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Kris Walesby
head of ANZ ETFS

European champions: Getting access to blue-chips in the Eurozone

Political, fiscal and economic risks in Europe may be weighing on portfolios with exposure in the region but the negative sentiment also means it's one of the few markets in the world that is offering good upside from here. Unfortunately for Australian investors, getting low cost, diversified and quick access to the region has not been easy… until now.

Exchange traded fund provider ANZ ETFS will be launching the ANZ ETFS Euro Stoxx 50 ETF later this month to offer investors more choice in how to access stocks in the Eurozone.

ANZ became the first Australian bank to enter the $23 billion local ETF market, teaming up with London-based ETF Securities to quote six new securities on the Australian Securities Exchange (ASX) in June 2015.

This latest offering joins similar products from ANZ ETFS linked to Australian and US equity indices, the US dollar, the Chinese renminbi and gold.

In Australia there are lots of opportunities to play overseas equities through broad-based global ETFs or a more focused US ETF, but until now, there have been few options for trading European stocks. This latest offering is the first to offer an unhedged Eurozone solution.

Europe offers value

Head of ANZ ETFS Kris Walesby says local investors are missing out on a great valuation opportunity in the Europe and this latest launch confirms the company's commitment to making sure all Australian investors have all the building blocks to create truly diversified portfolios.

"There are quite a few ETFs on America, there's others on Asia Pacific but Europe is the second largest economy in the world and we believe that as Australian investors start to invest more and more in ETFs they will demand, as they are demanding now, European access," Walesby says.

While the market turmoil arising from British voters' decision to leave the European Union and the subsequent questions about the future of the European single market project have been in the headlines, it is precisely this macro-economic uncertainty that makes the Eurozone – which the Euro Stoxx 50 focuses on – an opportune market in which to invest.

A significant market sell-off in 2011 was brought about by similar anxieties about Greece remaining a viable part of the European currency. Uncertainty about how that scenario would play out sent investors packing but eventually the market recovered and investors who bought at the right time made tidy profits.

Walesby stresses that the performance of the underlying economies in Europe, despite the political turmoil, is steadily improving.

"You can see from Spain's unemployment, which has gone down from 27% in 2014 to 21% now, that there's a lot of growth happening," says Walesby. "We believe that Europe right now is an economy that is turning around and there's real benefit to getting into an economy which is turning around rather than ones that are at their peaks."

Why Euro Stoxx 50?

ANZ ETFS selected the Euro Stoxx 50 over other indices for its new ETF because it is specifically targeted on the Eurozone – it doesn't include the UK and it doesn't include Switzerland or Sweden; economies which are on different trajectories to those within the index.

"The reasons why we've tried to take those out is because we think there's a real opportunity for investors to take the Eurozone, as opposed to the other countries as well which may distort what they are trying to do from an investment point of view," says Walesby.

The index itself is made up of blue-chip stocks from 12 Eurozone countries including: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. It includes household names like L'Oréal, BMW, Siemens, BNP Paribas, Airbus, Philips and Nokia.

Companies from France make up around 38% of the index, Germany about 31%, Spain makes up just over 10%. The Netherlands, Italy and Belgium round out the top six largest country weightings. On a sector basis, Banks represent around 15%, Industrial Goods & Services make up nearly 11% and Chemicals, Insurance, Personal & Household Goods, Oil & Gas, Healthcare and Technology make up between around 7% and 8% each.

It's the most liquid index for the Eurozone and serves as an underlying benchmark for many financial products.

"The size of the index and its liquidity means it can be invested in, not just strategically, but also tactically. If there is a particular announcement that people are expecting or they've got a short-term view then this is the perfect index for them to be able to invest in," says Walesby.

The Brexit vote was one such known event that investors could position themselves for using the index. Uncertainty in the run up to the vote signalled a chance to trim exposures, as that uncertainty turned to fear with voters opting to leave the EU, investors could move away from the herd, staging their re-entry as prices fell, and picking up the same stocks at cheaper prices.

ETFs versus direct ownership

ETFs offer investors flexibility because they can be bought and sold on the ASX like any other share, through normal brokerage accounts, whenever the market is open.

The key benefit to investing with ETFs when you're investing internationally is that, as a general rule, unless you really know what's happening with the companies in those particular regions and you have a strong conviction view, the ETF is an excellent tool for making sure you're spreading your risk across multiple companies in one easy trade.

"For Europe, where there're many different countries, you really need to have done your homework to pick those particular companies. On the whole, unless you really, really know what you're doing it's better to buy the ETF," says Walesby. FS

The quote

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Watch the video on www.fsitv.com