



## The European re-opening trade

- The European Travel & Leisure (SOTP) sector looks expensive nearly all its peers. It may no longer be the best expression of the European re-opening trade.
- RETINA™ has flagged a number of divergence signals on models involving Travel & Leisure versus other sectors. SOTP versus [Financials](#), [Industrials](#) and [Personal & Household](#) goods are all showing a 1.8 sigma dislocation between macro fair value & current spot price. It is 1.9 sigma rich versus both [Energy](#) & [Media](#).
- On each occasion macro-warranted fair value is flat-lining; the recent spate of SOTP outperformance has overshot fundamentals.



- The macro regime is broadly the same each time. Reflation (rising inflation expectations, steeper yield curves, rising commodity prices) plus “risk on” (tight credit spreads & no China stress) provide an environment for Travel & Leisure to outperform.
- But a lot of that good news is now priced. Back-testing the sector RV pairs cited above suggests Personal & Household Goods (SXQP) is the most efficient expression should a correction unfold.
- It’s the same picture versus the broader [Stoxx 600](#). It is a reflation play, is rich & now at levels that, since 2009, selling SOTP vs. SXXP has produced a 67% hit rate & +0.8% average return.
- There is a health warning though. In every case model confidence is rolling over &, in some cases, we are on the cusp of falling out of a macro regime. A cautionary flag for SOTP longs to monitor.

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