European Equities

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The PROFIT Hunter

Philip Wolstencroft of the Artemis SmartGARP European Equity Fund is investing in sectors such as banks, insurers and pharmaceuticals which are on low ratings, yet growing at a reasonable pace and have positive newsflow.

Philip Wolstencroft
Fund Manager
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My overriding thought is that at this time of year, there are going to be loads of year-ahead pieces. And typically speaking, you find that the analysts or the fund managers say, “oh, this is going to be a great year, and there’s lots of opportunities for stockpicking”. I spend my whole life trying to get off these lists of emails. What I’d like to do today is just reassure you that **it’s business as normal for people like ourselves and we care deeply about the outcomes of how investments perform**.

I’ve got almost half my assets invested in SmartGARP funds, and I do that because I believe the returns in future are going to be great. Whether those returns come in the next week or the next month or the next year doesn’t really bother me. I’m very focused on the process and investing the money and I work alongside colleagues who are equally dedicated to their craft.

What will be the catalyst for a re-rating of European equities?

You don’t need to worry about any re-rating or suchlike for markets. For example, in our fund we own stocks with a historic yield of over 4% and the growth rate in earnings and cashflows for those companies has been averaging about 7% per annum for the past decade or so. **Given that the return from any asset is a function of its yield plus its growth rate, I’d say the return from equity should be pretty good over the next year.** And if you get some re-rating, fantastic. Typically speaking, re-ratings tend to occur either when growth starts to accelerate or when bond yields fall. And I guess of those two I’d probably say bond yields are possibly more likely to fall. And so that might help a little bit. But that’s a tailwind to a good trend which is already in place.

What is the SmartGARP process telling us about European equities?

Within the market it is saying there are very divergent views. Some people think that some stocks are fantastic and others think they are lousy.

And that’s always going to be the case. But the **divergence is much wider than normal**. And sometimes pessimism is warranted. But at the moment a lot of it is not. And so we’re finding opportunities, particularly in things like the **banks** and the **insurers** and some of the **dull stocks** like the **pharmaceuticals**: those that are on either very low or low ratings, though the growth rates are pretty good, the **newsflow is very positive** and the management is looking after the interests of shareholders in terms of buying the shares and not doing anything crazy. So that’s the principal area where we’re finding lots of opportunities.

Why invest in European equities when other equity markets might look more attractive?

“The US innovates, Asia replicates and Europe regulates.” So why on Earth would any half-intelligent investor put their money into Europe? With that as a backdrop, I’d say it comes down to the companies you pick, the rate they’re growing at and the price you pay for that. There are loads of companies out there that are global, growing at a decent clip and that are on much **lower multiples** than elsewhere.

For example, **US price/earnings multiple** is **about 22 times**. In **Europe** it is **about 13 times**. If you can get similar growth rates at a much lower multiple, then your future returns will end up being higher in aggregate. So I think there's a good case for investors to be putting some of their assets into European equities.

Contact us

+44 20 7399 6000 www.artemisfunds.com salessupport@artemisfunds.com

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