

Europe: Time to take a France on me, or still just a load of Belgian Waffle?

This week's FNL explores all things European, coming on the back of what markets perceived to be a positive first election result in France last week. The political spotlight has certainly swung onto Europe in 2017 – following on from Brexit and the various elections. While there were investor concerns for Italy and the Netherlands, the results did not lead to any wider ripples of uncertainty in markets (*though Nether say Nether*), and the attention quickly shifted to France. Marine Le Pen, the National Front candidate, advocates protectionism and is strongly opposed to the EU and as such would be a serious blow to the chances of the single market remaining a viable concept. Following last week's first round results, and the lead in the polls for Macron, perceived investor sentiment for the European outlook was more positive.

Indeed, across the four major developed markets (UK, Europe, US and Japan), taking anecdotal feedback from a series of banks, nearly half of all standard trade requests on the derivative desks in the last week had some form of exposure to Europe. Moreover, economic momentum (as measured by the PMI) gained strength in the first quarter of 2017, unemployment rates across the EU fell to 8% and 9.5% across the Euro area – the lowest level since the financial crisis and growth forecasts for Europe for 2017 and 2018 are above 1.5%. Deflationary fears have mostly subsided (though core annual inflation has yet to move above 1.0%) and this trend supports increasing optimism for corporate profits in European equity markets (broad earnings growth is now expected to be circa 17%). Given where we are in the current cycle, this makes European valuations look potentially intriguing. Clients have certainly been more willing to consider European exposure and depending on your outlook, now may be an opportune time to consider an increased weighting. We won't bore you with the standard sales patter on European Autocalls as the majority of our readers will be highly familiar with these and we certainly don't want to be a *Spain in the @ss...*



"EUnion Jack"

For investors into foreign markets, there remains the question of currency. As has been abundantly apparent in the last year for GBP investors, currency volatility has increased drastically; the decision to hedge or remain unhedged can have a markedly large impact on your performance. At Fortem, with our Japanese product launches in the last quarter, we took time to look at the way both funds and banks view currency hedging vs how investors in the real world aim to mitigate one's exposure.

Contact:

General: T 020 8050 2900 E enquiries@fortemcapital.com
 Sales: T 020 8050 2905 E sales@fortemcapital.com

Trading: T 020 8050 2901 E trading@fortemcapital.com
 Research: T 020 8050 2904 E research@fortemcapital.com

05th May 2017

Product	Participation
6yr Daily Hedged GBP SX5E Supertracker EIS	~200%

	Rates (bps)	
	Current	Week Chge
GBP 1yr	50.60	0.70
GBP 3yr	66.40	2.80
GBP 5yr	82.80	3.40

Equity Indices (%)		
FTSE 100	7,253.76	0.69%
S&P 500	2,345.96	-1.60%
Nikkei 225	19,445.70	1.30%
Eurostoxx 50	3,616.14	1.59%

Currencies (%)		
GBPUSD	1.2933	-0.14%

5yr Credit Spreads (bps)		
Citigroup	57.35	-0.59
Credit Suisse	82.13	-6.63
Deutsche	103.26	-6.65
GS	72.46	-0.32
HSBC	48.81	-3.19
JPM	49.23	0.15
MS	67.93	-0.23

Commodities (%)		
Gold	1234.18	-2.69%
Oil (CLA)	45.49	-7.78%

3m Implied (vol pts)		
FTSE 100	13.10%	0.76%
S&P 500	11.35%	-0.35%
Nikkei 225	17.35%	-1.18%
Eurostoxx 50	19.23%	0.08%

5yr Implied (vol pts)		
FTSE 100	18.02%	0.01%
S&P 500	19.54%	-0.20%
Nikkei 225	18.03%	-0.55%
Eurostoxx 50	19.25%	-0.11%

Source Bloomberg / Partner Banks
 Data as at 05th May, 11.00am

Upcoming events	
07 th May	French Presidential Election 2017 Second Round
11 th May	BoE MPC Meeting: Base Rate % & Qtrly Inflation Report
12 th May	US CPI % m/m

“Bull markets are born on pessimism, grow on scepticism, mature on optimism and die of euphoria”– John Templeton

For a reminder of this study, please see [this previous FNL on currency hedging](#) – though it applies to Japanese investing, there are strong parallels to Europe. What it does make the case for is the extra participation gained from daily hedging instead of the expensive perfect hedge – sold to you by the bank as a ‘Quanto’ option. The same rule applies for Europe; however, the Daily hedge to GBP has historically been an **even more effective hedging mechanism** on the Euro than it is on the Yen. Reminder, a Quanto option pays the % performance of a foreign asset, in a chosen currency; for example, GBP. In this case, the option holder is perfectly hedged whilst the trader must run that dynamic hedging risk.



Please see below for product terms – daily-hedged autocalls are available on request:

Daily Hedge vs Quanto Long Europe	
Product Type	6yr Eurostoxx 50 Supertracker, 60% EKIP, X% Participation in ATM call, GBP EIS
Participation	Daily: ~200% vs Quanto: ~150%

For more details on anything referenced in this week’s FNL, or to find out more about the products described above, do please get in touch via the usual means. After all, if *EU sneuze EU leuze...*

Disclaimer

This factsheet has been issued and approved as a financial promotion by Fortem Capital Limited for the purpose of section 21 of the Financial Services and Markets Acts 2000. Fortem Capital Limited registration number 10042702 is authorised and regulated by the Financial Conduct Authority under firm reference number 755370. This factsheet is intended for Professional Investors and Institutional Clients and advisors and should not be communicated to any other person. The information has been prepared solely for information purposes only and is not an offer or solicitation of an offer to buy or sell the product. All information, including prices, analytical data and opinions contained within this factsheet are believed to be correct, accurate and derived from reliable sources as at the date of the factsheet. However, no representation or warranty, expressed or implied is made as to the correctness, accuracy or validity of such information. Fortem Capital Limited assumes no responsibility or liability for any errors, omissions or inaccuracy with respect to the information contained within this factsheet. All price and analytical data included in this factsheet is intended for indicative purposes only and is as at the date of the factsheet. The value of investments and the income from them can go down as well as up and the investor may not get back the amount originally invested. Past performance is not necessarily a guide for the future. The information within this document does not take into account the specific investment objective or financial situation of any person. Investors should refer to the final documentation and any prospectus to ascertain all of the risks and terms associated with these securities and seek independent advice, where necessary, before making any decision to buy or sell. The product may not be offered, sold, transferred or delivered directly or indirectly in the United States to, or for the account or benefit of, any U.S. Person.

Contact:

General: T 020 8050 2900 E enquiries@fortemcapital.com
 Sales: T 020 8050 2905 E sales@fortemcapital.com

Trading: T 020 8050 2901 E trading@fortemcapital.com
 Research: T 020 8050 2904 E research@fortemcapital.com