Schroders

James Sym – Reaccelerating Europe - a contrarian call

- There is a catalyst in the short-term that might cause value to emerge in Europe
- Why is this contrarian? Markets have rallied strongly since the lows at the start of the year, yet global asset allocators have continued to sell. This seems to be a behavioural finance trap
- The most recent Merrill Lynch survey found that the most favoured trade among investors today is to be short European equities. Positioning is very light
- If we reaccelerate, there could be a very powerful move back towards unloved sectors
- How is the European consumer? The consumer is about 40% of the European economies. If it's in a decent place, it's a good tailwind. We believe it is in a good place. Wage rises are starting to come through in spending statistics. There are 3-4% wage rises with no increase in mortgage rates, tax rates are down
- Corporate investment has remained pretty resilient, across countries and sectors. Why is that? Companies are investing because they have to
- Government spending is marginally increasing. Given that growth is slow, it makes a significant difference. Populism is prompting fiscal spending. All is positive for demand
- A lot of growth stocks are very expensive and the payoff for being right is quite low. China is a wild-card
- Who benefits from a stronger Europe? Value stocks are performing better on a fundamentals level. There is a lot of justification for a shift to value
- Consumer cyclicals are the cheapest sector. Plenty are on less than 10x earnings, where expectations are low e.g. Dometic, which makes fridges for caravans