Why Invest in Europe?

And how.

By Dr Steven Bates and John Bennett

European equities are often viewed either as one regional bet or as a market for stock pickers. Both approaches have merit, but they miss an important middle ground.

The question is not whether Europe is cheap, or whether the next economic cycle will favour the region or a handful of stocks within. The key question is how investors should own Europe if leadership inside the market keeps changing.

Investors do not need *another* way to access Europe. They need a *better* way to own Europe. Europe offers a broad sector structure, deep listed markets, and meaningful dispersion between sectors. That creates scope for a disciplined process that ranks sectors, selects areas of relative strength, and adapts through regular rebalancing.

This is not about prediction. It is not about discretionary conviction. It is about evidence, rules, and process.

1. Why Invest in Europe

The case for Europe should not rest on a simple valuation argument. Nor should it depend on economic forecasts. Forecasts change. Market leadership changes too.

Europe Beneath the Index

The more useful point is structural. Many portfolios have become highly exposed to a narrow set of global leadership themes. For European, and for that matter, all investors, that creates a practical question. How do you diversify equity exposure without simply buying another market-cap weighted index?

Europe can play a useful role here because it is not one trade. It contains a broad mix of financials, industrials, health care, energy, technology and other listed sectors. These sectors do not all behave in the same way at the same time. Some lead, some lag. Leadership shifts as capital rotates across the market.

Mind the Gaps

Sector dispersion matters. If every sector moved together, there would be no value in sector selection. But when the gap between sector leaders and laggards is wide, the way investors own the market matters as much, if not more than the decision to own it in the first place.

Traditional market-cap exposure gives investors the whole market. That is efficient, clear, and low cost. But it also means holding weaker sectors as well as stronger ones which is a bigger compromise than many appreciate. Discretionary active management can adapt, but it adds manager selection risk, behavioural risk and higher cost.

The challenge for allocators seeking diversification of process is to find something in between. This process should be transparent, rules-based, and able to adjust when sector leadership changes.

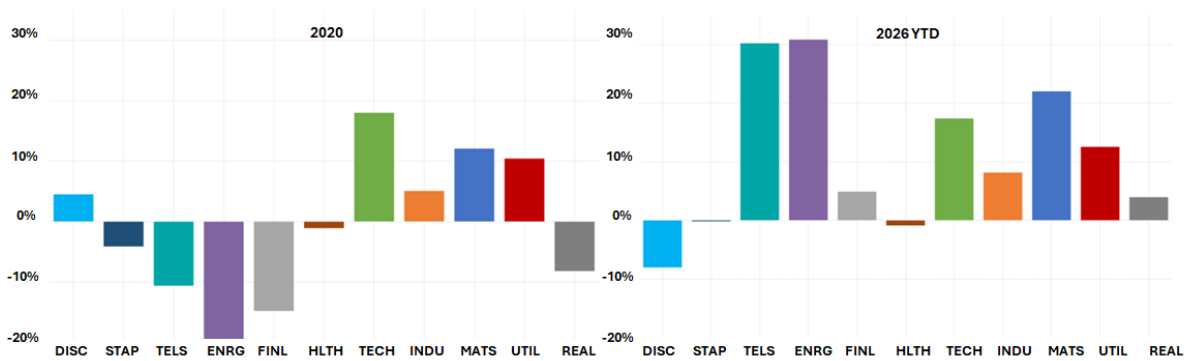
This is where Europe becomes interesting. Not because it offers a certain outcome. Not because it must outperform other regions, but because it offers a broad enough and deep enough sector universe for a systematic process to work.

A disciplined European Equity sector approach does not need to forecast the region. It remains 100% exposed to European equities, but it does not hold every sector in market-cap weight. Instead, it ranks sectors relative to one another. It selects a focused subset. It weights exposure according to observed relative strength.

The result is a completely different way to own Europe. It is not passive market ownership. It is not stock picking. It is a systematic way to stay invested while adapting to ever-changing leadership inside the market.

Sector dispersion shows why the index headline can be misleading. The gap between leading and lagging sectors has been large in both 2020 and 2026 YTD, even though the drivers of performance were very different, see the figure below.

Sector Dispersion 2020 vs 2026 YTD



The lesson is not that investors must forecast every sector rotation correctly. It is that Europe should not be judged only by the aggregate index return, as this hides opportunities that are otherwise missed. The opportunity set is broader, and the way investors access that opportunity set matters.

2. Why Equity Sectors

Equity sectors are a useful level of segmentation or granularity. They sit between broad market beta and single-stock selection which is an enormous gap.

Between Beta and Bets

Broad indices are, by design, comprehensive. They give full exposure to all parts of the market, regardless of whether underlying sector or stock leadership is strong, weak, rising, or fading. Single stocks are at the opposite end of the spectrum. They may offer greater focus, but they also carry firm-specific risk that can dominate the result.

Sectors offer a logical and under-utilised middle ground. They group companies with shared economic drivers. They are easier to understand than hundreds of individual stocks, but more focused than a broad index. They can capture clear themes such as technology, health care or energy, while still holding a diversified basket of companies. They can also demonstrate a degree of consistency in response to significant global events.

This makes sectors a logical economic unit for systematic allocation. Each sector can be measured. Each sector can be ranked. Each sector can be compared with the rest of the universe. The process can then allocate to areas showing stronger relative behaviour and reduce or avoid exposure to areas that are weakening.

The innovation is not the existence of sectors. The innovation is the decision process applied to owning them or not owning them.

A sector-based portfolio can also be focused without being narrow. Holding 5 to 8 sectors is very different from holding a basket of stocks. It allows the portfolio to lean toward leadership while still spreading exposure across various parts of the market.

That balance matters for professional allocators. A portfolio should be different enough to matter, but not so narrow that it becomes hard to explain or govern. Sector rotation can provide that balance. It creates *active* behaviour through a rules-based process, while remaining within a familiar equity framework.

This also helps with communication. Advisers and CIOs can explain the role clearly. They are not simply buying Europe passively. They are also not relying on a stock analyst's forecast. They are using a transparent process designed to capture sector dispersion and adapt as leadership changes.

That is a useful form of differentiation. Discretion does not create differentiation. You need a fundamentally different process.

For many portfolios, diversification is still framed around assets, regions, styles, and managers. Those forms of diversification matter but they do not fully diversify the way decisions are made. A rules-based sector process adds something different. It brings diversification of process, as well as diversification of exposure.

3. Why Momentum

Momentum is often misunderstood. It is not a forecast. It is not a short-term trading strategy. It is better understood as a ranking discipline.

Rules, not Forecasts

Relative momentum asks a clear question. Which sectors are showing stronger relative behaviour, and which sectors are losing leadership?

That question matters because markets are fundamentally behavioural systems as well as information systems. Capital does not move all at once. Investors react at different speeds. Committees take time. Institutions rebalance in stages. Narratives form, spread, and fade. This is one reason why leadership can persist, and why understanding relative strength is useful.

People ask if AI can play a role here. AI may change research and support companies across many tasks, but it does not remove investor behaviour. More data does not create more discipline by itself. Faster information does not remove hesitation, loss aversion, or the slow movement of institutional capital. A rules-based process converts observed market behaviour into a consistent allocation framework.

Momentum is well suited to sector ranking because sectors are broad enough to show durable trends, but distinct enough to show meaningful return dispersion. The process does not need to know why one sector is leading. It does not need to forecast the path. It simply measures relative strength and ranks the sector universe.

This is where forced ranking is important. A discretionary process can hesitate. It can hold on to an old view. It can wait for more evidence. A rules-based process must act when the ranking changes. That does not remove risk, but it does make the decision process clear and repeatable.

Regular rebalancing is also central. It is not an administrative step, it is part of the risk management process. It allows the portfolio to refresh exposure as leadership changes. It can move away from sectors where strength has faded and toward sectors where relative strength has improved.

Momentum also helps with the exit problem, or in simpler terms, not owning everything. Investors often know when an exposure feels crowded, weak, or vulnerable. Acting on that view is hard. Exit too early, and the trend may continue without you. Wait too long, and gains can be lost. Hedge, and the process becomes more costly and complex.

A rules-based momentum process gives investors a disciplined entry and exit framework. It does not eliminate timing risk, nor is it designed to. It does not claim to call turning points. But it does provide a transparent way to move away from weakening sectors and toward stronger ones without relying on subjective judgement.

Investors do not need more market access choices. They need more discipline.

A Different Way to Own Europe

The case is not that investors should make a single call on Europe. The case is that Europe offers a broad and liquid sector universe where leadership can be observed, ranked, and managed with discipline.

Equity sectors provide the right level of focus. They are more precise than broad market exposure and less fragile than single-stock selection. Relative momentum provides the ranking method. Regular rebalancing and portfolio rules provide the control.

Together, these elements form a process that is evidence-led rather than forecast-led, focused but still diversified, and designed to adapt as leadership changes.

For investors, the opportunity is not just another way to buy Europe. It is a different way to own Europe.

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