

European Equities are a Buy

Buy European equities. There will be no roll back of easy monetary conditions in Europe in the short to medium term. Domestic economies remain hampered by the common currency and unemployment. Labour is getting cheaper. Inputs are getting cheaper. Companies have deleveraged balance sheets and are in a position to re-leverage cheaply and as required. Many European companies are exposed to high growth emerging markets. Despite a palpable slowdown in emerging markets and rising inflation in many of them, European companies represent an arbitrage since they face deflation domestically and thus low interest rates across the term structure where they finance in EUR, while they reap the benefits of increasingly more consumption driven emerging market economies. Valuations are also attractive. In a world where the crowded consensus trades have hurt investors it pays to be ahead of the curve.