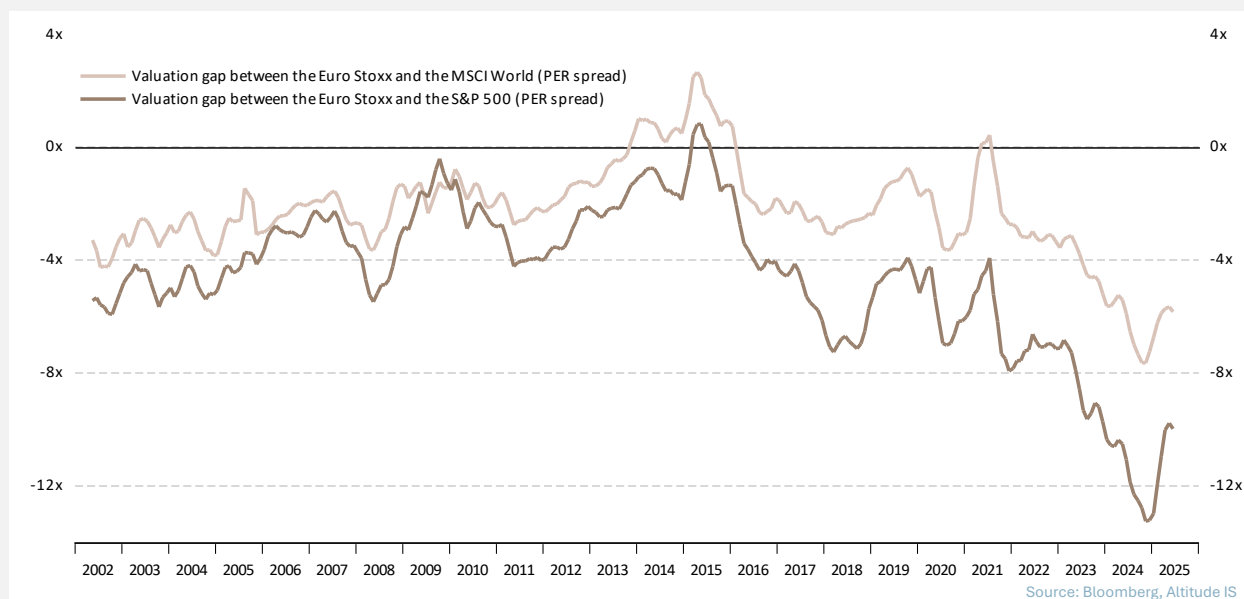


The flexiweekly that reaches new heights - published on 23 June 2025

## "EUROPEAN EQUITIES: DREAM OR REALITY?"

- Since the start of the year, European companies have been the key to performance
- This upheaval is such that investors are left with many questions
- How did we get here? Is it sustainable? What pitfalls should be avoided?
- Is the Euro Stoxx a simple value index or has it become a replica of the S&P 500?

### CHART OF THE WEEK: "Ephemeral mirage or real catch-up?"



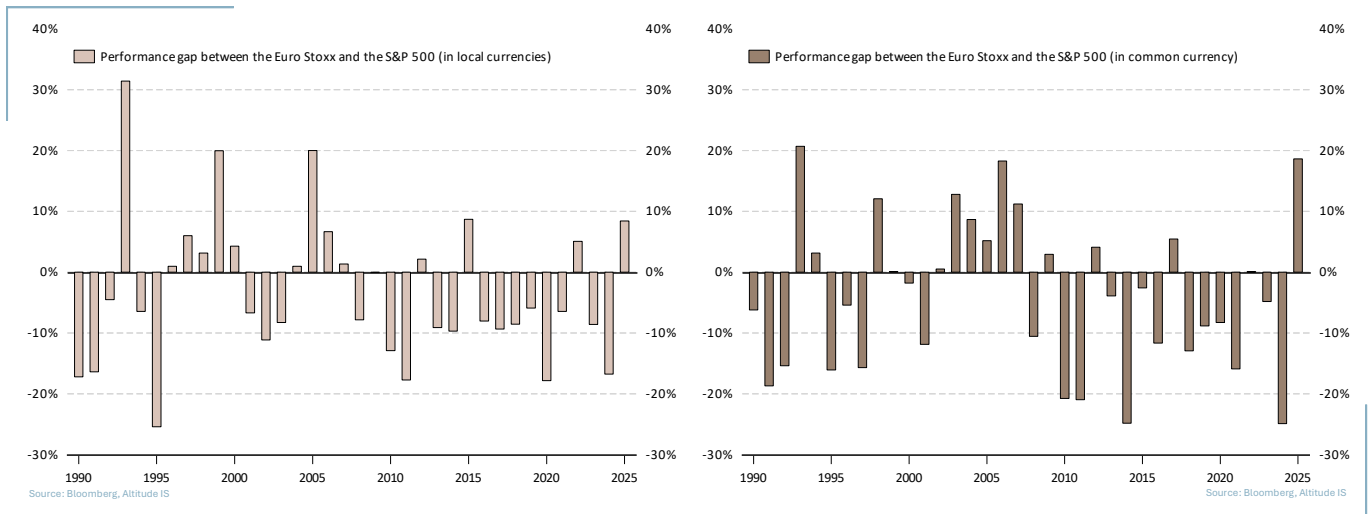
## FINANCIAL MARKETS ANALYSIS

**For more than fifteen years, the Eurozone stock markets have struggled to get off the ground.** Held back in the valley, they watched Wall Street soar, like a dream slipping away. Between the rise of the Magnificent Seven, the flagships of technology and communications, and the lethargy of value companies, Europe's stock markets give the impression of having been relegated to the role of extras. **However, since the start of the year, Eurozone stocks have managed to lose some ground. The Euro Stoxx index, which includes the 293 largest listed companies, has significantly outperformed the US S&P 500, gaining +10% versus +1% (see Fig. 2).** Adjusted for the currency effect, and therefore the



sharp fall in the dollar, the gap is even more impressive, rising from +9% to +19% (see Fig. 3). This is the fourth time in 18 years that the advantage has gone to Europe, and the first time since 1993 that it has been so substantial. **The end of American exceptionalism or not, investors are once again taking an interest in companies quoted in euros.**

Fig. 2 & 3 - Difference in annual performance between US and European equities



The most optimistic among them are even hoping for a complete catch-up between the world's two leading financial centres, both in terms of cumulative performance (see Fig. 4) and the gap in market capitalisation (see Fig. 5). Let's be clear. This type of comparison is simplistic and irrelevant, because it takes no account of the differences in fundamentals between companies listed on either side of the Atlantic.

Fig. 4 - Performance of the main indices

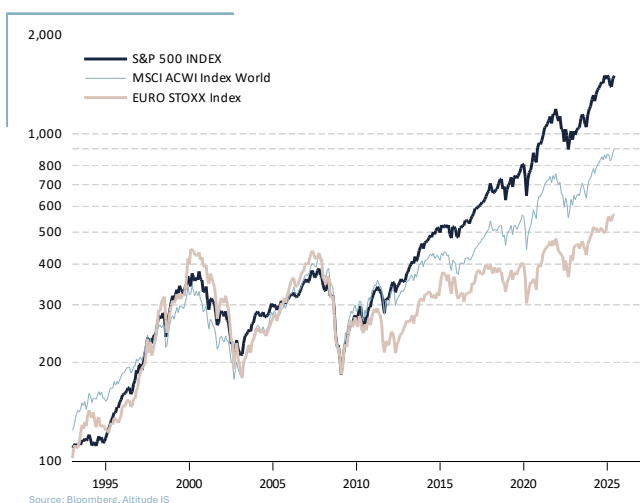
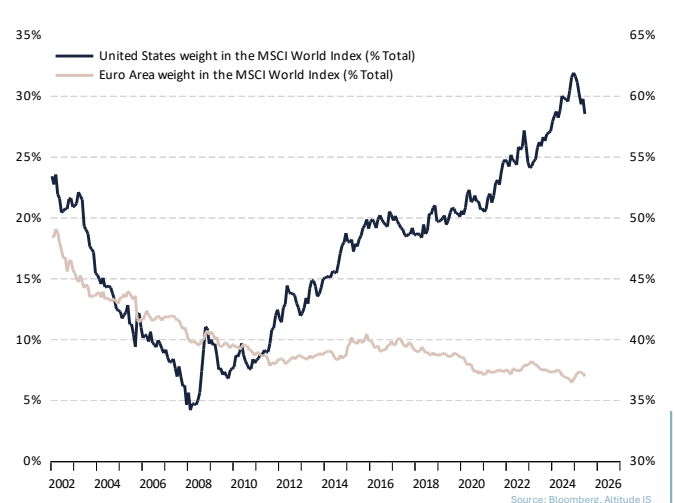


Fig. 5 - Global index weightings



To analyse the performance gap between the Euro Stoxx and the S&P 500, and **assess the scope for catching up, it is vital** to adjust the figures. This **takes account of underlying dynamics, such as earnings growth**. In this relative approach, Europe does indeed look 'cheap'. The chart of the week shows that,



since 2016, the European discount has continued to widen, reaching an abysmal record of 13 multiple points at the end of last year. So, the potential for revaluation does exist, but it is smaller than the differences in historical performance or market capitalisation would suggest.

**A retrospective analysis helps us to understand how investors gradually, and in successive waves, abandoned the Eurozone:**

- Between 2002 and 2007, European listed companies had regained the upper hand thanks to the commodities super-cycle and the soaring euro. The valuation gap tended to narrow.
- By the end of 2009, the subprime crisis had even narrowed the spread to within a hair's breadth of neutrality.
- Between 2010 and 2012, the European sovereign debt crisis and the resulting lack of economic dynamism pushed up the risk premium. The valuation gap widened, reaching -4 points.
- From 2012 to 2015, Mario Draghi's "whatever it takes" policy and the ECB's expansive monetary policy crushed sovereign spreads, weakened the euro and boosted corporate earnings. The valuation gap narrowed to such an extent that it eventually became positive.
- Between 2015 and 2018, the anticipation and adoption of the Tax Cuts & Jobs Act boosted margins and earnings growth in the S&P 500, while Europe struggled with the Italian banking crisis. The gap widened to -6 points.
- From 2019 to 2021, valuations fluctuated widely but in parallel. Despite the Covid epidemic, the gap remained more or less stable.
- It was from 2022 and the war in Ukraine onwards that the industrial recession in Europe and soaring energy prices literally turned the valuation gap into a canyon. It reached -13 points in 2024.
- Since 2025 and the arrival in office of Donald Trump for a second presidential term, the resurgence of tariffs, tensions over Treasury yields and the depreciation of the greenback are creating a cocktail of uncertainties. US companies will suffer more than their European counterparts. The valuation gap is gradually narrowing.

**Since 1 January, the trend has finally reversed. Europe's relative valuation has regained 3 points. However, it remains well below its historical average.** To buy the US market, an investor currently has to spend 25.8 years' worth of earnings, compared with just 15.5 to buy the European index. Eurozone equities are so cheap that they offer one of the best risk/return ratios on the world stock market. **With a P/E ratio 40% lower than Wall Street's and a dividend yield of 3.2%, the Euro Stoxx is clearly a value investment. But is it more than that?**

**If the valuation gap is narrowing, it is also, and above all, because the factors that gave US equities their impetus are losing their dynamism.**

- US growth, boosted for years by budget plans and accommodating fiscal policies, is running out of steam. The OECD, the Federal Reserve and the consensus of economists have just cut their 2025 forecasts to around 1.5%, compared with 2.5% previously. They recognise that the new tariffs introduced by the Trump administration will put the brakes on business investment and household consumption. The inflation that these taxes will generate in the United States will reduce margins for some and purchasing power for others.
- For the first time in decades, the key rate of the European Central Bank (ECB) has fallen earlier and faster than that of the US Federal Reserve. The Fed decided to keep rates at a high level of 4.5% at its last monetary policy meeting last week. The resulting high bond yields are forcing US companies to maintain high earnings yields. The US P/E ratio is therefore mechanically weakened.



- International flows, hitherto concentrated on the Magnificent Seven, are being redirected towards markets considered to be less expensive and better protected against tariff risk. Momentum, the mimetic behaviour that had underpinned the share prices of Apple, Microsoft and Nvidia, is gradually shifting towards European financials and industrials.
- The perception of US assets as a safe haven has been altered by uncertainties, particularly those generated by Washington's trade, budgetary and military policies. This major upheaval has weakened the dollar. The greenback has fallen by 10% since the start of the year. Investors have therefore become aware of the need to avoid excessive exposure to the dollar.

Fig. 6 - Sector weighting of indices

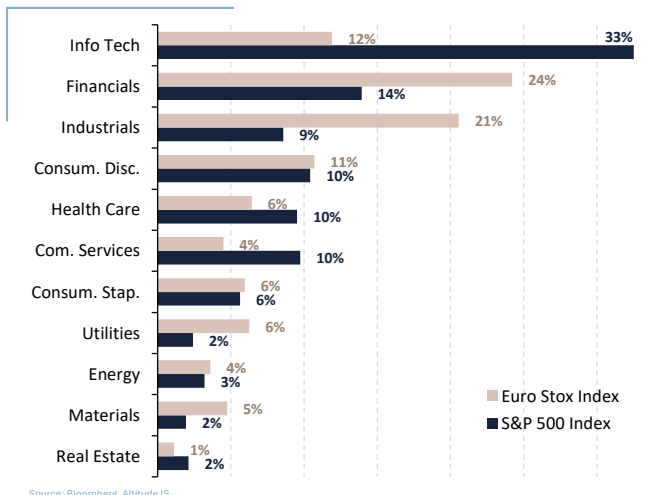
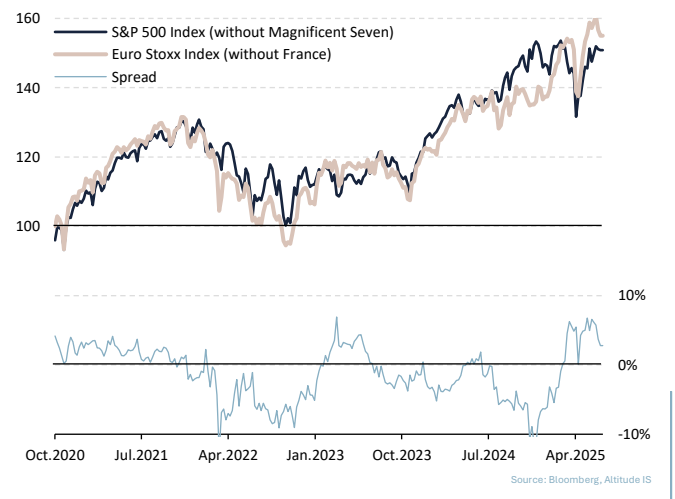


Fig. 7 - Europe vs. US: adjusted performances



**At this stage of the analysis, a number of nuances need to be highlighted, as the influential factors are not exclusively favourable to the rerating of Eurozone equities:**

- The Euro Stoxx index remains significantly underweight in growth sectors. Technology, communication services and healthcare account for barely a quarter of market capitalisation, compared with more than half in the S&P 500 (see Fig. 6). As long as this composition does not change, every fad in Artificial Intelligence (AI) or biotechnology will give the US index an edge.
- France, which accounts for 30% of the capitalisation of the European index, remains a major stumbling block. Since the political paralysis that began in June 2024, when the National Assembly was dissolved, the CAC 40 has chronically underperformed. It is a major contributor to the downturn in the Euro Stoxx as a whole (see Fig. 7).
- The strength of the euro offers only ambiguous respite. The appreciation of the single currency is boosting the confidence of foreign investors, and is eroding the competitiveness and margins of export-oriented domestic companies.
- Margins remain Europe's structural Achilles heel. Lagging behind in AI and greentech, European companies report profitability of just 8.5%, compared with over 12% for their US counterparts. This historical gap is narrowing only too slowly to allow us to hope for a rapid alignment of valuation multiples.

From this point of view, the Eurozone equity rally is more akin to US equities crossing the desert. **So, until its fundamentals improve radically, the Euro Stoxx will remain a value investment with a nice coupon (see Figs. 8 & 9), but not yet the European replica of the S&P 500.**



Fig. 8 - Relative performance of Europe and Value

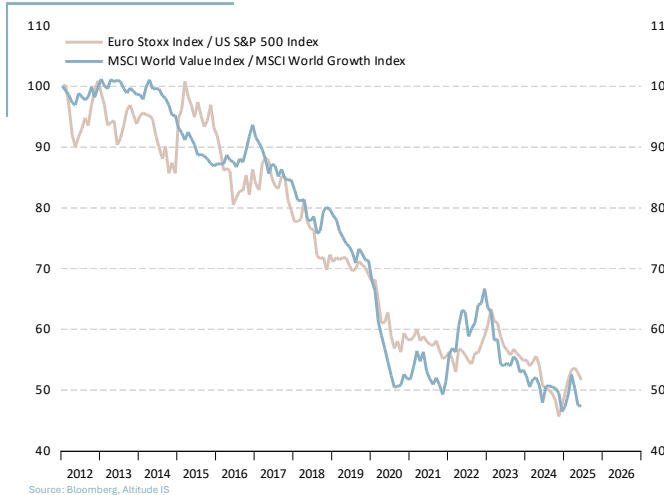
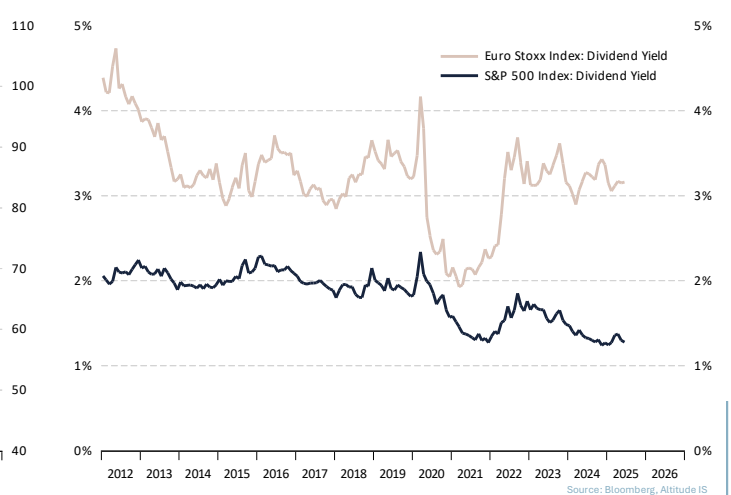


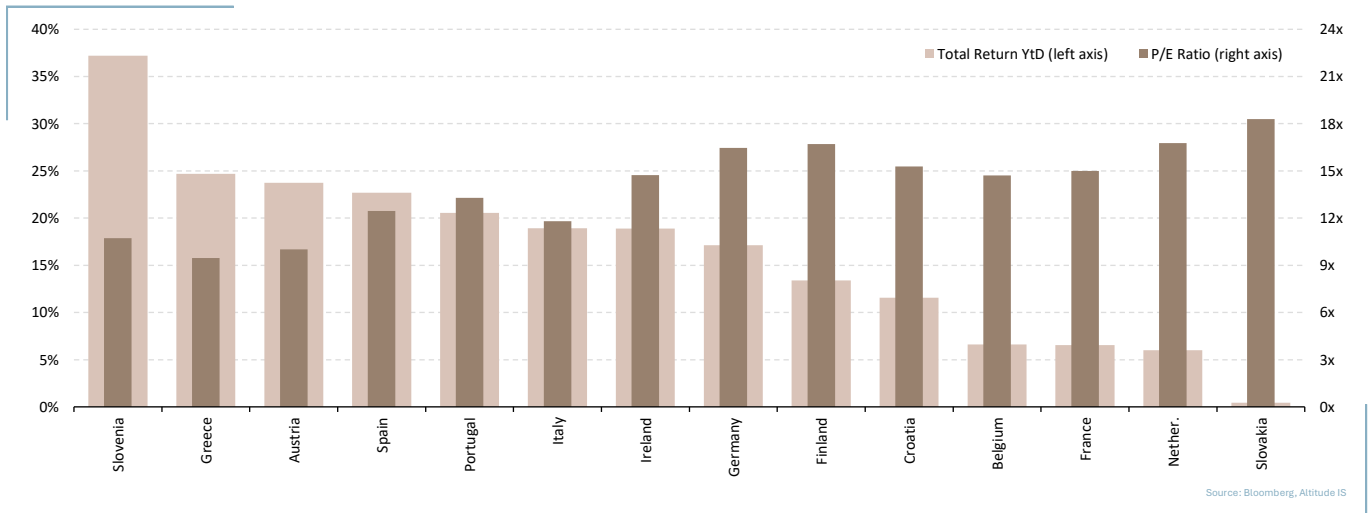
Fig. 9 - Dividend yield



**Within the Eurozone**, the performance of the various national indices is disparate. **Investors prefer to gain exposure to some countries rather than others:**

- At the top of the list are the national indices with the lowest valuation multiples (see Fig. 10). Greece and much of southern Europe, with price/earnings ratios of less than 12 times, are among the cheapest indices on the continent. Unsurprisingly, they were also the best performers, often by more than 20%. Among the big winners, Spain and Italy benefited from a combination of flourishing banks, energy groups boosted by the rise in Brent crude oil prices, and luxury icons benefiting from their pricing power in the face of a strong euro.

Fig. 10 - Performance and valuation of the main Eurozone indices



- Germany is proving that a high price is not an insurmountable handicap. The DAX, valued at 16.5 times earnings, is up a healthy 16.5% and is one of the continent's best performers over twelve months (+30%). The index is being boosted by a wave of investment in defence and industrial AI. As the US technology premium appears saturated, investors are rediscovering that old Germany, with its semiconductors and enterprise software, could be an interesting alternative.



**For the excellent momentum seen at the start of 2025 to continue, European companies will need three safeguards:** the ECB will need to maintain an accommodative monetary policy in order to preserve the credit dynamic, the trade war will need to ease so as not to stifle exports, and inflation will need to rise more slowly than wages in order to confirm the recovery in household purchasing power. If these conditions are met, **the Euro Stoxx should continue to attract investors and reduce some of its historic discount.**

#### **Conclusion:**

Companies listed in euros have begun to catch up with those listed in dollars. This is more a case of US equities underperforming than European companies outperforming. This trend is not over, but it will come in successive waves, not in a long and straight line. Intuitively, among Eurozone countries, the lower the valuation, the better the performance of the national index.



## RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
<strong>Equities</strong>							
World (MSCI)	885.8	54.75	-0.4%	0.6%	6.4%	18.0%	22.8%
USA (S&P 500)	5 968	55.65	-0.1%	0.6%	2.1%	25.0%	26.3%
USA (Dow Jones)	42 207	50.15	0.1%	-0.9%	0.1%	15.0%	16.2%
USA (Nasdaq)	19 447	57.27	0.2%	1.7%	1.1%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	552.8	41.06	-1.0%	-3.1%	12.3%	10.2%	19.5%
UK (FTSE 100)	8 775	51.99	-0.8%	0.2%	9.6%	9.6%	7.7%
Switzerland (SMI)	11 871	33.03	-2.3%	-4.2%	5.5%	7.5%	7.1%
Japan (Nikkei)	38 354	57.54	1.5%	2.3%	-2.8%	21.3%	31.0%
Emerging (MSCI)	1 190	57.19	0.0%	2.3%	12.3%	8.0%	10.2%
Brasil (IBOVESPA)	137 116	50.15	-0.1%	-2.1%	14.0%	-10.4%	22.3%
Mexico (IPC)	56 265	39.45	-2.0%	-2.8%	16.1%	-11.0%	22.4%
India (SENSEX)	81 827	58.29	1.6%	1.8%	6.1%	9.6%	20.3%
China (CSI)	3 860	45.73	-0.3%	-0.8%	-1.3%	18.2%	-9.1%
Com. Services (MSCI World)	135.0	52.88	-1.0%	2.6%	8.7%	31.9%	38.1%
Cons. Discretionary (MSCI World)	407.8	44.52	-1.1%	-2.9%	-2.6%	20.7%	29.5%
Cons. Staples (MSCI World)	293.1	41.43	-0.8%	-1.7%	8.9%	4.7%	3.2%
Energy (MSCI World)	255.6	70.52	0.6%	6.7%	8.6%	2.9%	6.0%
Financials (MSCI World)	199.5	51.35	0.2%	-0.4%	12.8%	25.1%	16.4%
Health Care (MSCI World)	344.0	43.42	-3.0%	-0.7%	-0.7%	1.5%	4.1%
Industrials (MSCI World)	423.2	53.08	-0.5%	-0.1%	13.5%	12.8%	22.5%
Info. Tech. (MSCI World)	792.1	63.63	0.8%	3.2%	3.4%	31.9%	51.4%
Materials (MSCI World)	327.8	43.03	-2.0%	-0.7%	8.5%	-7.7%	12.6%
Real Estate (MSCI World)	991	52.67	-0.2%	0.2%	4.1%	-0.4%	5.3%
Utilities (MSCI World)	179.1	51.99	-0.7%	-0.9%	13.4%	13.0%	1.6%
<strong>Bonds (Bloomberg)</strong>							
World (Aggregate)	3.56%	58.59	-0.1%	1.5%	6.0%	-1.7%	5.7%
USA (Sovereign)	4.19%	56.44	0.2%	0.9%	2.8%	0.6%	4.1%
Euro Area (Sovereign)	2.72%	52.46	0.0%	0.6%	0.6%	1.9%	7.1%
Germany (Sovereign)	2.27%	54.67	0.1%	0.8%	-0.3%	0.6%	5.6%
UK (Sovereign)	4.46%	61.12	0.2%	1.6%	3.2%	-3.0%	5.6%
Switzerland (Sovereign)	0.55%	39.08	-0.9%	-0.2%	-0.2%	5.4%	7.9%
Japan (Sovereign)	1.16%	57.89	0.0%	0.7%	-1.1%	-2.1%	0.9%
Emerging (Sovereign)	6.82%	63.98	0.0%	1.6%	4.0%	7.0%	11.0%
USA (IG Corp.)	5.16%	60.59	0.4%	1.8%	3.0%	2.1%	8.5%
Euro Area (IG Corp.)	3.11%	59.83	0.0%	0.6%	1.7%	4.7%	8.2%
Emerging (IG Corp.)	6.59%	68.07	0.3%	1.2%	3.3%	7.0%	6.7%
USA (HY Corp.)	7.30%	75.21	0.1%	1.5%	3.5%	8.2%	13.4%
Euro Area (HY Corp.)	5.67%	65.36	-0.1%	0.9%	2.6%	8.2%	12.1%
Emerging (HY Corp.)	8.36%	66.07	0.0%	1.2%	3.9%	14.9%	13.1%
World (Convertibles)	477.0	61.01	0.3%	0.9%	8.3%	9.4%	12.3%
USA (Convertibles)	625.2	57.69	0.5%	0.1%	4.5%	10.1%	14.6%
Euro Area (Convertibles)	282.6	60.73	0.4%	1.7%	21.4%	14.7%	7.3%
Switzerland (Convertibles)	278.9	54.41	0.0%	0.2%	15.8%	-10.5%	5.8%
Japan (Convertibles)	230.2	57.59	0.5%	0.6%	1.6%	6.4%	7.6%
<strong>Hedge Funds (Bloomberg)</strong>							
Hedge Funds Industry	1 638	77.10	n.a.	2.4%	1.7%	11.1%	7.8%
Macro	1 326	61.23	n.a.	-0.1%	-1.2%	7.4%	1.6%
Equity Long Only	2 236	65.27	n.a.	4.5%	1.1%	12.0%	15.9%
Equity Long/Short	1 720	74.76	n.a.	3.7%	2.6%	14.0%	7.7%
Event Driven	1 742	74.64	n.a.	2.0%	1.0%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 692	92.50	n.a.	2.0%	2.5%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 731	86.21	n.a.	3.4%	4.0%	9.8%	7.8%
Credit	1 636	96.21	n.a.	1.1%	2.5%	8.5%	8.1%
Credit Long/Short	1 677	100.00	n.a.	1.6%	3.0%	10.0%	11.2%
Commodity	1 883	92.83	n.a.	2.1%	5.3%	14.7%	7.3%
Commodity Trading Advisors	1 272	46.31	n.a.	-1.3%	-5.2%	7.9%	-3.6%
<strong>Volatility</strong>							
VIX	20.62	51.71	-1.0%	14.0%	18.8%	39.4%	-42.5%
VSTOXX	22.48	55.96	3.4%	35.6%	32.2%	25.3%	-35.0%
<strong>Commodities</strong>							
Commodities (CRB)	564.8	n.a.	0.9%	0.8%	5.3%	5.1%	-8.0%
Gold (Troy Ounce)	3 354	n.a.	-0.9%	-0.1%	27.8%	27.2%	13.1%
Silver (Troy Ounce)	36.10	n.a.	-0.6%	7.8%	24.9%	21.5%	-0.7%
Oil (WTI, Barrel)	74.93	n.a.	2.7%	19.8%	4.5%	0.1%	-10.7%
Oil (Brent, Barrel)	78.16	n.a.	4.0%	19.2%	5.5%	-4.6%	-4.5%
<strong>Currencies (vs USD)</strong>							
USD (Dollar Index)	98.96	47.97	0.8%	-0.2%	-8.8%	7.1%	-2.1%
EUR	1.1506	57.86	-0.5%	1.3%	11.1%	-6.2%	3.1%
JPY	147.11	38.17	-1.6%	-3.1%	6.9%	-10.3%	-7.0%
GBP	1.3442	48.46	-1.0%	-0.7%	7.4%	-1.7%	5.4%
AUD	0.6423	44.77	-1.5%	-1.0%	3.8%	-9.2%	0.0%
CAD	1.3756	48.17	-1.3%	-0.2%	4.6%	-7.9%	2.3%
CHF	0.8161	56.45	-0.3%	0.6%	11.2%	-7.3%	9.9%
CNY	7.1857	55.41	-0.1%	-0.1%	1.6%	-2.7%	-2.8%
MXN	19.239	47.68	-1.7%	0.0%	8.3%	-18.5%	14.9%
EM (Emerging Index)	1 835.5	63.14	0.0%	1.1%	6.2%	-0.7%	4.8%
XBT	102 035	n.a.	-2.7%	-5.8%	8.9%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)





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