

Export-led expansion broadening out and improving risk sentiment: leverage-up on Eurozone equities

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Improved 'producer sentiment' in the Eurozone region beyond Germany offers hope that the Eurozone's weak members have reached an inflection point. The broad-based positive macro data shows reducing volatility in Eurozone equities, and suggests a stabilizing equity market uptrend near term. It presents an opportunity for investors bullish on Eurozone equities to build leverage positions. Investors sharing this sentiment may consider Boost's leverage ETPs tracking the FTSE MIB (3ITL), DAX 30 (3DEL), EURO STOXX 50 (3EUL), EURO STOXX Banks (3BAL). **ECB QE driving Eurozone output expansion outside Germany, spill-over effect still elusive** The debased euro this year has clearly given Eurozone producers beyond Germany a more upbeat assessment of the near term outlook. If we look at Italy, France and Spain for instance, the largest Eurozone economies after Germany, then the upbeat outlook of businesses confirmed in PMI readings, swings well above the 50 threshold that separates contraction from expansion (see chart 1 below).

While France's PMI was the weakest (with manufacturing at 48.8 still suggesting industrial output contraction rather than expansion, even while its services sector remained in modest expansion at 52.4), Spain and Italy recorded much stronger levels, with composite PMI of 56.9 and 52.4, respectively. Moreover, the current PMI reading of 54 for the Eurozone as a whole, is a level that by historic standards is by no means 'challenging'.

Broader improved macro fundamentals underpin stabilizing equity market uptrend

It is too early to tell whether the improved businesses sentiment is merely a blip. But with QE to last well into 2016, there is little to suggest that Eurozone producer sentiment should not continue to benefit from the ECB's sustained asset purchase program that is suppressing long term borrowing costs and euro exchange rates. What is holding the sentiment down is domestic demand, as evidence by the Eurozone's weak retail PMI indicator of 46. However, first glimmers of hope that Eurozone's domestic demand outlook may now have turned a corner emerge from a revival in bank lending since November 2014 when, as a result of marked deleveraging by the banks, outstanding loans in the Eurozone was brought to its nadir (see also [Macro Alert](#)). The rise of EUR 300bn in outstanding loans since means that confidence is improving beyond just exporters alone, and is spreading to the lending institutions, the main channel through which Eurozone's smaller businesses that also provide for the overwhelming majority of jobs, obtain access to funding.

Volatility is falling, indicating stability in the uptrend to drive amplified returns

Another boost to reviving domestic demand is emerging from politician's softer stance on fiscal tightening, with Brussels last month giving France and Italy more time to cut their deficits and Jean-Claude Juncker, the President of the European Commission taking a more active stance in promoting investment spending in Europe's southern hemisphere, including Greece. Given the large investment shortfall in the Eurozone, the call for EU politicians to stimulate domestic demand is likely to work favourably towards sentiment in risk assets currently boosted by QE. Already the EURO STOXX 50 implied volatility has fallen back to around 20%, suggesting that the uptrend in Eurozone equities is becoming less volatile and that the near term outlook for Equity prices in the Eurozone is stabilising.

A sustained uptrend would play into the hands of leverage long positioning in Eurozone equities. As shown in chart 2, underpinning the strong performance of major Eurozone equity markets this quarter (1 January to 31 March 2015), has been the overall broad-based support from across countries and sectors. Next to German exporters benefiting strongly from the upbeat macro backdrop, as evidenced by the DAX 30 rising 22% over the period, are Italian and Eurozone stocks, with the FTSE MIB up by 22%, the EURO STOXX 50 up 18% and EURO STOXX Banks up 18% in the same period. With 3x leverage ETPs tracking the DAX 30 (3DEL), FTSE MIB (3ITL), EURO STOXX 50 (3EUL) and EURO STOXX Banks (3BAL) up by 76%, 72%, 58% and 54%, respectively, the stabilising uptrend has worked to amplify the leveraged returns over longer holding periods.

Investors sharing this sentiment may consider the following leverage equity ETPs:

- Boost FTSE MIB 3x Leverage Daily ETP (3ITL)
- Boost LevDAX 3x Daily ETP (3DEL)
- Boost EURO STOXX 50 3x Leverage Daily ETP (3EUL)
- Boost EURO STOXX Banks 3x Leverage Daily ETP (3BAL)
- Boost FTSE MIB 3x Leverage Daily ETP (3ITL)
- Boost LevDAX 3x Daily ETP (3DEL)
- Boost EURO STOXX 50 3x Leverage Daily ETP (3EUL)
- Boost EURO STOXX Banks 3x Leverage Daily ETP (3BAL)

All data is sourced from WisdomTree Europe and Bloomberg, unless otherwise stated.

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