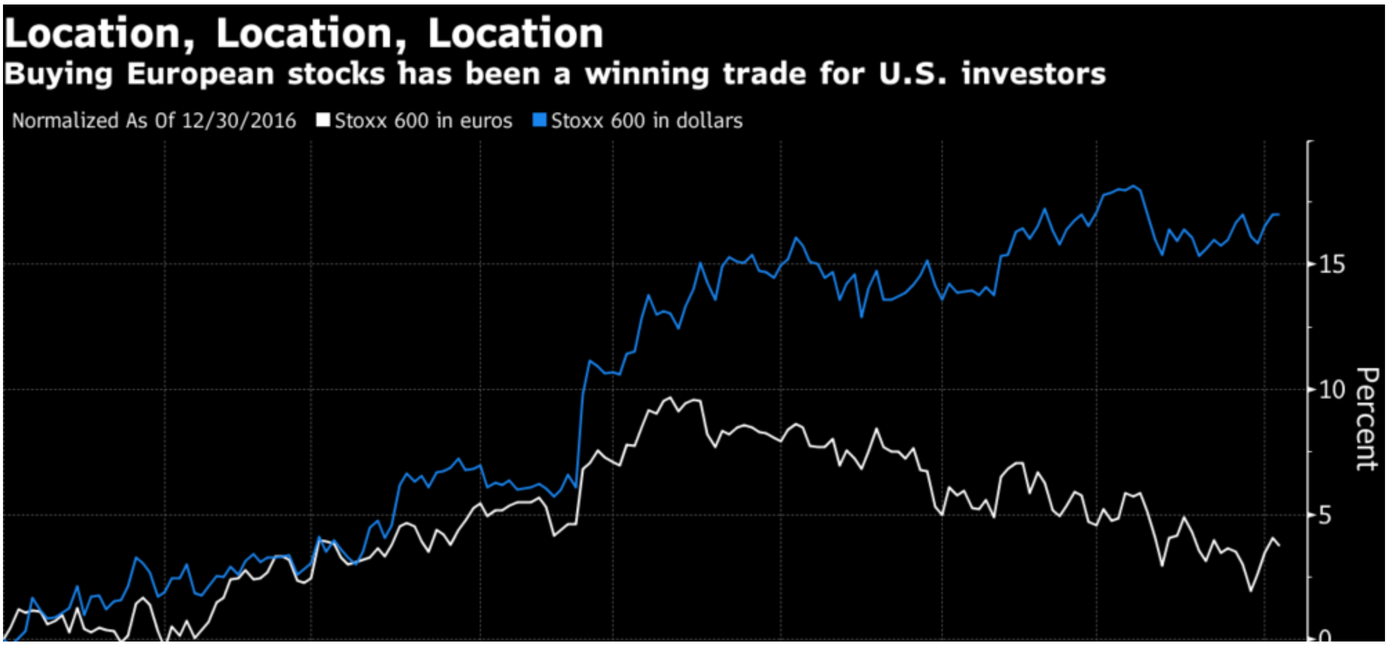
Big Winnings Have U.S. Investors Wanting More From Europe Stocks

By **Sofia Horta E Costa**
5 settembre 2017, 01:00 CEST

U.S. equity investors aren't done with Europe even after enjoying their best returns in eight years.

Those who bought European stocks in dollars have already seen gains of about 17 percent this year, and the prospect of another leg up is keeping them hooked. The two largest U.S. exchange-traded funds tracking the region have attracted $8.7 billion, recouping most of the money they bled in 2016.

Though North Korea jitters and speculation that Mario Draghi will talk down the euro have triggered some profit-taking recently, the amount is a fraction of the inflows European stock funds have seen. With earnings growth on track to outpace the U.S., Europe's perennial valuation discount makes it a no-brainer for American investors, says State Street Corp.'s Matthew Bartolini. His call echoes those of strategists at JPMorgan Chase & Co. and Sanford C. Bernstein.



“If you’re taking profits you should really leave a little on the table -- there’s still plenty to play in Europe,” said Bartolini, head of SPDR Americas Research at State Street in Boston. “Most of the gains have been currency-related, rather than the underlying stock. That means an earnings recovery and a valuation catchup are not priced in.”

In euro terms, the Stoxx Europe 600 Index has gained only about a fifth of its advance in greenback. After weakening in recent sessions, the common currency on Monday climbed back towards the $1.20 level it touched last week, just days before European Central Bank President Draghi holds a press briefing amid trader speculation about a shift in monetary policy.

For dollar investors, the rise of the euro has led to bigger gains in the region than in the U.S. -- the 17 percent gain in Europe, the best since 2009, beats the S&P 500 Index’s 11 percent advance this year. That gap has pushed investors to trim positions, with the iShares MSCI Eurozone ETF seeing withdrawals of $401 million in August, its first in 10 months. Last week, U.S. equities had inflows for the first time since mid-July.

What could unwind the trade further is a reversal in the euro’s gains against the dollar, according Seven Investment Management’s Ben Kumar, who sees the rotation out of Europe as likely to continue.

“In just months they got an excellent return from Europe, an area in which they have traditionally been quite flighty anyway,” said Kumar, an investment manager who helps oversees about $14 billion. “It’s inevitable that they’ll start repatriating that.”

Still, European stock declines since a mid-May peak have widened the valuation gap with the U.S. Members of the Stoxx 600 are some 16 percent cheaper than peers in the S&P 500 based on projected earnings, nearing the widest discount since 2009.

“When you look at the long-term valuation, Europe’s still got some way to run,” said Thomas Clarke, the London-based manager of the $1.5 billion William Blair Macro Allocation Fund. “I can understand why people on the right side of that trade will want to lock in some gains, but we’re not trimming our equity exposure right now.”