Rothschild & Co
Asset Management

# Despite “tariffs” Europe maintains its momentum

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Even though the effects of the Trump administration’s tariffs policy are beginning to materialise in the hard data[I] in the United States, investors have continued to reposition themselves towards Europe, whose outperformance in euros has been confirmed over the quarter.

## A resilient U.S. economy and signs of recovery in Europe

Investors have shown a certain resilience in the face of the headwinds that emerged over the quarter. The announcements of "Liberation Day" were quickly absorbed, and the geopolitical tensions in the Middle East, which had caused a sharp rise in oil prices, ultimately had only a limited impact. In the United States, although these factors seem to weigh on the soft data, they are so far taking time to materialise in the hard data [2], which continues to show resilience as in the case of the unemployment rate, which remains at a very low level (4.1% [3]). Uncertainty still weighs on inflation prospects, prompting the Fed to maintain its rates.

In Europe, concerns related to customs tariffs have also been pushed into the background, with markets betting on a forthcoming compromise on a level of tariffs that, although higher, would be less severe than initially suggested by Donald Trump. On the macroeconomic front, while published figures still point to a sluggish economy on the Old Continent, leading indicators are picking up. In the eurozone, the manufacturing PMI

indexes [4] rose to 49.5 in May, although still in contraction territory, but at their highest level for 34 months [5].

Moreover, inflation is returning to normal in the eurozone, with the ECB returning to its target of 2% in June, enabling it to make its fourth rate cut since the start of the year. Confirmation of Germany's stimulus plan and a sharp rise in military spending should help to curb economic growth in the region from 2026 onwards. This change in trend, combined with a rise in real wages in Europe, could lead to a return of both confidence and consumption, European households have a particularly high savings rate (as a percentage of disposable income), at 15.4% compared with just 4.3% in the US [6].

## European markets continue to outperform US markets in euros!

The S&P 500 resumed its advance, driven by the index's heavyweights, which regained their colours, with a 10.9% rise in dollars over the quarter, but only 2.0% in euros [6]. The greenback continues to suffer, with its sharpest half-year depreciation since 1968! With a 5.3% rise in euro terms, the Eurostoxx once again outperformed the S&P 500 over the quarter[7]. Since the start of the year, this brings the outperformance to +20% (+13.4% for the Eurostoxx, compared with -6.6% for the S&P 500)[6].

This trend is now set to continue, since over three years and despite the exceptional performance of the US markets in 2024, the Eurostoxx has outperformed the main US index by more than 5% in euro. It should be noted, however, that beyond the Eurozone, the European index is not benefiting from this momentum, as the UK and Switzerland are not seen by investors as beneficiaries of ReArm Europe or the German recovery plan.

In terms of sectors, Eurostoxx performance was driven by domestic sectors likely to benefit from the new European momentum. Leading the way were leisure/travel, property, construction and industrial goods. Conversely, sectors with greater exposure to the United States, such as pharmaceuticals and luxury goods, were the hardest hit.

After the recent rebound, the US markets have returned to their high point of valuation at 22.1x P/E [7], well above their historical [8] median of 15.6x. Despite its strong growth, the European market is valued at a much lower 14.1x P/E, although this is also higher than its historical median (12.9x) [6]. The valuation premium for the US market has therefore returned to its high points, and can no longer be justified by the political uncertainty that prevailed in Europe. On the contrary, the 'Big Beautiful Bill[9], passed on 4 July will further increase the deficit and debt levels, at a time when the US 10-year yield is close to 4.5% [6].

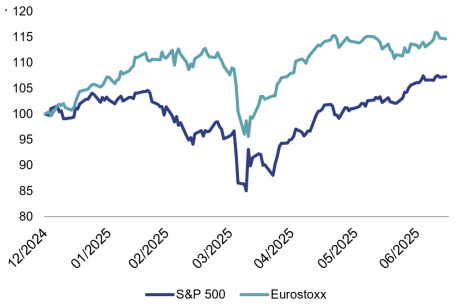
This valuation gap is mirrored at sector level, even though EPS [10] growth forecasts over the next three years are comparable, if not higher, for most European sectors. The only exception is the defence sector, where valuations are much higher in Europe because order books are full. We can also question the consistency of these valuation levels, when the production capacity of comapnies to meet this strong demand raises concerns.

On the microeconomic front, in the short term, expectations for second-quarter earnings in Europe remain low. EPS revisions since the start of the year point to zero growth now

expected for 2025, but estimated at around 11% for 2026 [6], reflecting hopes of a recovery linked in particular to the German stimulus plan. This perspective should give a boost to European indices, which have so far risen mainly through the expansion of multiples. It is likely that investors will continue to position themselves upstream to benefit from this change in momentum.

S&P 500 and Eurostoxx YTD performance

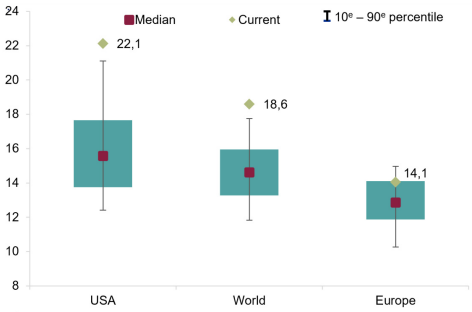
*in euro*




Source: Bloomberg, 30/06/2025.

US and Europe valuations

*levels*




Source: FactSet, Goldman Sachs Global Research, July 2025.

## Support factors still in place

We remain convinced that the momentum favourable to the Eurozone relative to the United States can continue. The US economy is likely to face growing challenges in terms of financing and the sustainability of its public debt, in contrast to the Eurozone which, thanks to Germany, has the means to recover. Against this backdrop, Europe's still-attractive valuations, combined with tangible macroeconomic support that will begin to materialise over the next few quarters, could encourage investors to continue repositioning themselves in European equities, thereby reinforcing this trend.

This momentum should continue to benefit European domestic cyclical sectors, whose valuations remain attractive and which are the most exposed to the stimulus plans. Nevertheless, some export sectors have been particularly hard hit by the uncertainties associated with the tariff war. In the event of a ‘deal’ based on ‘reasonable’ conditions, these sectors are likely to make up some of their underperformance.

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(1) Data measuring economic activity.
(2) Data from surveys of economic agents.
(3) Source: U.S. National Bureau of Statistics, July 2025.
(4) Purchasing Managers' Index, an indicator reflecting the confidence of purchasing managers in a sector of activity. Above 50, it indicates an expansion in activity, below 50, a contraction.
(5) Source: S&P Global, July 2025.
(6) Source: Bloomberg, 30/06/2025.
(7) Price earnings ratio.
(8) Sources: Goldman Sachs Global Investment Research, FactSet, July 2025. Median calculated over 20 years.
(9) US tax law enacted by Donald Trump.

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