

# OVERSOLD EUROPE: FOCUS ON DURABLE DIVIDEND PAYERS

Wisdomtree EU  
18 Feb 2016

European equities have endured their worst start to the year since 2008, underpinned by broader macro instabilities and more recently, earnings concerns in Europe's banking sector. The extent of the sell-off suggests a somewhat deflated outlook for Europe's equity markets in 2016. However, we believe that souring sentiment is not justified and that now may represent an attractive entry point for European equities.

## Dividend Strength Suggests Equity Fundamentals have been overlooked

Based on their fundamentals, European equities show no sign of crisis. Take dividends, for example. Over the past year, the majority of European equity sectors exhibited positive growth in trailing twelve months dividends per share (TTM DPS), driven by the cyclical sectors (as shown in chart 1). And whilst TTM DPS for overall market dipped slightly by 3.4%, the extraordinary 54% contraction in DPS for the telecoms sector shoulders much of the blame. Stripping away outliers and the TTM DPS of Europe's equity market would have likely expanded.

On the back of this trend, the strength in European equity fundamentals is apparent, with stable balance sheets helping sustain generous dividend growth over the past year. These fundamentals are set to remain stable for the next four quarters too, with 6 out of 10 equity sectors forecasted to grow TTM DPS (as shown in chart 2). Financials and consumer discretionary are expected to remain at the heart of this trend; their durability pointing to a broadening of the European recovery.

## No Sign of a Banking Crisis in Europe

In order for the recovery to sustain itself, the health of Eurozone banks is crucial.

Despite bearish earnings expectations, 14 out of 22 Eurozone banks actually beat analyst earnings estimates, including the likes of ING, Natixis and Germany's second largest lender, Commerzbank. The remaining banks yet to declare Q4 results are unlikely to move markets, consisting mainly of Greek or regional banks. These earnings surprises should offer some comfort to investors, dispelling concerns about negative interest rates and global economic headwinds denting profit margins.

At the same time, the absence of major downgrades by ratings agency should also bolster investor sentiment, suggesting no sign of credit risk is imminent. Even the likes of Deutsche Bank, recently facing intense pressure about its ability to service debt, escaped a credit downgrade. Instead, announcements by its CFO, coupled with news of possible debt buybacks, offered public reaffirmation about its depth in liquidity. Expectations that the ECB will keep all taps open to support bank liquidity should also help stave off concerns about a brewing crisis.

## Corporate Rationing Keeps Profitability High

The resilience of European corporate profitability follows years of cost discipline and capacity rationing. This has allowed global diversified industrials such as Siemens to remain resilient against a weakening global macro backdrop, recently raising its full year outlook for earnings per share on the back of consensus-beating profit performance in Q1 2016. Through controlling wages and keeping a tight lid on investments, European

corporates are now better positioned to sustain profitability levels even as global economic growth slows.

The resurgence of the European consumer has also been a boost, with low oil prices giving a much needed lift to discretionary spending. The 17.3% surge in new car registrations, compared to the same period a year ago, underscores this strength. As the European recovery broadens, consumers will play an ever more pivotal role and this should bode well for consumer discretionary equities.

#### Access Quality through Europe's Dividend Payers

Early market jitters are likely to dissipate in the coming weeks as fundamentals come back into focus. The continued robustness of European corporates will be key to providing upwards support for European equities. Investors would be prudent to consider allocations into quality dividend-paying companies with healthy balance sheets as a play on Europe's fundamental strength.

In particular, WisdomTree Europe Equity Income UCITS ETF offers a focus on durable dividend payers, including the banks. Compelling consumer sector opportunities can also be found in WisdomTree Europe SmallCap Dividend UCITS ETF, with the inclusion of dividend payers offering a quality tilt to the basket. Investors sharing this sentiment may consider the following UCITS ETFs:

- [WisdomTree Europe Equity Income UCITS ETF \(EEI\)](#)
- [WisdomTree Europe SmallCap Dividend UCITS ETF \(DFE\)](#)

*All data is sourced from WisdomTree Europe and Bloomberg, unless otherwise stated.*

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