

SARASIN

Six minute strategy

Will Europe ever perform?

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17 November 2023

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2023 asset market performance

Below consensus reports in the US, EU and UK suggests we may now have seen the peak in rates

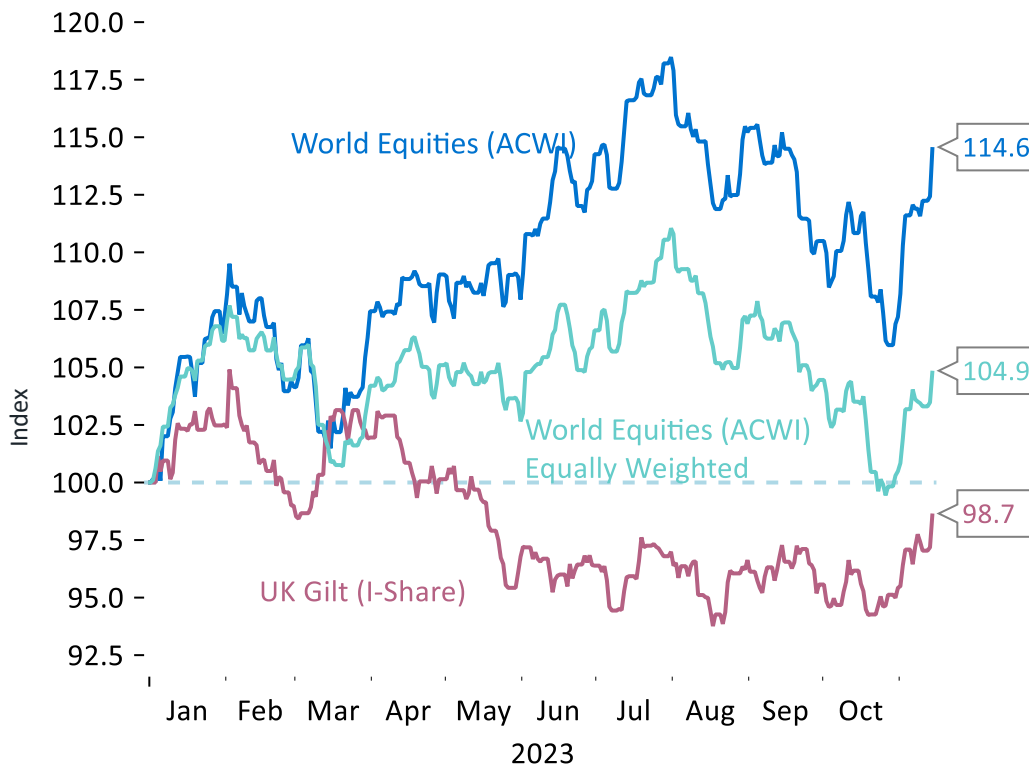


Equities & bonds rally on better inflation data



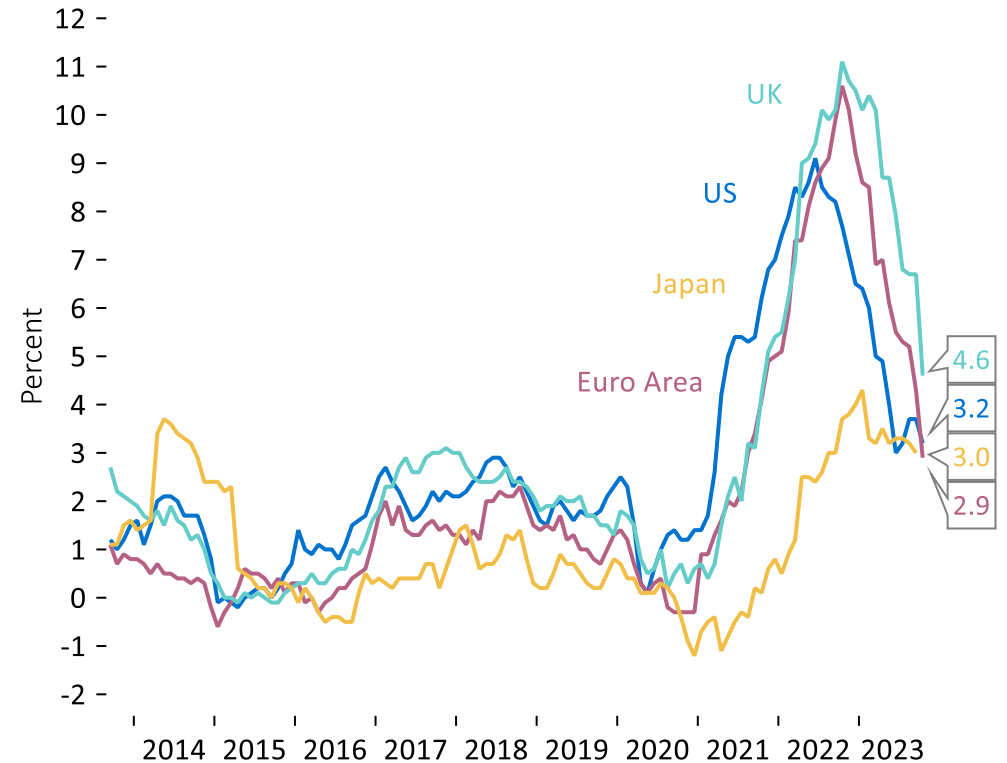
US & EU consumer prices better than expected

Asset class performance 2023



Source: Macrobond, 15.11.23

Headline Inflation (CPI)



Source: Macrobond, 15.11.23

Past performance is not a guide to future returns and may not be repeated.

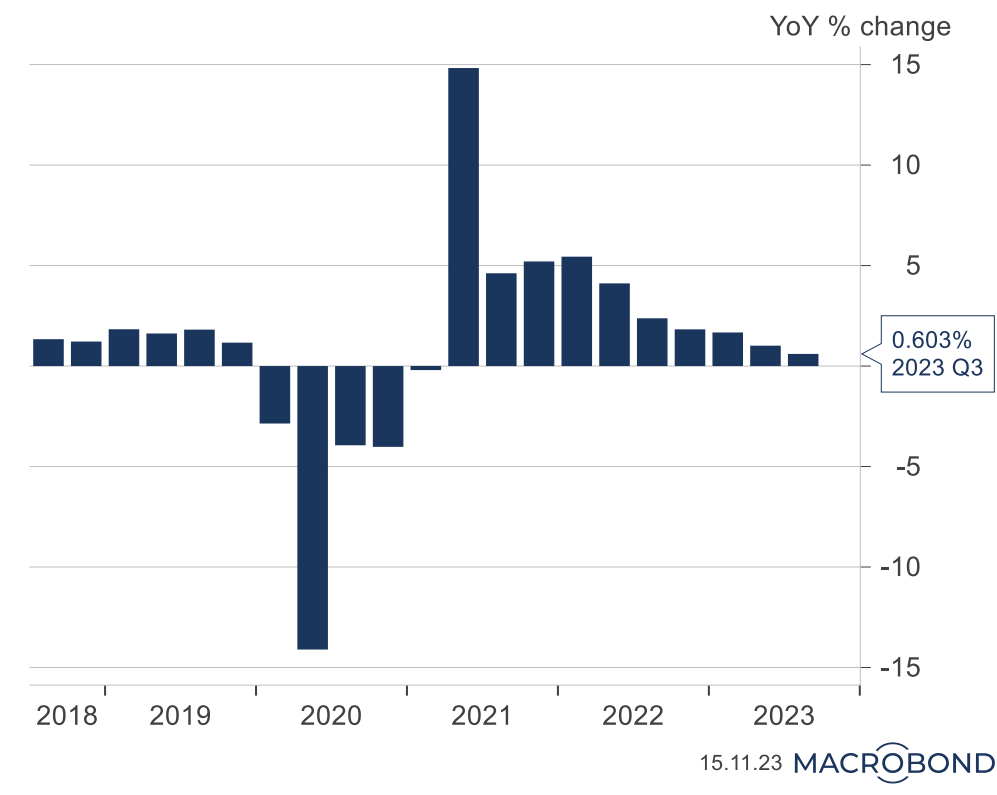
“The European economy has been losing competitiveness for the last 20-plus years” – Mario Draghi (November 2023)



Why is Europe struggling to grow?

Euro Area: GDP

Constant Prices, SA, Source: Eurostat



Why is Europe struggling to grow?

- Multiple geopolitical challenges
 - China trade disputes
 - Ukrainian War
 - Competing with US green subsidies
- High energy costs & poor energy security
- Technology gap with US still widening (only 1 European IT leader – ASML)
- Simultaneous monetary and fiscal tightening with high public debt levels
- ‘Big growth themes lost in legislative reality’ MEP Brussels
- Mario Draghi “It’s almost sure we are going to have a recession by year end.”

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1. European inflation falls - industrial production stalls

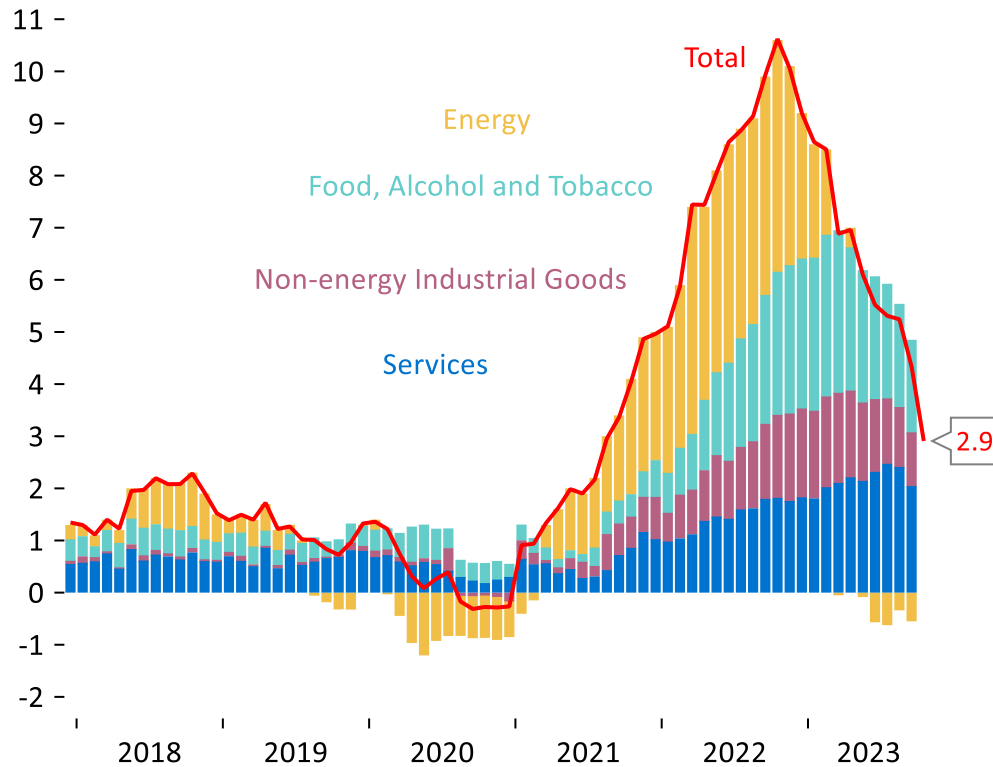


European inflation slows as food & energy prices moderate



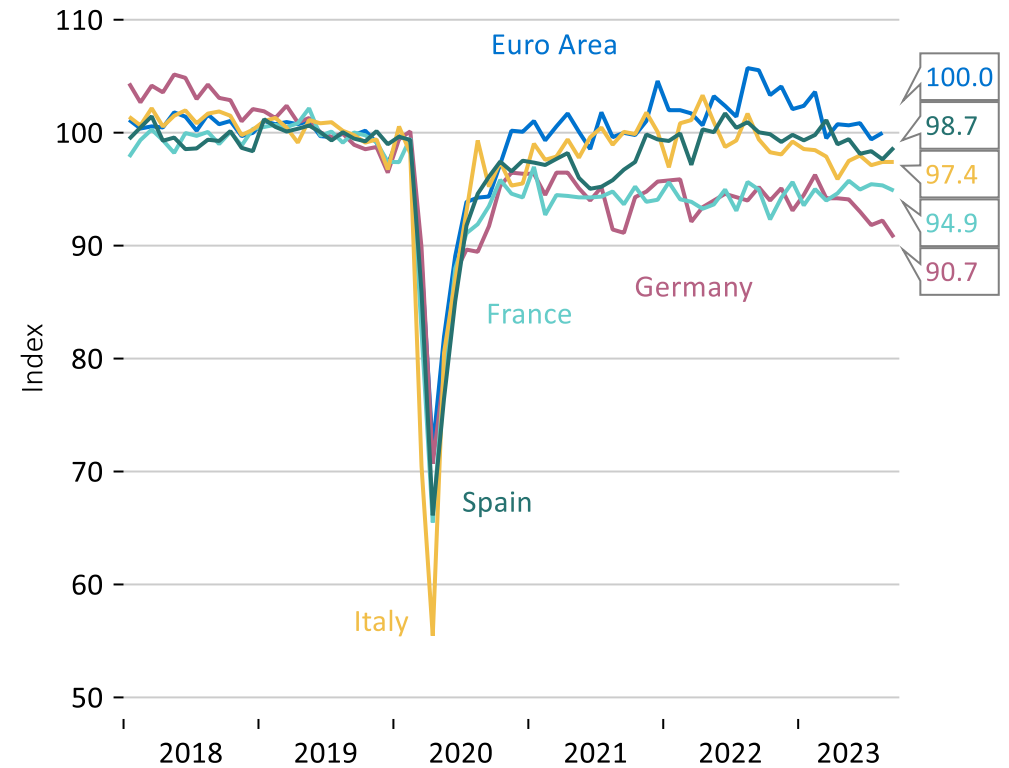
Industrial production weak - led by Germany

Euro Area Consumer Price Inflation



Source: Macrobond, 15.11.23

Euro Area Industrial Production



Source: Macrobond, 15.11.23

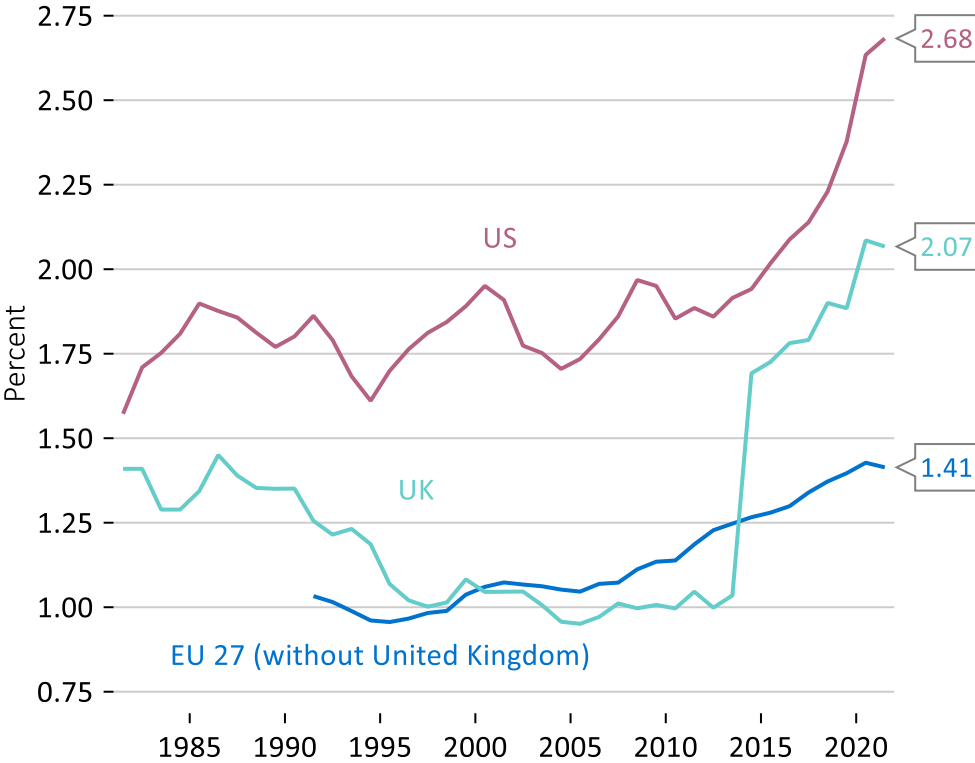
Past performance is not a guide to future returns and may not be repeated.

2. Business not as dynamic in the EU



Businesses in Europe invest less in R&D

Business Enterprise Expenditure on R&D as a Percentage of GDP

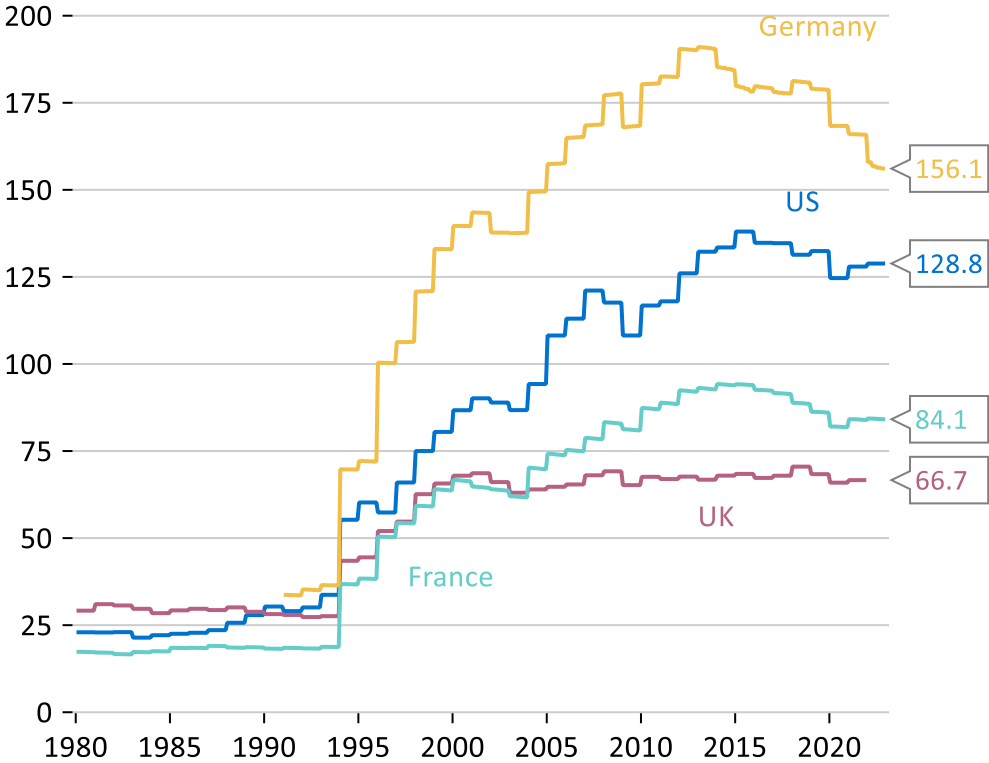


Source: Macrobond, 15.11.23



And can lag in patent applications per capita

Patent Applications Per Million in Population



Source: Macrobond, 15.11.23

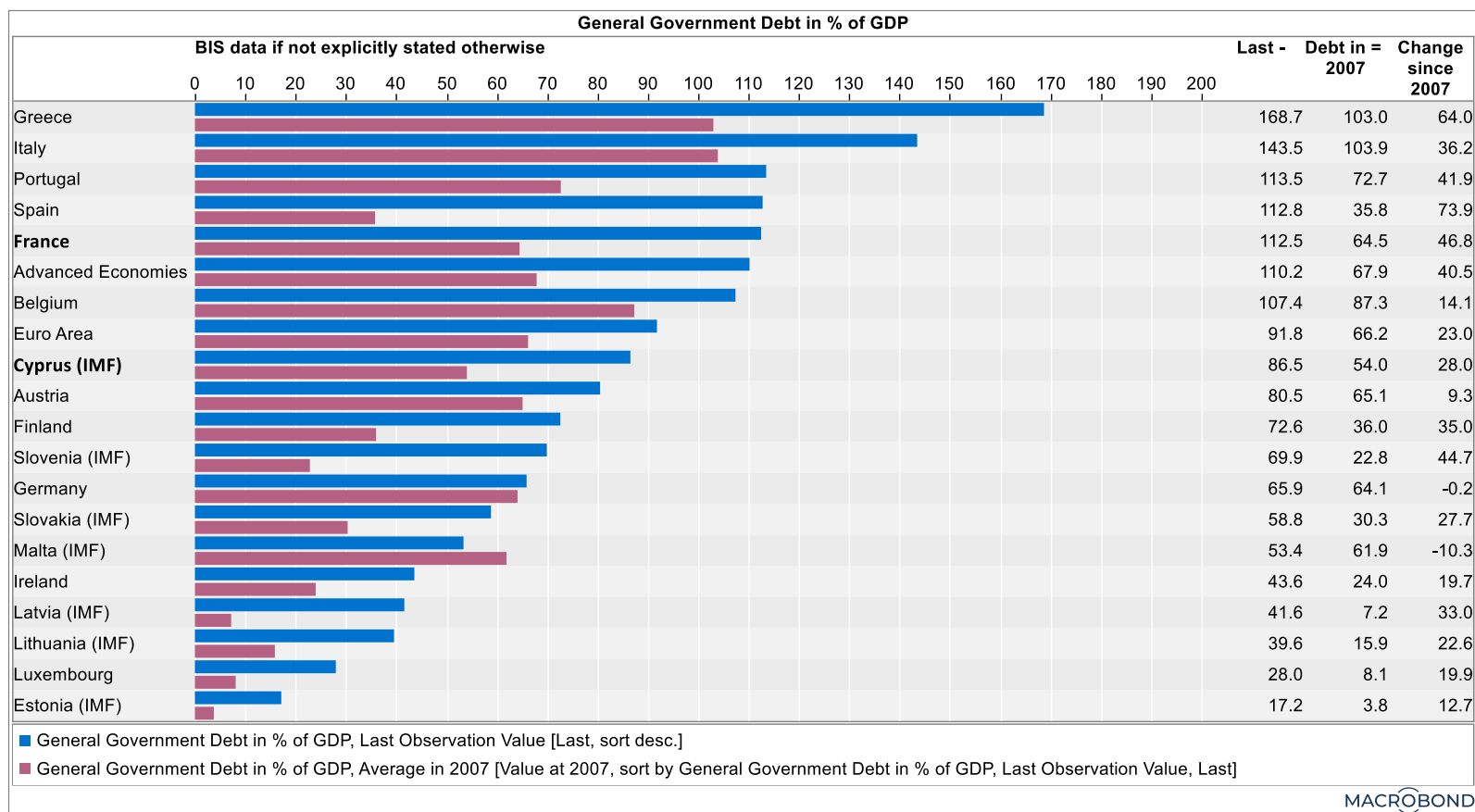
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3. High government debt levels vulnerable as rates rise

Italian debt at risk of being downgraded to junk by Moody's (decision 17/11/2023)



Government debt to GDP ratios across Europe – Markedly low debt levels in Germany smaller member-states



European debt challenges remain – Italy at risk again

- “We all know from experience that if you go below the investment grade divide, thing will happen” Bloomberg Nov 2023
- 2010 Greece cut to junk triggering renewed Euro debt crisis
- Rising interest rates have increased the burden on highly indebted countries

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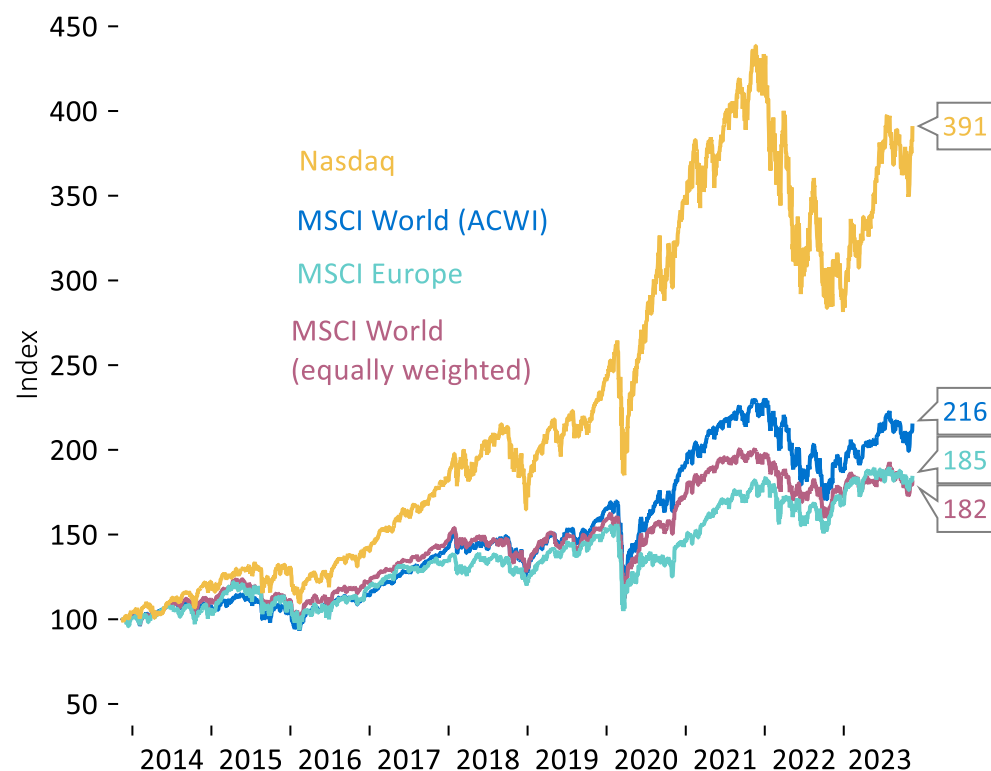
So will European equities ever lead global markets?

European equities have broadly tracked an equally weighted world index over the last 10 years



Nasdaq dominates European & world market returns

Asset class performance last 10Y



Source: Macrobond, 15.11.23

Past performance is not a guide to future returns and may not be repeated.

Summary

- The poor performance of European equities has much to do with their low exposure to technology
- The rise of the super-cap US technology (& now AI) companies will be difficult to replicate in Europe
- High energy costs remain a stubborn handicap for European manufacturers
- Government debt needs to stabilise
- EU drive for competitiveness needs to address Chinese state-backed exports (inc. solar panels, batteries & now EV's)

Europe's global leaders in engineering, power, autos, pharmaceuticals & luxury goods are still key parts of a global thematic portfolio

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