

# Time to revisit Europe?

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# Target audience

## Audience

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The value of investments, and any income generated from them, can fall as well as rise. Costs and charges will reduce the current and future value of investments.

Past performance does not predict future returns. Investment objectives may not necessarily be achieved; losses may be made.

Target returns are hypothetical returns and do not represent actual performance. Actual returns may differ significantly.

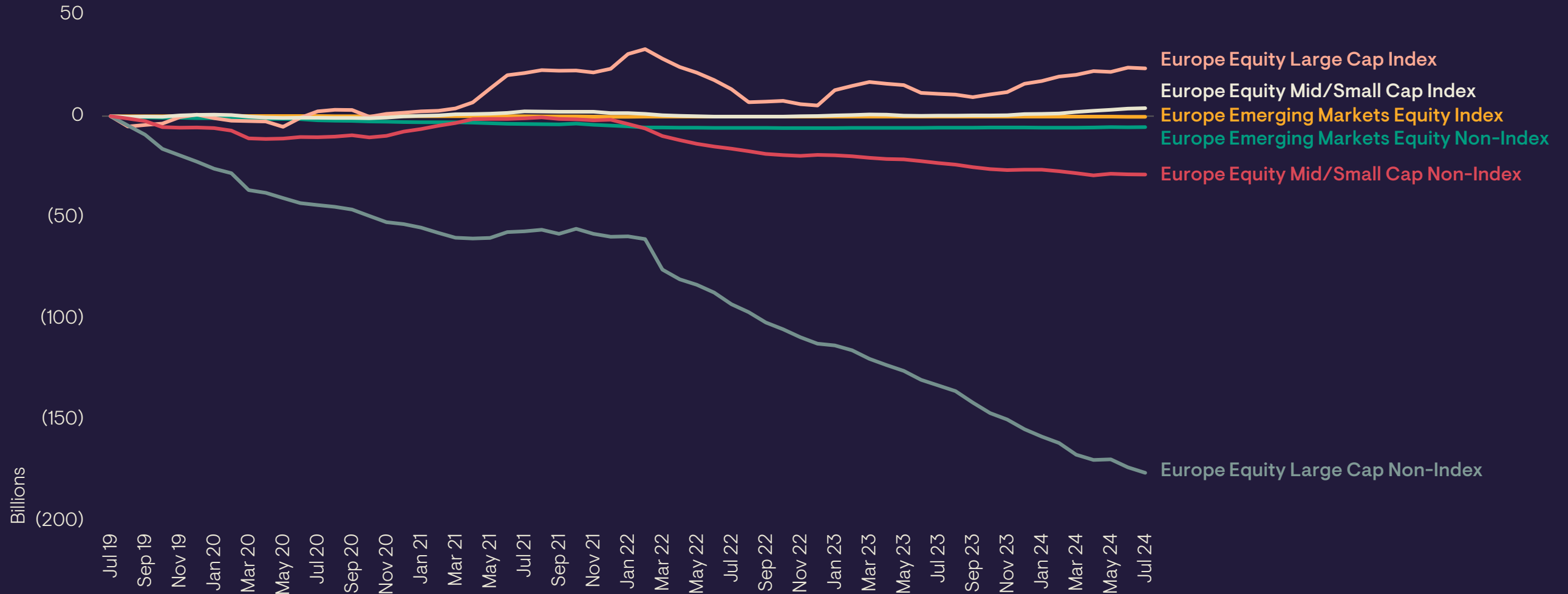
Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.



# European equities are universally disliked

Cumulative US\$200bn 5-year outflow

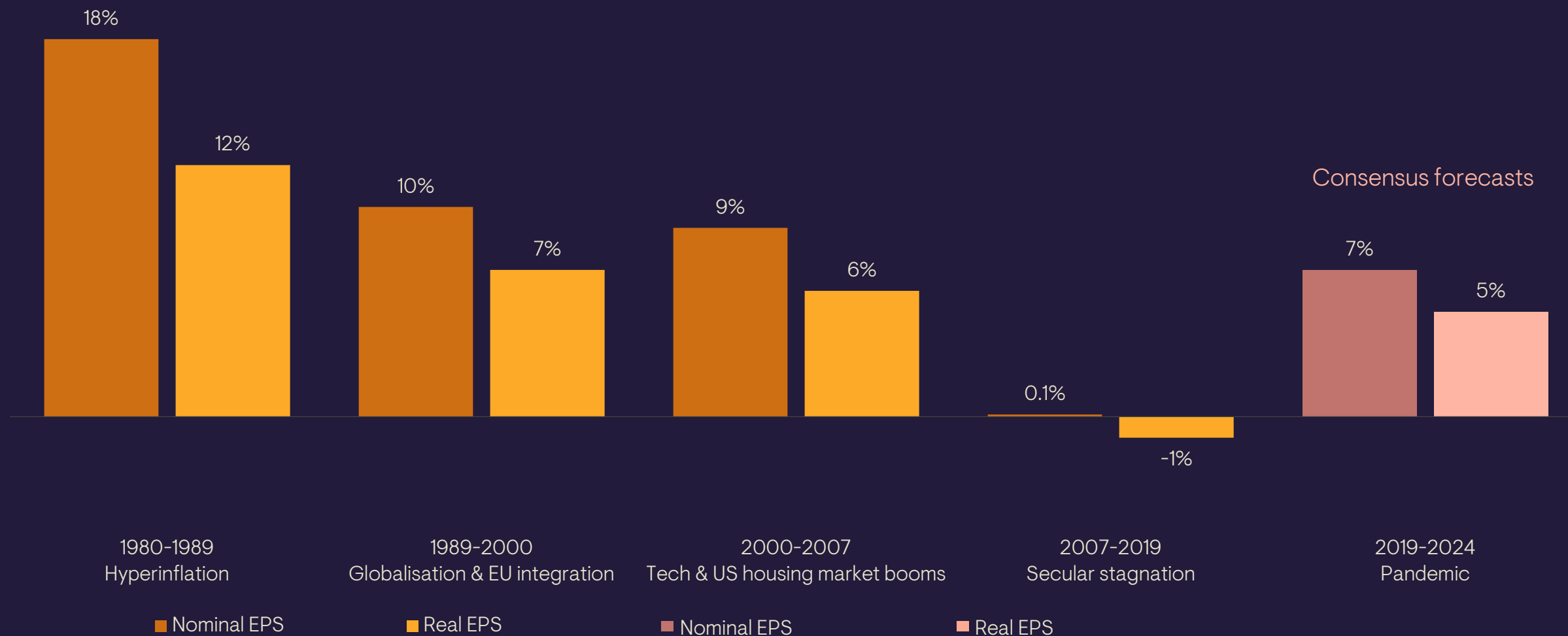
5YR Cumulative Net Flow





# Post-GFC regime a disaster for European equity investors

Austerity killed fiscal expansion & regulation diverted capital to balance sheet repair



## Macro policy regime is changing

“Do this, or its slow agony,” Mario Draghi’s 320 page new industrial strategy for EU



**Will Mario Draghi’s masterplan get the momentum it needs?**

A treasure trove of ideas for stock pickers on the drivers for the next decade:

- “Around 40% of Europe’s power distribution grids are over 40 years old and need to be modernised”
- “Meeting NATO commitments would translate into an additional Eur60bn defence spending”
- Pharma remains a rare R&D powerhouse, “EU is actually overtaking the US in terms of volume of scientific publications”
- “Massive strategic investment is needed to modernise transport infrastructure...estimated Eur845bn in investment by 2040”
- And more consolidation: “Enabling cross-border banks is of crucial importance for the integration of EU capital markets”



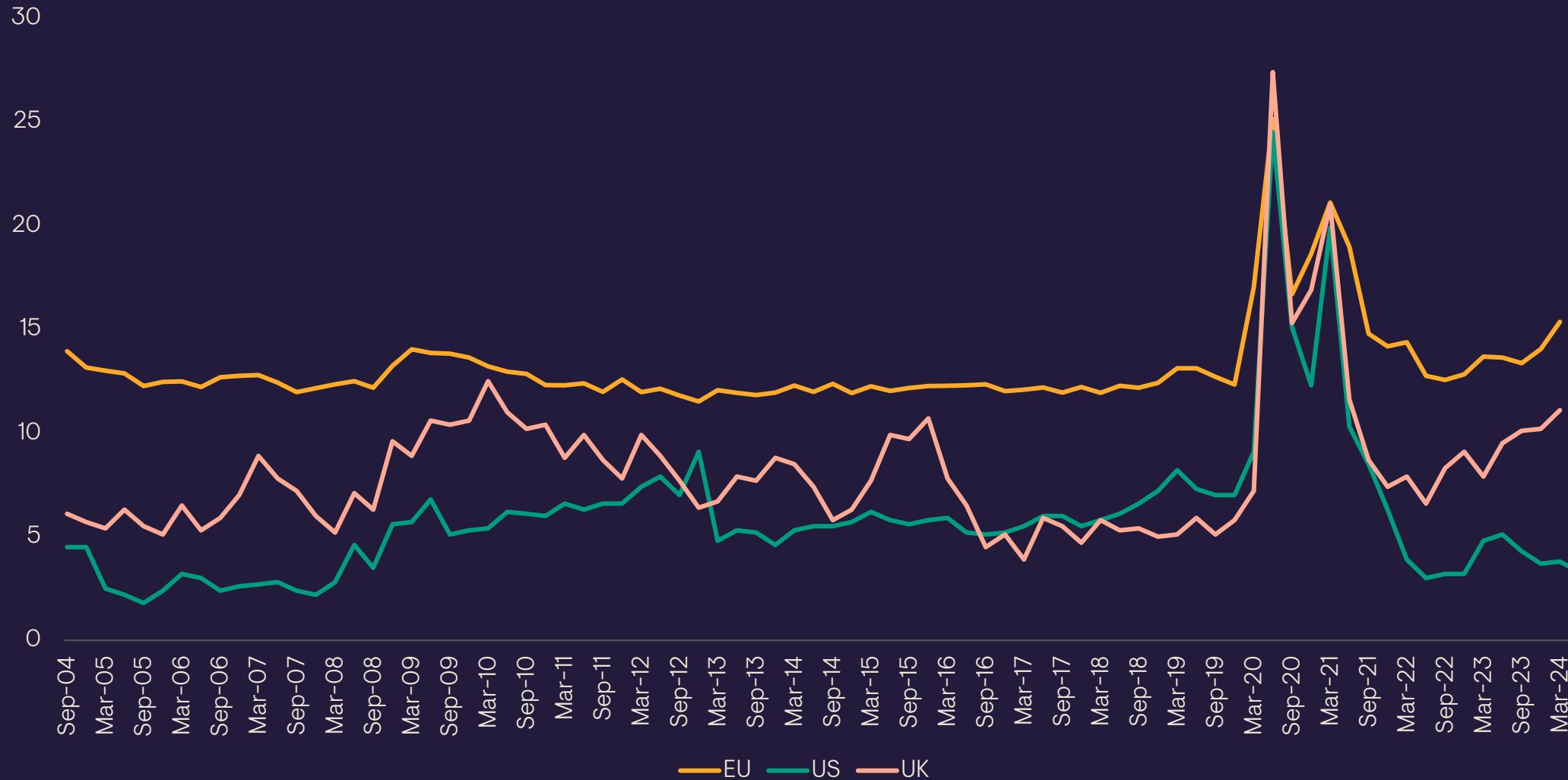
# Split of corporate debt by type

Europe will be early to experience monetary tailwinds





# The gap between the EU/UK and US saving rate has widened sharply

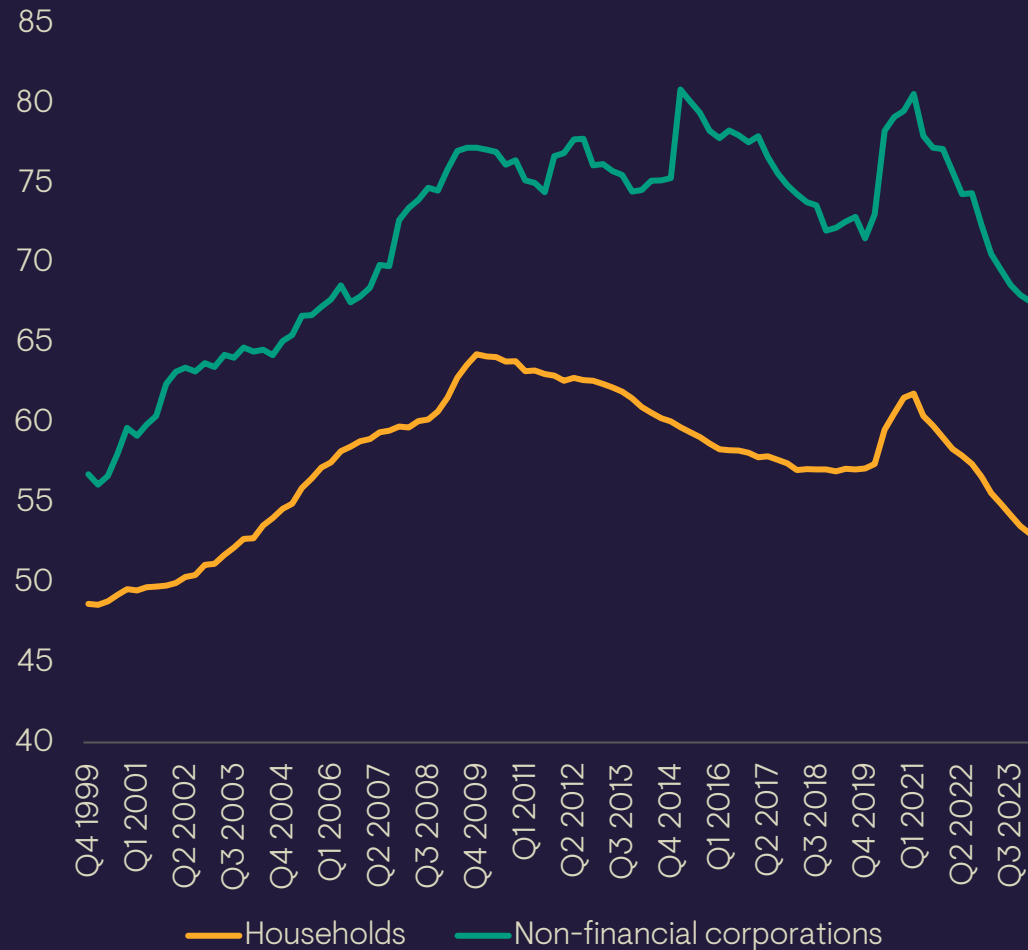




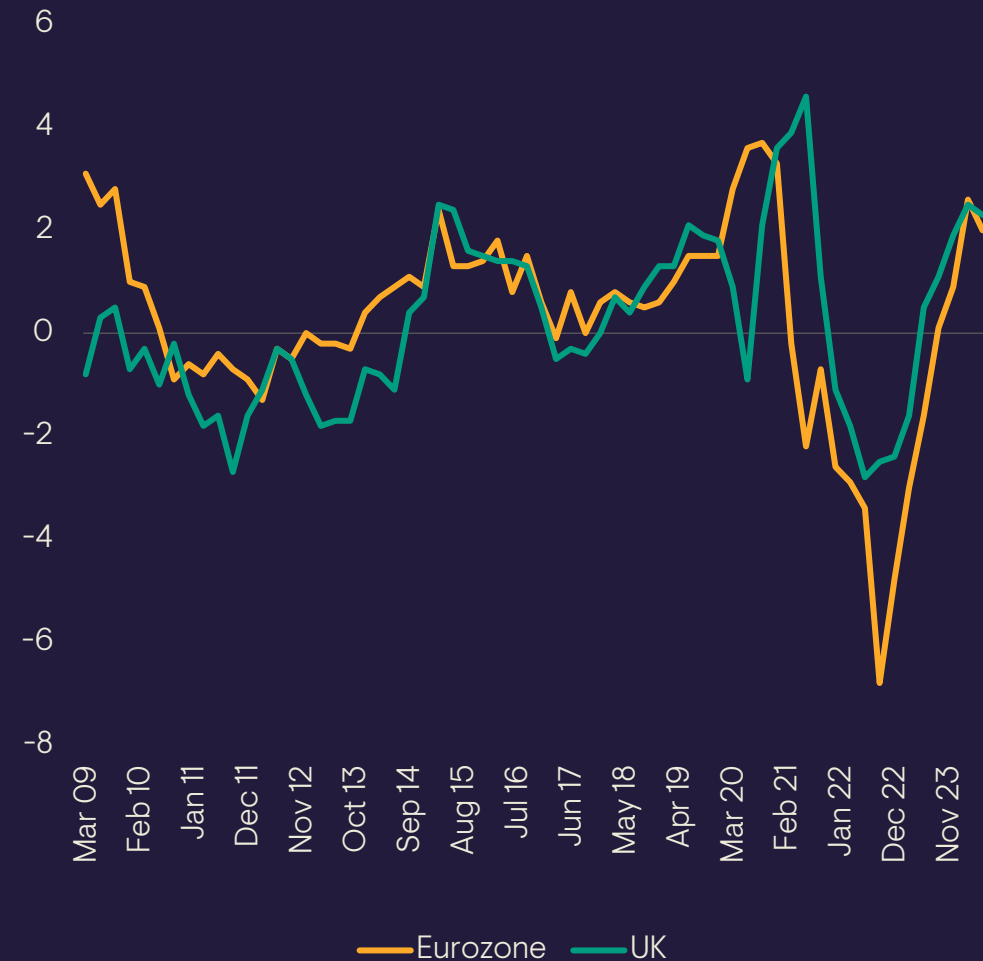
# Household and corporate balance sheets are robust

And real wages are growing

### Household and Corporate leverage is low in Europe



### Real incomes are growing

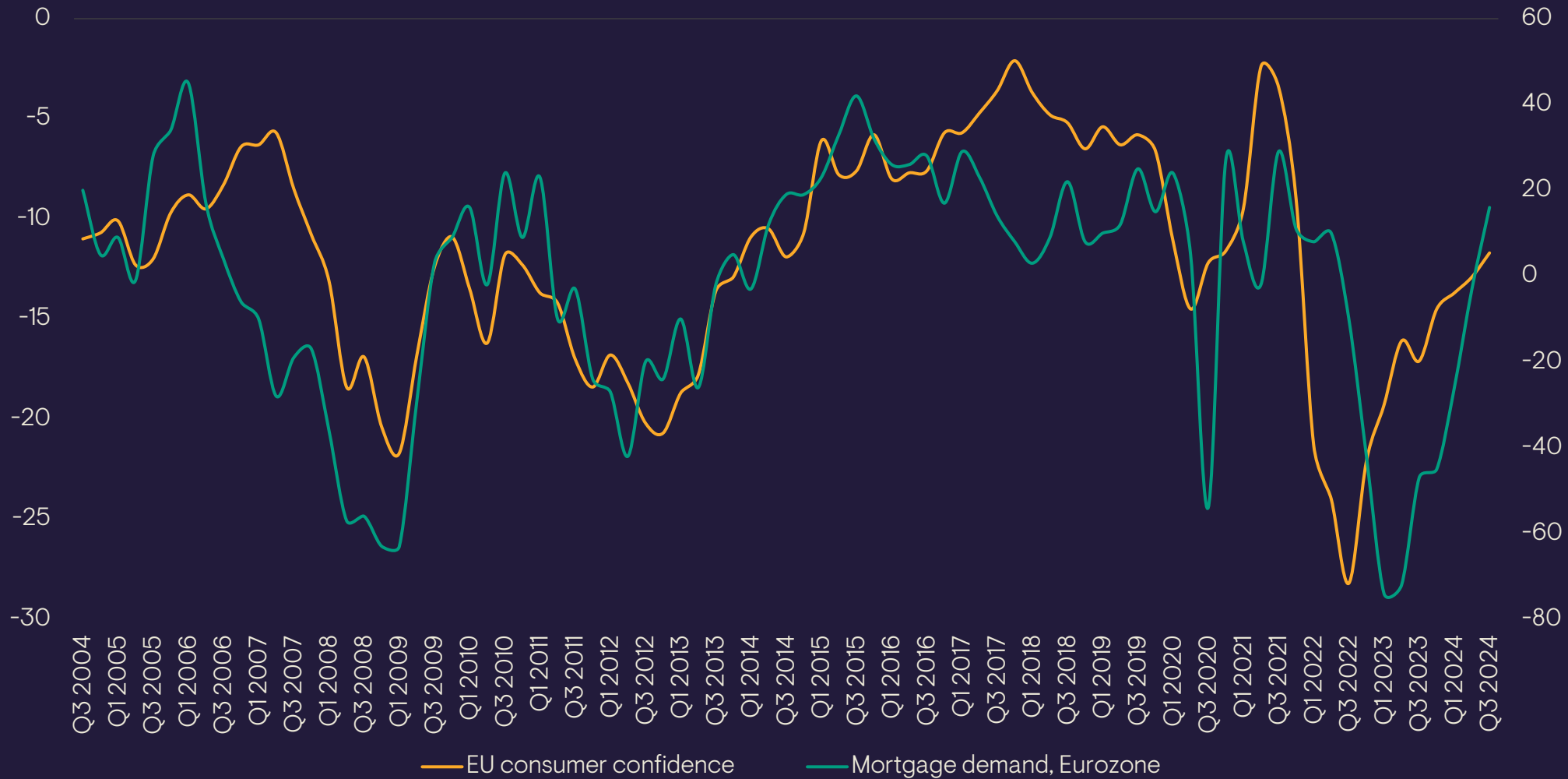






# Credit leading indicators are turning positive

ECB loan officer survey shows mortgage demand is rising sharply

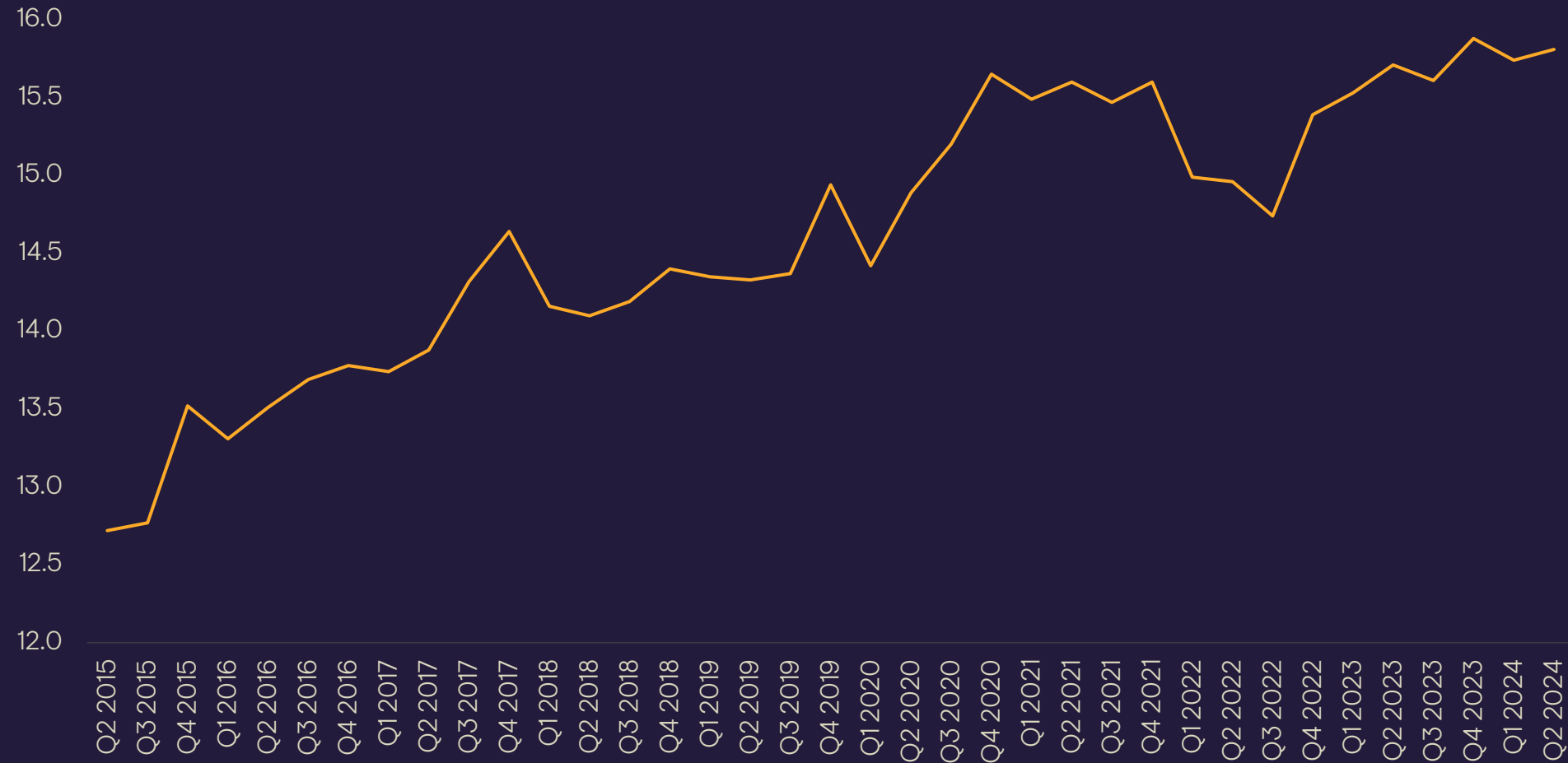




# Some of the biggest problem areas have been 'fixed'

European banks are now over-capitalised and many have >10% yields




EU Banks CET1 ratio





# Market structure has changed

MSCI Europe, today vs. 10 & 20 years ago

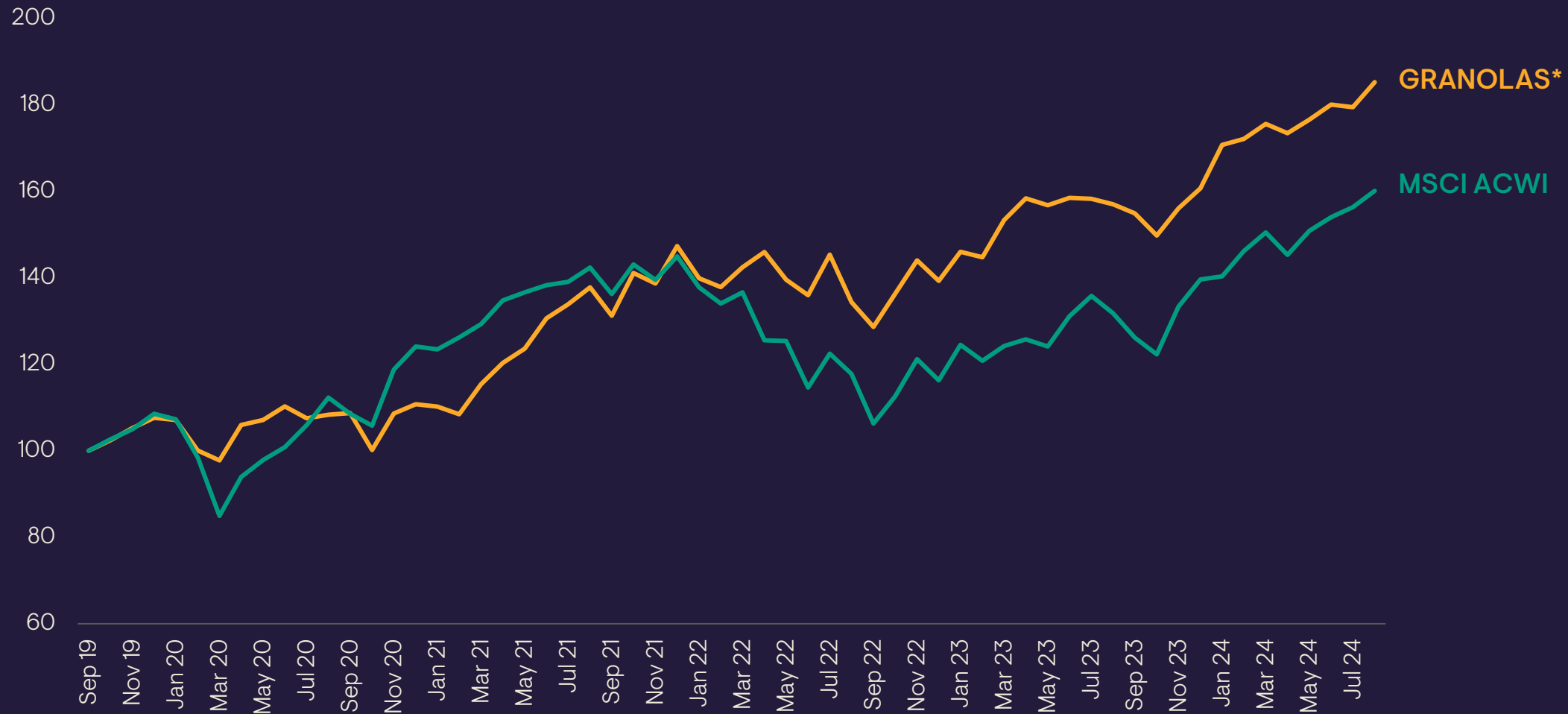
	2004	2014	2024
Biggest stock			
Secular weight*	~31%	~39%	~50%
Cyclical weight**	~45%	~38%	~30%

Source: MSCI. September 2024

\*GICS1 Consumer Discretionary, Healthcare, Industrials, IT. \*\*GICS1 Energy, Financials, Materials



# Europe has quality compounder stocks that are working



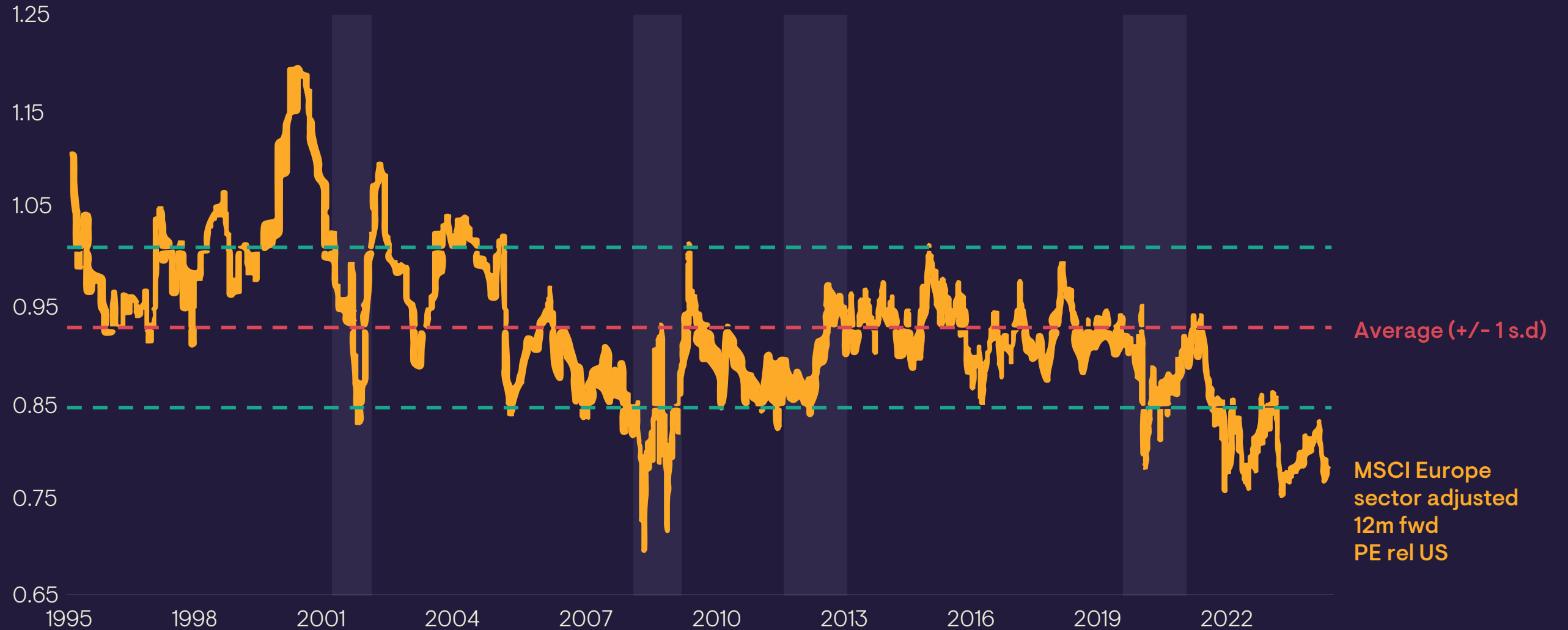
Source: Ninety One, Bloomberg, MSCI, Goldman Sachs. September 2024

\*GRANOLAS = GSK, Roche, AstraZeneca, Nestle, Novartis, Novo Nordisk, L'Oreal, LVMH, ASML, Sanofi, SAP



# Overall valuation opportunity remains substantial

Sector adjusted P/E relative to US remains abnormally cheap



# Finding the gems: some stand out themes in the EU market

Value + capital return



Secular green transition




Underappreciated AI winners



# Finding the gems – hiding in plain sight

Comparing vs direct US peers

 **BARCLAYS** vs. **J.P.Morgan**

Yield*	10.0%	4.9%
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P/NAV*	0.55x	2.2x
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ROTE*	11%	17%
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# Finding the gems – hiding in plain sight

Comparing vs direct US peers

**SIEMENS**  
ENERGY

vs.



**GE VERNOVA**

3yr fwd revenue  
CAGR\*

8.3%

5.8%

EBITDA margin FY24

10.3%

6.2

EV/EBITDA\*\*

8.7x

20.6x





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