

SUSTAINED DEFLATIONARY PRESSURE CREATES TENSION

Ask the PORTFOLIO MANAGER

Should an investor be concerned about the sustainability of the European Project?

Transcript of a video recorded on May 30, 2018.

In short, yes. Unfortunately, Europe has become a zone of insecurity and political recrimination, and it is grotesque that every election brings such nervousness to financial markets.

The fundamental problem is that the European project has become overambitious and has lost support, partly because the different countries and different regions within the eurozone are simply too different.

You don't get the economic rebalancing happening in the eurozone that we do in countries like the U.S., for example, and that leads to sustained deflationary pressure that creates political tension.

The European project was ultimately founded on the idea of shared prosperity, and as that prosperity has fallen apart, naturally, the willingness to embrace the European project has also come under question.

I would pay close attention to the behavior of banking stocks in Europe, which are really the barometer of the health of the domestic economy. For Europe to outperform world stocks, European banks must outperform European stocks.

The problem today is that Europe, i.e. the continent, has still not cleaned up its banking sector. That's not true in the UK. UK banks today are where the U.S. banks were back in 2014, but the combination of political issues, banking issues, still haunt Europe, and that's why we suggest to restrain your overenthusiasm.

Europe is a tactical opportunity, not a structural opportunity. When I make these comments, of course, the United Kingdom should be seen somewhat differently, and to a degree, I suspect sterling assets, UK equities, will outperform commencing sometime later this year.

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Video recorded 5/30/18.

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