LPL RESEARCH

WEEKLY MARKET COMMENTARY

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EUROPE COMING UP SHORT

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KEY TAKEAWAYS

When we compare Europe's economic and corporate fundamentals with those in the U.S., even factoring in valuations, we think Europe comes up short.

We continue to favor U.S. and EM equities over Europe on a tactical basis and, in general, maintain minimal allocations to European equities in our tactical model portfolios.

From a longer-term, strategic perspective, we still think allocating to Europe and broader developed international market equities makes sense.

Post Italy "crisis," are European stocks attractive? With last week's news that Italy has formed a government, securing the country's place in the Eurozone at least in the short term, this week we assess whether European stocks now represent an attractive opportunity. Relative to other opportunities, we don't think so, as we will explain further. Political risk in Italy has dominated headlines recently, but European economic data has also disappointed throughout the year, as earnings have softened, and European stocks have meaningfully underperformed their U.S. counterparts over the past several years [Figure 1].

QUITALY?

Stock and bond markets rebounded sharply late last week as worst-case fears related to Italy leaving the Eurozone eased. Italy formed a government that will not promote leaving the euro (or defaulting on its debt), reducing the likelihood of a Brexit-like departure from the currency union (though the United Kingdom was not a part of the euro currency union, only the trade union, i.e., the EU).

1 **EUROPEAN STOCKS REMAIN IN A LONG-TERM RELATIVE DOWNTREND VS. THE U.S.**

Source: LPL Research, FactSet 06/01/18

All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. All performance referenced is historical and is no guarantee of future results.

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