

# GREEN SHOOTS EMERGE FOR EUROPEAN BANKS

Aneeka Gupta – Director, Macroeconomic Research  
09 Apr 2021

European financial stocks<sup>1</sup> have posted a strong price recovery (+82%<sup>2</sup>) since reaching a record low on 21 April last year. The macro backdrop in 2021 is in sharp contrast to the prior year, evident from improving economic data at the start of a cycle, a stronger euro, and rising bond yields. Europe's recovery is benefitting from the gradual reopening of the economy, rebounding global export demand, and stronger household balance sheets. We also expect fiscal policy to remain supportive over the next few years via the proposed EU recovery fund until growth returns to pre-COVID levels. Despite a strong run, we still see further upside for European Financials based on four catalysts:

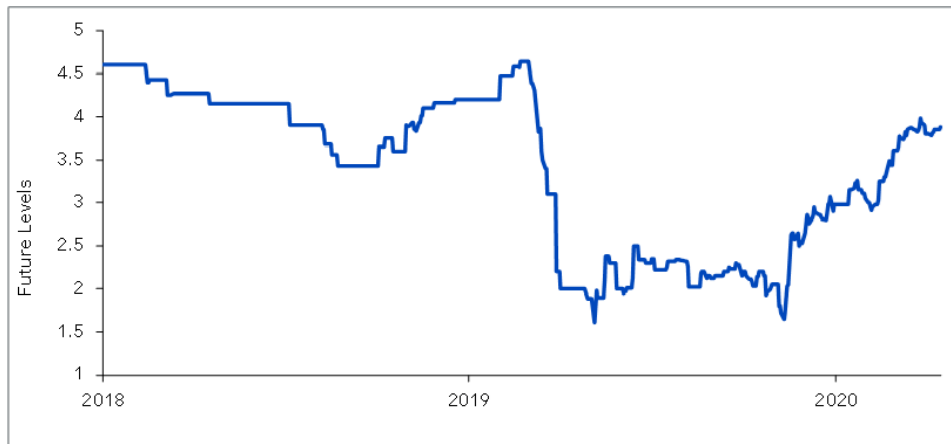
## Earnings Momentum

European equity markets delivered a strong breadth of Earnings Per Share (EPS) beats in the recent fourth quarter (4Q) of 2020. An improvement in the macro environment coupled with effective cost management have raised the earnings estimates for European corporates in 2021 and 2022 meaningfully. The European financial sector posted among the broadest beat of earnings, with 71% of the sector beating on EPS consensus estimates.

## Resumption of Dividends and buybacks

The coronavirus pandemic resulted in an unexpected record 32% decline in European dividends in 2020. However, the resumption of dividend and buyback programs announced in the latest Q4 2020 earnings season is lending buoyancy to the earnings recovery story for 2021. European financial stocks are likely to offer the highest Dividend per Share (DPS) momentum compared to other sectors. The chart below illustrates the improvement of dividend expectations among European banks after facing a sharp contraction last year.

Figure 1: EuroStoxx Banks Dividend Index Futures



Source: Bloomberg (Ticker: DBEZ3 Index), WisdomTree, data available as of close 08 April 2021.

**Historical performance is not an indication of future performance and any investments may go down in value.**

### Favourable Valuations

Despite the recent rally, European banks valuation continues to look attractive. European banks are trading at a Price to Book (P/B) ratio of 0.58 compared to its long-term average<sup>3</sup> of 0.88, which suggests further upside ahead.

### Rising Bond Yields

European financials are likely to be a key beneficiary of rising bond yields.

### Sources

<sup>1</sup> European Financial stocks tracked by EuroStoxx Banks Index, a gauge of euro-area banking stocks.

<sup>2</sup> Performance of EuroStoxx Banks Index (Bloomberg Ticker: SX7E Index) from 21 April 2020 to 7 April 2021

<sup>3</sup> Average Price to Book Ratio of EuroStoxx Bank Index from 7 July 2005 to 7 April 2021

### Related blogs

- + [A moment in markets Can equity investors look beyond rising yields](#)
- + [Draghi Government could be the timely tailwind Italian Banks need](#)

### Related products

- + [EEIA/EEIP WisdomTree Europe Equity Income UCITS ETF - Acc](#)
- + [WisdomTree EURO STOXX Banks 3x Daily Leveraged](#)
- + [WisdomTree FTSE MIB Banks](#)

View the online version of this article [here](#).

Important Information

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

**For professional clients only.** The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.