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Europe's time in the sun

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"Elections have consequences" Scott Walker

Whilst 'Brenda from Bristol' captivated the British public with her displeasure about the upcoming UK election, investors elsewhere in Europe were celebrating as the first round of the French Presidential contest appeared to continue the trend started by the Dutch vote in March of stepping away from the populist brink. The French market was the strongest performer among not only Western European markets, but in global mainstream equity markets during April as the pollsters for once recently got their predictions correct.

Driving this performance was the re-emergence of the global asset allocator into European financial markets. Fund inflow data for April overall is not yet available but observations such as a week-on-week quadrupling of inflows in the seven days to April 26 highlight the sharp uptick of optimism.

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We all know far too much about Europe's structural challenges of low growth, patchy productivity levels, high debt levels (especially in Southern Europe) and labour markets that are struggling to be competitive on a global scale, before we even think about politics, immigration and the status of the 'European project'. None of these issues have gone away, and any change or reform is not even going to start until the other side of the German Chancellorship election in September at the absolute earliest.

However, Europe is currently benefitting from two clear positives. Economic performance has been so bad over recent years that, buoyed by continued stimulus efforts by the European Central Bank (ECB), the regional economy is discernibly improving, benefiting from that other wonderful shorter-term driver: 'easy comparisons'.

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Whilst Mario Draghi - the President of the European Central Bank – tried to spend all the time during his press conference in late April not sounding too optimistic, the best combination of European economic data this side of the Global Financial Crisis of 2007-9 without so far any real inflation trade-off.

Shabby economic performance for a long period of time finally gives its reward. For the first time in over a decade, it is now impossible that aggregate pan-European corporate earnings will actually end a year growing better in reality than imagined by analysts at the start of the year. Hence the inflow of monies from global/American investors.

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Given the above, closing your eyes and investing (more) in Europe probably still works, even from prevailing levels for the rest of 2017, especially given the low opportunity cost in holding cash and fixed income markets that offer defensive scope in a crisis but little else. We all know that optimism in financial markets is always a double edged sword, as eventually it leads to euphoria, mania and then a crushing disappointment as a seemingly impregnable bull market violently ends.

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With all the continued challenges for next year and beyond, maybe this is the destiny for European assets too as even newly elected politicians struggle to find answers to difficult questions. But, in the short term, Europe is enjoying a few long overdue months in the sun.

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