

ETFs Trade idea

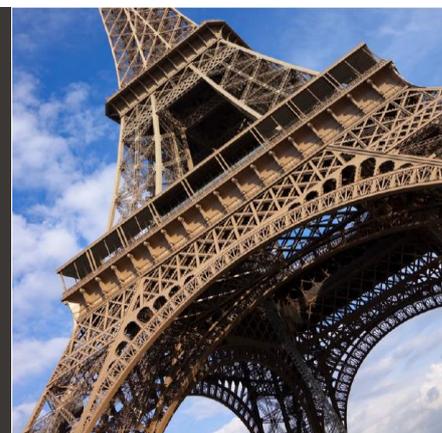
ETF Securities | The intelligent alternative | 30 October 2017



Europe Playing Catch Up

Trade idea – ETFS EURO STOXX 50® ETF (ESTX)

- The European Central Bank's (ECB) proactive approach is helping aid Europe's economic recovery
- Lending growth is on the up
- The ECB wants a weaker euro which will support many of the multi-nationals in the EURO STOXX 50, who generate a majority of their revenue offshore
- ETFS EURO STOXX 50 ETF (ESTX) provides low cost access to European stocks without any UK exposure. This ETF was rated Recommended by Lonsec



Whilst we focus on what Trump will tweet next, what new high the Dow will hit, or how long the Australian market can continue moving sideways, Europe has quietly been going about its business, continuing its recovery phase. This recovery has been aided by the ECB's proactive approach and a stabilising geo-political environment.

What should investors be looking at in Europe?

What are the ECB doing?

- Last week on Thursday the ECB met market expectations for tapering its bond purchase program.
- Globally markets responded positively. For the day at close of markets on Thursday 26th October:
 - o EURO STOXX 50 Index was up 1.3%
 - o DAX was up 1.4%
 - o Positive news from the ECB had a spill-over effect on the S&P 500 which was up 0.2%

Show me the money

- Analysing Eurozone M3 data for September, lending growth is extending:
 - o Lending to corporates rose to 2.5% y/y
 - o Mortgage lending rose to 2.4% y/y
 - o Consumer credit growth steady at 6.7%
- M1 (good indicator of transactions demand for money) in September rose to 9.7% y/y from 9.5% y/y in August

Recent European reporting season

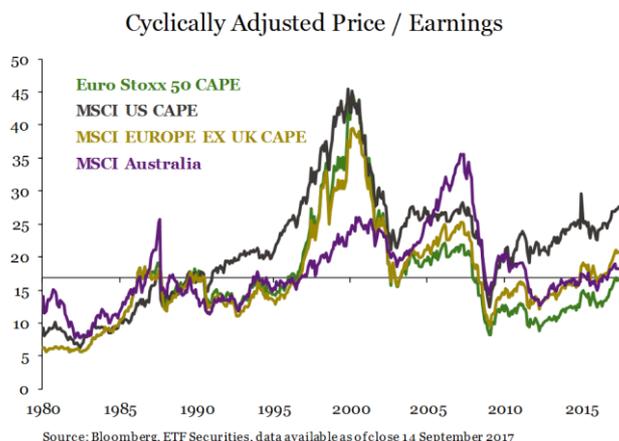
Whilst the Australian reporting season was somewhat uneventful, the recent European season showed that the region is recovering strongly:

	Net Income QoQ			Sales QoQ		
	QoQ agg%	Agg beat%	Ratio of beats%	QoQ agg%	Agg beat%	Ratio of beats%
Consumer Discretionary	5.5	-3	46	5.6	-4.2	68
Consumer Staples	14.6	0	40	4.2	-6.3	70
Energy	-15.7	15	71	-4.1	2.5	82
Financials	7.3	20	72	-1.1	10.1	72
Healthcare	-6.8	5	46	-1.2	0	67
Industrials	40.3	5	50	9.2	-11.8	56
Information technology	31.9	4	47	6.1	-1.9	68
Materials	21.2	11	66	-1.2	0.3	50
Telecommunications	12.5	-4	69	0.4	-4.8	69
Utilities	-31.8	4	63	-15.5	-8.8	56
SXXP	4.7	9.34	58	-0.2	-1.9	65

Source: MSCI, Bloomberg, ETF Securities as of close 14 September 2017

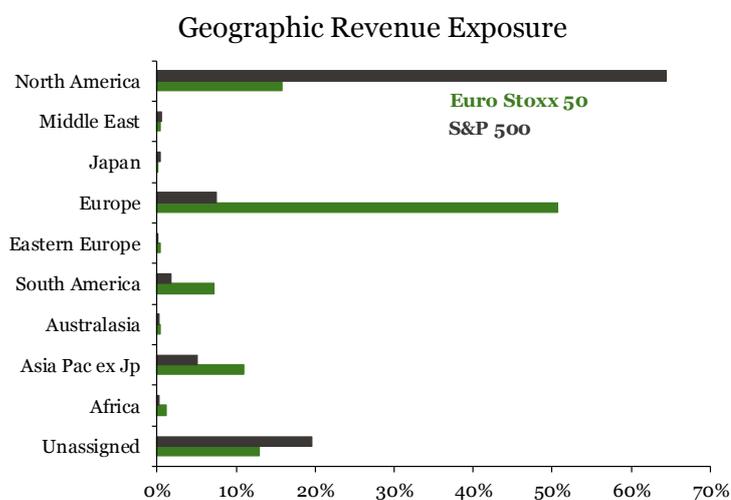
Is Europe over or undervalued?

- The EURO STOXX 50 is still cheap when looking at valuations against other broad indexes
- Europe earnings also show that it has much greater catch-up potential



The ECB wants a weaker euro

- The ECB's concern about a rising euro will see it continue to adopt a dovish stance, as seen in last week's policy announcement
- The ETFS Research team believe that any spikes higher in the euro are temporary and that the market has largely priced in tapering of the ECB's bond purchasing program
- A weaker euro will support many of the multi-nationals in the EURO STOXX 50 that generate a majority of their revenue offshore
- Below chart shows a breakdown of the geographic revenue exposure of the EURO STOXX 50 and the S&P 500



ETFS EURO STOXX 50 ETF (ASX Code: ESTX)

Given the continued revival of Europe, the ETFS EURO STOXX 50 ETF (ESTX) is well positioned for investors for the following reasons:

- no inclusion of UK companies means fallout from Brexit negotiations is reduced
- the proportion of revenue generated offshore is close to 50% meaning a weaker euro could be a positive scenario for many of the constituent companies
- ESTX is the lowest cost Europe-focused ETF on the ASX with an MER of 0.35% p.a
- ESTX is domiciled in Australia so there are no W8-BEN tax forms for investors to complete and US Estate Tax is not applicable
- Recommended by Lonsec



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ETFS EURO STOXX 50® ETF factsheet

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