

Profit Cuts Ignored as European Stocks Rally: Chart of the Day

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Nov. 14 (Bloomberg) -- Investors are pushing euro-region equities to the highest level since 2011 amid optimism the economy is recovering, ignoring analysts who are cutting earnings predictions for a third straight year.

The CHART OF THE DAY shows the Euro Stoxx 50 Index plotted against current-year profit estimates for companies in the benchmark gauge, offset by 100 trading days. The blue line is the European Commission's index of consumer confidence for the euro area. Analysts have reduced their income projections for 78 straight weeks, the longest streak since 2009, according to data compiled by Citigroup Inc.

"The equity market in Europe continues to buy hope for an upcoming earnings recovery," said Tristan Abet, a strategist at Louis Capital Markets LP in Paris. "Investors think that sooner or later the better economic conditions will translate into an improvement of operating margins. There is a limit to that rationale. The risk is that the market loses patience."

Estimates for 2013 earnings have dropped to 219.69 euros a share from 248.80 euros at the start of the year, data compiled by Bloomberg show. Next year's forecasts have fallen to 246.51 euros from 276.20 euros.

At the same time, the European Commission's gauge of consumer confidence rose to minus 14.5 in October, the highest level since July 2011. An index of euro-area factory output based on a survey of purchasing managers showed a fourth straight month of growth in October, according to data from London-based Markit Economics.

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