

European Equities Outlook for 2017

December 2016



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We believe, from a fundamental point of view, things are improving both in Europe and globally for equity investors. A possible reflation, a more active fiscal policy and a potential recovery of value investments will be the key themes in the market.

2016 has been a challenging year for European Equity investors - are these conditions set to persist?

2016 has been particularly difficult for fundamental investors mainly for two reasons. One, within the markets there has been a disruptive rotation of themes, and secondly, 2016 has been a year of important geopolitical events, for example *Brexit* and the U.S. Presidential Election. These events can have a repercussion on the performance of the equity markets. We are constructive on 2017, we see a positive outcome from a fundamental point of view. We see companies getting better in terms of delivering on their earnings. However, we are very aware that the uncertainty coming from geopolitical events is not going to go away and could persist for the coming quarters.

What has been the approach of the team to navigate 2016's challenges?

We remain constructive for the next year. We believe, from a fundamental point of view, things are improving both in Europe and globally for equity investors. Throughout 2016, we have been focussing on what we believe are structural winners or companies able to deliver on the free cash flow value proposition for the future. We have taken advantage of what we believe have been irrational movements in the market to accumulate companies that could be winners in the future.

What will the key themes be for European Equities in 2017?

We remain constructive for the European Equity market in 2017, mainly driven by the fundamentals of companies that, in our opinion, are improving. We believe there will be attention around the theme of reflation. A second theme that we believe is going to be important and in some way related to the first is the movement of policy from purely monetary to fiscal, so more growth-oriented in terms of stimulus for the global economy. The other theme, that is very important from an equity perspective, is the value side of the market and the potential recovery of this theme which has been under-performing for the last five years or more.

What is your outlook for the financial sector for 2017?

It is important firstly to define the financial sector. The sector is not only comprised of traditional banks but also insurance companies and diversified financials. In terms of insurance, we believe an environment in which the interest rates are recovering is potentially positive for the future of this sub-sector. In terms of diversified financials, we have been able to find some good stories of success in terms of new business models. We remain somewhat concerned about the structural outlook for traditional retail banking. In this sub-sector what we are going to do, as we also did in the past, is to seek to take some tactical positions whilst remaining mindful of the future of traditional banking in terms of profitability. I'm expecting this to remain our approach for 2017.

Will European equities continue to offer income opportunities for investors?

I think so. I believe that income has been important and will remain important. I believe every investor should consider the income side of the equation as part of their portfolio.

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Date of First Use: December 6, 2016.

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