Press release
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"The perfect time"

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1 Macro-economic outlook highly favorable

If we take a "Macron, Macro, Micro" analysis framework, fresh momentum is beginning to emerge on the euro area equity markets, triggered by the French presidential election. We have seen a very clear acceleration on the European equity markets since the first round of voting, and this was borne out by a recovery for the euro. Meanwhile, the main economic indicators are soaring. We are witnessing household confidence levels in France unseen over the past ten years, while recently published microeconomic figures are also laudable. Corporate earnings are being upgraded for the first time since 2011, and lastly, from a political standpoint, the elections carried a transformation government to power, including a new president with a real economic modernization program for the country as well as plans to reinvigorate European integration.

2 Euro area growth upgraded

The ECB recently upgraded euro area GDP growth for 2017 to 1.9% and the figure still harbors the potential to surprise. Over the past 18 months, growth in the area has outstripped figures in the US. At the same time, we are also seeing slightly lower inflation than projected. These features are helping promote a near ideal scenario with higher growth and lower inflation, which explains the ECB's ongoing ultra-accommodative monetary policy. Over the three years to end-2017, the ECB will have bought a total of almost €2,400 billion in bond assets.
This buoyant context is driven by a recovery in lending, despite these credit figures remaining too low.
The outcome is plain: unemployment is steadily decreasing in the euro area at the same pace as in the US, although with a three-and-a-half-year delay which can be attributed to the time lag in implementing QE policies between one side of the Atlantic and the other. Unemployment in the euro area fell from 12.1% in May 2013 to 9.3% in April 2017, which equates to 4-5 million new jobs: these are very concrete results! Across the 19 countries in the euro area, 17 have enjoyed a decrease in unemployment, with just two exceptions, Estonia and Latvia.

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3 Equities are the natural choice

European investors are displaying considerable interest in corporate debt. On the high yield segment, they are primarily attracted by the average yield on offer of 2.4%, which is above returns on IG corporate debt (0.6% yield). We opted to partly exit this market, put off by the low illiquidity premium. This interest in the bond market is very surprising. Equities carry average yield of 3.1%, which is well above high yield corporate bonds. In our view, equities are the natural choice, although it is important to remain selective of course. Some investors will think that equities are too pricey, and this can be true if we base our analysis on the assumption that the state of affairs will remain the same, that European growth will remain restricted to 1.5% at most and that the countries of southern European, including France, will not implement reforms.

European stocks have broadly underperformed over the past ten years. They are not entirely immune to external shocks of course, but we are currently seeing major upside nonetheless. International asset allocation approaches must therefore increase exposure to Europe and in particular the euro area. Companies that looked for growth on the international arena already appear fully valued in my opinion. In my view, it is time to revisit stocks with strong domestic exposure, with a preference for large caps. For example, the construction sector and companies such as Bouygues, Vinci and Eiffage will be driven by the Grand Paris project. It is also important to have a "Macron-patible" portfolio, with exposure to listed companies with part state ownership such as EDF, Orange and Renault.

Text completed on June 8, 2017 by Jean-Charles Mériaux

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