



With a vibrant economy and markets, is Europe now taking revenge?



Author(s)
Frédéric Leroux

Published
February 6, 2023



Economic surprise indices in the eurozone and US



From headwinds to tailwinds

- ✓ Mild winter
- ✓ Fiscal stimulus packages
- ✓ Lower energy-price inflation
- ✓ Consumer spending driven by real incomes
- ✓ Gas reserves at 5-year highs
- ✓ China's reopening
- ✓ Europe's response to the US Inflation Reduction Act

Sources: Carmignac, Bloomberg at 23 Jan. 2023

The economic surprise index measures the level of outperformance of published macroeconomic data compared to the forecast (consensus).

Europe's economy has outshone that of the United States in the past few weeks as reflected in the two regions' economic surprise indicators.

Why is that?

A combination of factors has led Europe to outperform: a mild winter, which has improved the energy situation; fiscal stimulus packages; and the reopening of China's economy. The upshot has been a spectacular rally in European stocks. Since 31 August 2022, **they are up 17.5% more than their US counterparts**, and 23.5% if you factor in the euro's appreciation against the dollar¹.

Europe's relative strength will inevitably suffer some setbacks – this kind of outperformance has to pause for breath occasionally if it's to last. We therefore don't believe the stellar run in European equities will necessarily continue in the near term. However, we do believe that this trend reversal in favour of Europe, after the US led the way for most of the past 12 years, **is part of a structural shift that is just now beginning.**

Who will benefit from this new trend?

The renewed inflationary environment that began to take hold in the developed world in 2021 will likely encourage capital to flow from the west (i.e. the US) to the east (i.e. Europe, China, and Japan) as investors realise that the more cyclical economies stand to experience higher-than-expected growth rates. This will push up **European, Chinese, and Japanese equity markets significantly, since they tend to have more cyclical stocks**, and have lagged over the past decade of persistently anaemic growth.

What's more, companies operating in sectors that have typically been more useful to the **real economy should get a boost from today's more justifiable level of interest rates**.

¹Based on gains in the Euro Stoxx 50 vs the S&P 500

[Contact our investment specialists](#)

This is an advertising document. This article may not be reproduced, in whole or in part, without prior authorisation from the management company. It does not constitute a subscription offer, nor does it constitute investment advice. The information contained in this article may be partial information and may be modified without prior notice. Past performance is not necessarily indicative of future performance. Reference to certain securities and financial instruments is for illustrative purposes to highlight stocks that are or have been included in the portfolios of funds in the Carmignac range. This is not intended to promote direct investment in those instruments, nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication. The portfolios of Carmignac funds may change without previous notice. In the United Kingdom, this article was prepared by Carmignac Gestion, Carmignac Gestion Luxembourg or Carmignac UK Ltd and is being distributed in the UK by Carmignac Gestion Luxembourg.