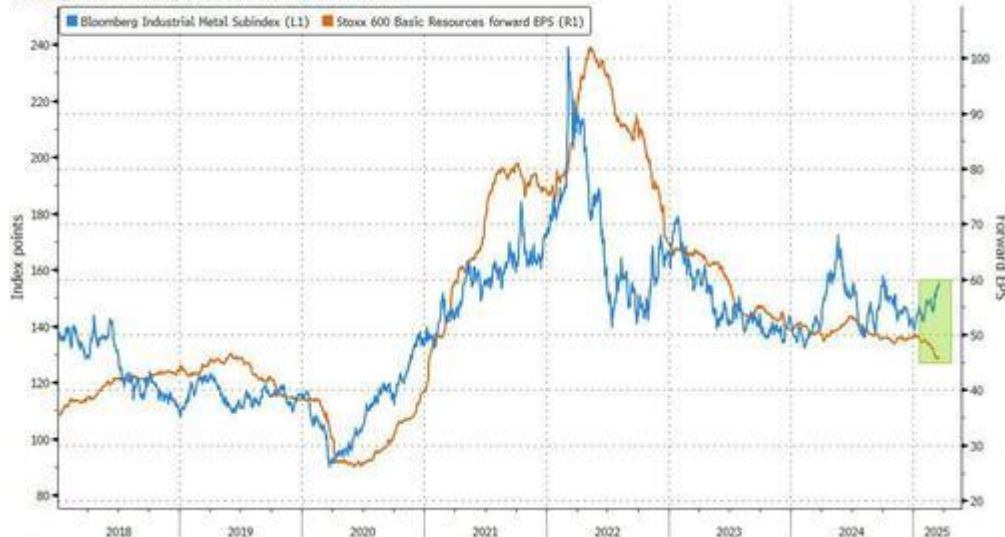


There are signs of investor sentiment turning. According to Bank of America's fund survey this month, a net 3% underweight position on basic resources was the lowest level in eight months. In addition, **portfolio managers now see the sector as one of the most undervalued out there.**

"Mining stocks continue to underperform their commodities basket, trading at a steep discount to the market," say Morgan Stanley analysts including Alain Gabriel. They see a positive risk-reward skew for mining shares into 2025 and say market prices imply modest upgrades to 2025 consensus Ebitda on average. The bank has an overweight rating on stocks including Glencore, Rio Tinto and Norsk Hydro.

Metal Prices and Miners' Earnings Estimates

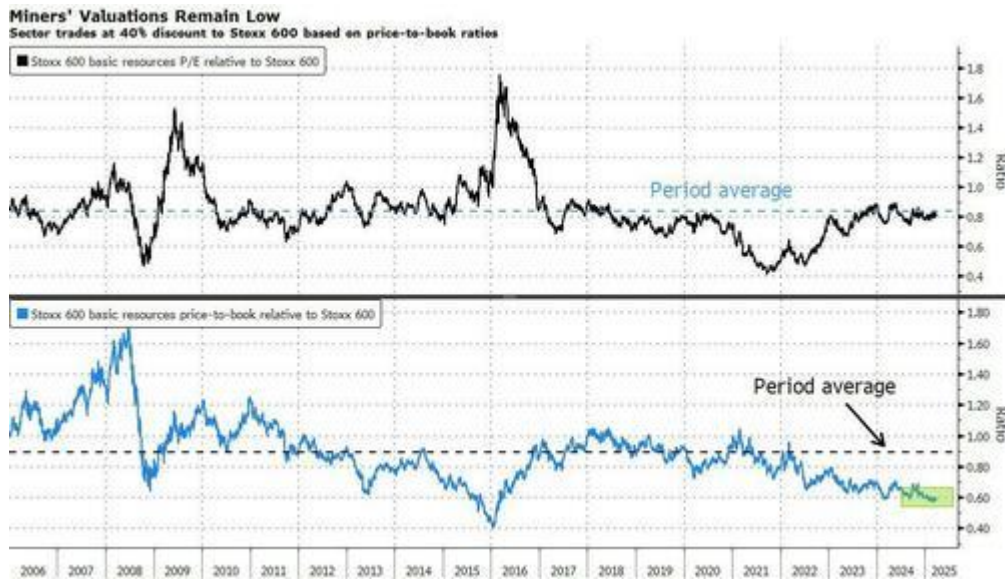
Miners' profit outlook improves as industrial metals bounce



The sector has seen a few false starts in the past two years. **Its heavy reliance on China has led to plenty of disappointment.** Large-cap miners generate between 30% and 60% of their revenue there, while trade policy is still a threat to global growth and metal demand in general.

Undemanding valuations do provide a cushion though. **The sector trades at a 40% discount to the broader market on a forward price-to-book basis, well below the average in the**

past two decades. While relative and absolute price-to-earnings ratios are more in line with historical values, potential earnings upgrades could make the sector more attractive.



“We keep our overweight on basic resources as we finally see green shoots in manufacturing sentiment,” say Deutsche Bank strategists including Maximilian Uleer and Carolin Raab. **“Given the strong correlation to copper prices, current prices offer about 17% upside as the sector still trades historically cheap.”**