
Too late to invest in Europe's recovery?

In March I wrote an article for the *Financial Review* suggesting [Europe was the last bastion of investment value](#). The three months since have been eventful, with a strong win for a progressive candidate in the [French election](#) and a shock setback for Theresa May's conservatives in the UK. Most unfortunately for us, however, investor attitudes towards the continent have improved dramatically.

Evidence for a widespread economic recovery in Europe is becoming irrefutable.

The first place to look is in the skies.

Forager monitors more than 20 major European airports. The 13 airports that report in a timely fashion suggest the continent is booming. Passenger numbers over the first four months of the year are up almost 7 per cent versus the same period last year, 8 per cent if you adjust for the extra day in the comparable period due to the 2016 leap year.

Growth is obvious everywhere, from Copenhagen to Madrid and Dublin to Athens. Our international fund holds **Flughafen Wien** (Vienna Airport) and has benefited from strong passenger growth and financial results.

Another place to look is on the roads — an 8.2 per cent increase in new car registrations across Europe in the first quarter of 2017 versus the same quarter last year. Apart from a few exceptions (Finland and Ireland), strength was everywhere. It was particularly marked in the east and south (the "peripherals"), with Italian new car registrations up 12 per cent, Poland 20 per cent and Greece a whopping 38 per cent.

Recovery signs

Recovery is also evident in building.

Austria's **Wienerberger AG**, the world's largest brick maker, generated 9 per cent more revenue in Europe in the first quarter of 2017 versus Q1 2016. With prices stable, significantly higher volume was the explanation. Growth came from both western and eastern Europe.

LafargeHolcim Ltd, the world's largest producer of cement and aggregates, reported a 6 per cent like-for-like increase in the volume of both products sold at its European operations, despite a harsher winter this year compared with last. Again, the theme is strong everywhere but stronger in parts of the periphery — in the first quarter of 2017 Italian customers bought 16 per cent more cement from **HeidelbergCement AG**, and at 5 per cent higher prices to boot.

Both house prices and new housing development, particularly in the Germanic markets, has

gone from cold six years ago to red hot. House price appreciation in cities like Berlin, Munich and Vienna might have outperformed Sydney and Melbourne over the past decade (although from much, much lower bases).

When contrarian becomes consensus

Europe's economic recovery is becoming obvious to all and sundry. And that's the problem when it comes to the stockmarket. By the time something becomes obvious, it is already reflected in share prices.

Exchange traded funds focused on the region have been seeing substantial net inflows as investors look to diversify away from expensive US markets (emerging markets funds have also been popular).

All of those inflows push up prices and when prices go up, expected returns go down.

In 2015 and into early 2016 we were picking up high-quality European companies at bargain prices. Some of those stocks have seen their share prices double and triple over the past 18 months. Flughafen Wien has seen its share price rise more than 50 per cent in the past six months.

More recently, the main remaining source of bargains has been in cyclical and generally lower quality companies.

That's not necessarily a bad thing. Those cyclical companies should benefit the most from an improving economy. But it is not the same investment proposition as a well-managed growth company trading at just 10 times earnings.

Lessons for long-term investors

We still think there are opportunities to make money and the [Forager International Shares Fund](#) still has significant allocation to the region. The extreme relative value has gone, however, and in that there is an important lesson for investors.

The only reason someone wants to sell you their shares at an attractive price is because they are worried about the outlook for that business or the wider economic environment in which it operates. If the fog lifts, and that worry is no longer there, your seller is no longer there either.

You can buy stocks cheaply when there is a lot of uncertainty. Or you can invest when there is clarity about the future. You cannot, unfortunately, buy cheap stocks and do so at a time when everyone is feeling confident.

It is good for the world economy that Europe is finally recovering. It is good for investors that Marine Le Pen didn't win the French elections. If that has given you the confidence to invest, however, you have to pay the price.

This post first appeared in the [Financial Review](#).