THE GLOBAL INVESTOR SUMMIT ROME 2024

# Europe’s Path to Revival

Understanding Europe has never been a simple task. It remains a patchwork of distinctive cultures and languages, with tensions between national and trans-national identities emerging at a moment when shared challenges, not least Russia’s invasion of Ukraine, require a cohesive response. Aging demographics and sluggish growth have at times served to disguise the continent’s many economic strengths, which can go underappreciated.

At Bank of America’s recent Global Investor Summit in Rome, some of Europe’s most prominent political and business minds made the point that it was time for a full-scale reassessment of the continent’s policies and prospects.

*Michael Hartnett, Chief Investment Strategist, BofA Global Research*

## Acknowledging tensions

The difficulties Europe faces are readily apparent. The invasion of Ukraine and consequent sanctions on Russia have dragged on growth, most notably in the form of higher energy prices and the need to secure alternative energy sources.

At the same time, many EU countries have seen populist parties rising in the polls, presenting a challenge to the unity needed to push progress on important Europe-wide political, economic and policy issues.

Michel Barnier, who represented the European Union in negotiations over the UK’s exit from that organisation, counselled understanding rather than condemnation of this phenomenon. **“We have to be careful not to confuse populism and popular feeling,”** he said. **“We have to address people’s fears with action.”**

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The EU's expansion to include Central and Eastern European countries has increased economic frictions within the bloc, fuelling populist sentiment, noted former Italian prime minister Enrico Letta, who joined Barnier and Martin Schulz, former president of the European Parliament, for a panel discussion on 'The Future of Europe.' **"Enlargement is an increasing challenge for many reasons – political, economic, agricultural,"** Letta observed.

These geopolitical currents are weighing not just on growth, but also sentiment towards European markets. Investors, and Europeans, are cautious about the direction of U.S. policies towards Europe after the country's presidential elections.

However, in a presentation on BofA's Global Investment Atlas, Michael Hartnett, chief investment strategist for BofA Global Research, pointed out a resolution to some of the security and political questions hanging over the continent **"could unlock the upside as far as Europe is concerned."**

## Bringing dynamism back

This sense of Europe's untapped potential was shared by other summit delegates. Schulz urged Europe to get better at unleashing the power of private capital. **"We must create in the euro zone instruments to mobilise private investments,"** he said, identifying public-private partnerships as a key means of achieving this.

Emma Marcegaglia, chairman and CEO of Italian industrial conglomerate Marcegaglia Holding, meanwhile, advised firms to innovate, and harness new technologies. **"AI is at the centre of the discussion – the risks and ethics, but also the opportunities,"** she said.

Marcegaglia chaired a panel titled 'Made in Italy' with some of the leading lights of Italian industry: Ermenegildo "Gildo" Zegna, chairman and CEO of the Ermenegildo Zegna Group; Andrea Guerra, CEO of Prada; and Luca Garavoglia, the chairman of Davide Campari-Milano, parent company of the Campari Group. Together they shared their insights into some of Italy's, and by extension Europe's, still considerable competitive advantages.

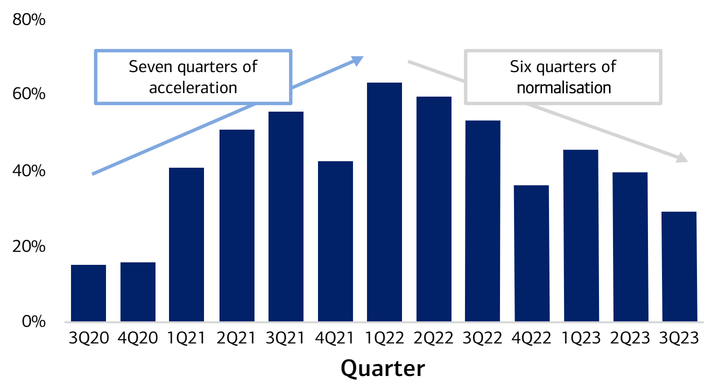
Europe's most successful exports are defined by their ability to integrate a storied heritage with a contemporary sensibility, the panelists noted – a balance that could be considered the continent's 'secret sauce.'

**"European companies have to tackle the tradeoff between heritage and modernity,"** said Marcegaglia.

**"We need brands that are credible because they have heritage, but at the same time don't get dusty"** agreed Garavoglia.

Perfecting this balance between the old and the new, craftsmanship and efficiency, has been key to the success of Europe's thriving luxury brands. This is in no small part due to the premium attached to European names, and their distinctive identities, which Guerra sees as mission-critical in the luxury sector. **"There are no shortcuts,"** he stated. **"The only thing that counts is your brand, full stop."**

**U.S. luxury spending relative to 2019 peaked in 1Q22 and has normalised since then**




Source: BAC Internal Data

## Luxury leads the way

In recent years, Europe's luxury brands have capitalised on their craftsmanship and design aesthetic to go beyond the core products for which they are known and chart a new future for retail. Leading names like Prada have taken extensive steps to incorporate rich experiences into their physical stores, introducing amenities such as the Prada Caffè at Harrods in London. **"Brand stores are improving day by day in terms of experience,"** said Guerra. **"Our stores are becoming places you can spend your entire afternoon in."**

Many of Europe's greatest companies are family businesses, noted Marcegaglia, a model which unites heritage with the ethos of each new generation. "Gildo" Zegna, whose Ermenegildo Zegna Group encompasses brands such as ZEGNA and TOM FORD FASHION, had some pertinent advice on how to ensure family-run enterprises last the distance and avoid internal disputes. **"Think of your family as a house,"** he advised. **"Each generation has to build a solid floor."**

Ultimately, Europe's greatest economic strengths may be its diversity, and its soft power. This cultural allure inspires consumers from across the globe to perceive its products as uniquely sophisticated and desirable, and positions its companies as proven and enduring institutions in a world where value too often exists only for the short term.

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