

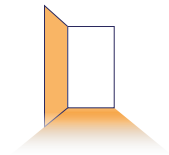


European equities: the peak of pessimism is behind us

Ann Steele, Portfolio Manager

- The world is going to change in 2021! We will have had Brexit, there will be a new president in the White House, and Covid-19 vaccines will be in roll-out. So, while headwinds from 2020 still need to play out, we can be optimistic. Expect a big rebound from corporate earnings crushed by the virus, and support from fiscal stimulus, good money availability and recovering companies and consumers.
- Europe has a huge range of strong companies: with robust franchises, they are globally competitive and have fantastic pricing power and great management. Earnings will rebound and the survivors that were oversold in 2020 will bounce. But there are some which won't survive or will be hobbled by the crisis. So, laggards and leaders – performance, as ever, needs to come from stock selection.
- Brexit could disrupt European as well as UK businesses. Although at the time of writing a deal is yet to be agreed, whatever the final outcome, potential disruptions could still lurk.
- Joe Biden could set a common global agenda in 2021 with the UN Climate Change Conference, and with a new US stance on climate change. This, together with China's recent announcement of net zero carbon emissions by 2060, could herald a consistent global policy – so it is crucial to reassess environmental positioning globally.





There are reasons for optimism in 2021. Forget a U-shaped recovery; the letter we look for in 2021 is V, which stands for vaccine. Our baseline scenario is that vaccines roll out across Europe in early 2021, allowing business and consumer activity to start to return to normal. But even if there are delays and further lockdowns, the economic impact of Covid-19 should ease markedly in 2021.

Expect a big rebound from corporate earnings crushed by the virus, and support from Europe-wide fiscal stimulus, injections of money from central banks, and recovering companies and consumers.

Unemployment is expected to be higher, but among those who have retained their jobs, many European consumers have been building cash reserves – in the second quarter of 2020 the household savings rate in the euro area hit a record high of 24.6%.¹ The European Union has agreed a €750 billion stimulus package² to combat the pandemic, while quantitative easing and record low interest rates from the European Central Bank, the Bank of England and other European central banks should continue throughout 2021.

A lot of European companies have cut costs and improved operational efficiencies in the wake of Covid-19. So, our central case is European equities to be well supported. However, we expect there are some companies which won't survive, or will be hobbled by the crisis. So, laggards and leaders – performance, as ever, needs to come from stock selection.

We believe the European winners in 2021 will fall into two categories. The first is globally competitive companies with robust franchises, strong management teams and excellent pricing power – often these companies have business models which meant earnings did not suffer the hit in 2020 and even – within healthcare and technology, for example – derived some benefits from the new normal environment.

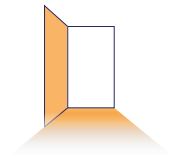


There will be laggards and leaders in European equities – performance, as ever, needs to come from stock selection

The second is stocks that did see earnings decline, but the share prices were savaged – by year-end they were heavily oversold, and some did not deserve to be so heavily punished. We expect many of these stocks to enjoy strong earnings rebound in 2021. And as 2020 draws to a close, many companies in Europe are so cheap that we expect a surge in mergers and acquisitions.

¹ European Commission, <https://ec.europa.eu/eurostat/documents/2995521/10663666/2-02102020-BP-EN.pdf/f30ab193-3e6d-2bfb-8916-dd058322105e> 2 October 2020.
² Bloomberg, <https://www.bloomberg.com/news/articles/2020-07-21/eu-leaders-reach-deal-on-750-billion-euro-virus-recovery-fund> 21 July 2020.





So as in 2020, stock selection is key and will play to the core strengths of Columbia Threadneedle Investments, where investment decisions are backed by an extensive team of experienced sector analysts.

Aside from the vaccine, two other themes will influence European equity markets as we start 2021: the outcome of the Brexit trade negotiations with the EU, and the impact Joe Biden will have as the new US president.

On Brexit, at the time of writing a deal is yet to be agreed. Whatever the final outcome, there could be potential trade disruptions for both UK and European businesses next year as supply chains are reworked. However, given the goodwill on both sides to iron out any issues, we expect major problems to be short lived.

President-elect Biden, meanwhile, has already had a positive impact on global markets: stock indices rose strongly in the wake of the US elections and as senior nominations in his administration were announced. Renewed global impetus on climate change may well follow, especially with the looming UN Climate Change Conference and China's promise to achieve net zero carbon emissions by 2060.³ This bodes well for strategies which follow environmental, social and governance (ESG) standards.



As 2020 draws to a close, many companies in Europe are so cheap that we expect a surge in mergers and acquisitions

2020 has been a challenging year for investors. From peak to March's lockdown trough, at the height of pessimism, the Euro Stoxx 50 Index was down almost 40%.⁴ But as we enter 2021 the pessimism is behind us. And this means that, for equity investors, there are gains to be made.

³BBC.co.uk Climate change: China aims for 'carbon neutrality by 2060', 22 September 2020.
⁴Bloomberg, April 2020.



To find out more visit
columbiathreadneedle.com



Important Information:

For use by Professional and/or Qualified Investors only (not to be used with or passed on to retail clients).

This document is intended for informational purposes only and should not be considered representative of any particular investment. This should not be considered an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services. **Investing involves risk including the risk of loss of principal. Your capital is at risk.** Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. The value of investments is not guaranteed, and therefore an investor may not get back the amount invested. **International investing** involves certain risks and volatility due to potential political, economic or currency fluctuations and different financial and accounting standards. **The securities included herein are for illustrative purposes only, subject to change and should not be construed as a recommendation to buy or sell. Securities discussed may or may not prove profitable.** The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Threadneedle Investments (Columbia Threadneedle) associates or affiliates. Actual investments or investment decisions made by Columbia Threadneedle and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be suitable for all investors. **Past performance does not guarantee future results, and no forecast should be considered a guarantee either.** Information and opinions provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. This document and its contents have not been reviewed by any regulatory authority.

In Australia: Issued by Threadneedle Investments Singapore (Pte.) Limited ["TIS"], ARBN 600 027 414. TIS is exempt from the requirement to hold an Australian financial services licence under the Corporations Act and relies on Class Order 03/1102 in marketing and providing financial services to Australian wholesale clients as defined in Section 761G of the Corporations Act 2001. TIS is regulated in Singapore (Registration number: 201101559W) by the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289), which differ from Australian laws.

In Singapore: Issued by Threadneedle Investments Singapore (Pte.) Limited, 3 Killiney Road, #07-07, Winsland House 1, Singapore 239519, which is regulated in Singapore by the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289). Registration number: 201101559W. This document has not been reviewed by the Monetary Authority of Singapore.

In Hong Kong: Issued by Threadneedle Portfolio Services Hong Kong Limited 天利投資管理香港有限公司. Unit 3004, Two Exchange Square, 8 Connaught Place, Hong Kong, which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 regulated activities (CE:AQ4779). Registered in Hong Kong under the ce (Chapter 622), No. 1173058.

In EMEA: Issued by Threadneedle Asset Management Limited. Registered in England and Wales, Registered No. 573204, Cannon Place, 78 Cannon Street, London EC4N 6AG, United Kingdom. Authorised and regulated in the UK by the Financial Conduct Authority. This document is distributed by Columbia Threadneedle Investments (ME) Limited, which is regulated by the Dubai Financial Services Authority (DFSA). For Distributors: This document is intended to provide distributors' with information about Group products and services and is not for further distribution. For Institutional Clients: The information in this document is not intended as financial advice and is only intended for persons with appropriate investment knowledge and who meet the regulatory criteria to be classified as a Professional Client or Market Counterparties and no other Person should act upon it.

Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies. columbiathreadneedle.com

Issued 12.20 | Valid to 06.21 | J31065 | 3354531