

## **EUROONOMICS – THE RETROGRESSION OF EUROPE**

**Kostas Grigorakis, CFA®**, Managing Director – Investments, Senior PIM Portfolio Manager

October 14, 2024

Last week, amid Chinese market turmoil, we released a timely research note titled "Dragonomics—The Japanization of China?" [1]

Conventional portfolios often mandate global diversification, but since 2008, China's economic challenges have turned its market into a capital trap.

While we are no strangers to global investing (with all three partners hailing from Europe), our Market-Regime-navigating strategies rely on strict bottom-up screening.

If China doesn't make the cut, how about Europe, often praised for lower valuations and diversification potential?



For years, our proprietary screens have consistently rejected European investments. Why?

Outside of our strategies' quite esoteric performance triage, Mario Draghi, former president of the European Central Bank, recently pinpointed the underlying causes in his report on European competitiveness as Special Advisor to the European Commission President [2]:

"Europe is stuck in a static industrial structure with few new companies rising up to disrupt existing industries or develop new growth engines. [...] No EU company with a market capitalization over EUR 100 billion has been set up from scratch in the last fifty years, while all six US companies valued above EUR 1 trillion were created in this period. [...] The problem is not that Europe lacks ideas or ambition. [...] Innovation is blocked at the next stage: we are failing to translate

innovation into commercialization, and companies wanting to scale up are hindered by restrictive regulations. [...] Between 2008 and 2021, close to 30% of the 'unicorns' founded in Europe relocated abroad, mostly to the US."

Echoing the conclusion of our last note, while our strategies systematically scan global markets for opportunities, it's been a while since we've found an appealing foreign market.

**Investment and Insurance Products: Not FDIC Insured / No Bank Guarantee / May Lose Value**

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer and non-bank affiliate of Wells Fargo & Company.

[1] [GNH Capital Group - Dragonomics.pdf \(wellsfargoadvisors.com\)](#)

[2] [The future of European competitiveness A competitiveness strategy for Europe.pdf \(europa.eu\)](#)

Wells Fargo Advisors did not assist in the preparation of this report, and its accuracy and completeness are not guaranteed. The opinions expressed in this report are those of the author(s) and are not necessarily those of Wells Fargo Advisors its affiliates. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request.