

a European bull run?

February 2010

Alister Hibbert offers his outlook for European equities.



We are confident on the outlook for European Equities in 2010. In fact, we believe that we are nine months into a multi-year bull market which began in March 2009. History is on our side in this respect with the average bull market since 1932 lasting 55 months from trough to peak. It's true that equity markets seem to have come a long way since March 2009, but it's important to remind ourselves that the recovery began from an extremely low starting point, and that European companies have experienced fundamental improvements since the nadir of the market on 9 March 2009.

It's becoming more apparent that the European corporate profit cycle has been far more benign than expected. Company CEOs have been forced to make some tough decisions on costs in the recession, but one positive corollary of strong discipline is that companies are able to maintain profitability during a period of declining revenues. Indeed, European margins troughed in 2009 at above-average levels and for the first time since September 2007 the market has begun to see net upgrades of company earnings – clearly a positive signal of future corporate health.

maintaining momentum?

One of the key issues in 2010 will be the outlook for policy stimulus and the extent to which private sector demand can replace it. The gains experienced in European Equity markets have been aided by unprecedented

levels of government stimulus, low interest rates and an increasingly optimistic market, and I'm sure that many investors are wondering whether this can be maintained. Many market commentators are predicting a 'double dip' for equities for fear that the recovery will not be buttressed by improving economic data, and there does seem cause for concern given the historic levels of household and government debt.

Yet, despite these risks, there are clear reasons to suggest that European companies will experience growth of well over 20% in 2010. Signs of improving economic data are beginning to come through from the US and, whilst debt does remain a significant issue on the global stage, it's worth noting that household savings levels are significantly higher in core Europe than in countries such as the US or the UK. Indeed, the outlook for European equities seems healthier than many other developed markets.

European equities have proven to be a strong performer at this stage in the cycle, consistently outperforming the US and currently trading at valuations that are significantly more attractive than other developed markets. Moreover, Europe has higher levels of both revenue generation and capital expenditures in emerging markets, focused on the areas of strongest growth such as luxury goods and specialist industrials. With corporate profits recovering, economic data improving and

exceptional potential for revenue growth in emerging markets, we feel that there are good reasons to suggest that the current bull market will be no exception to history.

dynamic approach

While we remain positive on the outlook for Europe, returns from the sector have seen considerable dispersion over the last five years. In fact, the top-performing fund has returned over 87% more than the worst performing in the IMA Europe ex UK sector, making it very important to choose your sector funds carefully. We believe the BlackRock European Dynamic Fund, which I have managed since March 2008, is ideally poised to take advantage of these positive trends. Its high conviction, focused portfolio of stocks is geared to taking advantage of the very best investment opportunities in Europe. At present, the fund contains a number of positions in high-quality European franchises that have significant exposure to emerging market growth. The effectiveness of its bottom up, fundamental research process is proven in both up and down markets; indeed, as at 31 December 2009, the fund is ranked first in the sector over five years as well as over my tenure and has outperformed the FTSE World Europe ex UK by 17.5% in 2009*.

Alister Hibbert is fund manager of the BlackRock European Dynamic Fund.

The BlackRock European Dynamic Fund is available through the Skandia Investment Solutions platform and Skandia's Life and Pensions fund ranges.

*Source: BlackRock, bid to bid, net income reinvested, in sterling to 31 December 2009.

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