

Pan Europe update

Monthly commentary

August 2015

Market overview

Pan-European stocks rose in July, helped by better Eurozone economic data and receding uncertainty towards the month-end on the back of improvements in the Chinese A-share market, as well as news of Greece's third bailout. However, gains were capped by late profit taking, exacerbated by worries over the impending normalisation of US interest rates and weak commodity prices.

Eurozone business confidence rose to a four-year high after the Greek bailout deal was reached. Leading manufacturing indicators improved, along with rising June retail sales and first-quarter house prices. Construction output rose, but industrial production weakened on the back of the lacklustre energy sector. Inflation remained stable, allowing the European Central Bank (ECB) to hold steady its policy rate and quantitative easing programme. The Bank of England also held rates unchanged at record lows citing flat inflation.

European equity markets may have recovered some ground after a weak June but risks persist, especially in light of the uncertainty hanging over Greek politics and a decelerating China. In Europe, data is likely to remain broadly stable, with growth benefiting from a weaker euro and the lower oil price. In addition, the ECB's policy loosening should underpin financial markets. While the short-term outlook for equities might well stay difficult, we are more confident about the medium to long-term. Further volatility should offer us the chance to add to our holdings, especially globally competitive companies with strong pricing power.

Model portfolio news (Pan Europe)

In July, we sold ENI on the back of concerns over its business outlook and took profits from Croda, Prudential and Schroders after their strong share-price performances. We re-invested the proceeds in better opportunities that had suffered recent share-price weakness. This included the introduction of Schoeller Bleckmann and Atlas Copco, both with strong fundamentals and very attractive opportunities longer term.

Note:

Any changes refer to those of our model portfolio, which is the basis for actual portfolios we manage that have similar investment objectives. However, there might be minor variations, so the comments may not apply to all portfolios.

Corporate News

Basic materials: Specialty chemicals company **Croda International** looked set for continued growth after it reported solid results.

Consumer: Despite weak demand in Brazil, French retailer **Casino** posted better-than-expected sales, buoyed by a return to growth at its Geant hypermarkets. **Pearson's** solid first-half growth was lifted by North America, Brazil and China; it also announced the sale of the FT news group to Nikkei for £844 million as it focuses on its core education business. **Unilever** reported better-than-expected organic growth, helped by both volume and pricing.

Financials: Swedish lender **Nordea** posted solid results, as cost cuts helped offset a drop in income from the low interest rate environment. Separately, the financial watchdog has indicated it may tighten capital requirements by increasing risk weightings in the coming years. While this could hurt capital ratios of domestic banks, Nordea remains well-capitalised.

Healthcare: **GlaxoSmithKline** signed a deal to produce low-priced HIV drugs in China, taking a positive step to repair its image after it was hit by a corruption scandal in the country last year. The

drugmaker's **Mosquirix**, the world's first-ever malaria vaccine, won approval from European regulators. Elsewhere, **Roche** reported progress in some of its treatments, whereas other treatments faced pricing competition.

Industrials: After securing support from shareholders **Holcim** and **Lafarge** remain on track to complete their merger, and in so doing create the world's largest cement maker with a combined market value of more than US\$40 billion. Holcim CEO Bernard Fontana also announced he will step down. **Rolls Royce** issued a profit warning for the full year following weakness in its offshore marine business. It also highlighted challenging times ahead for its civil aerospace unit as it transitions between old and new engine programmes. **Weir's** acquisition of Delta Industrial Valves, a leading US-based industrial valve manufacturer, will help expand its portfolio of products, notably those used in the transportation of slurry.

Technology: Telecoms equipment maker **Ericsson's** profits were pressured by its business mix but, encouragingly, demand stabilised in the US and 4G usage accelerated in China.

We hold the companies highlighted above.

Performance of European stockmarkets

Region/country	Index/fund	US dollars			Local currency		
		MOM	3M	YTD	MOM	3M	YTD
UK	FTSE Allshare	1.75%	-0.26%	5.94%	2.40%	-2.12%	5.64%
UK	FTSE 100	2.11%	-1.22%	4.61%	2.76%	-3.06%	4.31%
UK	FTSE 250	0.37%	3.80%	12.02%	1.02%	1.87%	11.70%
UK	FTSE Small Cap	0.26%	3.86%	10.14%	0.90%	1.92%	9.83%
UK	FTSE 350 Real Estate	5.83%	6.41%	15.98%	6.50%	4.43%	15.65%
Europe	FTSE Europe	3.03%	-0.60%	7.44%	4.32%	0.19%	12.40%
Europe	FTSE Europe ex UK	3.61%	-0.16%	8.80%	5.12%	1.71%	16.24%
Denmark	Denmark - OMX Copenhagen 20 Index	5.55%	3.01%	26.02%	7.02%	4.95%	39.54%
Finland	Finland - OMX Helsinki 25 Index	2.97%	-0.11%	6.70%	4.37%	1.80%	17.89%
France	France - CAC 40	4.75%	0.71%	10.99%	6.17%	2.64%	22.06%
Germany	Germany - DAX	1.94%	-3.13%	4.38%	3.33%	-1.27%	15.33%
Ireland	Ireland - ISEQ Overall Index	4.22%	5.74%	15.02%	5.64%	7.77%	26.48%
Italy	Italy - FTSE MIB Index	3.94%	2.83%	14.84%	4.80%	4.24%	26.52%
Netherlands	Netherlands - AEX	3.53%	0.49%	8.17%	4.94%	2.41%	18.95%
Norway	Norway - OBX	-2.78%	-8.02%	0.17%	1.07%	-0.62%	9.70%
Portugal	Portugal - PSI 20	1.56%	-5.64%	11.06%	2.95%	-3.83%	22.13%
Spain	Spain - IBEX	2.87%	-2.48%	1.35%	4.27%	-0.61%	11.45%
Sweden	Sweden- OMX Stockholm 30 Index	0.98%	-3.47%	2.50%	4.80%	-0.34%	13.91%
Swiss	Swiss - SMI	4.01%	1.35%	10.66%	7.41%	4.33%	8.05%
World	MSCI AC World	0.90%	-1.48%	3.90%	1.81%	-0.15%	6.50%
World	Citigroup World Government Bond	0.48%	-2.15%	-3.56%	0.48%	-2.15%	-3.56%

Source: Bloomberg

Note: Total indices performance table for the month ended 31 July 2015

European Equity Team Aberdeen Asset Management

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