Appian
Asset Management

Monthly Monitor

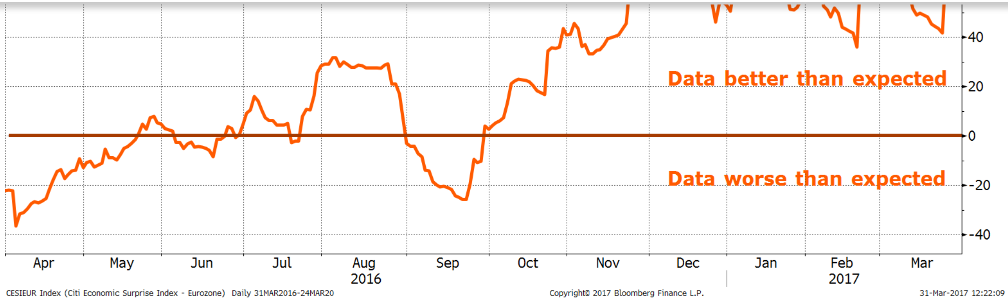
April 2017

Europe – A Surprise Package?

The Eurozone investment picture is brightening. Last month the European Central Bank upgraded its growth forecast for this year to just shy of 2% and broadly similar for 2018. This wasn't unexpected as the economic numbers we've seen from the start of the year have generally been better. Economic confidence numbers have been heading up, with business confidence indicators now standing at a 71-month high. A growth rate close to 2% may not seem that exciting but this actually means a Eurozone economy that is growing above its long term potential.

What's driven this? Better global growth, a competitive exchange rate and a supportive Central Bank policy have all helped. But this has been a grinding recovery and there's still a way to go to eat into the ample spare capacity as evidenced by a 9.5% unemployment rate. This unemployment rate while too high is still the lowest since May 2009. Four million jobs have been created in the last three years as Mario Draghi highlighted last month. Most of the recent economic data has been better than forecast as the graph here shows.

European Economic Data Surprise Index



(Source: Bloomberg. Figures above the line mean the released data was ahead of expectations)

However, we believe this rate of growth on its own is not going to prompt the ECB into ending its support for the economy in the form of low rates and the bond buying programme. Core inflation remains subdued and even headline inflation (which was really driven by energy prices) may well have peaked for the moment. The ECB will likely stick to its course.

So from an investment perspective it's a benign backdrop – better top line growth, better company profits. But many of the systemic risks remain. The political thermometer may have cooled down following the Dutch election outcome, and calming poll numbers in France that suggest 72% of the population want to stick with the Eurozone. But fundamental issues in Greece and Italy remain unresolved and no doubt will re-emerge as market concerns from time to time.

The other key variable is the currency. From its peak in May 2014 the Euro has lost close to 25% in value compared to the US Dollar. All of that move took place in the first 10 months and the currency has really been stuck in a range since then. This has clearly benefitted our competitiveness. Were the Euro to break out and appreciate, it could hamper growth. This will happen at some point but for now the drivers of currency will remain the direction and pace of US interest rates – where a number of further hikes are likely this year – and the policy of the ECB which is unlikely to squander its hard-won achievement to date with any "shock and awe" ending of its supportive policy.

If this reasonably bright economic picture for Eurozone persists - improving growth, modest inflation and low interest rates – it's a positive for investors in European companies, and companies that export into the region.

For information regarding the Appian Investment Seminar on April 27th, please see below.

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Appian Unit Fund Prices

3 April 2017

Appian Value Fund	**142.78**
Appian Equity Fund	**181.19**
Appian Small Companies Opportunities Fund	**201.86**
Appian Liquidity Fund	**106.14**
Appian Ethical Value Fund	**100.20**

For more detailed information on each of our funds click **here**

We hope to see you at Appian's Investment Seminar later this month. For more information please contact

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