Retirement Income
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Beware equity bubble in Europe: Cerulli

By Editorial Staff *Thu, May 28, 2015*

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Asset managers need to take steps to avoid losing investors along with the exodus from European equity funds once the sugar-rush effect of quantitative easing (QE) has waned, warns the latest issue of *The Cerulli Edge – European Monthly Product Trends Edition.*

European equity funds are enjoying their strongest flows in several quarters, thanks in part to the European Central Bank's monthly liquidity injections of €60 billion (US$66 billion) to bolster the eurozone. But asset managers should be gearing up for the inevitable end of the cycle, says Cerulli Associates, the global analytics firm.

"Once investors start sensing Europe has had its run, they will want to take out their money. To realize longer-lasting benefits, asset managers must convince clients to stick with the brand by offering strong products in another sector, such as emerging markets, which are now presenting buying opportunities," says Barbara Wall, Europe research director at Cerulli Associates.

Cerulli notes that investors in countries such as Spain and Italy are once again keen on European equities, going through private banking channels. Asia is showing more interest, while funds are also flowing out of the United States after a strong run. U.S. investors who bought when the euro and dollar were nearing parity are enjoying a currency bonus.

Flows into long-term active European equity funds hit €14 billion for the first three months of 2015, the highest quarterly level since the first quarter of last year. Cerulli believes that further positive flows are likely to continue, but for months, rather than years.

"Asset managers should enjoy the QE bonus flows while they last. But the pattern is unlikely to be different from previous cycles, and the end may already be in sight. Positive developments such as the definitive U.K. election result are being offset by Greece remaining in crisis mode," says Brian Gorman, an analyst at Cerulli.

Other Findings:

- Italy, Germany, and Spain were the most successful European countries for the first quarter of 2015, gathering €12 billion, €14 billion, and a €3 billion respectively, driven in the main by investors’ demand for mixed assets and euro bonds, which attracted €12.2 billion and €8.5 billion.

- European exchange-traded funds tracking Japanese equities saw net inflows rising to €1 billion in March from €370 million during February, as investors abandoned U.S. and U.K. equities in favor of opportunities in Japan.
- Italian funds remain out in front for inflows among European markets, even if March did not quite match February’s stellar achievement. Mixed assets accounted for half the flows, and were slightly down on the previous month. Bond flow rates picked up. Money market funds, which have suffered outflows every month so far in 2015, were the only negative category.