

Market Insights

Europe: Monthly Review and Outlook

March 2015

- European equity markets continued to move higher in February
- Q4 2014 GDP figures in Europe showed encouraging signs
- Cyclical outperformed defensive sectors
- The Bank of England inflation report highlighted possible deflation

Review (covering February 2015)

- After a positive start to the year, European equity markets continued to trade strongly in February, reaching levels not far from 2007 highs. The FTSE World Europe ex-UK index advanced 6.7% (in EUR, total return terms), resulting in a year-to-date return of 14.8% (in EUR, total return terms). Meanwhile, the euro remained relatively flat against the US dollar after dropping by around 7% in January.
- For a second month in a row, all market sectors recorded gains. However, unlike the prior month, the cyclical sectors (those more sensitive to economic cycles) performed better than the defensive ones, amid better-than-expected financial results by a number of companies. Financials were the largest outperformers in February, followed by oil & gas and industrials. Utilities, which returned 2.7%, gained the least among industry groups.
- Economic momentum in Europe, particularly consumer spending, has been boosted by a combination of stimuli coming from lower energy prices, a weaker currency and low interest rates. The economic sentiment indicator in the region, as measured by the European Commission, rose to 102.1 (long term base value is considered to be 100. Figures above 100 indicate an increase from the base value) in February, a seven-month high figure, so did the eurozone composite PMI which stood at 53.5 (figures above 50 indicate expansion and figures below 50 indicate contraction).
- The FTSE All-Share index generated a total return over the month of 3.7%. Coming after a positive January, the UK stock market has now had a more positive start than last year. This has enabled not only the 12-month high of last February to be surpassed, but also, the narrower FTSE 100 index, with its previous all-time high having been set 15 years ago.
- The preliminary estimate of the UK's GDP for Q4 2014 was subject to a confirmation or revision, and this month saw this broad measure of economic activity left unrevised. A positive detail of this report on GDP showed that exports had an unusually strong Q4 with a rise of 3.7%. And encouragingly, the monthly Markit/CIPS surveys covering manufacturing and service sectors indicated an increased level of activity for both these parts of the economy.

***“Views of our
European Equity
team based in
Henley-on-Thames”***

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Market outlook

- European equity markets have performed well since the start of 2015. But many market participants are questioning the sustainability of this move, citing deflation as a key concern. In our view, despite the negative headline inflation, the risk that European consumers postpone spending in anticipation of declining prices does not appear to hold. In France, consumer spending in January grew by 2.6% year-on-year, the highest rate since 2011. In Spain, where the inflation rate has been below zero for eight months, lower prices are helping shift the direction of the recovery from exports to domestic demand. The Spanish economy grew at its fastest pace since 2007 in Q4 2014 as household consumption jumped. In Italy, consumer confidence rose to 110.9 in February according to the national institute of statistics Istat, the highest in more than 12 years. And on a eurozone aggregate level, the latest retail sales figures have taken an upward turn, growing by 3.7% year-on-year in January 2015. All these data-points signal healthy consumption levels, mitigating the risk of malign deflation in our opinion.
- Owing to the combined stimuli of lower oil prices, low interest rates and a weaker currency, we believe economic activity in the euro area could progress further and deliver upside surprises this year. GDP data released this month already showed an improvement in growth across European countries, and the positive momentum is expected to continue as fiscal drags dissipate and credit conditions improve.

European equities (as at 28 February 2015)

	1 Month	3 Months	6 Months	YTD	2014
FTSE World Europe ex-UK (£)	3.1%	2.3%	6.0%	7.4%	0.2%
MSCI Europe	6.9%	13.1%	15.0%	14.7%	7.4%
France: CAC 40	7.5%	13.1%	13.7%	15.9%	2.7%
Germany: DAX	6.6%	14.2%	20.4%	16.3%	2.7%
Spain: Ibex 35	7.8%	4.9%	6.4%	9.5%	8.0%
Italy: FTSE MIB	9.0%	11.7%	10.0%	17.5%	3.0%
Swiss Market Index (capital returns)	7.5%	-1.5%	4.1%	0.4%	9.5%
Amsterdam Exchanges	7.8%	14.0%	18.0%	14.4%	8.7%
HSBC European Smaller Cos ex-UK	8.7%	15.9%	13.8%	16.0%	5.2%
MSCI Russia (US\$)	22.8%	-6.3%	-22.8%	21.9%	-45.9%
UK: FTSE All-Share	3.7%	4.7%	4.1%	6.4%	1.2%
UK: FTSE Small Cap ex Investment Trusts	4.7%	6.8%	1.8%	5.5%	-2.7%

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated.
Data as at 28 February 2015.