European equities: Stock selection guided by razor-sharp research will be the holy grail

Ann Steele, Portfolio Manager

2021 was a year of booming markets which were in danger of overheating before the Omicron Covid-19 variant came along. A profit boom on both sides of the Atlantic has supported equity markets, with the US looking exceptionally strong in the fourth quarter.

But the virus is deflationary, and the new variant has pushed 2021's inflation scare into the background. Central banks will hesitate before raising rates for longer; bond yields will fall back; and the US 10-year treasury bond will end up ranging between 130bps-170bps. How the US financial markets behave is very important for European markets.

We must remember that a coronavirus is a cold virus in a particularly nasty form. As we get chillier weather in the northern hemisphere over the next few months it is going to come back to bite us. Until the whole world is vaccinated, this will keep on happening. Which means that the equity market bonanza of the past 18 months will not be repeated in 2022; it is going to be a volatile year across all financial markets.

We are going to see a stop-start economy in a tough winter, bringing with it some corporate revenue shocks. If the US proves quite resilient there will be lots of opportunities. So, stock selection guided by razor-sharp research is the holy grail.

How the consumer reacts will be key. It is too early to be positive about travel and leisure companies, but some oversold consumer staples stocks may be good value, as secure growth is a winner. Similarly, some consumer discretionary stocks may continue to perform well. Cyclicals will struggle to outperform in the renewed uncertainty. Banks need clear skies to thrive – revenue optimism, confident borrowers, hawkish central bankers and buoyant capital markets – otherwise earnings are at risk.

Europe's luxury goods stocks are interesting. Those at the peak of the luxury pyramid, such as Hermes and LVMH, are great at managing their way through this uncertain world. They are holding back product, creating greater desirability, and customers are very happy to sign up on waiting lists. And it's not simply handbags – even their tableware is in demand. If there is a big fall in demand they can just fill up their waiting lists.

COP26 was a turning point for companies everywhere. They must now go from the theory of the 2015 Paris Agreement to the practicality of 2021's Glasgow Climate Pact. They must come up with better targets and better information, or shareholders will hold them to account. As investors, we will use our votes – voting against managements if we need to force the path of change. It is a long way to the 2050 net-zero target, but only a short way to the intermediate stage in 2030. There is a huge amount to do if average global temperatures are to be held below two degrees.

It is a long way to the 2050 net-zero target, but only a short way to the intermediate stage in 2030

I have great faith in human nature, but the pace of change must increase. Scientists showed what they can do when they found a Covid-19 vaccine in double-quick time. They are too smart not to get this right.

Europe's political leadership is in flux. Angela Merkel stepping down as Germany's chancellor after 16 years can mean more infrastructure spending, which the country desperately needs. The outcome of France's 2022 presidential elections, key for the UK as well as Continental Europe, hangs in the balance.

2022 looks set to be a stop-start year. Detailed research driving a better understanding of companies and business models will pay off. Smart companies that have done their homework will have the chance to make opportunistic acquisitions. And, as ever, there will be opportunities for clever stock selection.

To find out more visit
columbiathreadneedle.com

Important Information:

For use by professional clients and/or equivalent investor types in your jurisdiction (not to be used with or passed on to retail clients). This is an advertising document.

This document is intended for informational purposes only and should not be considered representative of any particular investment. This should not be considered an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services. **Investing involves risk including the risk of loss of principal. Your capital is at risk.** Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. The value of investments is not guaranteed, and therefore an investor may not get back the amount invested. **International investing** involves certain risks and volatility due to potential political, economic or currency fluctuations and different financial and accounting standards. **The securities included herein are for illustrative purposes only, subject to change and should not be construed as a recommendation to buy or sell. Securities discussed may or may not prove profitable.** The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Threadneedle Investments (Columbia Threadneedle) associates or affiliates. Actual investments or investment decisions made by Columbia Threadneedle and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be suitable for all investors. **Past performance does not guarantee future results, and no forecast should be considered a guarantee either.** Information and opinions provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. This document and its contents have not been reviewed by any regulatory authority.

In Australia: Issued by Threadneedle Investments Singapore (Pte.) Limited ["TIS"], ARBN 600 027 414. TIS is exempt from the requirement to hold an Australian financial services licence under the Corporations Act and relies on Class Order 03/1102 in marketing and providing financial services to Australian wholesale clients as defined in Section 761G of the Corporations Act 2001. TIS is regulated in Singapore (Registration number: 201101559W) by the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289), which differ from Australian laws.

In Singapore: Issued by Threadneedle Investments Singapore (Pte.) Limited, 3 Killiney Road, #07-07, Winsland House 1, Singapore 239519, which is regulated in Singapore by the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289). Registration number: 201101559W. This document has not been reviewed by the Monetary Authority of Singapore.

In Hong Kong: Issued by Threadneedle Portfolio Services Hong Kong Limited 天利投資管理香港有限公司. Unit 3004, Two Exchange Square, 8 Connaught Place, Hong Kong, which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 regulated activities (CE:AQA779). Registered in Hong Kong under the ce (Chapter 622), No. 1173058.

In the UK: Issued by Threadneedle Asset Management Limited, registered in England and Wales, No. 573204. Registered Office: Cannon Place, 78 Cannon Street, London EC4N 6AG. Authorised and regulated in the UK by the Financial Conduct Authority.

In the EEA: Issued by Threadneedle Management Luxembourg S.A. Registered with the Registre de Commerce et des Sociétés (Luxembourg), Registered No. B 110242 44, rue de la Vallée, L-2661 Luxembourg, Grand Duchy of Luxembourg.

In the Middle East: this document is distributed by Columbia Threadneedle Investments (ME) Limited, which is regulated by the Dubai Financial Services Authority (DFSA). This document is intended to provide distributors with information about Group products and services and is not for further distribution. The information in this document is not intended as financial advice and is only intended for persons with appropriate investment knowledge and who meet the regulatory criteria to be classified as a Professional Client or Market Counterparty and no other Person should act upon it.

In Switzerland: Threadneedle Asset Management Limited. Registered in England and Wales, Registered No. 573204, Cannon Place, 78 Cannon Street, London EC4N 6AG, United Kingdom. Authorised and regulated in the UK by the Financial Conduct Authority. Issued by Threadneedle Portfolio Services AG, Registered address: Claridenstrasse 41, 8002 Zurich, Switzerland.

Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies. columbiathreadneedle.com

Issued 12.21 | Valid to 06.22 | J32025 | 3948280