



What is our outlook for European equities halfway into 2018?



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We believe the outlook for investing in European stocks remains positive, notwithstanding investors' increasing concerns regarding political developments in Italy or Germany, and withdrawal of liquidity by central banks.

Indeed, when we come to consider the market, we find European equities are in good shape: for the second year in a row, profits for European stocks are likely to grow, albeit at a lower rate than the mid-teens level of 2017. This year we expect profit growth of about 7% to 8%, partly reflecting decent underlying momentum in the European and global economy but at a lower rate than last year because while economic growth is slowing from extended levels, leading economic indicators remain expansionary¹.

Valuations are also appealing from a long-term standpoint. For instance, the average dividend yield on European markets stands at 3.8% - an appealing return compared with still low interest rates. Price-to-earnings ratios (P/E) are likewise in line with 30-year averages despite a relatively better earnings outlook².

Overall, even though we are mindful of the prospect of trade dispute escalation with the US, as well as of political considerations in Europe, we believe that from a long-term perspective, the current background for European equities is reasonably supportive and valuations are not extended.

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(1) Sources: BofA Merrill Lynch European Equity & Quant Strategy, IBES, 18/05/2018. (2) Sources: MSCI, IBES, Morgan Stanley, 01/06/2018.

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