

HSBC Global Asset Management

Eurozone: economic slowdown, yet attractive equity valuations

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Global growth has had a tough time over the past year and nowhere has this been more apparent than in the Eurozone. In 2017, economists were talking about a Euroboom, whereas tweets now are all about #Eurogloom. So, the natural question is, where did it all go wrong?

An important recent macro trend has been slower growth in China and this has clearly hurt Eurozone exporters.

It also seems many Eurozone manufacturers are currently short of capacity to boost their output. We also think the Eurozone Central Bank (the ECB) ending its programme of bond buying last year may have had an impact. These have been the more fundamental factors that have hurt growth, but we think other more temporary issues have also been at play, for example, the car sector has been hit by new emissions testing guidelines, while extreme weather has also been disruptive.

Another significant problem has been political uncertainty. Brexit is still unresolved, a new populist Government in Italy has raised concerns, while France has witnessed large-scale anti-Government protests. However, despite all the doom and gloom, we think there are three reasons to suggest current pessimism is overdone.

1. First, although the manufacturing sector has had a tough time, services have held up relatively well. This is simply because the jobs market is doing very well across the whole of the Eurozone, supporting people's ability to go out and spend.
2. We think there is scope for a rebound in manufacturing. This could be driven by a recovery in China or as temporary headwinds fade away.
3. The policy environment is pretty supportive, especially with the ECB now committed to keeping interest rates at rock-bottom levels all year.

Overall, these factors give us enough confidence that a Eurozone recession this year is unlikely. Therefore, given that we measure attractive valuations for Eurozone equities, we believe they are still an important part of our global multi-asset portfolios.

Thanks for watching.

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