

NEW YEAR EDITION (JAN & FEB 2024)

European Equity Perspectives

Ending the year on a high

European investors ignored an unstable economic backdrop to lift the Stoxx Europe 600 to the highest levels since February 2022. The broadening of an equity rally beyond US technology has been playing out in a region that has a more cyclical bias.

Sceptics may point to a mismatch between what is happening in Europe's growth picture and how well its stocks have performed. The comparative strength in US economic growth, as reflected in its Q3 2023 gross domestic product (GDP) growth of 5.2% (while the eurozone economy contracted by 0.1% in Q3 2023), does suggest an uncomfortable truth: Europe is falling behind. With the recent batch of data showing momentum has evaporated, recessionary concerns have returned. However, as is often the case, the stock market is not the economy.

Germany, the region's biggest engine of growth, has been a notable struggler and is the only G7 economy set for a 2023 contraction according to the International Monetary Fund (IMF) (see Chart 1). However, embracing the mood, the DAX Index closed at an all-time high in December 2023. Outperformance in cyclicals helped, given the heavy concentration in autos, industrials and chemicals. Economic prospects may look subdued, but investors have found enough to get excited about, including signs that the business outlook is improving and inflation slowing.

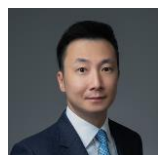
Recent quarterly earnings in Europe suggests a gulf with the US. For Stoxx Europe 600 companies, only 38% beat estimates with earnings per share (EPS) falling 13% year-on-year. That compares with the S&P 500 where 81% of companies beat expectations with an average EPS growth of 4.5%. With margins tending to be procyclical, Europe's slowing economy is preventing companies from expanding them. However, again, this has not been a pushback for market performance.

Inflation is still the story

The inflation story has been key, and investors will continue to monitor progress as well as corresponding monetary policy in 2024. The eurozone's November 2023 consumer price index (CPI) reading came in at 2.4%, down from 2.9% the previous month and below 2.7% expectations. The figure is now closer to the 2% European Central Bank (ECB) target, providing more room for the bank to consider an end to hiking, supportive for pro-cyclical markets across the region.

Chris ZEE

Head of Equity Advisory, Asia
BNP Paribas Wealth Management



Godfrey OYENIRAN

Senior Adviser
Equity Advisory Asia
BNP Paribas Wealth Management



True, the ECB has not embraced the “Fed pivot” attitude, indicating at its December 2023 meeting that it is too early to declare victory on inflation. However, that has not stopped money markets from pricing in 150 basis points of rate cuts by the ECB in 2024.

Earnings still matter

There’s also reason to assume the earnings growth path going into 2024 is still supportive. 2024 EPS estimates for the Euro Stoxx 50, for example, have risen from EUR322 in February 2023 to EUR362 on 14 December 2023. Earnings growth is expected to be led by industrials, healthcare and materials.

Strong year-end performance – now what?

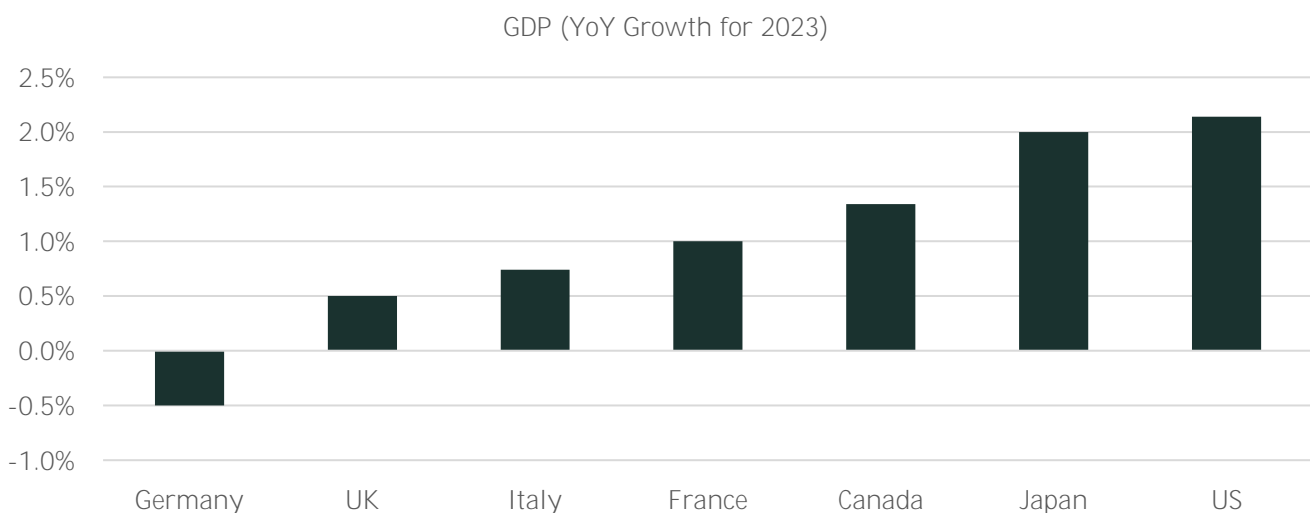
The 2023 year-end rally has been welcome, particularly for a market that stagnated following the US and European banking crises in spring 2023 while early-year market leadership also disappeared. For example, high-flying luxury goods names have pulled back in the face of an end to the pandemic-era demand windfall and pricing normalisation.

2024 is likely to be a year when investors reward resilience in the face of macro challenges that could make it tough for relative gains to hold up.

As the recent surprise victory of far-right leader Geert Wilders in the Dutch elections indicated, politics may also play a part in market performance. The election result led to modest gains in real estate stocks, as the win might lead to weaker environmental regulations, while banks and clean energy firms declined. As such, the European Parliament elections in June 2024 will play an important role in formulating policies, legislation, and the overall direction of the EU, potentially shaping market sentiment.

We believe depressed valuations and dividend yield characteristics should provide support in what could be a volatile year, particularly if current rate cut expectations are too aggressive. These should give investors more of a cushion if conditions do become more taxing, with Europe trading near a record discount to the S&P 500.

CHART 1: GERMANY IS THE ONLY G7 ECONOMY SET FOR 2023 CONTRACTION



Source: International Monetary Fund, BNP Paribas as of 15 December 2023

UK: Moving into 2024 in slow motion

The UK's "stagnation nation" label does the governing Conservative Party no favours as it heads into a likely general election year. The term could also apply to stock market performance that has trailed in 2023.

Growth is challenged, but there are signs of life

The UK failed to grow in the third quarter of 2023, reflecting the impact of a succession of interest rate rises. Forecasts suggest the economy is set to be stagnant for several months yet¹, while The Bank of England (BOE) said the UK is likely to see zero growth until 2025, although it is expected to avoid a recession¹.

The domestic picture remains mixed, as the Confederation of British Industry cautioned that retailers expect a disappointing festive season¹. Rolling train strikes in December 2023 also comes at the most crucial time of year for consumer-facing businesses in city and town centres. Though, a GfK survey found that consumers are becoming more optimistic about their personal finances¹. A further boost to confidence came in December 2023 after Chancellor Jeremy Hunt announced tax cuts.

Slowing inflation has been supportive

UK inflation fell sharply in October 2023 to its lowest rate in two years, largely due to lower energy prices, dropping to 4.6%, down from 6.7% the month before. Such has been the market's sensitivity to the inflation picture, the data helped drive the FTSE 250 to its biggest two-day gain since the Covid vaccine breakthrough in November 2020, spurred on by rate-sensitive sectors like real estate. The fact that the BOE stated at its December 2023 meeting "there is still some way to go" in the fight to contain consumer prices, rate cuts are not yet on the agenda.

The market **hasn't** been positioned for a rally

Although the UK market has rallied since the lows of October 2023, throughout 2023, it has lagged the broader European market that has benefited from stronger earnings and heavier exposure to growth sectors. Even Germany with its own economic issues has seen a 20.3% year-to-date return on the DAX Index (23.5% in dollar terms) as of 14 December 2023 versus the FTSE 100's 2.7% return (8.4% in dollar terms). The UK has been hit by commodity prices being far below last year's peak, weighing on energy and mining earnings. Financials have also reversed course on interest margin pressure.

Still a role to play in 2024

After suffering Europe's worst earnings performance in 2023, trending toward a 9% contraction driven by energy and materials, the hope is for a rebound in profitability and UK markets in 2024.

Valuation remains a core part of the narrative. The market currently trades near the bottom of its 30-year range based on price/earnings (P/E) and price/book (P/B) ratios. Relative to other markets, it is also still priced favourably. Its P/E of 10.9x compares to 18.1x for the MSCI World Index, while its P/B is 0.8x, versus 2.9x for the MSCI World Index.

Crucially, the UK is a low beta market with a high dividend yield (the FTSE 100 yields 4%, compared with the S&P 500's 1.5% and Stoxx Europe 600's 3.3%), and unlike many other markets, the UK is not priced for perfection. A "perfect soft landing" may be required to justify the outperformance of certain peers. As such, in a slowing macro environment, investors should consider positioning themselves for potential risk-off periods in 2024.

1. Source: Bloomberg, as of 11 December 2023

DISCLAIMER

This document/communication/information ("document") is provided in Singapore by BNP Paribas, acting through its Singapore branch, and in Hong Kong by BNP Paribas, acting through its Hong Kong branch. BNP Paribas is a public limited company (société anonyme) incorporated in France with liability of its members limited. BNP Paribas, acting through its Hong Kong branch is a licensed bank regulated by the Hong Kong Monetary Authority, a Registered Institution under the Securities and Futures Ordinance of Hong Kong (Cap. 571), and registered with the Securities and Futures Commission (SFC) to carry on Types 1, 4, 6 and 9 regulated activities in Hong Kong (SFC CE Reference: AAF564). BNP Paribas, acting through its Singapore branch (UEN/Registration No: S71FC2142G), is a licensed bank regulated by the Monetary Authority of Singapore. BNP Paribas Wealth Management is the business line name for the Wealth Management activity conducted by BNP Paribas. "BNP Paribas Wealth Management" (UEN/Registration No 53347235X) is a business name registered in Singapore under the Business Names Registration Act 2014.

This document is produced for general information only and should not be used as sole reference for entering into any specific transaction, and the information and opinions contained herein should not be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient or the seeking of independent professional advice (such as financial, legal, accounting, tax or other advice) by any recipient. This document is not intended to be an offer or a solicitation to buy or to sell or to enter into any transaction. In addition, this document and its contents is not intended to be an advertisement, inducement or representation of any kind or form whatsoever. BNP Paribas reserves the right (but is not obliged) to vary the information in this document at any time without notice and, save to the extent provided otherwise in Clause 6.5 of BNP Paribas Wealth Management's Terms and Conditions ("T&Cs") applicable to your account, BNP Paribas shall not be responsible for any consequences arising from such variation.

The terms set forth herein are intended for discussion purposes only and are subject to the final expression of the terms of the transaction, if the investor decides to proceed with the transaction. It does not represent (a) the actual terms on which a transaction would be entered into, (b) the actual terms on which any existing transactions could be unwound, (c) the calculation or estimate of an amount that would be payable following an early termination of the transactions, or (d) the actual valuations given to the transactions by BNP Paribas in its books of account for financial reporting. The final terms of the transaction will be set forth in the final term sheet, any applicable agreement and/or confirmation. Please also refer to the disclaimer statements contained in the relevant documents, and disclosure and other important

information concerning our fees, charges and/or commissions as set out in the Fee Schedule.

If this document is a post-trade/transaction confirmation, please examine the information as set out in this document carefully and contact us immediately if you notice any discrepancy. The content of this document is subject to the final transaction(s) details / information in our official bank statements and/or advices (if any) which may follow by mail. This document contains confidential information intended only for the use of the addressee(s) named above. If you are not the addressee(s), you must not disseminate, copy or take any action in reliance on it. If you have received this document by error, please notify BNP Paribas and delete/destroy this document immediately.

Although the information and opinions provided herein may have been obtained or derived from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and, save to the extent provided otherwise in Clause 6.5 of the T&Cs applicable to your account, BNP Paribas shall not be responsible for any inaccuracy, error or omission. All analysis, estimates and opinions contained in this document constitute BNP Paribas' own judgments as of the date of this document, and such expressions of opinion are subject to change without notice. Information provided herein may contain forward-looking statements. The words "believe", "expect", "anticipate", "project", "estimate", "predict", "is confident", "has confidence" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts but based on the current beliefs, assumptions, expectations, estimates, and projections of BNP Paribas in light of the information presently available, and involve both known and unknown risks and uncertainties. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in these forward looking statements. Investors should form their own independent judgment on any forward-looking statements and seek their own advice from professional advisers to understand such forward-looking statements. BNP Paribas does not undertake to update these forward looking statements. Where investors take into account any theoretical historical information regarding the performance of the product/investment, investors should bear in mind that any reference to past performance should not be taken as an indication of future performance. BNP Paribas is not



DISCLAIMER

giving any warranties, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit of any investment/ transaction. Save to the extent provided otherwise in Clause 6.5 of the T&Cs applicable to your account, no BNP Paribas group company or entity therefore accepts any liability whatsoever for any loss arising, whether direct or indirect, from the use of or reliance on this document or any part of the information provided.

Structured transactions are complex and may involve a high risk of loss including possible loss of the principal invested. If any product mentioned in this document is a structured product which involves derivatives, do not invest in it unless you fully understand and are willing to assume the risks associated with it. If you are in any doubt about the risks involved in any product/transaction, you should seek independent professional advice.

Prior to entering into any transaction, each investor/subscriber should fully understand the terms, conditions and features of the product/investment as well as the risks, the merits and the suitability of entering into any transaction/investment including any market risk associated with the issuer, and consult with their own independent legal, regulatory, tax, financial and accounting advisors before making the investment. Investors/subscribers should fully understand the features of the investment, be financially able to bear a loss of their investment and

be willing to accept all risks involved. Save as otherwise expressly agreed in writing, (a) where BNP Paribas does not solicit the sale of or recommend any financial product to the investor/subscriber, BNP Paribas is not acting as financial adviser of the investor/subscriber in any transaction, and (b) in all cases, BNP Paribas is not acting as fiduciary of the investor/subscriber with respect to any transaction.

BNP Paribas and/or persons associated or connected with it may effect or have effected a transaction for their own account in a product/an investment described in this document or any related product before or after this document is published. On the date of this document, BNP Paribas and/or persons associated or connected with it and their respective directors and/or representatives and/or employees may take proprietary positions and may have a long or short position or other interests or make a market in a product mentioned in this document, or in derivative instruments based thereon, and may purchase and/or sell the investment(s) at any time in the open market or otherwise, whether as principal or as agent or as market maker. Additionally, BNP Paribas and/or persons associated or connected with it may have within the previous twelve months acted as an

investment banker or may have provided significant advice or investment services to the companies or in relation to a product mentioned in this document.

This document is confidential and intended solely for the use of BNP Paribas and its affiliates, their respective directors, officers and/or employees and the persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior written consent of BNP Paribas.

Hong Kong: This document is distributed in Hong Kong by BNP Paribas, acting through its Hong Kong branch only to Professional Investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571). The products or transactions described in this document may not be authorised in Hong Kong and may not be available to Hong Kong investors.

Singapore: This document is distributed in Singapore by BNP Paribas, acting through its Singapore branch only to Accredited Investors within the meaning of the Securities and Futures Act 2001 only and is not intended for investors in Singapore who are not such Accredited Investors and should not be passed on to any such persons. Some products or transactions described in this document may not be authorised in Singapore and may not be available to Singapore investors.

Where this document is distributed by BNP Paribas to a person in Singapore who is not an Accredited Investor, Expert Investor or an Institutional Investor, BNP Paribas, acting through its Singapore branch accepts legal responsibility for the contents of this document to such person only to the extent required by applicable law.

Save to the extent provided otherwise in Clause 6.5 of the T&Cs applicable to your account, information in this document is for general circulation to the intended recipients only and is not intended to be a recommendation or investment advice to recipients hereof. A recipient of this document should seek advice from its/his/her own professional adviser regarding the suitability of the products or transactions (taking into account the recipient's specific investment objectives, financial situation and particular needs) as well as the risks involved in such products or transactions before a commitment to purchase or enter into any product or transaction is made.

Please note that this document may relate to a product or products where BNP Paribas is issuer, and in such instance this document or certain information contained therein may have been prepared by BNP Paribas in its capacity as product issuer ("Issuer Document").





DISCLAIMER

Where an Issuer Document is provided to you by BNP Paribas, acting through its Hong Kong branch or BNP Paribas, acting through its Singapore branch in its capacity as distributor, it shall also be subject to Clause 6.5 of the T&Cs. To the extent that there are any inconsistency between the terms of an Issuer Document and Clause 6.5 of the T&Cs, the latter shall prevail.

Generally, please take note that various potential and actual conflicts of interest may arise from the overall investment activities or the roles of the parties involved in any investment product or transaction, their investment professionals and/or their affiliates. In particular, the counterparty / issuer / provider or its related entities or affiliates can offer or manage other investments which interests may be different to the interest of your investments in that investment product or transaction; or for cases where the product counterparty or issuer is BNP Paribas or its related entity or affiliate, BNP Paribas may also act as distributor, guarantor, calculation agent and/or arranger of the same product. BNP Paribas and its affiliates and persons associated or connected with it (collectively "BNP Paribas Group") may make a market in, or may, as principal or agent, buy or sell securities mentioned in this document or derivatives thereon. BNP Paribas Group may have a financial interest in the issuers mentioned in this document, including a long or short position in their securities, and/or options, futures or other derivative instruments based thereon. BNP Paribas Group, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any issuer mentioned in this document. BNP Paribas Group may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any issuer referred to in this document. BNP Paribas Group may, to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis on which it was based, before its publication. Members of the BNP Paribas Group may face possible conflicts of interest in connection with certain duties under structured products. For example, it and its affiliates may trade an underlying for their own account or for the account of others. It or its affiliates may receive a portion of the management or other fees charged with any of the underlyings. BNP Paribas may offer other services to entities associated with an underlying, for which they may be remunerated. All of these activities

may result in conflicts of interest with respect to certain financial interests of BNP Paribas.

Where this document includes a reference to real estate, please note that real estate service offered in Hong Kong by BNP Paribas, acting through its Hong Kong branch exclusively relates to real estate properties outside Hong Kong. Specifically, BNP Paribas, acting through its Hong Kong branch is not licensed to deal with any real estate property situated in Hong Kong. BNP Paribas, acting through its Singapore branch is not licensed to and does not offer real estate service, and nothing herein should be construed as such.

BNPP clients and counterparties are responsible for ensuring that they comply with applicable provisions of Executive Order (EO) 13959, as amended (and any subsequent official guidance). For the full details of the EO, you may want to consult the following websites: For the EO itself, <https://home.treasury.gov/system/files/126/13959.pdf>, and for the latest guidance on this EO provided by the OFAC, <https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions>.

By accepting this document, you agree to be bound by the foregoing limitations. In case there is a Chinese version and there is any ambiguity or difference of meaning between the English version and the Chinese versions, the English version shall prevail. In respect of any transactions or arrangement with BNP Paribas, acting through its Singapore branch, the English version is the only operative version and the Chinese version shall be disregarded.

You may contact BNP Paribas, acting through its Singapore branch at 10 Collyer Quay, #35-01 Ocean Financial Centre, Singapore 049315; Tel: (65) 6210 3888; Fax: (65) 6210 3861 in respect of any matters arising from, or in connection with, this document. This paragraph does not apply to you if you are (a) not resident in Singapore and you are (b) served by a Relationship Manager in Hong Kong. If you satisfy (a) and (b), you may contact BNP Paribas, acting through its Hong Kong branch at 63/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong; Tel: (852) 2909 8888, in respect of any matters arising from, or in connection with, this document.

Photo credit @Getty images

© BNP Paribas (2024). All rights reserved.

