

Investment Institute

Time for Europe

Market Story

JUNE 2025

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“European markets are experiencing a remarkable turnaround, becoming increasingly attractive to foreign investors and reclaiming their place on the global map”.

Pivotal moment for Europe

We are at an **inflection point for Europe, signalling a promising medium-term outlook for the region**, despite modest growth projections for 2025. Upcoming reforms, structural changes, and anticipated investments are expected to foster economic activity across Europe. The region stands at a **pivotal moment, navigating a new defence paradigm and a fiscal push in Germany** aimed at addressing the shortcomings identified in Draghi's report. This initiative is set to **enhance productivity and innovation**, thereby **unlocking Europe's economic potential**.

After several years of being overshadowed by US exceptionalism, **European markets** have demonstrated a remarkable turnaround, outperforming their American counterparts and becoming **increasingly attractive to foreign investors**, as evidenced by the increase in capital flows to Europe recently. The euro is emerging as a potential global alternative to the dollar, as pointed out recently by ECB president Lagarde “The ongoing changes create the opening for a “global euro moment”.”

We believe this positive long-term trend for Europe could continue for two main reasons: first, rising concerns over trade tensions and fiscal indiscipline have diminished the perception of US assets as the sole safe haven; second, a strengthened stability and willingness to reach a strategic autonomy.

The Old Continent is once again making its mark on the global map.



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Strategic autonomy ahead

1

Innovation

By fostering a robust ecosystem for research and development as pointed in the Draghi report, **Europe aims to enhance its technological capabilities** and compete effectively with global leaders like the US and China.

- Investment in AI Research
- Robotics Development
- Collaboration with Tech Startups



2

Decarbonisation & infrastructure

The Clean Industrial Deal (CID) aims to decarbonise energy-intensive industries and stimulate clean technology production, lowering energy costs and driving economic growth.

- Affordable energy access
- Accelerating electrification and renewable energy sources
- Investment mobilisation



3

Security and defence

The EC's White Paper on Defence and the 'ReArm Europe/Readiness 2030' plan represent a pivotal shift in Europe's defence strategy, marking the most significant undertaking since the Cold War.

- Establishing robust supply chains
- Promoting R&D in defence
- Enabling countries to increase defence spending



4

Strengthen stability

Europe has reduced systemic risk from fiscal mismanagement and imbalances, improving financial stability despite challenges in some countries.

- Reduced systemic risk
- Improved financial stability
- Enhanced policy flexibility

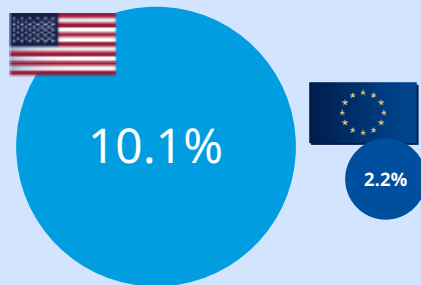


Innovation: the need to catch up on productivity growth

Structural Themes

Productivity in the Eurozone is expected to increase, supported by a boost in the adoption of Artificial Intelligence (AI) and the implementation of reforms to improve competitiveness.

Increase in labour productivity per hour worked between Q4 2019 and Q4 2024



Source: Amundi Investment Institute on Eurostat as of 31 of December 2024.

Euro area productivity trends: Europe needs to recover from the productivity losses since Covid













Amundi Investment Institute, Bloomberg, Macrobond. Data is as of end of Q4 2024.

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Innovation: Europe to benefit from AI adoption

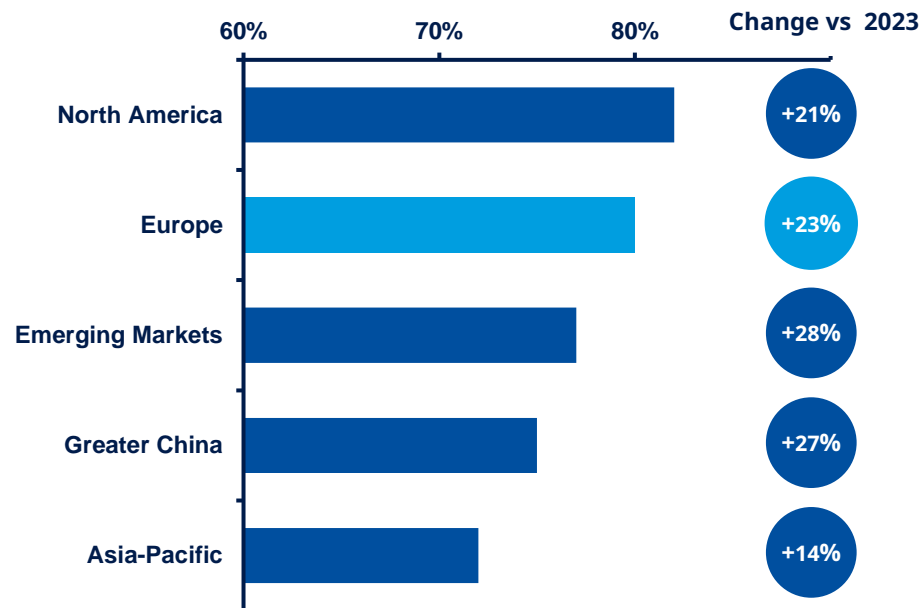
Structural Themes

Top ten world economies for AI preparedness

AI Preparedness Index		
1	Singapore	
2	Denmark	
3	United States	
4	Netherlands	
5	Estonia	
6	Finland	
7	Switzerland	
8	New Zealand	
9	Germany	
10	Sweden	

Source: Amundi Investment Institute, IMF. Data refers to 2023.

AI adoption is rising fast in Europe



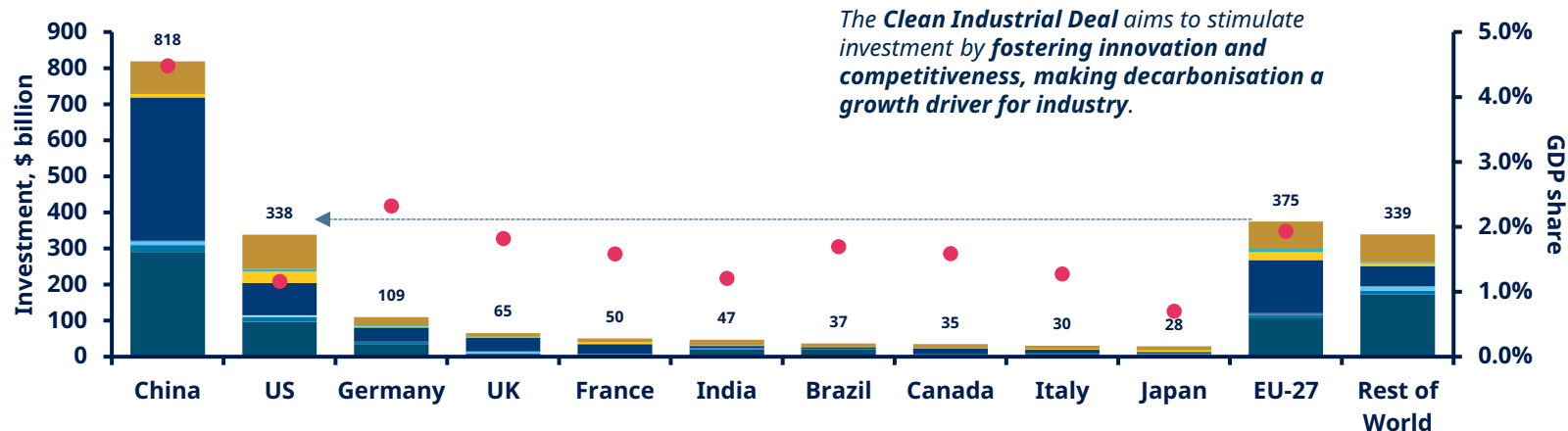
Source: Amundi Investment Institute on McKinsey & Company Survey. Data is as of 2024. The chart shows the AI use by organisations in the world in 2024 and the increase vs 2023.

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Decarbonisation: strong investments needed

Structural Themes

Energy transition investment and GDP share in 2024, top 10 economies plus the EU-27 and rest of the world



■ Renewable energy ■ Energy storage ■ Nuclear ■ CCS ■ Hydrogen ■ Electrified transport
■ Clean shipping ■ Electrified heat ■ Clean industry ■ Power grids ● GDP Share

Source: Amundi Investment Institute on BloombergNEF. EU-27 bar also includes the EU member states shown. 'Rest of world' is global investment excluding the EU and individual economies in the chart. CCS refers to carbon capture and storage. Data as of January 2025.

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Infrastructure: a historical shift

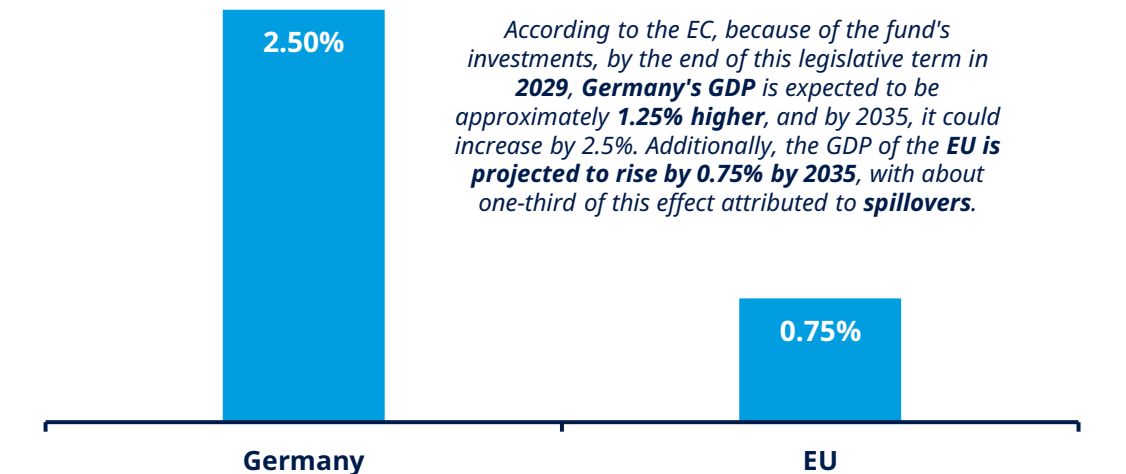
Structural Themes

Germany has initiated a significant **fiscal stimulus package aimed at revitalising its economy**, also focusing on infrastructure investments. It marks a substantial shift from Germany's traditional fiscal restraint.

Fiscal spending, if efficiently deployed, could provide a **significant boost to GDP growth** (from 2026).

Assuming that the infrastructure fund is fully debt-financed and allocated to productive projects there could be significant GDP gains for Germany and the European Union at large.

Impact of German infrastructure spending on German and EU GDP gains by 2035



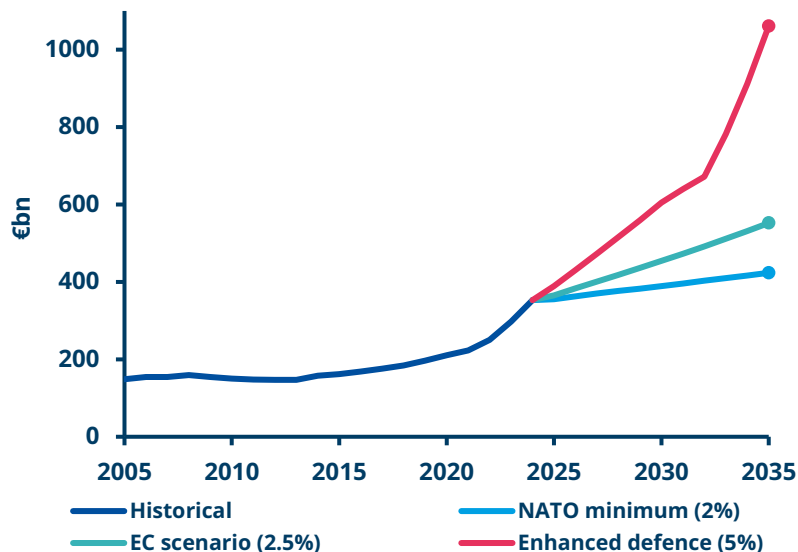
Source: Amundi Investment Institute on European Commission. Assumptions are that the infrastructure fund is fully debt-financed and allocated to productive projects, and factoring in a linear spending profile starting in the second half of 2025, the model simulations show that compared to the baseline. Data as of 19 May 2025.

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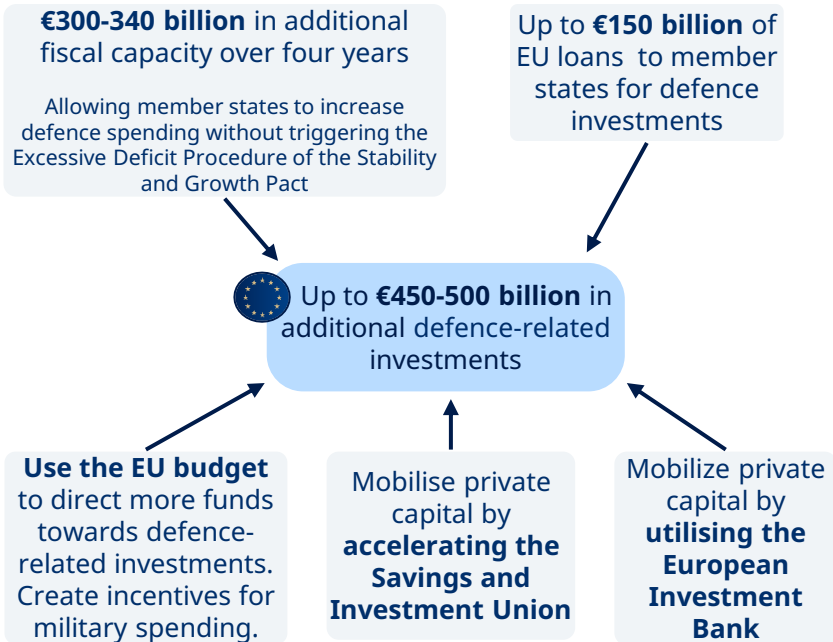
Defence: Military spending on the rise

Structural Themes

EU Total annual military spending, based on GDP ratio targets (2035)



ReArm Europe: EU's defence plan



Source: Amundi Investment Institute, internal elaboration based on IMF and NATO data, as of May 2025.

Source: European Commission, [Statista](#), estimations by the European Parliament's economic services. Data as of May 2025

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Strengthen stability:

The main tools that the ECB/ NCBs could mobilise to contain liquidity/ financial tensions:

- **LTRO, TLTRO, PELTRO:** Long-term funding operations; TLTROs encourage lending during stress.
- **ELA:** Emergency liquidity support from NCBs for banks facing acute shortages.
- **APP, PEPP:** ECB buys assets (mainly government bonds) to inject liquidity and support markets.
- **TPI:** Allows ECB to purchase securities in specific jurisdictions to ensure monetary policy transmission. The TPI has not been activated since its introduction. There is a conditionality for the ECB intervention.
- **OMT:** Enables ECB to buy sovereign bonds in secondary markets to address severe dysfunctions. There have been no actual OMT operations executed since its introduction. There is a conditionality for the ECB intervention.
- **Collateral Framework:** Accepts a wide range of assets as collateral for lending operations.

Source: Amundi Investment Institute, ECB. Internal elaboration. Data is as of May 2025.

tools for crisis management

Structural Themes

Low level of systemic stress from a historical perspective

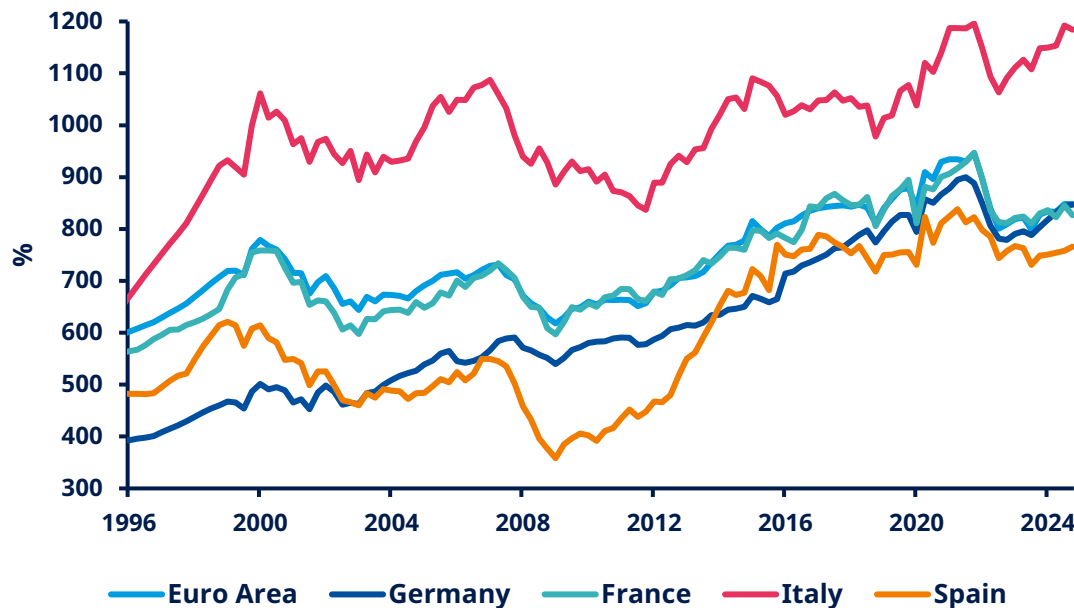


Source: Amundi Investment Institute, Bloomberg, ECB. The composite indicator aims to represent the level of systemic stress in the Eurozone's financial system, and it is calculated using 15 mainly market-based financial stress measures from the financial intermediaries sector, money markets, equity markets, bond markets and foreign exchange markets. All components carry equal weightings. Data is as of 20 of May 2025.

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Strengthen stability: strong households

Households' net financial assets to disposable income



Source: Amundi Investment Institute, Macrobond. Quarterly data, and last available quarter as of Q3 2024.

Structural Themes

The strong financial backdrop of households in Europe presents a significant **opportunity to support investment needs across the continent.**

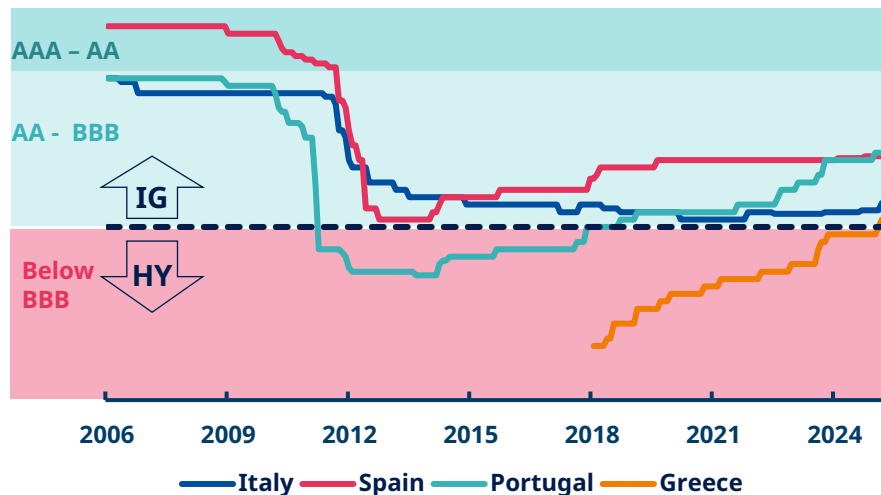
By leveraging increased savings, low borrowing costs, and a focus on sustainable initiatives, **households can play a crucial role in driving economic growth and innovation.**

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Strengthen stability: improved sovereign risk

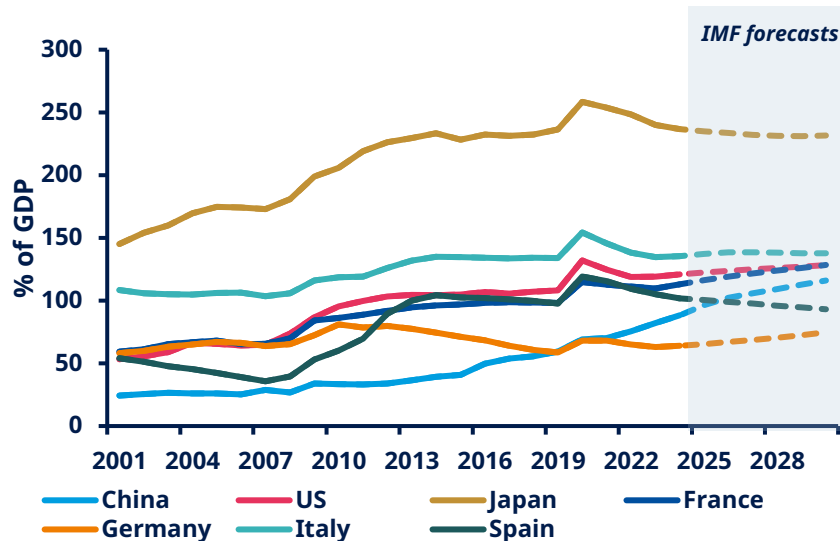
Structural Themes

Historical average rating scores of European peripheral countries, with strong improvement for Greece



Source: Amundi Investment Institute, Bloomberg. Internal average scores are derived from the ratings assigned by Moody's, S&P, and Fitch, with the following assumptions: a) Ratings are scored as follows: 1 for AAA, 2 for AA+, 3 for AA, continuing up to 10 for BBB-; b) A change in the outlook (negative/positive) adjusts the score by ± 0.25 and c) A credit-watch (insertion/removal) adjusts the score by ± 0.50 . Calculations for Greece began in 2018. Monthly data as of April 2025.

Government debt remains high, similar to other regions, and some countries could face fiscal constraints



Source: Amundi Investment Institute, IMF. Data as of 2024.

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Macro background

GROWTH

Heterogeneous and sub-par growth is expected to continue without a recession, with recovery delayed by heightened trade uncertainties.

Growth risks are skewed to the downside, driven by challenges such as structural issues in Germany.

INFLATION

With inflation showing signs of potentially decelerating further, **the Eurozone is experiencing confirmed disinflation dynamics**. This positive trend is supported by lower energy prices and the redirection of goods originally destined for the US now being sent to Europe.

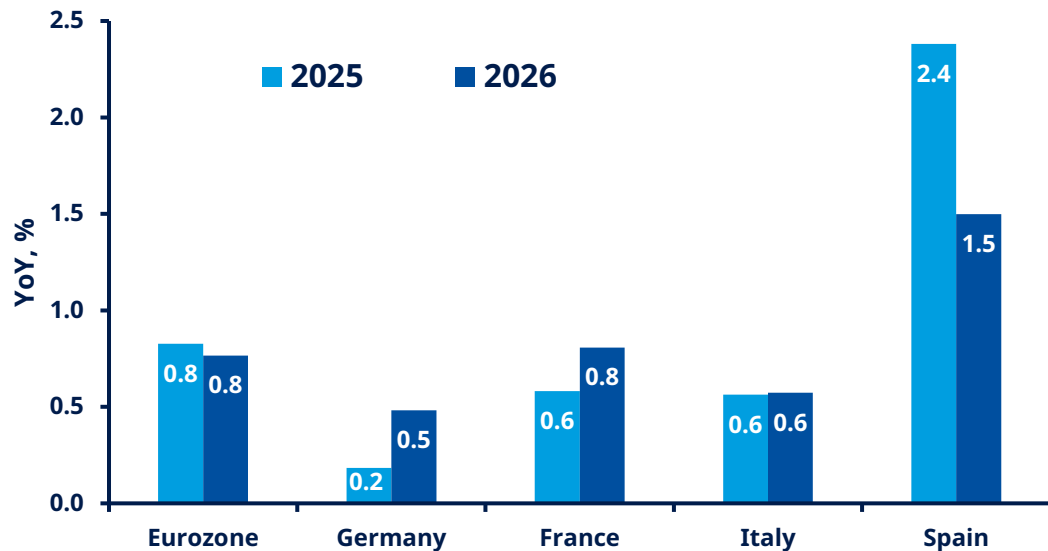
MONETARY POLICY

With continued disinflationary forces at play, the **ECB should be able to implement more progressive cuts**, leading us to expect the deposit rate will reach 1.50% by the end of 2025.

Source: Amundi Investment Institute, as of 20 May 2025.

Sub-par growth and mild recovery in sight

Uneven and poor economic outlook, but recovering



Source: Amundi Investment Institute, IMF, Bloomberg. The chart shows reference projections based on information available as of 13 May 2025. Assumptions on tariffs as of 13 May 2025, at face value, tariffs are 10% universal, 30% on China (20% Fentanyl and 10% reciprocal); +25% on non USMCA compliant imports from Canada/Mexico (10% in certain energy and related products); 25% sectoral tariffs under the section 232 (Steel and Aluminium. Auto and Auto Parts), mildly reduced by the recent proclamations on Import Adjustment Offset.

Macro background

The ongoing recovery in domestic demand faces challenges due to heightened trade uncertainty.

Easing monetary policy may support growth, but credit flows and demand remain subdued despite rate cuts.

A reduction in trade uncertainty and lower interest rates could trigger a rebound in consumption and investment in the latter half of the year.

Supportive specific country themes:

- France: leadership in defence.
- Italy: political stability alongside a primary surplus.
- Eastern Europe: poised to benefit from a potential ceasefire in Ukraine.

To watch: export-oriented countries exposed to tariffs

Macro background

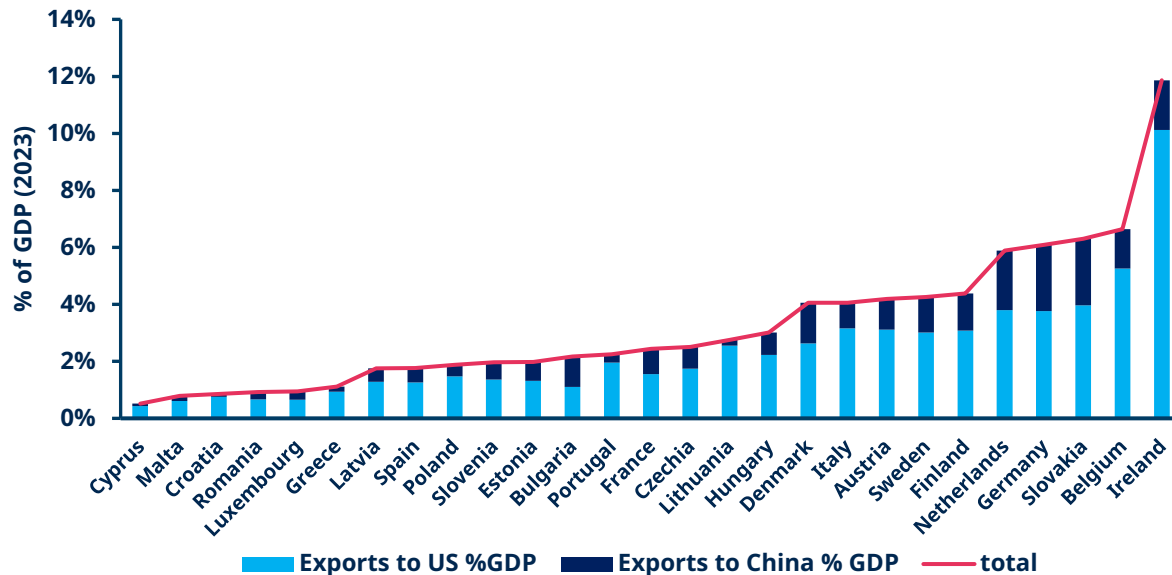
Key points

Exports are a vital growth engine, rising from 32% of GDP in 2001 to 50% now*.

The US is the biggest destination for EU exports (greater than China).

Exported goods are concentrated in machinery and vehicles, chemicals, and other manufactured goods.

Direct trade exposure to US and China show heterogenous vulnerabilities



*Exports of goods and services in % of GDP, source is Eurostat.

Source: Amundi Investment Institute. Eurostat data as of 5 December 2024.

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Trade picture between EU and US

Macro background

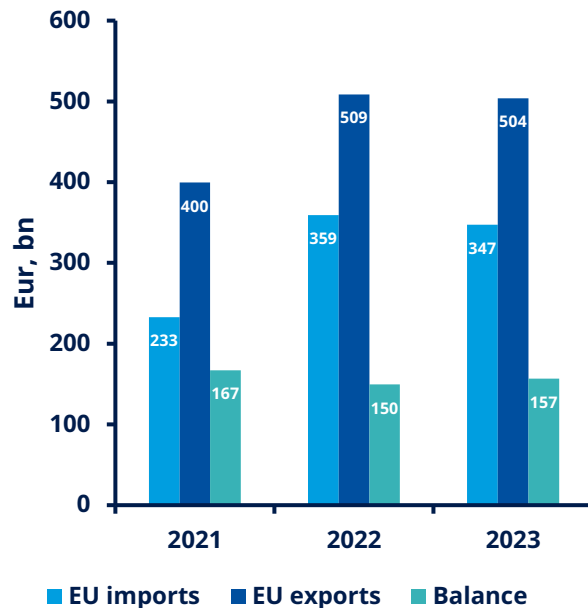
Key points

The trade relationship between the transatlantic partners is the most significant commercial connection globally.

The **EU exports more goods** to the US, while the **US exports more services** to the EU. In 2023 the difference was €48 billion.

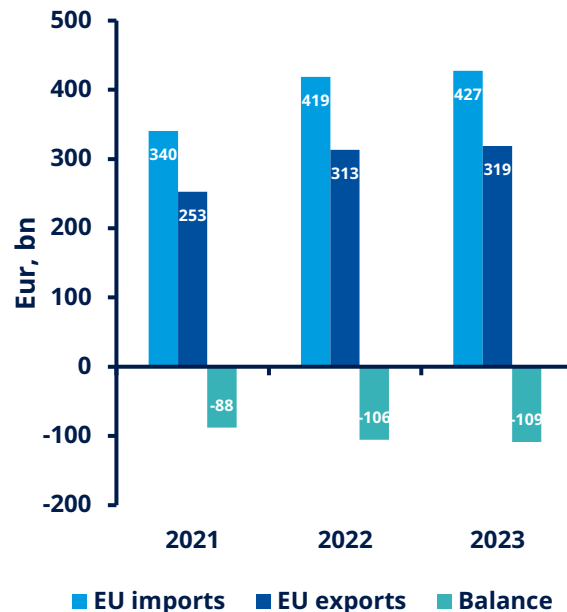
The EU and the US are also major investment partners.

EU-US trade in goods



Source: Amundi Investment Institute. European Commission. Annually data as of 2023.

EU-US trade in services



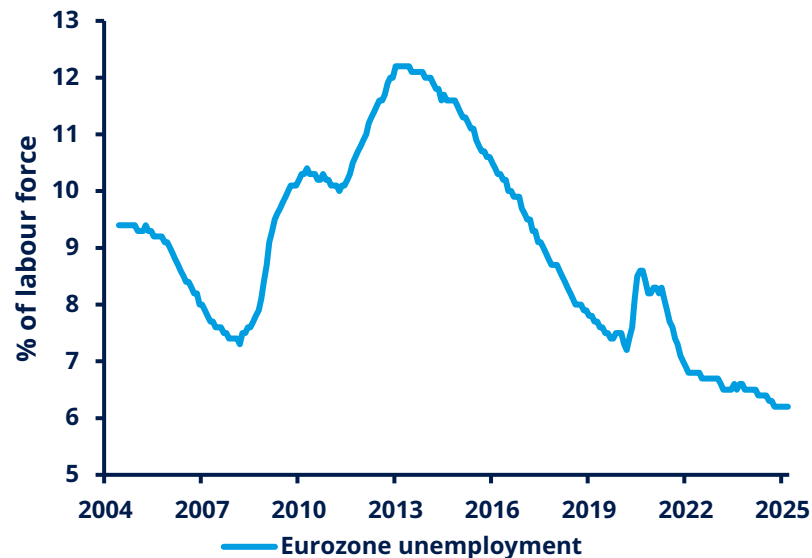
Source: Amundi Investment Institute. European Commission. Annually data as of 2023.

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Resilient labour market to support consumption

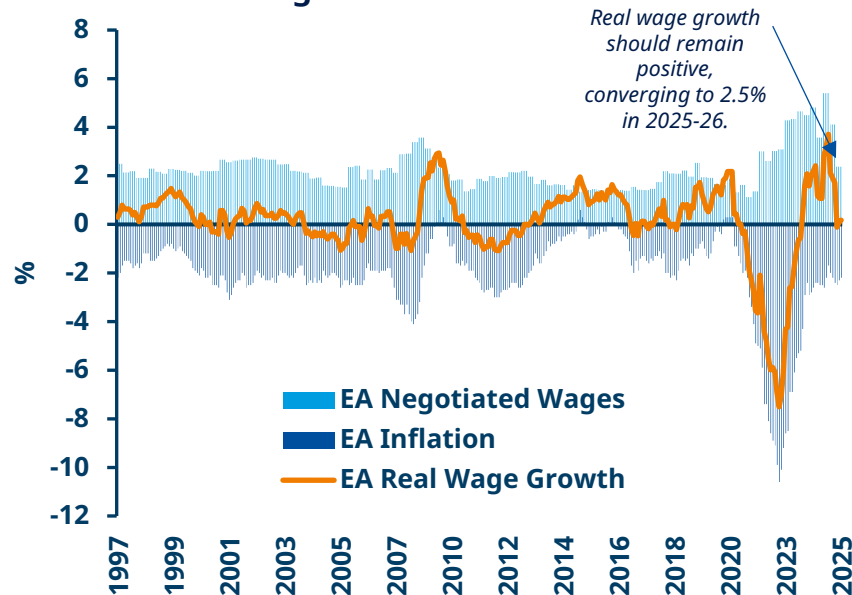
Macro background

Despite weak growth, unemployment rate hits record low



Source: Amundi Investment Institute, Bloomberg. Monthly and seasonally adjusted data, latest available data is as March 2025.

Decent gains in employment and wages, along with decelerating inflation



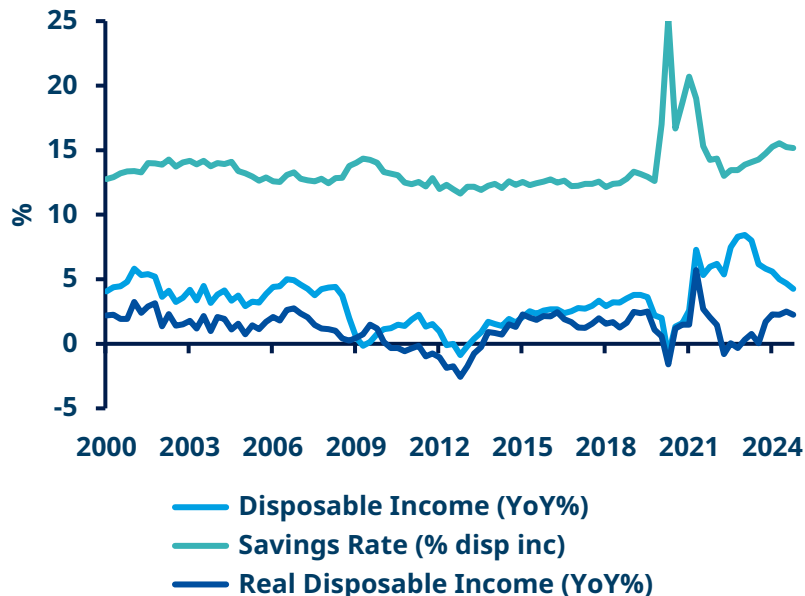
Source: Amundi Investments Institute, Macrobond as of 25 May 2025.

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High savings rate and credit growth at a turning point

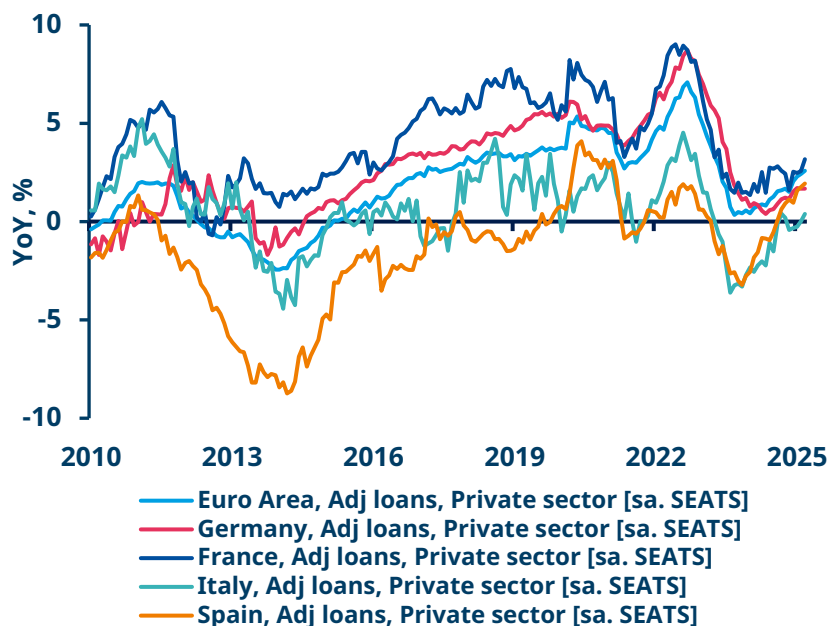
Macro background

The savings rate is high and may moderate; confidence is key to deploying savings



Source: Amundi Investments Institute, Macrobond as of 25 May 2025.

Private sector credit growth is picking up, although not uniformly, yet the trend is positive

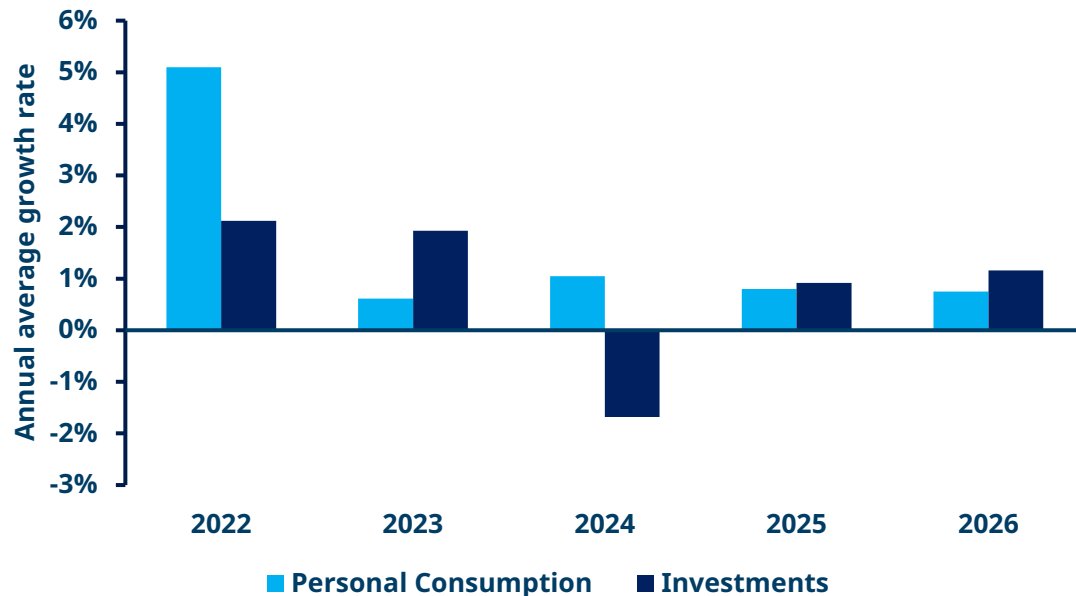


Source: Amundi Investments Institute, Macrobond as of 25 May 2025.

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Easier monetary policy to benefit investments

Capex lagged in 2024 and was hit by high rates; it is expected to remain modest but positive



Source: Amundi Investments Institute, Macrobond as of 25 May 2025.

Investments are somewhat lagging with much of the recovery being deferred by the still elevated cost of capital on the one hand and uncertainty on the other.

Credit growth is showing signs of improvement and lower uncertainty on the trade front combined with lower rates might present a trigger for further growth.

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Lower energy prices are a boon for Europe

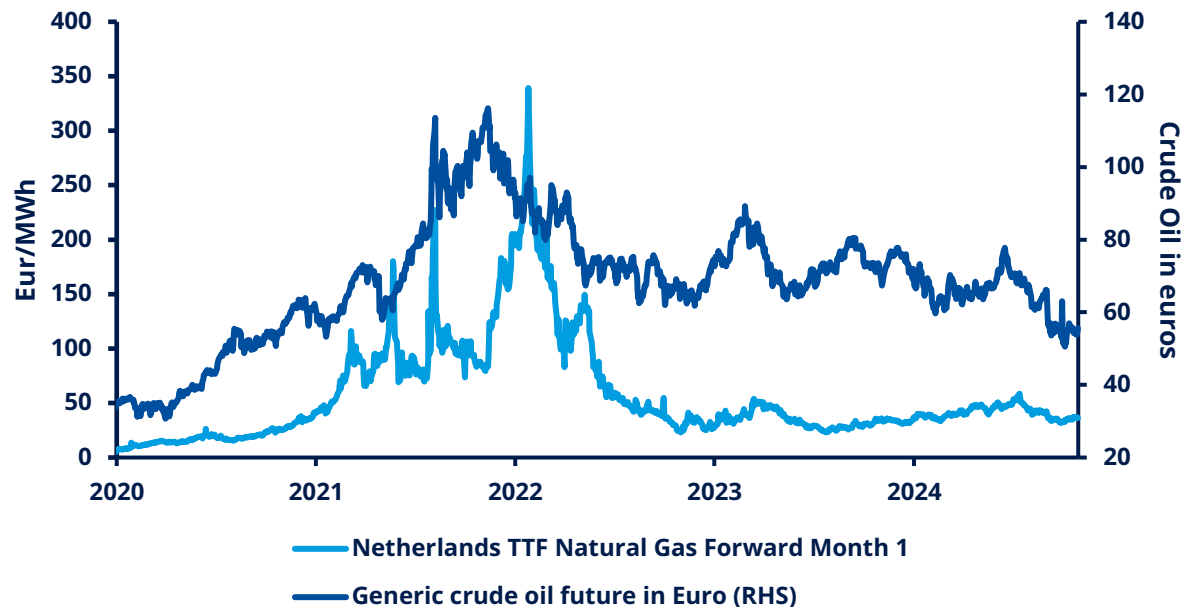
Macro background

In 2022, the war-related energy shock impacted European manufacturing activity.

The combination of strategic plans from the EC and the positive trends in energy costs has led to lower prices and will play a significant role in **supporting industrial production and enhancing the competitiveness of European industries.**

Lower energy prices are expected to alleviate the financial burden on households and industries, as well as reduce renewed inflationary pressures.

Cheaper energy



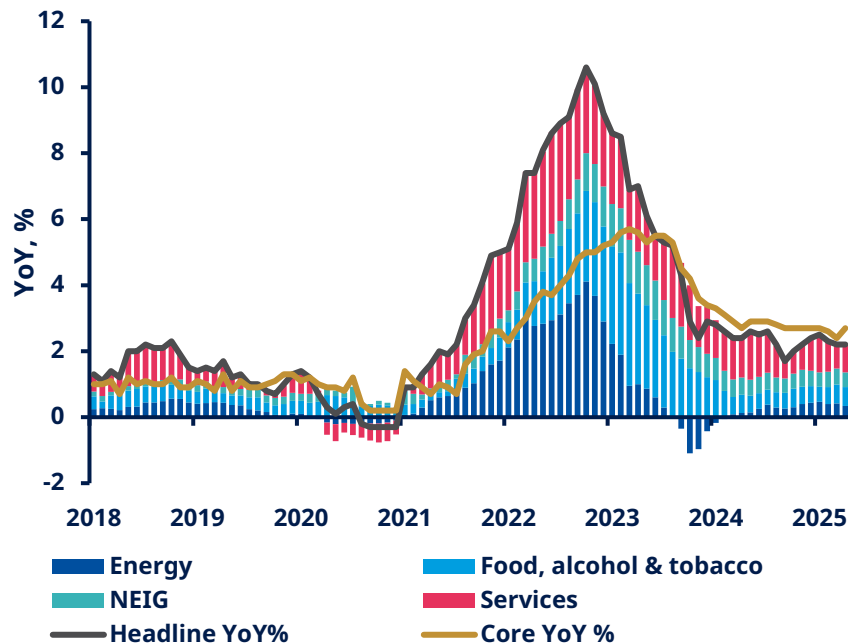
Source: Amundi Investment Institute, Bloomberg. Data as of 29 May 2025.

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European disinflation enables ECB to keep easing

Macro background

Eurozone: contributions to inflation



Source: Amundi Investment Institute, Bloomberg. Latest available data as of April 2025.

Wages are not an issue for the ECB



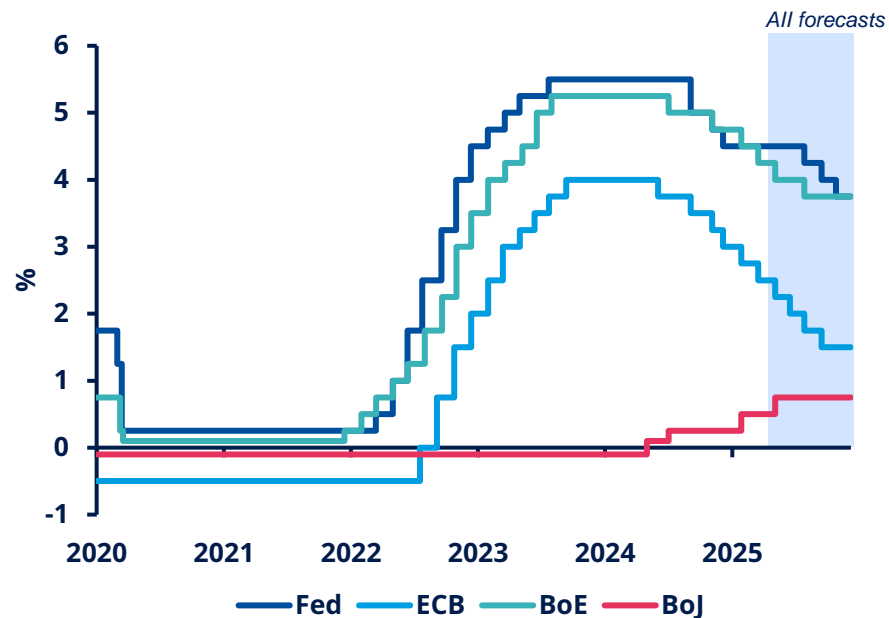
Source: Amundi Investment Institute, Bloomberg, European Central Bank. ECB Negotiated Wage Tracker YOY% NSA, monthly data as of December 2024.

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Borrowing costs are supportive

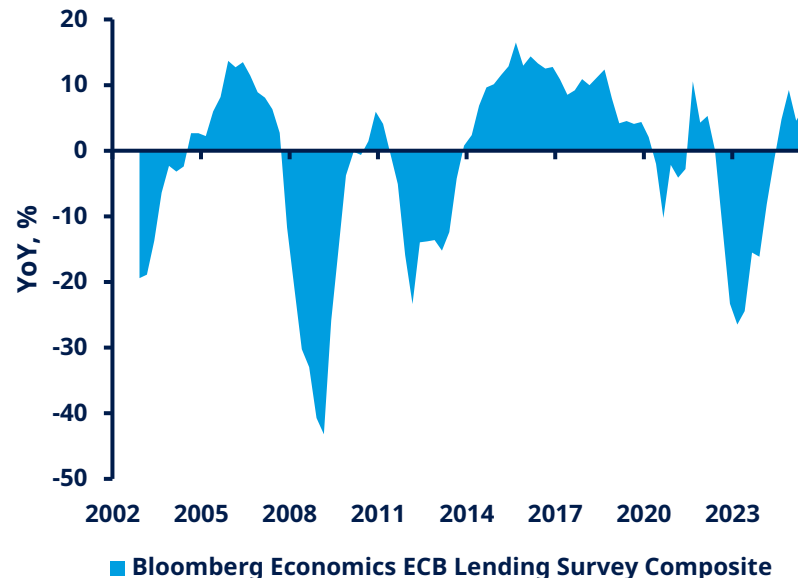
Macro background

Central banks' rates and forecasts



Source: Amundi Investment Institute as of 8 May 2025. CB Forecasts are by Amundi Investment Institute and are as of 17 April 2025. Fed: Federal Reserve, ECB: European Central Bank, BoE: Bank of England, BoJ: Bank of Japan. For the Federal Reserve, current rate refers to the upper bound of the target range. For the BoJ, current rate refers to the upper bound of the target range. For the ECB, current rate refers to the deposit facility.

Banks are still lending



Source: Amundi Investment Institute, Bloomberg, based on Bloomberg Economics Euro-Area Bank Lending Survey Composite Index. Quarterly data as of April 2025.

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Investment Opportunities

1 | Equities

The equity rotation towards regions like Europe is likely to turn **from technical to structural, driven by increased defence and infrastructure spending.**

Europe has significant exposure to cyclical sectors, such as industrials and consumer discretionary. Given the expectation of lower interest rates, we believe **small-cap stocks deserve careful consideration** due to their potential for domestic revenue generation.

2 | Bonds

Sub-par growth and the ECB's easing stance reinforce our **positive outlook on duration for European bonds.** Several factors contribute to the resilience of these bonds: supportive monetary policies, effective crisis management, safe-haven demand, and market confidence.

Fundamentals for corporate bonds remain robust. Although spreads may be tight, the attractive carry offers a compelling entry point for investors.

3 | Euro currency

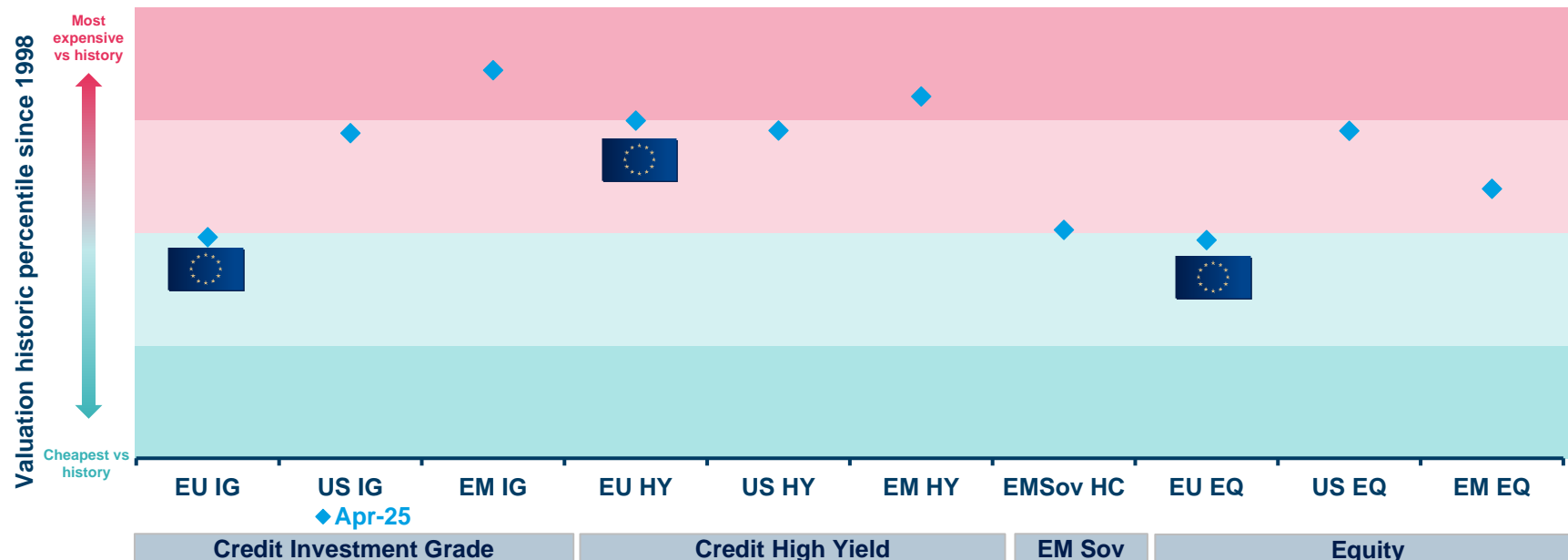
The euro has risen by approximately 10% in the first part of the year, and this trend could continue, benefiting from a potential portfolio rebalancing and 'de-dollarisation.'

The recent **strength of the euro reflects** a combination of **renewed confidence in the Eurozone** and concerns about the US economic outlook.

Valuations are attractive across European assets

Investment convictions

Valuation levels, historic percentiles since 1998



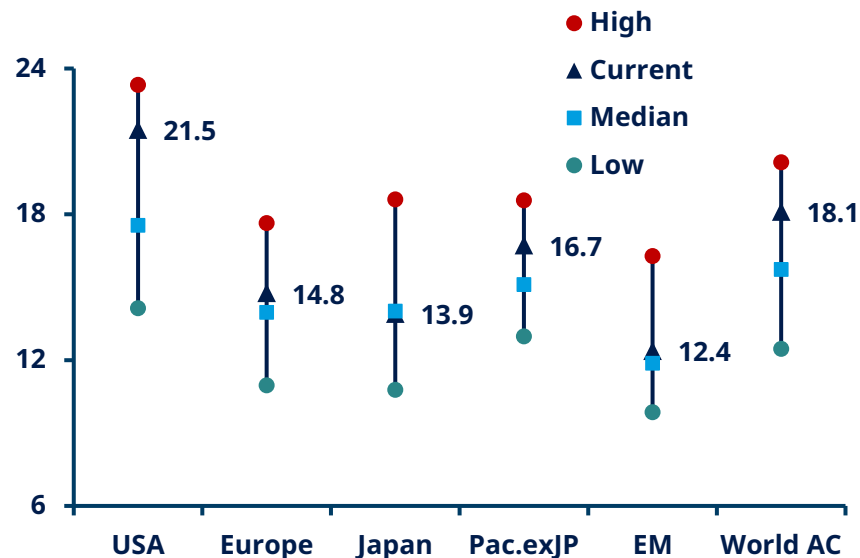
Source: Amundi Investment Institute, Bloomberg, Datastream, latest monthly data as of 29 April 2025. Apr-25 refers to 29 April 2025. EU IG, US IG, EM IG, EU HY, US HY, EM HY are ICE BofA corporate bond indices. IG: investment grade. HY: high yield. EM Sov HC: JP Morgan EMBI Global Diversified. EU EQ, US EQ, EM EQ are MSCI indices for equity markets. All indices refer to a specific region (EU: Europe, US: United States, EM: emerging markets). Analysis is based on spreads for bond indices and on twelve-month forward PE ratio for equity indices. Valuation are in historic percentile since 1998. Cheapest means is in the first quartile, Most expensive is in the fourth quartile.

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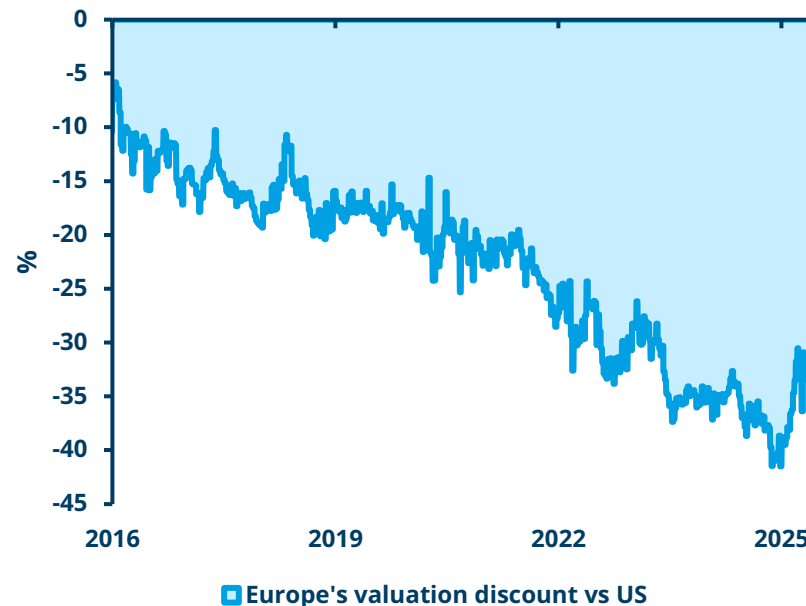
Equity: Europe compelling, US stretched

Investment convictions

Price / earnings ratio 12m forward (over last 12 years)



European vs US Valuations: further room to catch



Source: Amundi Investment Institute, Datastream, LSEG. Data as of 21 May 2025. MSCI indices.

Source: Amundi Investment Institute, Datastream, LSEG. S&P 500 Index and Stoxx 600 Index. Data as of 16 May 2025. MSCI indices.

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European equities: stars are aligned for Small Caps

Investment opportunities

Favourable environment for SMIDs, key points:

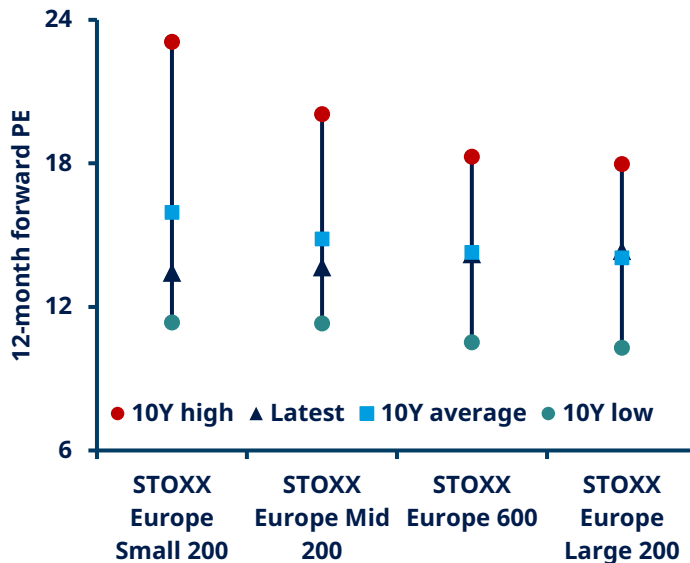
Further interest rate cuts by ECB, boosting economic activity and market sentiment.

Forecast strengthening of domestic consumption in the Euro area.

Compelling valuations in relative and absolute terms.

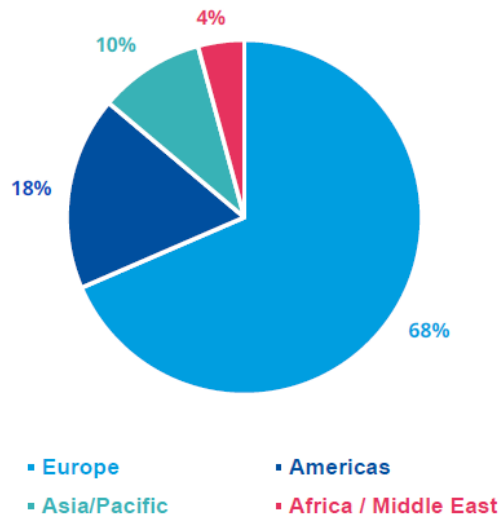
Potential portfolio diversification, as SMIDs behave differently from large-cap stocks throughout economic cycles.

European equity valuation by size



Source: Amundi Investment Institute, LSEG, Datastream. Data as of 19 May 2025.

MSCI Europe Small Cap: revenue exposure by region



Source: Amundi Investment Institute, Factsheet. Data as of 9 April 2025.

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Buybacks and dividends: Europe is ahead

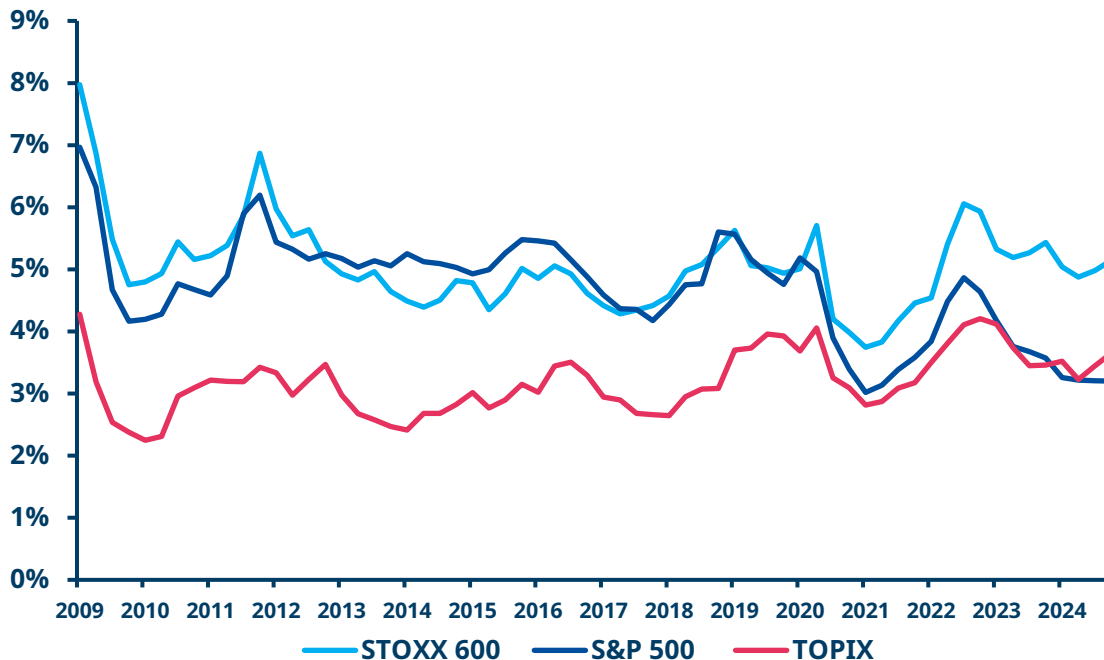
Investment opportunities

A combination of rising share buybacks and generous dividend payments is ensuring that **Europe is now the most attractive developed market region in terms of shareholder remuneration.**

Europe is now ahead of the US in terms of the combined buyback and dividend yields. Thus, the region is **gaining a reputation for placing its shareholders' interests first.**

The yield gap shows scope for further outperformance from here.

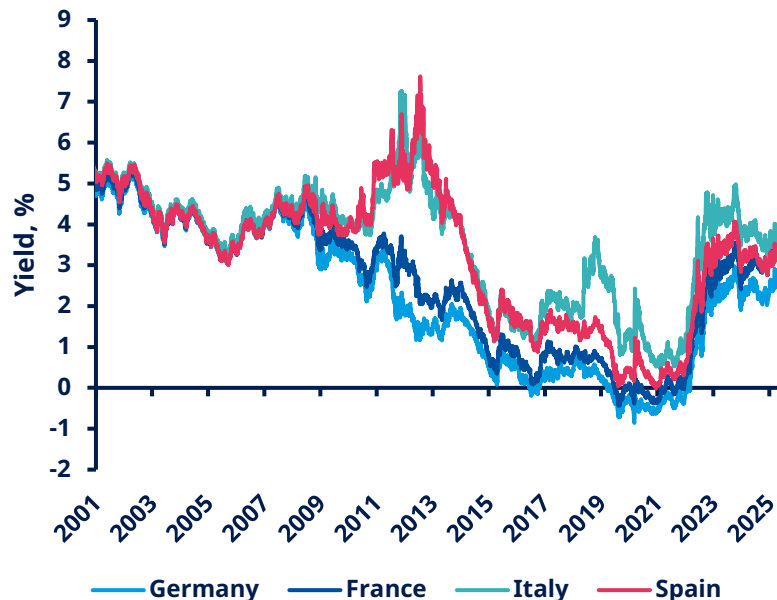
Buybacks and dividend yields across regions



Source: Amundi Investment Institute, Bloomberg and Barclays, data as of 31 December 2024.

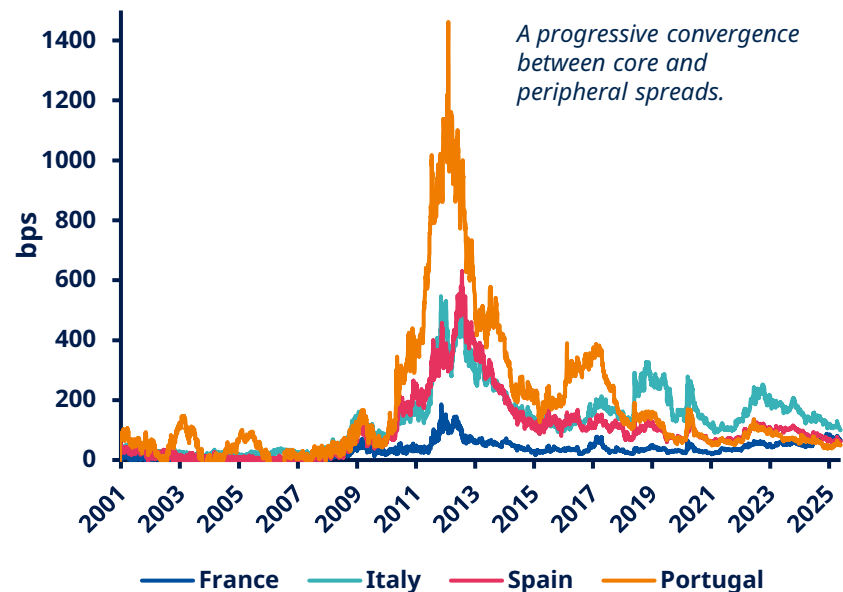
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Attractive sovereign bond yields



Source: Amundi Investment Institute, Datastream, LSEG. Data as of 16 May 2025. MSCI indices.

Spread on 10-year government debt over Germany



Source: Amundi Investment Institute, Bloomberg. The index tracks the ECB Euro Area MFI loans to households annual growth rates. Monthly and seasonally adjusted data, latest available data as of March 2025.

Similar carry in the US and Europe after hedging

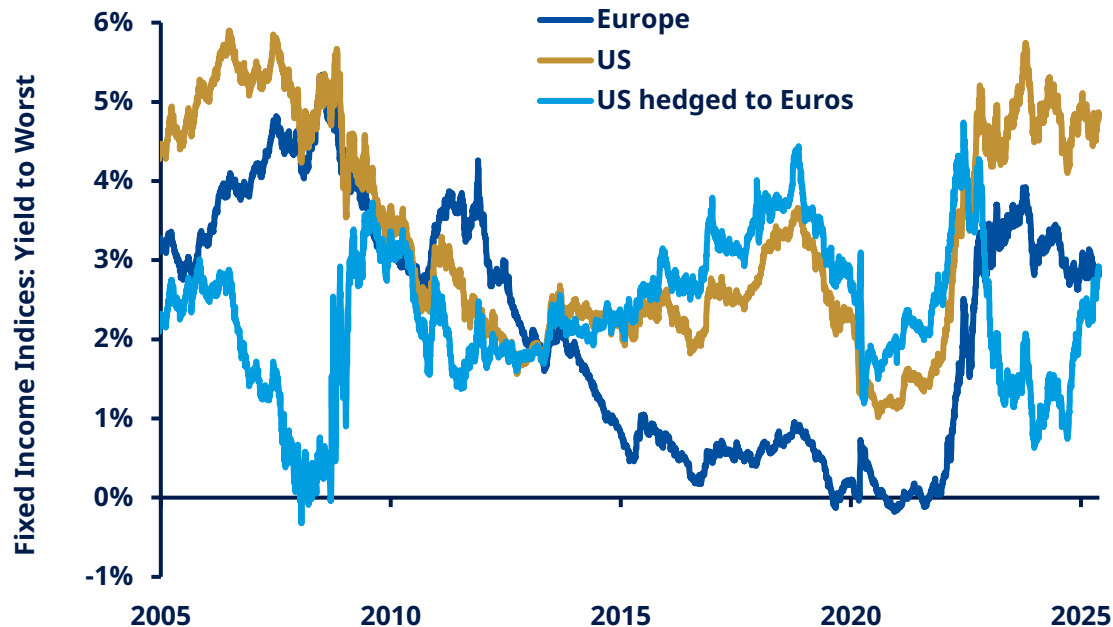
Investment opportunities

The yields between the two aggregate indices are similar when the US-denominated index is hedged to euros.

Euro fixed income was cheaper versus hedged USD fixed income from 2005 to 2007.

It became expensive from 2015 to 2021, and then it became cheaper again when the Federal Reserve raised interest rates in 2022.

Yield to worst is similar for a Euro based investor



Source: Amundi Investment Institute, Bloomberg. Data as of 26 May 2025.

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European credit is appealing for income-seeking investors

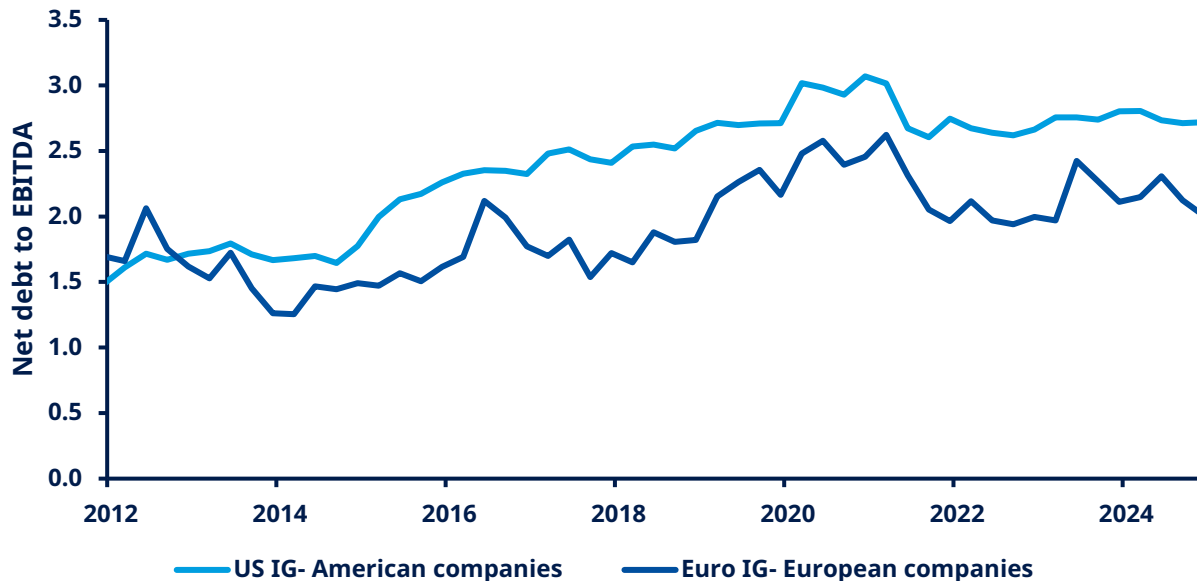
Investment opportunities

Favourable environment for European corporate bonds, key points:

The macro backdrop and technicals are still supportive for European corporate bonds, especially the high-grade segment.

Although spreads are low, **yields across credit markets are attractive** by historical standards.

Healthy environment for corporate bonds



Source: Amundi Investment Institute, Datastream. US IG and Euro IG exclude energy, utilities and basic materials. Quarterly data as of Q4 2024.

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The euro's strength reflects renewed confidence in the region

Investment opportunities

Key points:

The euro has appreciated almost 10% YTD against US dollar, **reflecting concerns over US economic outlook** and policymaking weighing on the US dollar and a **potential turning point for the European economy**.

We remain optimistic about the euro and believe that its **strength and trend could continue**, as well as the US dollar facing further pressure.

The euro has climbed to multi-year highs



Source: Amundi Investment Institute, Bloomberg. Data as of 29 May 2025.

2nd

The euro is the second foreign exchange reserve currency, with a 20% share versus 58% for the USD (lowest since 1994).

74

Number of countries for which Europe is the top trading partner

40%

Share of euro as invoicing currency

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Europe in the global asset allocation

1 | Size and structure of the markets

The value of the US stock market surpasses that of all other markets combined, even though the US economy represents only around a quarter of global GDP. This suggests that the US has considerably more at stake regarding capital and trade flows.

Europe offers a credible alternative amid its **large cap market, robust regulatory framework** and **further integration of markets**.

2 | Long-term potential

There is a growing interest in exploring non-dollar assets beyond US markets, especially now that **Europe** presents a viable alternative amid its **economic turning point**.

The change is fuelled by concerns regarding President Trump's tariff threats, fluctuations in the dollar, and worries about the US debt burden, which are **making the European market a more appealing option for global investors**.

3 | Diversification potential

Europe has the potential to offer investors **diversification** in their portfolios due to its **economic stability** and **robust regulatory environment**, which promotes transparency and investor protection.

Additionally, Europe is at the forefront of sustainability initiatives, making it a leader in sustainable finance.

Source: Amundi Investment Institute, as of 23 May 2025.

Excess US dominance signals a possible rebalancing

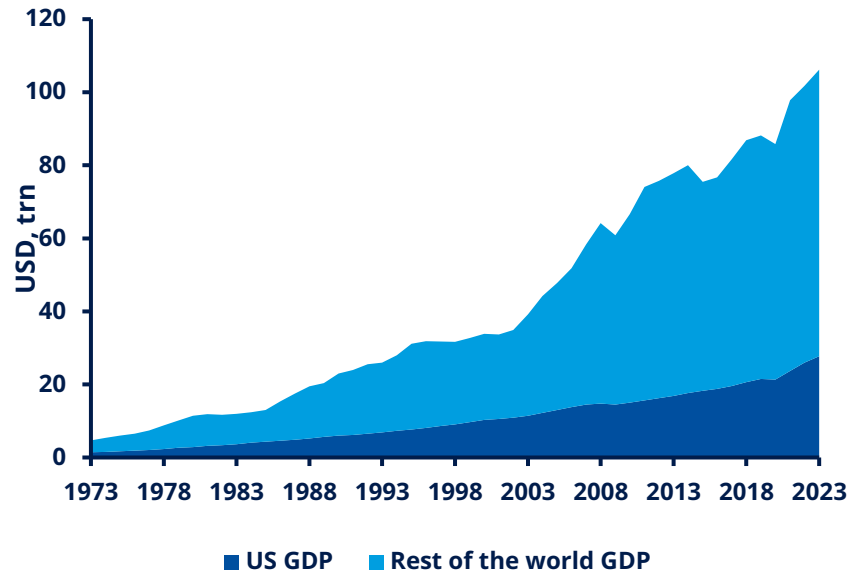
Rebalancing asset allocation

The US dominance of world stock market has been extreme since GFC



Source: Amundi Investment Institute, Bloomberg. Monthly data as of April 2025.

The US economy is about a 25% of global GDP



Source: Amundi Investment Institute, Bloomberg, World Bank. World Bank US GDP in current USD. Annually data as of 2023.

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There is room for repatriation of assets

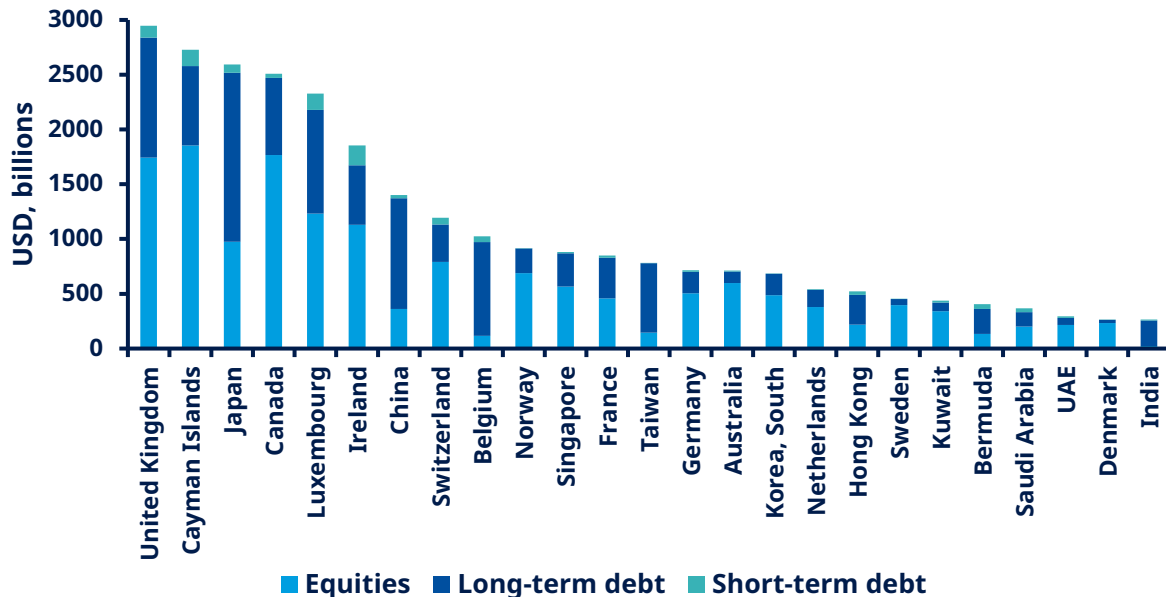
Rebalancing asset allocation

Foreign holdings of USD securities at all-time high. The starting point may favour a de-dollarisation wave.

This could also turn out to be a tool to counteract the US administration threats on trade.

Historically, exposure to the USD materially lowered portfolio volatility. As the USD correlation structure changes mean-variance optimisation requires active fx hedges and/or increased currency diversification.

Foreign holdings of US securities

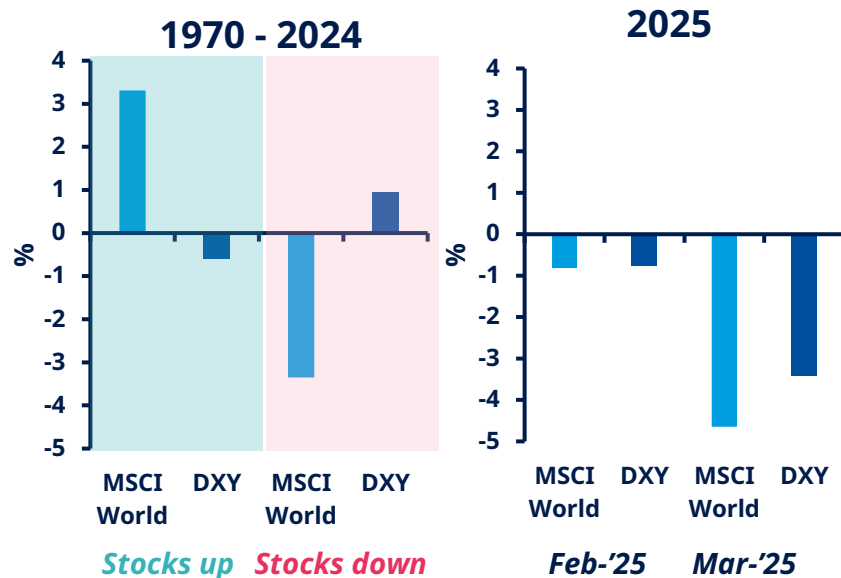


Source: Amundi Investment Institute, US Department of the Treasury. Data as of May 2025.

Break down in USD correlation dynamics

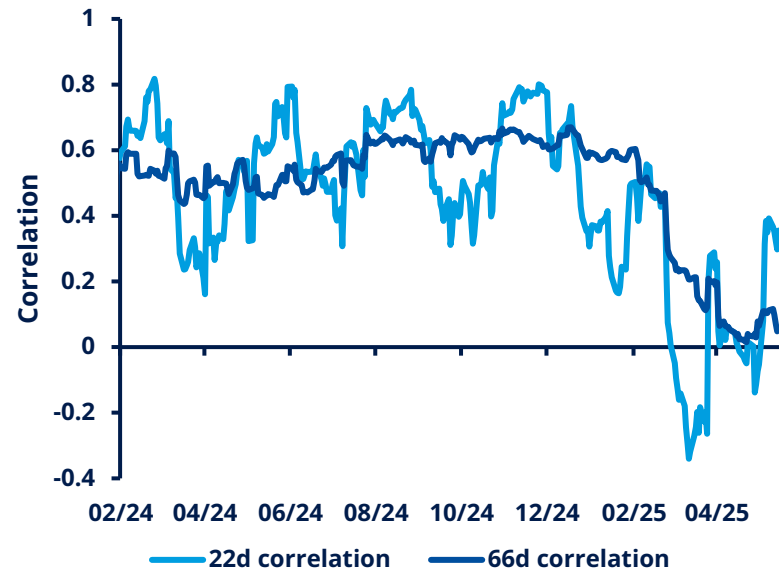
Rebalancing asset allocation

DXY has broken its decorrelation with MSCI World



Source: Amundi Investment Institute, Bloomberg. Monthly data as of April 2025.

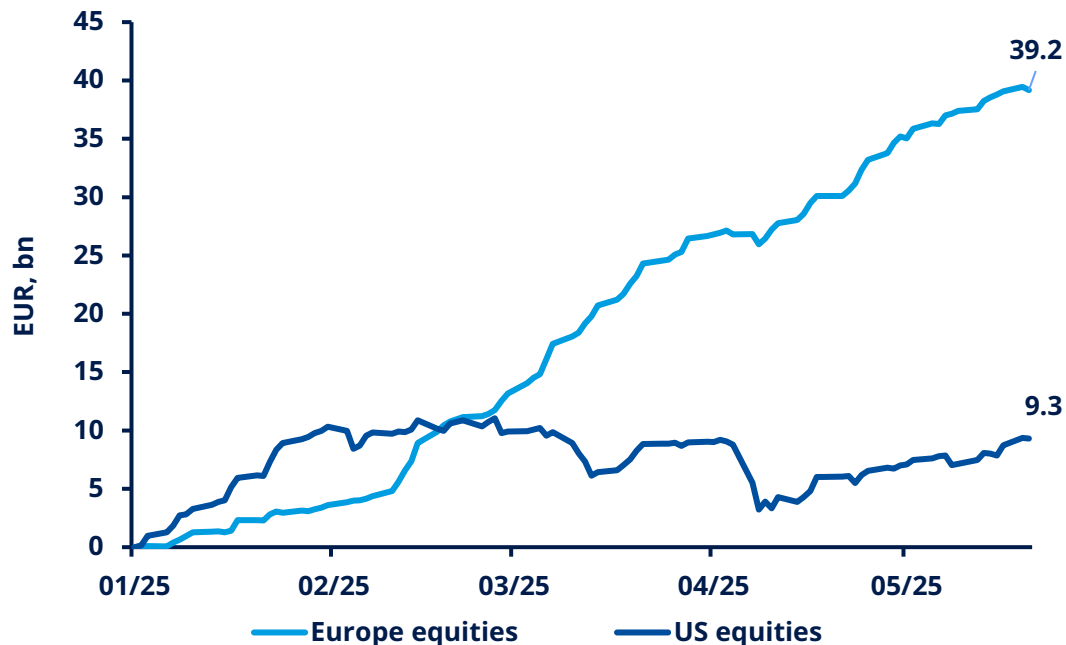
DXY correlation with 10Y UST



Source: Amundi Investment Institute, Bloomberg. Data as of 27 May 2025.

Signs of rising interest in Europe

Flows to Europe increased



Source: Amundi, Bloomberg. Cumulative YTD flows on UCITS ETFs domiciled in Europe as of 20 of May 2025.

Rebalancing asset allocation

Reconsidering Europe:

Credibility is back. U-turn from Germany on its fiscal policy to support infrastructure and defence makes policy implementation more believable. Banks are also in much better shape now to support a Capex effort.

Countries, Themes and Sectors

Germany benefits, but don't forget South Europe and MidCaps. Focus on long-term plays, industrials, notably via the themes of re-arming and also electrification, which are a key long-term plays in Europe. Financials is another one as it will be important in facilitating the long-term investment plans.

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Market cap projections:

US equity capitalisation increased from 35% to 69% in about 30 years.

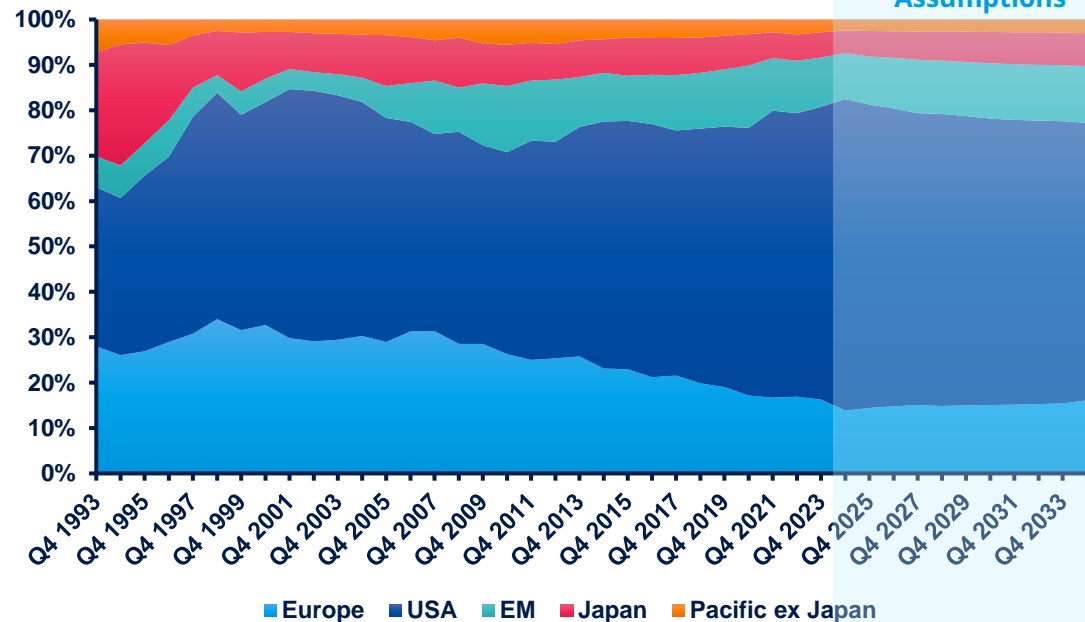
According to our Capital Market Assumptions, **US equity weight could move back closer to 60%.**

Europe as the second-largest equity market by market capitalisation is set to benefit from this trend.

European equity is set to rise

Rebalancing asset allocation

Global Equity All Countries Market Cap



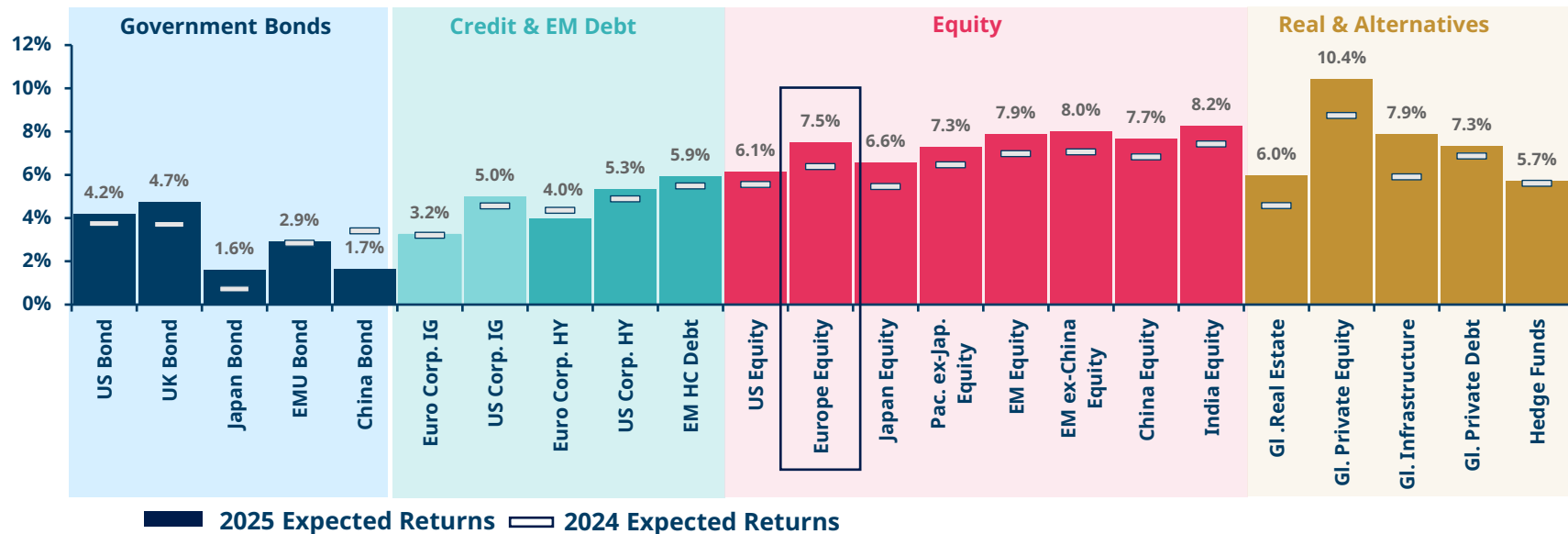
Source: Amundi CASM Model, Bloomberg. Projections of market capitalisation by region based on [Amundi Capital Market Assumptions 2025](#).

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Expected returns: European equity stands out among DM

Rebalancing asset allocation

10-year expected returns vs last year's forecasts in local currency, excluding alpha



Source: Amundi CASM Model. Simulation starting date is 31 December 2024. For additional information see 'Sources and Assumptions' at the end of this document. The forecast returns are not necessarily indicative of future performance, which could differ substantially. Returns are nominal and gross of fees, except private equity which is net of fees. EM HC debt, global infrastructure and hedge funds are in USD, all other indices are in local currency. The expected returns consider the market beta and the alternative assets risk premium. The alpha return component generated by portfolio management, strategy selection or specific value creation programs – that can be significant above all for real and alternative assets – is not considered in any form.

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