DID YOU SEE...?

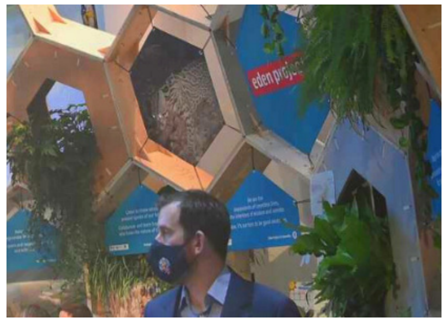
In this section we highlight any developments at FEIFA over the last month or more, where relevant, which you may have missed - plus any potentially relevant and useful articles from our Associate Members and/or other appropriate sources. For articles in the Member's Hub, you will, of course, need your usual password.

FEIFA Insight

- The importance of CPD

FEIFA Autumn Conference Series

- Webinar 4: Tilney & Quilter International
- Webinar 5: Novia Global, Utmost Wealth & Andy Gwynn
- Webinar 6: Schroders & TAM Europe
- Webinar 7: VAM, iPensions & Andy Gwynn



Members' Hub – ESG

- COP26: 'Finance Day' through the EU lens

Media Content

- ESG adviser rules on the way in the UK

European financials behind the 8-ball

Says James Penny, UK CIO, TAM Europe Asset Management.

Much seems to be getting made of 2022 and where to find the last stalwarts of true value in what is an otherwise expensive market. Anecdotally, we now find ourselves with the S&P recently rallying 17 out of 19 days, a feat which has only been achieved once in the last 90 years and a situation which has many investors cracking out the champagne as we enter the festive season. When a portfolio manager sees this kind of euphoria it almost certainly suggests a level of fragility within the market which needs to be addressed. In this instance, the rally has as many indicators to its continuation as it does to its demise, and 2022 will uncover more of the plot as to how this cycle will end. Whilst we remain cognisant of the threats amassing in certain sectors, there are, as always, opportunities in the market for managers to take advantage of.

One such area which has piqued our interest, and one which TAM has recently begun building a position in, is European financials. With US financials notching up 50%+ this year, it is clear that the inflation and rising rates environment we find ourselves in is proving a boon to the financial sector. Yet not so much in Europe - the likes of Banco Santander and Deutsche Bank are up less than 0.6 and 2% over the year, when Goldman Sachs and JP Morgan are up 50% and 40% respectively.

Of course, European and US financials are different beasts with vastly different regulatory frameworks which helps to explain the longer-term underperformance of the EU. But when all is said and done, it is the global environment right now, courtesy of COVID, which has laid out a perfect combination of steady economic growth, appetite for leverage, consumer savings, rising inflation and the potential for rising interest rates. This puts global financials in the driving seat to benefit over other sectors.

In Europe, this is compounded when one considers the level of "bad loans" sitting within European banks has been dramatically reduced. This is courtesy of the aggressive monetary and fiscal programmes in the EU, as well as consumer savings being used to pay down credit which put European bank balance sheets into rude health (for the most part).

Furthermore, a lot of the work EU governments did to stave off companies going bust in the pandemic, also allowed banks to keep business loans alive which are now being recouped rather than written off. Combine this with a buoyant housing market, improving jobs market and robust consumer spending numbers, and it helps to underscore an EU economy which supports European financials' ability to lend into it, all the while the ECB continue to remain under pressure to raise interest rates to combat inflation which further boosts bank revenues.

Of course, one must recognise the EU financial system remains somewhat hampered with regulatory burdens and bureaucratic red tape which will continue to be reflected in share price underperformance vs the US banking system. But there remains universal short-term tailwinds to financials stocks which are being much more reflected across the Atlantic on Wall Street rather than in the EU.

After a year like 2021 in which some investors were lucky enough to have been invested directly into US financials, like some of TAM's clients, there remains healthy levels of profits to be taken, and the opportunity to rotate this capital into the more attractively priced EU counterparts in anticipation of what we believe, will be a year for the blue of the EU rather than another year for the spangle banner.

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