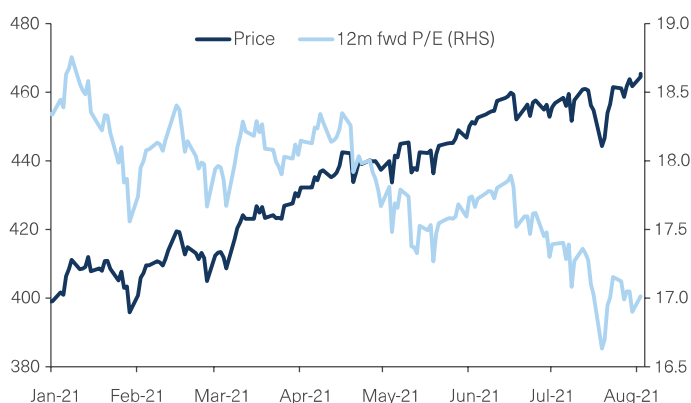


**Fund in focus:** Brompton European Dividend Growth ETF (EDGF)

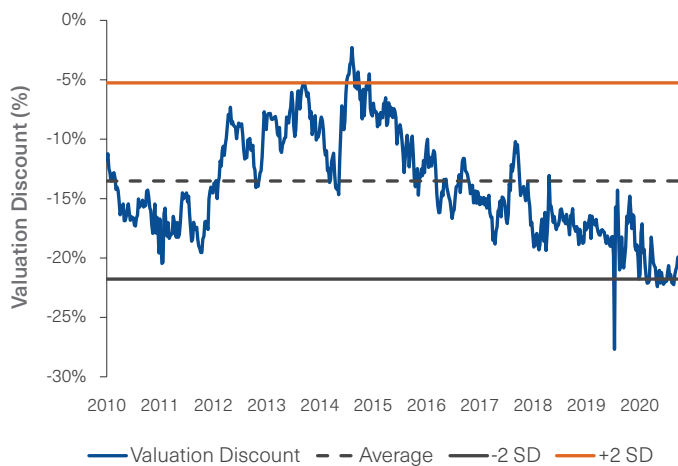
European equities have had a great run so far in 2021 with the STOXX 600 Total Return Index up 20% YTD, keeping pace with the US and outperforming other regions. The initial reaction from some Canadian investors may be to think that they've missed the rally. Well...that may not be the case. European equity valuations have actually declined as share prices moved higher, as European equity analysts made upward revisions to forward earnings estimates following strong Q1 and Q2 earnings beats. The P/E ratio for the STOXX 600 Index has fallen from ~19x at the beginning of 2021 to ~16x currently. Improving valuation during a market rally is consistent with the "growth phase" of the equity market cycle which is currently underway.<sup>1</sup>

**YTD Europe STOXX 600 Price Has Risen but P/E Has Fallen**



Source: Goldman Sachs (August 10, 2021)

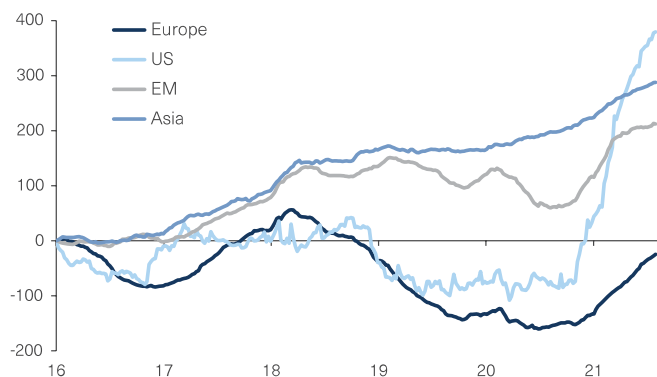
**Europe Valuation Discount Relative to the U.S.**



Source: Bloomberg (June 30, 2021)

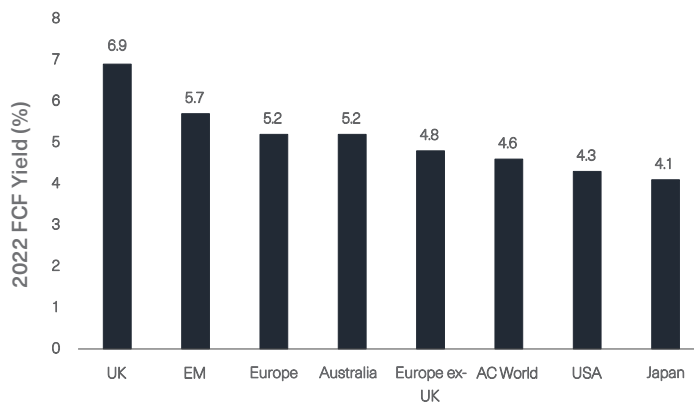
Europe has seen support from increased inflows. Domestic European investors are repatriating money previously invested abroad, along with US and Asian investors increasing allocations to Europe. However, 2021's strong inflows don't make up for the cumulative outflows over the prior 4 years, suggesting more to come. Additionally, private equity interest in European companies has been very strong in 2021 and buybacks are picking up. Cash flows in Europe are attractive and expected to continue to pique investor interest, with 5.2% free cash flow yields coming in higher than most developed markets.<sup>1</sup>

**Cumulative Flows Into Equity by Region Since 2016 (\$US)**



Source: Goldman Sachs (August 10, 2021)

**European FCF Yields are High versus Other DMs**



Source: Goldman Sachs (August 10, 2021)

An additional reason for optimism is the fact that Europe is winning the vaccine race. With higher vaccination rates than the U.S. and most other geographic regions, Europe should be less susceptible to the Delta variant, and as such is more likely to avoid further lockdowns and restrictions<sup>3</sup>. We believe this will result in higher investor optimism in Europe compared to other regions with a lower vaccination rates.

European equities have seen a shift in recent years with an increase in listings of growth companies and the decrease of older, slow growth companies and sectors. In the STOXX 600 Index, the Tech sector weighting has grown to the same size as the banks (7.1%) and the luxury goods segment at 3.7% weight has almost surpassed energy's 3.9%. Leading growth stocks in Europe can be identified as "GRANOLAS": GlaxoSmithKline, Roche, ASML, Nestle, Novartis, Novo Nordisk, L'Oréal, LVMH, AstraZeneca, SAP, Sanofi. These companies are of a similar size and market dominance as the U.S. FANGMAN group of stocks (Facebook, Apple, Netflix, Alphabet (Google), Microsoft, Amazon, Nvidia), but with a higher weighting to Healthcare, which we think is a very attractive sector with both growth and value characteristics.

It's an opportune time to increase European exposure. We believe active management is key to performance given equity markets have become more volatile with major market moves occurring more frequently. Actively managed portfolios can take a multi-factor discretionary approach in providing returns and managing risk during these more volatile times.

## **Brompton's Approach**

[Brompton European Dividend Growth ETF \("EDGF"\)](#) focuses on European companies that are leaders in their respective segments. Their leadership positions allow them to remain resilient in times of uncertainty and their operational scale drives strong economics.



VALUE  
INTEGRITY  
PERFORMANCE  
THE FOUNDATION FOR EXCELLENCE

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<sup>1</sup> Goldman Sachs, *More to go: Raising targets and earnings forecasts*, August 10, 2021.

<sup>2</sup> Bloomberg as of June 30, 2021. Reflects Price-to-Earnings based on forward 12-month consensus earnings expectations for STOXX 600 (Europe) and S&P 500 (U.S.).

<sup>3</sup> Morgan Stanley, *Thoughts On The Market Podcast, Three Reasons European Equities Remain Strong*, August 17, 2021.

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