

Where Is Earnings Growth in Europe?

Published October 6, 2016

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There are several reasons to be optimistic about the prospects for European markets: market multiples are low, bond yields are low (and even negative out to 10-year maturities in Germany) and earnings trends are looking more positive. That last item is especially important. Simply looking at the earnings for broad market indexes like the MSCI EMU Index may give a distorted view of what is happening across a number of sectors in Europe. Looking at the earnings figures for the MSCI EMU Index, one can see declining earnings over the last five years at a rate of -2.1% per year. But half the sectors in the market (typically the export-oriented sectors) are delivering earnings growth that ranges from 2.6% per year to 4.5% per year and on average is 3.7% per year. These export-oriented sectors are Consumer Discretionary, Industrials, Health Care, Information Technology, and Consumer Staples. These sectors constitute roughly 57% of the weight of the MSCI EMU Index. On the other hand, there are sectors (the other 43% of the MSCI EMU Index) in which earnings have collapsed: Financials, Energy, Materials, Utilities, and Telecommunications. The Financials sector was the biggest of these from a weighting perspective. **Earnings Growth Sectors versus Earnings Contracting Sectors**

Earnings Per Share Growth					
Index	Weight	5-Year	3-Year	1-Year	Best Estimate Price/Earnings
MSCI EMU Index	100.0%	-2.1%	1.9%	-4.8%	16.1x
Earnings Growth Sectors					
Industrials	15.2%	2.6%	6.2%	8.0%	16.5x
Consumer Discretionary	13.9%	4.5%	6.7%	6.2%	16.7x
Health Care	7.9%	3.8%	6.9%	2.7%	16.3x
Information Technology	7.7%	4.4%	14.6%	1.8%	19.4x
Consumer Staples	12.3%	3.7%	4.1%	-1.6%	21.8x
Total/Average	57.0%	3.7%	7.1%	3.9%	18.1x
Earnings Contracting Sectors					
Financials	17.3%	-4.2%	2.7%	-12.9%	9.6x
Materials	8.2%	-3.9%	4.7%	1.8%	16.2x
Utilities	5.4%	-7.2%	-6.9%	-8.8%	14.1x
Energy	5.1%	-13.9%	-17.6%	-19.4%	16.8x
Telecommunication Services	4.8%	-11.6%	-5.3%	4.3%	15.7x
Real Estate	2.1%	N/A	N/A	N/A	20.7x

Source: Bloomberg as of 9/28/16. Past performance is not indicative of future results. You cannot invest directly in an index.

Focusing on Earnings Growth in Europe Recently, we highlighted how [European exporters were seeing stronger sales growth and earnings growth](#) than the S&P 500. The [WisdomTree Europe Hedged Equity Index](#) ("European Exporters"), which is composed of multinationals of Europe, is achieving this earnings growth largely because it is under-weighting these sectors, which are more challenged from an earnings environment, and tilting weight to where earnings have been growing in Europe. Compared to the 57% of the MSCI EMU Index allocated to these sectors with positive earnings growth, the WisdomTree Europe Hedged Equity Index currently has 72% allocated to these sectors. Notably, under-weighting in Energy and Financials has been helping to introduce a quality bias to the portfolio that has benefited the Index. For those who believe valuations are low in Europe, one segment of the market with a better earnings growth environment is currently represented by the WisdomTree Europe Hedged Equity Index. **Tilting Toward Positive Earnings Growth Sectors**

Sector	% Weight in Index	
	MSCI EMU Index	WisdomTree Europe Hedged Equity Index
Industrials	15.2%	18.6%
Consumer Discretionary	13.9%	17.6%
Health Care	7.9%	9.2%
Information Technology	7.7%	7.6%
Consumer Staples	12.3%	18.6%
Total	57.0%	71.6%

Source: Bloomberg as of 9/28/16. Subject to change.

Unless otherwise stated, data source is Bloomberg as of 9/28/2016.

Important Risks Related to this Article

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