

Upcoming  
2022 Outlook

# From European autonomy to strategic sovereignty

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**T**he pandemic has highlighted Europe's dependency on several critical goods, including pharmaceutical products and medical equipment. The European Union found itself temporarily unable to ensure the security of the population because it has outsourced the production of these critical goods. Global supply-chain disruptions and the lack of manufacturing capacities in the region triggered a supply shock, with negative consequences for many industries, including the semiconductor and automotive sectors. Europe's vulnerability to external supply is now clear.

The European Commission has designed and begun to implement policies aimed at enhancing the Union's self-sufficiency in these critical areas and eventually reaching a form of European autonomy. Part of the Next Generation EU plan will be allocated to these sectors through the overarching Green framework. The initiative stands as an opportunity for private investors, as the investments required to meet the objective are significant and cannot be funded by public money alone. The amounts involved include more than €300bn for the semiconductor sector<sup>1</sup>, more than €200bn in defence and security, and some €350bn for clean energy through 2030 in addition to the previous decade partly funded by credit and equity issuances. Moreover, Europeans now understand that they need to work together on electric cars and renewable energy, and on AI or cybersecurity. We believe that the full potential of the Single Market has not been fulfilled, particularly in services sectors, where substantial cooperation and growth remain untapped.

Against this backdrop, investors should not focus solely on the relative value of European assets and the ECB monetary policy. The key issue here is contributing to the renewal of economic sectors in proportions unmatched since the end of the Second World War. Europe's strategic autonomy is therefore an investment opportunity.

European autonomy does not necessarily mean protectionism. Rather, it corresponds to a new need emanating from a multipolar world in which the EU needs to define its position relative to the United States and China. Neither is strategic autonomy an end in itself. It is a step forward and a prerequisite for European sovereignty called for by many EU countries, including France<sup>2</sup>. A European army and digital independence are often referred to as missing pieces. The Common Market, the European Central Bank and Single Currency, and the Capital Markets Union are already instruments of sovereignty alongside the European Court of Justice<sup>3</sup>. But they need to be accompanied by a regional base of equity investors to ensure the strategic independence of European companies.

Sovereignty implies an alignment of interests between citizens and institutions, and between companies and their shareholders too. US investors own about one-third of the market capitalisation of the euro-area (2.3 times more than 20 years ago) and account for two-thirds of investment by non-residents<sup>4</sup>. Conversely, the share of European investors in the United States is relatively limited<sup>4</sup> and US pension funds are omnipresent in their own market, where they hold more than 68% of the market capitalisation. A full 37% of the financial wealth of American households is held in shares (mainly US stocks), compared with just 20% in France and 10% in Germany. This discrepancy can be attributed in part to the regulatory constraints weighing on the equity allocations of European institutional investors and the predominance of government funding. But it is not surprising that the governance of large European companies is sometimes not fully aligned with the priorities of the European Union. As such, European strategic sovereignty calls for renewed investment rules and stronger incentives to build a broader long-term European shareholder base and, potentially, a European sovereign fund. The good news is that European equities are cheaper than their US counterparts.

<sup>1</sup> See *"The price of self-sufficiency"*, Pierre Blanchet, Amundi Research, Cross Asset July 2021.

<sup>2</sup> President Macron's Sorbonne speech, 26 September 2017.

<sup>3</sup> *"European sovereignty, strategy and independence"*, Chaillot Paper 169, July 2021.

<sup>4</sup> *45% of the euro-area market capitalisation is owned by non-residents and less than 15% of US securities are held by non-residents. OECD Corporate Governance 2021.*