Globalisation on march in Europe

Foreigners raise equity holdings in Germany, UK to record highs

by David Marsh in London

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Globalisation is on the march in Europe as foreign investors increase their relative holdings of equities in the UK and Germany to record levels. New data highlight how, during the 18-month euro area recession that ended in the second quarter this year, international buyers descended on European stocks to take advantage of low valuations and high corporate growth potential despite severe regional economic problems.

There is continued concern over the future of the euro area – underlined over the weekend by heightened political uncertainties in Germany, Italy and Austria. But a winning combination of buoyant European corporate earnings and leadership in key technology segments, allied with the fading attractions of bonds, has driven large-scale buying of European stocks particularly by US institutional investors. Many European companies which have increasingly emancipated themselves from dependence on the European economy are trading with and investing in the whole world.

Benefiting from stable and reliable home-base legal and financial procedures and openness with the rest of the world, European stocks are proxies for the onward march of globalisation. They have become favourites for cross-border investors seeking global exposure at comparatively low risk.

According to Goldman Sachs, US investors acquired $65bn in European stocks in the first half of 2013, the highest since 1977, highlighting a big increase in confidence in the region.

The big question is whether this will persist now that Europe is showing signs of an ‘autumn of discontent’ in leading members of monetary union. Coalition formation in Germany after the inconclusive elections on 22 September is being undermined by strong differences over possible tax increases between the two members of a putative Grand Coalition, the Christian and Social Democrats.

In Italy, the fragile coalition of Prime Minister Enrico Letta is in danger of break-up after former leader Silvio Berlusconi called on his ministers to leave the government in an attempt to head off his expulsion from the Senate. In Austria, yesterday’s elections saw the Grand Coalition confirmed in office but a sharp move to the Eurosceptic right, complicating further support in Vienna for European bail-out packages.

Over the last year or so, pension funds and other big institutional groups from the US and other major investing countries have given Europe a decisive vote of confidence. According to separate data from the German newspaper Handelsblatt and the British Office for National Statistics, foreign ownership of equities in Germany and the UK has risen to 55% and 53% of the respective totals, in each case a record level.

According to the Handelsblatt data, on the 30 highest-capitalised German companies grouped in the Dax index, foreign ownership of these firms was a mere 36% in 2001 but has risen steadily since then. It was 52% in 2007 and 2009 and 53% in 2011. For 2013, when the overall figure is put at 55%, companies with the largest share of foreign owners are Deutsche Börse, Adidas and Munich Re with 81%, 75% and 74.4% of shares held abroad. Bayer is 71.6% owned by foreign investors, Allianz 69.7%, Linde 68%, Lanxess 66%, Daimler 65.8%, Kali & Salz 63.5%, Eon 63%, Heidelberger Cement 57%, Fresenius Medical Care 56.4%, Siemens 55%, Deutsche Bank 54% and Deutsche Post 52%.

For the UK, longer-running data covering the total value of shares listed on the London Stock Exchange, excluding AIM, showed that, from below 10% in 1963, the proportion of UK-quoted shares owned by overseas investors rose to 31% before advancing to 53% at the end of 2012. North American holders accounted for nearly half (48%) of the total £935bn holdings of UK shares owned outside Britain at the end of 2012. European holdings stood at 26%, while Asian holdings were 10%.