

EURONOMICS – THE RETROGRESSION OF EUROPE

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

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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.

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

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

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