

European Equity Markets – Country Risk Back Again

Prior to the adoption of the EUR, European equity markets were segmented by country. Since the adoption of the EUR, however, European equity markets became segmented by sector, as the funding costs between countries converged. With the recent rise of country risk and the divergence of funding costs, Europe is trading by country segmentation again. Its a subtle difference but an important one to the stock picker who must now place a higher priority on country risk in his trading, whether such risk is material or not. If enough people give it credence, it becomes a reality.

Thus Telefonica trades more like a Spanish stock than a telco, BP more like a UK stock than an oilco, RWE more like a German stock than a utility. You get the idea.