Janus Henderson INVESTORS

THE CASE FOR EUROPE

BREADTH OF EXPERTISE

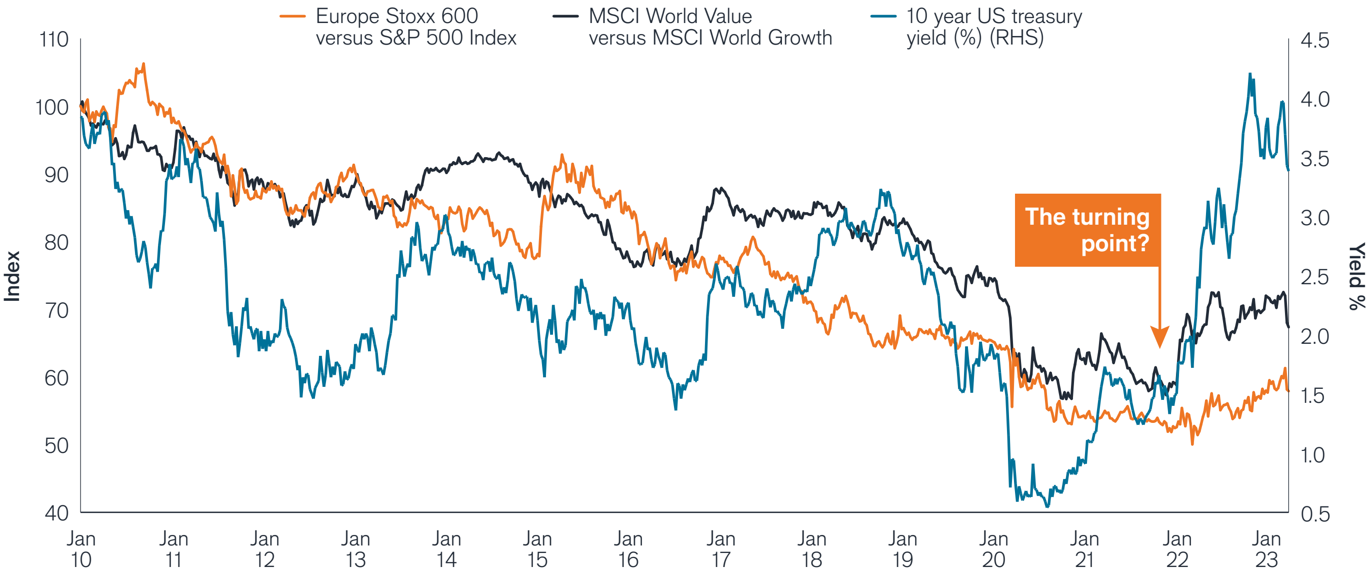
Janus Henderson manages a total of €19.1bn* in European equities.

*Janus Henderson, as at 31 March 2023.

WILL THIS CYCLE BE BETTER FOR EUROPE?

For the past decade, a long-lasting deflationary economic cycle drove bond yields lower creating the perfect environment for high-growth stocks to flourish. This backdrop saw growth stocks outperform value stocks, with the US leading the growth charge while a value-oriented Europe lagged behind. We believe that today's environment of higher inflation and higher rates provides ground for value stocks to outperform growth, marking a turning point for European equities. Will this cycle be different for Europe? We believe that a European 'catch-up trade' has already begun.

Figure 1: Europe – a catch-up trade?



Source: Janus Henderson Investors, Refinitiv DataStream, as at 24 March 2023. For illustrative purposes only. Rebased to 100 in January 2010.

ECB POLICY ACTION CHARACTERISED BY SPEED AND VOLUME

Since the Global Financial Crisis, Europe's sluggish response to political and economic challenges left behind an arid environment for European companies to operate in. The Institute of International Finance research suggests that Europe's prolonged austerity – limiting debt, country deficits and ultimately, government spending – and policy inaction reduced GDP growth by 10% in Europe compared to the US.[1] Coupled with the challenging political construct of a European monetary union without a political union and the two-speed growth rate of Northern Europe versus Southern Europe, the continent has suffered.

Fast forward to current day, policy responses to economic crises have been faster and larger than ever before.

Central bank action during the COVID crisis included massive amounts of asset purchasing alongside relaxed capital requirements for banks to keep money moving in the euro area. Rigid rules around country budget and inflation targeting slackened, offered space for European economies to recover from the economic shock.

While some may question the scale of stimulus, with inflation running way above target, the important takeaway is that Europe is no longer an outlier in the global recovery as was the case in the 2010's.

In short, Europe's hangover from the latest crisis has been far less severe this time around.

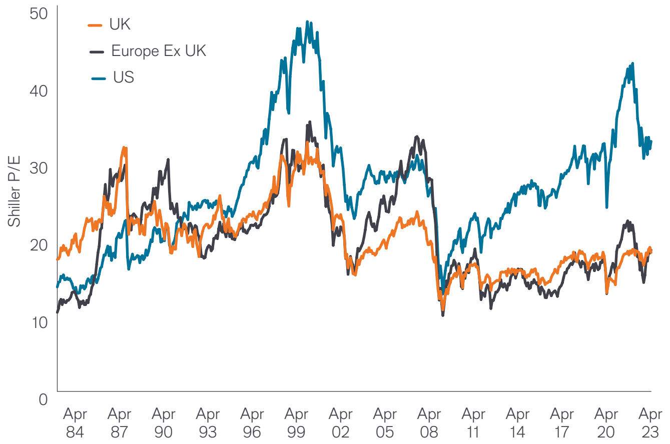
[1]Haver, Institute of International Finance, 2018

WHY EUROPE NOW?

EUROPE IS ATTRACTIVELY VALUED

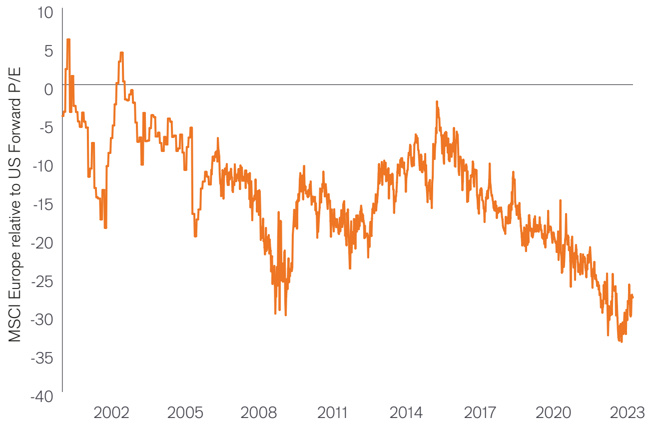
As it stands, Europe appears cheap. The valuation gap between Europe and the US (measured by Shiller P/E as shown in figure 2) is at an extreme, presenting what looks like an attractive entry point for European equities. A weaker euro makes the region's products more competitive compared to international peers. In fact, Europe's corporates and their products have rarely been cheaper for international buyers – figure 3. Coupled with an accommodative ECB, the economic backdrop for European equities is promising.

Figure 2: Mind the valuation gap



Source: Janus Henderson Investors, Refinitiv Datastream, from 1 February 1983 to 1 April 2023.

Figure 3: Europe has only been cheaper in the GFC



Source: Refinitiv DataStream, Janus Henderson Investors Analysis, as at 31 March 2023.

EUROPE IS A DIVERSE AND ROBUST MARKET

Despite attractive valuations, Europe is not solely a 'value play'. Rather, it is home to a wide array of world-leading companies that command a global market share – see figure 4.

From fledgling markets such as energy-efficient lighting used in vertical farming to enivronmentally-friendly animal feed, these companies offer diverse products with robust fundamentals that have managed to thrive in what has been a lacklustre macroeconomic environment. This diversity allows European investors to balance exposure between attractively-priced cyclical companies and those with dominant markets shares geared into secular growth themes.

Figure 4: Europe is home to an array of battle-hardened, world-beating companies

ARKEMA	Chemicals	Nestlé	Consumer goods
ASML	Lithography tools, enabling 'Moore's Law'	LVMH	Fashion
Lindt	Chocolate production	novo nordisk	Insulin products
DSM	Vitamins and animal feed	signify	Lighting
INDITEX	Fashion	TotalEnergies	Oil and renewables
Mercedes-Benz	Premium autos	UPM	Pulp, paper and biofuels

Note: References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector, and should not be assumed to be profitable. Janus Henderson Investors, its affiliated advisor, or its employees, may have a position in the securities mentioned.

THE DECADE OF SUSTAINABILITY

Around the world, sustainable practices will play a pivotal role in defining the future of companies. As leaders in ESG, Europe is well placed to potentially benefit from this long-term secular growth theme.

Net-zero is a main focus for sustainability advocates globally, and we believe that energy companies are core to achieving an orderly transition to a low carbon economy. Many of the most established energy companies have in place the infrastructure, technology, cash flow and ability to fund new investment, which makes the industry essential for change to happen. Europe is home to the market leaders in energy. In fact, 8 out of the top 10 renewable energy companies (ex-China) are domiciled in Europe.

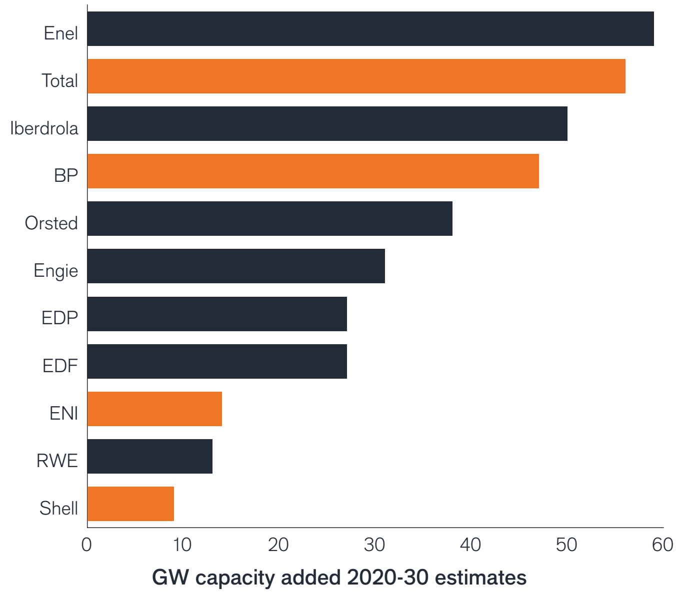
Figure 5: Europe dominates the renewable energy space

Company	Domicile	Installed capacity (GW)
Iberdrola	Europe	25
NextEra	US	23
Enel	Europe	22
Orsted	Europe	14
EDP	Europe	13
Berkshire Hathaway Energy	US	13
EDF	Europe	13
RWE	Europe	11
Engie	Europe	9
Accoina Energia	Europe	9

Source: Janus Henderson Investors, Goldman Sachs Research, as at 31 December 2022. GW – Gigawatt. Numbers based on 2020 financial year. References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector, and should not be assumed to be profitable. Janus Henderson Investors, its affiliated advisor, or its employees, may have a position in the securities mentioned.

Not only do these companies already have large installed bases, but their growth plans are also impressive. Figure 6 shows the growth plans for big oil compared to the incumbent developers, utilities. In 2022, Shell, Total Energies and BP had a combined low-carbon capital expenditure (capex) in the region of $9bn, and these numbers are set to grow, with targets of 20-50% capex by 2025/2030.[2]

Figure 6: Growth in renewable capacity



Source: Janus Henderson Investors, Exane Research, as at 31 December 2022. Note: Forecasts based on company guidance or Exane research estimates. Black bars represent utility stocks, orange bars represent energy stocks.

EUROPE HAS MADE CLIMATE CHANGE ONE OF ITS TOP PRIORITIES

The European Commission's four priority areas

Renewable Energy

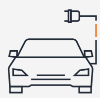
DOUBLING EU RENEWABLE ELECTRICITY PRODUCTION BY 2030

Beneficiaries: Utilities, Offshore infrastructure (cabling)

Green Mobility

NEAR-TERM FOCUS ON RAIL AND ELECTRIC VEHICLES

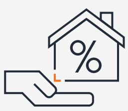
Beneficiaries: Railway infrastructure, Electric vehicles (autos and trucks)



Renovation Wave

DOUBLING THE RENOVATION RATE FROM 2026

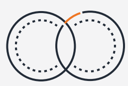
Beneficiaries: Buildings, Materials, Lighting, Ventilation



Hydrogen

AMBITIOUS GROWTH IN RENEWABLE HYDROGEN IN 2023

Beneficiaries: Utilities, Industrial gases, Fuel cell infrastructure



Source: Janus Henderson Investors, as at 12 May 2021.

[2] MSCI, Janus Henderson, Exane BNP Research, Credit Suisse Research, as at 30 December 2022.

AT A GLANCE

Europe is a cyclical market

The region is home to many financial, energy, material and industrial companies, which tend to do better than their defensive counterparts when emerging from a downturn.

Inflation – stronger for longer

While it is difficult to predict the pathway for inflation, abating supply chain issues, removal of excess liquidity and slowing global growth all suggest that inflation has likely peaked. However, we expect it to stay higher than the last cycle given the lasting effects of stimulus, increasing capital expenditure as a result of near-shoring operations and the ESG energy transition – all of which are inflationary.

Valuations are cheap, even for Europe

Europe is cheaply valued and yet it is home to an array of diverse and robust companies, many of which command a global market share. This offers an attractive entry point for investors looking to increase their exposure to European equities.

Equity securities are subject to risks including market risk. Returns will fluctuate in response to issuer, political and economic developments.

Growth and value investing each have their own unique risks and potential for rewards, and may not be suitable for all investors. Growth stocks are subject to increased risk of loss and price volatility and may not realize their perceived growth potential. Value stocks can continue to be undervalued by the market for long periods of time and may not appreciate to the extent expected.

Energy industries can be significantly affected by fluctuations in energy prices and supply and demand of fuels, conservation, the success of exploration projects, and tax and other government regulations.

Net zero refers to greenhouse gas production being balanced by removal from the atmosphere.

STOXX® Europe 600 Index represents large, mid and small caplitalization companies across 17 countries in the European region.

S&P 500® Index reflects U.S. large-cap equity performance and represents broad U.S. equity market performance.

MSCI World Value IndexSM reflects the performance of large and mid cap equity securities exhibiting value style characteristics across global developed markets.

MSCI World Growth IndexSM reflects the performance of growth stocks from global developed markets

10-Year Treasury Yield is the interest rate on U.S. Treasury bonds that will mature 10 years from the date of purchase.

FOR MORE INFORMATION, PLEASE VISIT **JANUSHENDERSON.COM**

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