

# 20 COMPANIES BENEFITING FROM A WEAK EURO

Jeremy Schwartz — Global Chief Investment Officer

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A big theme of the last six months has been the strength of the U.S. dollar and the weakness of foreign currencies, especially the euro. Thus far this year, the euro has lost 7% of its value versus the U.S. dollar, 15% over the last six months and 18% over the last twelve.<sup>1</sup> The euro started trending down as it became increasingly clear that the European Central Bank (ECB) would engage in a more aggressive [monetary policy](#) to combat [deflationary](#) trends in the [eurozone](#). Most of the eurozone stocks have been reacting quite well. Out of a universe of 457 stocks trading in euros, we found 444 that displayed a negative [correlation](#) over the last 52 weeks—meaning these stocks have reacted positively to the euro depreciation.<sup>2</sup> The top 20 are:

Company Name	Sector	Country	Correlation	Year-to-Date Return	6-Month Return	1-Year Return	Revenue from Within Eurozone	Revenue from Outside Eurozone
Beiersdorf AG	Consumer Staples	Germany	-0.63	14%	12%	2%	32%	68%
Airbus Group	Industrials	France	-0.62	25%	12%	-2%	23%	77%
Anheuser Busch InBev NV	Consumer Staples	Belgium	-0.61	21%	31%	53%	7%	93%
Safran SA	Industrials	France	-0.59	22%	30%	27%	34%	66%
L'Oreal	Consumer Staples	France	-0.59	16%	25%	30%	25%	75%
MTU Aero Engines AG	Industrials	Germany	-0.58	17%	30%	37%	16%	84%
Sonae SGPS, SA	Consumer Staples	Portugal	-0.58	24%	10%	-2%	99%	1%
Iberdrola SA	Utilities	Spain	-0.57	9%	11%	33%	48%	52%
Dragon Oil	Energy	Ireland	-0.57	12%	-1%	-2%	0%	100%
TOTAL SA	Energy	France	-0.57	11%	-1%	8%	49%	51%
Kone Corp B	Industrials	Finland	-0.56	13%	32%	39%	21%	79%
Suez Environment SA	Utilities	France	-0.55	7%	16%	16%	57%	43%
Reed Elsevier NV	Consumer Discretionary	Netherlands	-0.55	12%	31%	45%	14%	86%
Essilor Intl	Health Care	France	-0.54	12%	34%	31%	18%	82%
Neste Oil OYJ	Energy	Finland	-0.54	15%	60%	60%	54%	46%
Koninklijke Philips Electronics	Industrials	Netherlands	-0.54	10%	14%	8%	19%	81%
Inditex SA	Consumer Discretionary	Spain	-0.54	18%	28%	35%	45%	55%
STMicroelectronics NV	Information Technology	Netherlands	-0.53	29%	28%	34%	28%	72%
Huhtamaki OYJ	Materials	Finland	-0.53	20%	30%	33%	29%	71%
Bayer AG	Health Care	Germany	-0.53	17%	26%	28%	25%	75%
Average			-0.57	16%	23%	26%	32%	68%
Euro				-7.4%	-15.1%	-18.3%		

Sources: WisdomTree, FactSet, 2/26/14–2/26/15. Past performance is not indicative of future results. Subject to change.

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the [WisdomTree DEFA Index](#) and [WisdomTree Europe Hedged Equity Index](#). **What Do These Companies Have in**

**Common? Most Are Exporters.** • The average revenue from within the eurozone for these 20 companies was 32%, and the average revenue from outside the eurozone was 68%. These companies benefit as their foreign sales are translated back to their home currency through a more favorable exchange rate, resulting in higher earnings. • Most of these companies are seeing their prospects and competitiveness improve against foreign multinationals, especially those incorporated in the United States. As the euro weakens against the dollar, eurozone companies have greater pricing power across the globe compared to their U.S.-based competitors. **An Index to Reflect This Investment Theme** The [WisdomTree Europe Hedged Equity Index \(WTEHI\)](#) is well positioned to take advantage of this theme that eurozone-domiciled multinational exporters should benefit from a weak euro. WTEHI selects the exporters of Europe, based on a revenue screen, and then neutralizes the impact of currency fluctuations by [hedging](#) out the underlying currency exposure of the euro. This allows the Index to benefit from the potential local price appreciation without the negative impact of exchange rate declines that we have witnessed. A number of companies mentioned in this top 20 list—companies such as Anheuser Busch InBev, L'Oreal, Bayer and Airbus—are among the Index's top holdings. The weighted average correlation of the stocks in WTEHI and the euro/dollar exchange rate is -0.42; and while the euro was down 7.4%, the Index was up 13.26%—showing the stocks in aggregate have been responding quite well to the ECB stimulus and the negative correlation.<sup>3</sup> As the [Federal Reserve](#) starts to tighten its monetary policy, we may be in for a period of relative strength in the U.S. dollar that could persist over a longer cycle. The eurozone stocks with the strongest negative correlation to the euro are a hunting ground for those looking to find stocks that could potentially benefit from dollar

strength. But WisdomTree believes it is important to invest in these eurozone companies with a currency hedge in place to protect from the potential falling euro. <sup>1</sup>Source: Bloomberg, as of 2/26/15. <sup>2</sup>Universe refers to those stocks within the WisdomTree DEFA Index incorporated in the eurozone and traded in euros. <sup>3</sup>Sources: WisdomTree, Bloomberg, 12/31/14–2/26/15. Correlation is trailing 52-week.

**Important Risks Related to this Article**

Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Investments focused in Europe are increasing the impact of events and developments associated with the region, which can adversely affect performance.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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## DEFINITIONS

**Monetary policy** : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

**Deflation** : The opposite of inflation, characterized by falling price levels.

**Eurozone (EZ)** : Consists of the following 18 countries that have adopted the euro as their currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain (source: European Central Bank, 2014).

**Correlation** : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

**Hedge** : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

**Federal Reserve** : The Federal Reserve System is the central banking system of the United States.