

Are We Past Peak Bearishness on Europe?

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Jeremy Schwartz, CFA

Global Chief Investment Officer

In my podcast last week, I had a chance to speak with Jay Pelosky of Pelosky Global Strategies, whose firm has developed a global risk model to evaluate the intersection of politics, policy and markets to provide independent ideas across markets.

Jay has been a global asset allocator for 30 years, with work covering 50 countries, and his approach for advising clients is to mirror ETF portfolios he has been running with his own capital for 15 years. Pelosky very much eats his own cooking, and anything he writes about in terms of ideas is reflected in his own personal accounts—a common-sense, best-practice approach to advising clients.

Pelosky thinks the biggest overarching question for the market today is whether we are going from deflation to inflation and from low growth toward higher growth. He thinks it is still too early to make a judgment call on that big-picture question. But he sees a big intersection between politics and policy playing out for both Europe and Asia, with a renewed focus on fiscal policy as an outcome driver.

A Tripolar World: A Regional World View

Pelosky thinks the global trade system is moving from just a global system toward a regional system with three main regions: the Americas, Europe and Asia.

To him, these regions have a growing ability to self-finance with growing wealth, self-produce with more automated manufacturing, and self-consume. He believes that the fears about shrinking globalization and trade protectionism are hysteria.

Trump to Lead to Greater European Integration: Buy European Banks

Perhaps one of most interesting comments from Pelosky (hence the title of this blog post) was that he believes fears about Trump and Brexit could actually concentrate the European minds around integrating more deeply. Pelosky believes we are past the peak bearishness in Europe, pointing to record outflows from Europe in 2016. He sees positive trends in credit, inflation and growth signs, and he thinks the financial markets are under-owned and unloved but the earnings growth trends are double those of the United States in the last quarter. He particularly likes the European banks, which he believes may benefit from a removal of negative interest rates.

On Asia: Buy Japan with a Currency Hedge Based on Strong Earnings Growth

Pelosky is also bullish on Asia, particularly on Japan. He likes that the Bank of Japan (BOJ) is capping interest rates at zero, while U.S. interest rates start normalizing, which he believes will lead to a weaker yen

that is supportive of earnings growth and thus Japan's equity markets. He points to the earnings growth in Japan, which was triple that of the United States (13%–15% in Japan versus 5% in the United States). Pelosky points to the 25% consensus earnings growth for Japan. He likes corporate governance efforts there as well.

The podcast discussion with Jay Pelosky starts at the 37-minute mark, [after a discussion with Alan Auerbach](#) and a brief outlook from Professor Siegel at the 31-minute mark.

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Important Risks Related to this Article

Investments focused in Europe and Japan increase the impact of events and developments associated with these regions, which can adversely affect performance.

Hedging can help returns when a foreign currency depreciates against the U.S. dollar, but can hurt when the foreign currency appreciates against the U.S. dollar.