Amundi
Investment Solutions

Trust must be earned

Investment Institute

Germany's industrial comeback

Cross Asset Investment Strategy

JUL-AUG 2026 • Document for professional investors only

Table of contents

"Germany's reform package marks a significant policy shift. Paired with major public investment, these structural reforms could lift confidence and strengthen growth over time. As momentum builds, Germany's renewal could support a more competitive and resilient economic future across Europe."

Monica Defend
Head of Amundi Investment Institute

"Germany's shift towards an investment-led growth model reinforces Europe's long-term capex story. For investors, we see the strongest opportunities in German small- and mid-caps as well as companies benefiting from Europe's reindustrialisation."

Vincent Mortier
Group Chief Investment Officer

POLICY FOCUS

Growing hopes for an industrial renaissance in Germany

AUTHORS

Didier Borowski
Head of Macro Policy Research, Amundi Investment Institute

KEY TAKEAWAYS

On 2 July, the coalition (CDU/CSU + SPD) reached a comprehensive agreement on 34 structural reforms designed to revive the economy, to boost competitiveness, safeguard the welfare state and combat the growing influence of the AfD.

In the short term, these reforms will have a limited direct impact on GDP, in line with the J-shaped profile often observed for supply-side reforms and Germany's past experience. However, this time they are accompanied by a major fiscal stimulus for infrastructure and defence, which makes a slight boost to growth through increased confidence plausible (in the region of 0.2 pp in 2027) as well as earlier sectoral effects in certain industries.

If the coalition translates its political agreement into effective implementation, Germany can hope to remove several long-standing constraints (labour, bureaucracy, investment, public administration, innovation) and return to a more favourable trajectory than that observed since the early 2020s.

The same is true in Europe. If policymakers can translate all ongoing projects into effective implementation, the continent will find it easier to finance investment projects and establish a new growth regime.

A U-turn in economic policy

Although the German economy is still characterised by a weak recovery, sluggish productivity and persistent supply constraints, the combination of an extensive infrastructure and defence spending programme and a package of 34 structural reforms is improving the medium-term outlook. While the direct impact on growth in 2027 is likely to be limited, more significant gains are expected over time, provided the reforms are implemented effectively.

The major change in 2026 is the combination of fiscal support and supply-side reforms. The coalition led by Friedrich Merz has launched an exceptional fiscal stimulus comprising a €500 billion infrastructure and climate transition investment programme over 12 years, as well as exempting defence spending exceeding 1% of GDP from the debt brake. In early July, the coalition adopted a programme of 34 measures covering taxation, pensions, the labour market, cutting red tape, housing, energy, and technology sectors. The aim is twofold: to restore competitiveness and to adapt the economy to demographic and technological changes. This is undoubtedly the most ambitious plan since Schröder's Agenda 2010 was presented in 2003.

The combination of fiscal support and supply-side reforms is essential. Germany is suffering more from structural constraints than from a mere cyclical problem: labour shortages, administrative sluggishness, low levels of productive investment, high energy costs, and the decline of the traditional export-led model. In this context, while public spending can support demand and expand capacity, reforms are also necessary to ensure that the stimulus is not lost to bottlenecks.

Reforms are the only way to remove barriers to growth

The transmission channels to the economy are well identified:

- **The first channel is labour.** An ageing population and skills shortages threaten potential growth. Pension reforms, the aim of increasing the labour supply and efforts to reduce certain labour market rigidities directly address this structural bottleneck.
- **The second channel is productivity.** Regulatory barriers to competition and red tape limit supply. Germany can improve the environment for technology diffusion and private investment by reducing bureaucracy, speeding up project approvals and channelling more capital towards innovation.
- **The third channel is the implementation of public investment.** Increased infrastructure spending will only have a lasting effect if administrative bottlenecks are eased, particularly in the areas of public procurement, planning and local administrative capacity. This is one of the most important points in the current policy debate in Germany: the challenge is not merely to spend more, but to transform budgetary announcements into public capital that is actually deployed.
- **The fourth channel is sectoral competitiveness.** The federal government's annual economic report highlights energy costs, innovation, the export industry and the need to support energy-intensive and technology-driven sectors. In an economy facing competition from China, geopolitical tensions and global industrial restructuring, reforms could help to reallocate capital and labour towards the most productive sectors.

The effect on growth in 2027 will be modest

The impact on growth will be limited next year due to the time lag inherent in structural reforms. Supply-side reforms generally do not have an immediate effect on GDP, as they require gradual adjustments by businesses, households and the public sector, as well as time for legislative and regulatory implementation. Improving competition, simplifying procedures or addressing skills shortages first strengthens production conditions before translating into productivity gains.

This is all the more true given that the German Parliament still needs to adopt the individual measures by the end of the year, implying a gradual ramp-up rather than an immediate macroeconomic boost from the start of 2027. Even the most growth-conducive measures (reducing red tape, making certain contracts more flexible, pension reform and targeted tax cuts) rely on mechanisms whose effects are channelled through expectations, labour supply, investment and productivity and therefore take time to materialise.

Germany's past experience also suggests that caution is warranted. Although Agenda 2010 was introduced by Schröder in 2003, it did not immediately transform German growth. Its macroeconomic impact only became apparent much later, from 2006 onwards, as changes to the labour market and incentives spread throughout the economy. While the context is different, this reinforces the idea of a 'J-shaped trajectory', whereby there is little immediate impact, followed by visible gains after a few years. Looking ahead to 2027–28, the most reasonable assumption is that improvement will be gradual rather than spectacular.

Towards a positive confidence boost?

Although the reforms themselves are unlikely to have a significant impact on GDP in the short term, their adoption could rapidly improve the business climate, investment expectations, and how companies and markets perceive Germany's economic trajectory. Initial surveys show that businesses welcome the announced measures as a signal that Germany will become more attractive for investment and job creation.

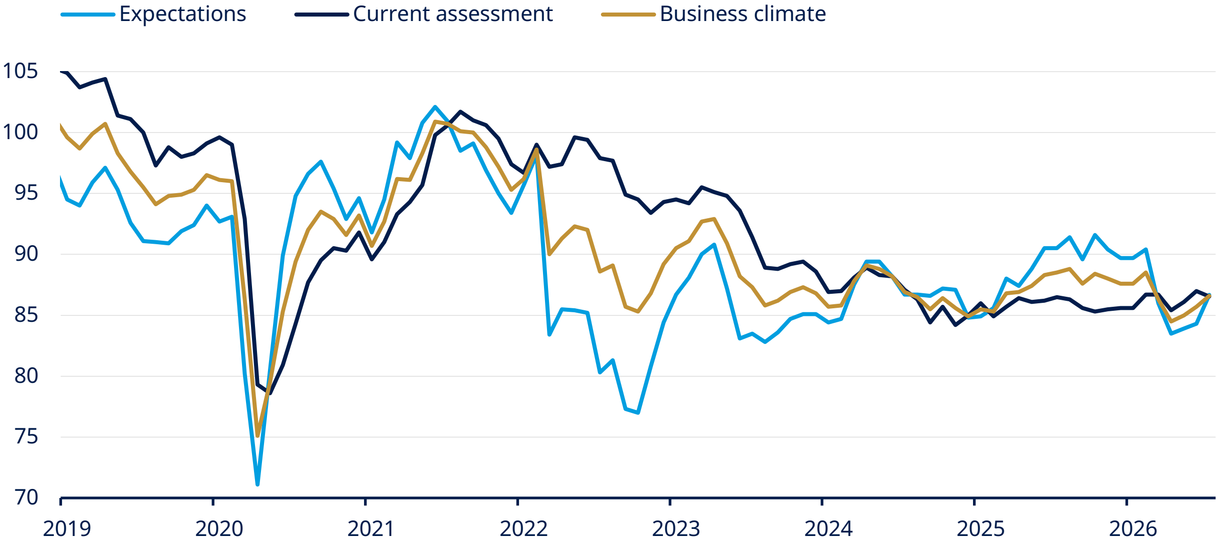
From this perspective, additional growth of around 0.2 pp by 2027 is a realistic prospect. This would not be due solely to the structural reforms themselves, but rather to their interaction with fiscal stimulus, greater clarity on economic policy, and the expectation of gradual improvement in profit margins and market opportunities in certain sectors. German think tanks had already estimated that making greater use of the new debt margins could provide a boost of around 0.5 pp of GDP over a one-year period from 2026 onwards. This leaves scope for a more modest additional effect linked to confidence and the credibility of the reforms.

That said, there could be sector-specific effects that materialise more quickly. The first visible effects are expected to appear at the microeconomic and sectoral levels. Sectors such as defence, infrastructure, energy, housing, electrical equipment, semiconductors, batteries and public investment-related services are most likely to see improvements in order books, expected margins or valuations first.

Execution and consistency will be just as important as the initial announcement. If infrastructure is effectively modernised, administrative bottlenecks are reduced, labour supply contraction eases, and capital continues to be reallocated towards innovative sectors by the early 2030s, Germany can improve its growth potential and restore some of its industrial competitiveness. Some economists predict that trend growth could almost double by 2030, rising from 0.4% to 0.7% per year. While this would still be modest in absolute terms, it would represent a significant shift away from recent stagnation.

While no economic miracle is on the horizon, a credible recovery is possible for an economy that still boasts a powerful industrial base and strong technological capacity, with the added bonus of the state now acting as an investor once again.

Sentiment (from IFO surveys) is recovering as reforms improve Germany's investment appeal and growth outlook



Source: Amundi Investment Institute, Bloomberg. Data as of 29 July 2026. IFO German Business Indexes, compiled by the IFO Institute, reflect current business conditions and expectations across German companies.

The reforms in Germany coincide with the ongoing reforms across Europe

The Draghi and Letta reports have evolved into a plan but implementation remains uneven. Progress is most advanced in critical raw materials and transport, while industrial coordination and innovation funding are lagging. The Letta report's 'One Europe, One Market' initiative sets deadlines of 2027-28 for the capital, energy, and digital areas. Four legislative streams were launched in the first half of 2026: the 28th regime ('EU Inc.'), the Savings and Investments Union (SIU) package, securitisation reform, and the Industrial Accelerator Act.

These initiatives now underpin a pro-European narrative. European sovereignty is now a capital expenditure programme, not just a political slogan. The SIU and securitisation open up financing channels, the Industrial Accelerator Act reshapes demand-side incentives, and the Security Action for Europe, European Defence Industry Programme and European Investment Bank anchor defence procurement. Meanwhile, the rising cost of carbon energy makes electrification a profitable trade.

The outlook for investors is clear: defence contractors, grid operators, storage providers, and critical materials processors and consolidators in fragmented industrial value chains are set to benefit from a multi-year wave of subsidised, procurement-backed investment.

EQUITIES

German reforms: what do they mean for European equities?

AUTHORS

Federico Cesarini
Head of DM Equity, FX and Digital Assets, Amundi Investment Institute

The reform plus fiscal package is genuinely large and potentially a regime change, but not yet an unqualified "buy Germany/Europe" signal. The principal upside risk is a confidence-led private capex cycle. The key downside risk is implementation failures and higher bond yields, which could turn a productive investment programme into a less equity-friendly fiscal expansion. Depressed confidence, reform leverage and limited FX tailwinds nevertheless all argue for clear relative winners and losers. We favour German domestic and small- and mid-cap stocks over large international exporters; the European reindustrialisation supply chain over China-geared and defensive exporter cohorts; and expect momentum in the Periphery to continue. The near-term complication, an Iran/Hormuz energy shock pushing the ECB toward hikes rather than cuts, may argue against a broader market rerating, but does not yet alter the relative framing.

The German package and the channels supporting stocks

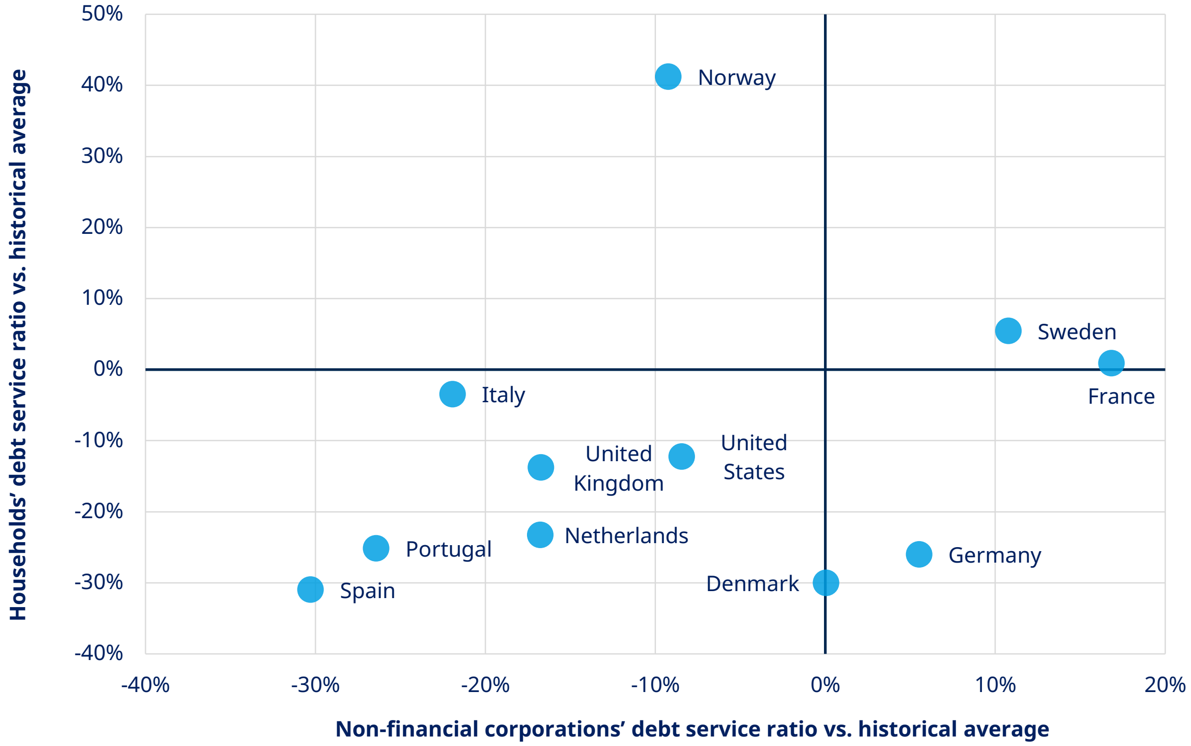
Germany is gradually moving from fiscal restraint and external dependence towards an investment-led economic model. The reforms can improve both the level and quality of growth, and the public-private interaction makes the package more equity-relevant than a normal fiscal stimulus, because it affects both demand and supply and thus has the potential to crowd in private capex rather than merely create a temporary fiscal multiplier. Importantly, the infrastructure and defence spending is not a traditional one-off stimulus; it changes the government's borrowing trajectory and the visibility of industrial demand; "Agenda 2030" reforms add tailwinds to an existing base.

"Germany is gradually moving from fiscal restraint and external dependence towards an investment-led economic model."

Credit and balance sheet capacity also matter. The BIS measures the proportion of household and corporate (the private sector) income used for interest and principal payments. In the case of Germany (as well as the Periphery in Europe and the UK) the limited rise in the private sector's debt service ratio relative to its historical level translates into capacity to re-lever. This capacity is latent and gated (the gate being banks' risk appetite, and what opens it being energy de-escalation and an end to ECB tightening), but it could further broaden the credit cycle, extending growth beyond current assumptions.

The longer-term results remain uncertain: they depend on whether companies will alter their investment, wage and capital-allocation behaviour, whether banks accelerate lending, and whether returns on investments prove attractive. For now, the confidence channel is what has the potential to become the real transmission valve; and a change in confidence breadth is a more powerful trigger than just its level. With business and consumer confidence at multi-year lows and only just turning (the war in Iran and the rise in energy prices had an impact), the reforms are not yet reflected in sentiment. Any confidence rebound, while geopolitically contingent, is the real source of optionality.

Low debt servicing highlights capacity to relever



Source: Amundi Investment Institute, BIS. Last available data as of Q4 2025. The data set for debt service ratios reflects the share of income used to service debt for households, non-financial corporations and the total private non-financial sector.

The mechanics: earnings and equity risk premium are the driving forces

At a high level, equity price returns are driven by changes in earnings expectations and changes in valuation, usually expressed through the Price-to-Earnings (P/E) ratio. The P/E ratio typically moves inversely with the risk-free rate and the equity risk premium (ERP)*, while benefiting from positive revisions in long-term growth assumptions.

In Germany, the combination of supply-side reforms and the fiscal package favours companies whose earnings revisions arrive early, rather than long-duration equities that rely almost entirely on valuation expansion.

Here we explain why:

1. **Earnings revisions are the most reliable leg.** The package likely raises revenues and operating leverage, while stimulating productivity. German equities have high operational gearing, so a given GDP increase can translate into an outsized increase in EPS for domestic cyclicals. The bar for a 2026 EPS beat is high (expectations are elevated and Agenda 2030 will not affect the reporting season), but (1) ex-energy EPS growth remains in the low single digits and (2) the breadth of 2027 consensus revisions among domestic stocks is still missing. The reform is therefore likely to favour domestic names.
2. **The impact on multiples (P/E) is more mixed.** Any further re-rating from here has to come from ERP compression, net of limited fall in the risk-free rate, which makes the setup less supportive, at the margin, than in 2024/25.
3. **ERP leg:** reform credibility, political stability and lower tail risk can all reduce the premium investors demand. This is where "depressed confidence turning" does its work: it's optionality, not yet in the price.

   Risk-free leg: The recent energy shock has flipped the ECB narrative from cutting to hiking, which limits P/E expansion. While we believe the ECB will not deliver what is priced in the market, any upside surprise in growth would likely prevent aggressive cuts later in 2027.

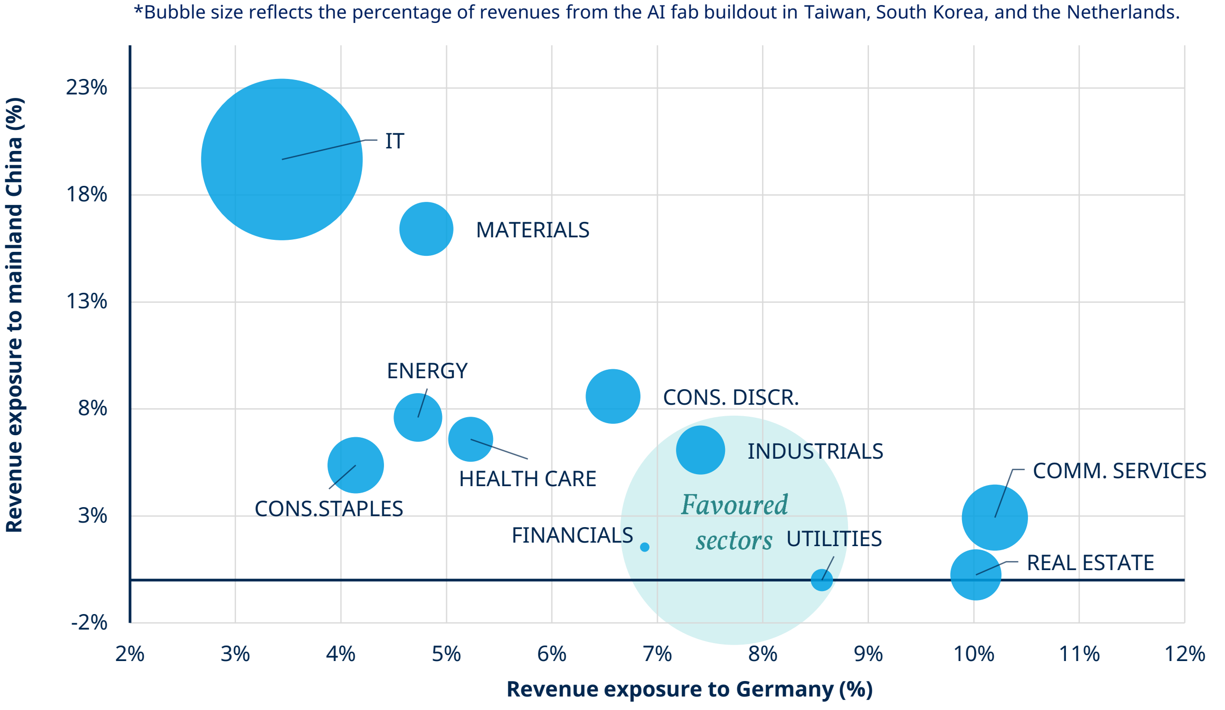
*ERP = expected equity return - risk-free rate.

Investment implications: how to position within Germany and across Europe

For us, the most attractive first-order exposure combines high revenue dependency on Germany, low relative dependency on the old German/European model (export-oriented businesses reliant on cheap energy, Chinese demand, and a weak exchange rate), and strong diversification benefits in the event of a disappointing AI build out.

- **We would expect German small and mid-cap companies with high domestic sales and strong balance sheets to outperform large multinational companies.** Small- and mid-cap stocks have the most direct fiscal leverage; they benefit (or at least don't suffer) from euro strength, and they carry the highest confidence beta from a depressed base.
- **Government spending continues to support Europe's reindustrialisation supply chain.** We continue to like capital goods, electrical grids and power equipment, and infrastructure suppliers (including security supply chains).
- **Banks remain a key conviction in Europe.** They are the primary second-order beneficiary if the reform package triggers a domestic capex and credit cycle.
- **We think it is early to be exposed to consumer names, which remain poor proxies for the German reform story**. For the segment to become appealing, we need consumers to perceive reforms as credible (lower precautionary savings) and the auto sector headwinds (EV competition from China, tariffs) to dissipate.
- **Sector concentration (in financials and domestic cyclicals) and relative macro and political backdrops suggest that Italy and Spain may continue to reflect** the German reflation story better than other markets.

European sector revenue exposure to China, Germany and the AI buildout



Source: Amundi Investment Institute, Factset, GeoRev. Data as of 15 July 2026.

AII* Contributors

Didier Borowski
Head of Macro Policy Research, AII*

Federico Cesarini
Head of DM Equity, FX and Digital Assets, AII*

Chief Editors

Monica Defend
Head of Amundi Investment Institute

Vincent Mortier
Group CIO

Editors

Claudia Bertino
Head of Amundi Investment Insights and Publishing, AII*

Laura Fiorot
Head of Investment Insights & Client Division, AII*

Deputy Editor

Cy Crosby Tremmel
Investment Insights, AII*

Design Editor

Chiara Benetti
Digital Art Director and Senior Designer, AII*

Alice Girondeau
Junior Digital Publishing Specialist, AII*

* Amundi Investment Institute

Date of first use: 30 July 2026.
Document ID: 5486604

Document issued by Amundi Asset Management, "société par actions simplifiée"- SAS with a capital of €1,143,615,555 - Portfolio manager regulated by the AMF under number GP04000036 – Head office: 90-93 boulevard Pasteur – 75015 Paris – France – 437 574 452 RCS Paris – www.amundi.com

Photo credit: Rhenizara S @Getty Images Plus

Amundi Investment Institute

In an increasingly complex and changing world, investors need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios.

This environment spans across economic, financial, geopolitical, societal and environmental dimensions. To help meet this need, Amundi has created the Amundi Investment Institute. This independent research platform brings together Amundi's research, market strategy, investment themes and asset allocation advisory activities under one umbrella: the Amundi Investment Institute. Its aim is to produce and disseminate research and Thought Leadership publications which anticipate and innovate for the benefit of investment teams and clients alike.

Get the latest updates on:

- Geopolitics
- Economy and Markets
- Portfolio Strategy
- ESG Insights
- Capital Market Assumptions
- Cross Asset Research
- Real and Alternative Assets

Visit us on

Visit the Research Center

Amundi
Investment Solutions

Trust must be earned