

11 December 2017

L'Economia CORRIERE DELLA SERA

Stock markets, Europe on the up.

The best funds to ride Europe's ongoing wave of recovery, which is beating expectations.

by **Francesca Monti**

**The winners in the last three years
The best specialised funds on the
euro listings**

**Ups and downs – The
performance of the
Eurostoxx index over the
last five years**



As long as there are no sudden and unexpected changes in the coming weeks, 2017 should end on a very positive note for investors who've opted for euro area shares.

The EURO STOXX total return index (which includes dividends) has gained 12.47% since the start of the year. And according to the experts, the conditions still hold good for a repeat performance in 2018. "In Europe the levels of over-valuation are less marked than on other markets. As long as there are no unexpected external shocks (arising from geopolitical tensions, for example) or changes in the global economic scenario, we can legitimately expect a progressive recovery in the performance of European shares with respect to other markets", states Angelo Meda, head of equities at Banor SIM. He is referring to the fact that the STOXX 600 Europe index is about to reach 400 points for the fourth time, a level reached in 2000, 2007 and 2014 and since then never exceeded. And the S&P500, Nasdaq and MSCI Emerging are up-dating their historic highs on a daily basis.

EURO STOXX index up 12%. And for optimists 2018 could see a repeat performance. The sectors to follow

“After years of disappointment in the capacity to produce the expected economic results, euro area countries have managed for the first time to surprise us - in very positive terms - with growth rates well above analysts’ forecasts”, adds Fabbi, equity specialist at Ersel Gestion Internationale, London branch. In Fabbi’s view the continuation of the positive trend in sales growth should also pave the way for improved gross margins.

The trend

Luca Tobagi, CFA and Investment Strategist at Invesco, points out that the marked improvement in macroeconomic conditions in the euro area, from the point of view of both growth and price stability, gradually won over investors in the course of 2017. Therefore, although many investors have already opted for a position in the region’s stock markets, flows have only more recently started to move towards Europe. And this is another factor supporting euro-area shares.

“From a sectoral point of view, an interesting example of the opportunities that the euro market can offer are cyclical sectors, especially those that have suffered most in recent years”, explains Tobagi. From a fundamentals perspective, he considers sectors such as energy and finance to be interesting. They are undergoing deep restructuring processes that have placed companies on a sounder basis than 3-4 years ago, all other conditions being equal. This means that the outlook, in an improving cyclical context, could bring better-than-expected benefits for investors. “In addition, valuations are still at an interesting level, especially in relative terms, because the wariness felt by many investors towards these sectors and the euro-area stock market in general has led to a higher risk premium. In the right conditions, this could be transformed into higher returns for investors”, explains Tobagi.

The alternatives

Fabbi, on the other hand, prefers Irish and Spanish bank stocks feeling the effects of the recovery in their domestic real estate sectors, along with chemical industry stocks in protected niches and the tyre and luxury goods sectors, especially if exposed to premium Chinese demand. However, he does not see many opportunities in the basic consumption sector, where valuations are at historic highs (and growth at lows), or in pharmaceuticals, where it’s difficult to raise prices. Meda, who looks at individual companies that might generate returns thanks to processes as independent as possible from macroeconomic trends, believes that the greatest satisfaction in 2018 could come from energy and telephony. “Prudent investors can approach the market by focusing their investment, in the short term, on companies with high visible dividends which, even in the event of market adjustments, should safeguard value”, concludes Meda.

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