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Will Europe's outperformance continue?

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Sharon Bell: Will Europe's outperformance continue?

Europe STOXX 600 is up so far this year and has significantly outperformed the S&P 500. Of course, this comes after many years of US outperformance. But I think there are good reasons for the switch. First, Europe is now looking to spend more fiscally. Second, there are more questions with respect to the likely future returns of the mega-cap US tech stocks. Third, the tariffs. These are bad for Europe, but probably worse for the US, as they create both uncertainty, which drives down growth and trade, but also, for the US, they are likely inflationary. In Europe, they are less likely to push up inflation. Also, European stocks have much lower valuations than US stocks, even adjusting for sector weights.

Finally, positioning in Europe is much lighter. Net flows into European stocks have been flat over the last five years, while around $700 billion has gone into the US stocks. We're not saying European equities will be immune to a potential economic downturn. But there is simply a lot less enthusiasm already priced in.

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