

Europe...A Distinction With A Bit Of A Difference

Europe vs. Eurozone (Y-O-Y Real GDP & Quarterly Total Returns In USD)

Quarter	Europe Real GDP	MSCI Europe Index (Total Return)	Eurozone Real GDP	EURO Stoxx 50 Index (Total Return)
Q2'14	1.14%	3.30%	0.70%	3.26%
Q1'14	1.44%	2.10%	0.90%	2.04%
Q4'13	0.99%	7.88%	0.50%	9.76%
Q3'13	0.26%	13.61%	-0.30%	16.13%
Q2'13	0.11%	-0.51%	-0.60%	2.41%
Q1'13	-0.69%	2.71%	-1.10%	-2.71%
Q4'12	-0.52%	7.02%	-1.00%	10.34%
Q3'12	-0.33%	8.70%	-0.70%	10.35%
Q2'12	-0.20%	-7.47%	-0.50%	-10.59%
Q1'12	0.18%	10.66%	-0.20%	10.13%

Sources: Bloomberg and Eurostat. Past performance is no guarantee of future results.

View from the Observation Deck

1. European equities have experienced a pullback of late. The sell-off has been more pronounced in the European Union (EU or Eurozone), which is comprised of 18 countries. Broader Europe spans 28 countries.
2. From 6/10/14-8/18/14, the MSCI Europe Index and EURO STOXX 50 Index posted total returns of -5.2% and -8.3%, respectively. A correction is usually defined as a 10.00% to 19.99% decline in prices.
3. Stocks have traded lower in Europe due in large part to some soft economic data in Q2'14 and the uncertainty over sanctions between European nations and Russia stemming from the Russia/Ukraine conflict.
4. As indicated in the chart, Europe has only been in growth mode (GDP) for five quarters, on a year-over-year basis. The Eurozone has only been expanding for three quarters.
5. The European Central Bank (ECB) has been accommodating via its monetary policy and its commitment to backstopping the capital markets. The ECB's involvement helped restore investor confidence during the sovereign debt crisis in the EU.
6. The ECB is under pressure to do more to counter low inflation, according to *The Economist*. One of the options on the table is to initiate quantitative easing programs, such as those the Federal Reserve adopted in the U.S.
7. We believe that investors holding European equities should expect some bumps in the road to recovery. The U.S. economic recovery, which just turned five years old in June, has been rather choppy since it commenced in July 2009.
8. Here were the real GDP figures (y-o-y) for the U.S. over the past 10 quarters: 2.4% (Q2'14); 1.9% (Q1'14); 3.1% (Q4'13); 2.3% (Q3'13); 1.8% (Q2'13); 1.7% (Q1'13); 1.6% (Q4'12); 2.7% (Q3'12); 2.3% (Q2'12); and 2.6% (Q1'12).

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. There can be no assurance that any of the projections cited will occur. This chart is for illustrative purposes only and not indicative of any actual investment. The MSCI Europe Index is a free-float weighted index designed to measure the performance of the developed equity markets in Europe. The EURO STOXX 50 (Price) Index is a free-float market capitalization-weighted index of 50 European blue-chip stocks from those countries participating in the European Monetary Union.