

Jump on the European Bandwagon

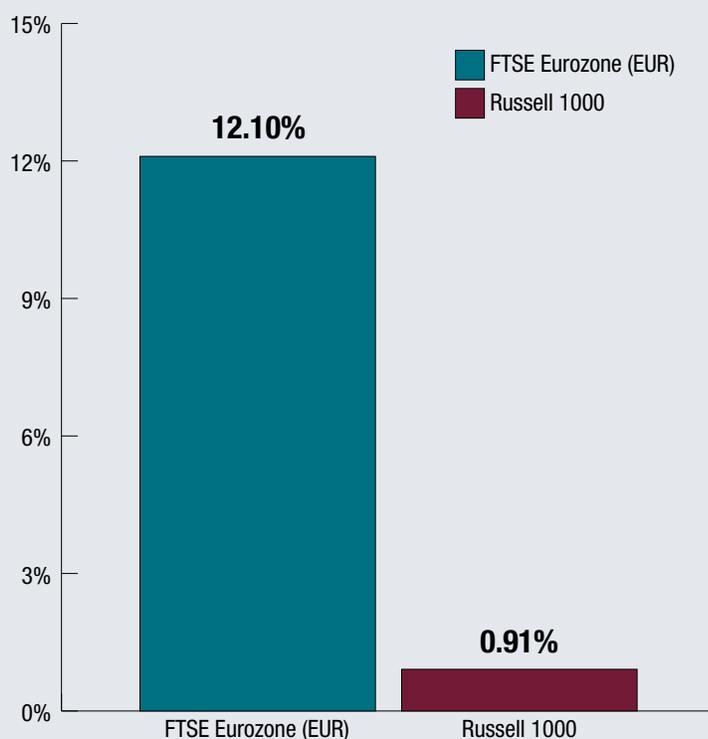
– Michael Mack, Portfolio Manager

The European stock market began to see improvement in 2016 as bank lending increased and earnings grew. US voters were nervous about their own economy in the wake of an unpredictable presidential election and may have missed the initial opportunity. With political uncertainty in the US no longer a major concern, now might be the time to weigh European investment risks like political uncertainty and currency exchange rate risk and hop on the European bandwagon.

Earnings leads to a growing economy

In 2016, European companies grew earnings 12.10% while their US peers grew only 1%. This trend may mark the start of a reversal from the past 10 years where European earnings lagged US earnings. Historically, European earnings tend to lag at the beginning of the recovery and catch up as the recovery continues. If this trend repeats itself, European earnings growth may accelerate as it catches up with US earnings growth.

2016 Earnings Per Share Growth



Source: Bloomberg, FactSet

Earnings Per Share (EPS) is the portion of company's profit allocated to each outstanding share of common stock.

Russell 1000 index is a US market-capitalization weighted index representing the top 1000 large-cap stocks in the Russell 3000 Index

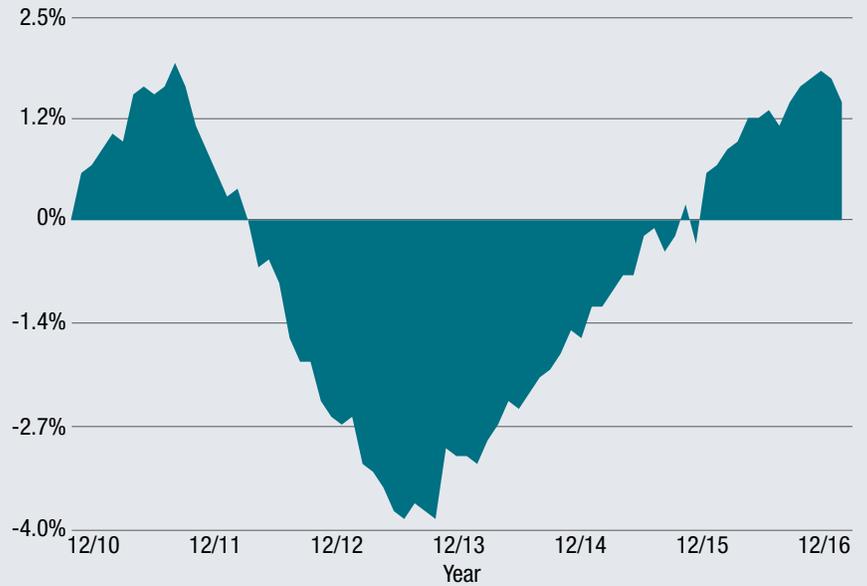
FTSE Eurozone Index includes large- and mid-cap stocks in the developed markets of the Eurozone. It is a subset of the FTSE Global Equity Index Series (GEIS) which is designed to help investors benchmark European investments.

Loans are good for business

An increase in bank business loans is a notable forward indicator of economic growth. When a bank loans money to a company, they are investing in the future growth of that business and the economy it's in. Business profits lead to revenue and earnings and ultimately may result in higher stock prices. In the US, business lending continues a growth trend since 2011. Lending turned positive in the Eurozone again last year and has remained steady.

Year Over Year Growth Rate of Eurozone Non-Financial Corporate Loans¹

12/31/2010 – 2/28/17



Source: Bloomberg

⁽¹⁾Issued by Monetary Financial Institution

Quality for less in Europe

P/E ratios of European stocks are another appealing factor to consider when investing overseas. European stocks have historically been less expensive than US stocks. Currently, the P/E of European stocks is 3 points lower than the US.

Trailing 12 Month P/E Ratio

12/29/2000 – 3/31/17



Source: FactSet

Price to earning ratio (P/E ratio) is a fundamental measure used to determine if an investment is valued appropriately. Each holding's P/E is the latest closing price divided by the latest fiscal year's earnings per share. Negative P/E ratios are excluded from this calculation.

The combination of positive earnings growth and attractive valuations make Europe a compelling opportunity for investors looking to diversify their portfolios. As banks start to lend again and businesses begin to invest, economic growth is picking up. More than 9 years into a cycle favoring the US, we are well past the average of 4.7 years. When the cycle will change is unknown, but now might be a good time to consider Europe.

		MSCI Europe	USA	Years
12/31/1969	6/29/1973	50.96%	26.70%	3.50
6/29/1973	10/29/1976	-31.95%	13.17%	3.34
10/29/1976	12/29/1978	68.72%	4.07%	2.17
12/29/1978	10/29/1982	7.25%	71.27%	3.84
10/29/1982	11/30/1988	298.95%	160.40%	6.09
11/30/1988	1/29/1993	34.12%	83.81%	4.17
1/29/1993	6/30/1994	25.44%	5.47%	1.42
6/30/1994	1/31/2002	98.77%	190.62%	7.59
1/31/2002	11/30/2007	144.57%	45.57%	5.38
11/30/2007	3/31/2017	-3.87%	95.42%	9.34
Average				4.73



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