



Could Europe prove more resilient than expected?



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 Head of European Equity

Why is the momentum in European equities remaining strong?

Despite an economic environment characterised by moderate growth, European equity markets have performed remarkably well since the start of the year. As at 18 September, the Euro Stoxx was up 9.8 per cent, a performance that is actually quite close to that of the US market (+15.3 per cent for the S&P 500 with dividends reinvested in euros)¹. This rise can certainly be attributed to the strong performance of sectors most exposed to geopolitical tensions in the Middle East, notably energy and commodities, but also to the strong performance of virtually all other sectors. Unlike in the United States, where performance remains highly concentrated, the drivers of growth appear to be more diversified in Europe, and therefore potentially more robust.



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Europe has certainly benefited from the rapid development of artificial intelligence thanks to its strategic position in the semiconductor value chain. Equipment manufacturers such as ASML and ASM International, as well as chipmakers such as STMicroelectronics and Infineon, have contributed significantly to the growth of the technology sector during the first half of the year. At the same time, however, banks – buoyed by persistently high interest rates, a favourable yield curve and economic activity that is holding up better than expected – have continued their recovery. Commodities benefited, on the one hand, from robust demand, but also from measures taken by the European Union to protect its markets and industry, such as the steel quotas introduced. Last but not least, most sectors have shown remarkable resilience. With the exception of consumer goods, earnings forecasts for all sectors have been revised upwards since the start of the year.

Finally, the European market continues to benefit from attractive fundamentals: its price-to-earnings ratio stands at around 14.2 times², which is lower than that of the other major geographical regions⁴. Yet this attractive valuation is accompanied by particularly robust earnings growth. The consensus now anticipates earnings per share growth of over 17 per cent in 2026¹, admittedly driven by the energy sector for nearly a third of this growth, but also by excellent momentum across all sectors. Such momentum had not been seen since 2017, excluding the post-Covid rebound. The outlook also remains favourable for 2027, with expected earnings growth of close to 10 per cent, supported by the ramp-up of the investment plans announced in recent years across the eurozone¹.

Following the energy crisis of 2022 – which, according to many observers, was set to plunge the European economy into recession – Europe faced a further rise in energy prices in 2026, triggered by the conflict with Iran. With hindsight, its resilience exceeded expectations during the 2022–2023 crisis, whilst reorganising its energy supply chains and absorbing the consequences of the sanctions imposed on Russia. Since the start of the year, it has once again surprised observers with its ability to limit the economic impact of this new tension on the energy markets.

Europe less vulnerable than it looks?

This resilience can be explained in particular by the gradual reduction in the energy intensity of the European economy, which has halved since the early 1990s³. Energy therefore accounts for a significantly smaller share of economic activity than before, reducing Europe's historical vulnerability linked to its dependence on oil and gas imports. Against this backdrop, whilst a barrel priced at around \$100 constitutes an energy shock compared with the previous decade, it no longer amounts to a genuine macroeconomic shock. Indeed, Europe has already navigated comparable price levels between 2011 and 2014, whilst it was just emerging from the sovereign debt crisis. The main consequence of the recent rebound in prices has been a rise in inflation, which is likely to slow down the process of disinflation that was still underway. This situation places the ECB in a delicate position, as it seeks to contain inflationary pressures without stifling economic activity at a time when growth is showing tangible signs of improvement.

Indeed, economic indicators for the eurozone have, since the start of the summer, pointed to a stronger-than-expected economic environment, which leads us to remain confident, even in the event of a one-off adjustment to monetary policy. The economic surprises index has reached its highest level since 2023, reflecting a gradual improvement in economic conditions. This trend is corroborated by the recovery in PMI surveys⁴: activity in the services sector has strengthened following the slowdown observed in the spring, whilst the manufacturing sector continues to improve and now appears firmly established in expansionary territory. Germany provides a particularly striking illustration of this trend. Its manufacturing PMI stood at 54.3 in early September⁵, which, combined with the sharp rise in industrial orders, suggests that the investment programs announced in 2025 are beginning to take effect after a slower-than-expected start.

Finally, even though Europe may appear to be in a position of weakness compared with

giants such as the United States and China, it would be wrong to claim that it is adopting a wait-and-see approach and has no strengths of its own. Key strategic decisions have been taken, as evidenced by trade partnerships with India, Australia, Mexico and South America through Mercosur. From a regulatory perspective, the approach is also pragmatic, with the relaxation of carbon regulations and the introduction of steel quotas. And from an energy perspective, its expertise in nuclear power remains a crucial advantage, all the more so as a revival of the sector appears to be gradually taking shape.

How should investors position themselves to benefit from the upturn in growth in Europe?

Against the backdrop of a gradual revival in the European economy, we have identified several opportunities within the cyclical sectors most directly exposed to the improvement in economic activity. The banking sector remains our preferred sector. Despite its excellent performance since 2022, its valuation remains attractive relative to other sectors, and its fundamentals continue to strengthen. Banks are benefiting from a favourable yield curve, a gradual recovery in demand for credit and a cost of risk that remains contained. Their earnings outlook therefore continues to improve. Furthermore, following the tightening of regulations in the wake of the financial crisis, banks have significantly recapitalised, and their business model has consequently regained credibility and prospects. They should therefore continue to see their valuations rise, mirroring the trend seen among US banks between 2011 and 2016, when forward P/E ratios rose from 6.0x to 12.0x¹.

We also see significant potential in industrial sectors linked to the European investment cycle, and more specifically in construction. Following the enthusiasm sparked by the announcement of Germany's infrastructure plans investors have been disappointed by the slow pace of implementation of these plans. This impatience has pushed the valuations of many companies back to levels close to those seen before these announcements, even though the benefits of these investments are, for the most part, yet to materialise and leading indicators are showing signs of a downturn.

Conversely, the artificial intelligence sector – which has driven much of the global stock market's performance through semiconductors, electrification and network infrastructure – could be entering a more challenging phase. The main beneficiaries of this trend now command high valuations, reflecting ambitious growth assumptions that are beginning to raise concerns. In particular, investors are questioning how these investments will be financed, their profitability, and the impact of emerging competition from China, with much cheaper and increasingly efficient models.

Against the backdrop of fiscal stimulus in the eurozone, it is therefore the European industrial and domestic sectors that should naturally be the main beneficiaries of the investment plans. 'Value' stocks⁶, whose business remains more exposed to the eurozone, therefore appear to be particularly well positioned, unlike growth stocks, whose revenues

are more export-oriented and therefore more dependent on global economic conditions.

Could you elaborate on your value investment approach and illustrate it with a few investment examples?

Our 'value' investment approach is not based on a mechanical allocation to the cheapest sectors in the market, and we do not invest in sectors or stocks solely because their valuations are attractive. We consider a company to have a value profile when its share price does not fully reflect its fundamental value. The estimation of this fundamental value rests on two complementary pillars: valuation levels and earnings prospects. Valuation multiples reflect the market's confidence or doubts regarding the sustainability of a business model and its ability to generate results over the long term. This is the first point, and it must be assessed in the light of fundamental analysis. This is why the analysis of earnings prospects is a central element of our investment process. Our team of analysts therefore carries out an in-depth fundamental analysis for each company under review, with the aim of assessing the trajectory of its results and their sustainability.

This approach leads us to identify several investment scenarios. The most common is one in which the market is being overly cautious towards a sector or a company whose potential for improvement we believe is underestimated. The construction sector currently illustrates this situation. Valuations remain attractive (at the same level as in early 2025), even as the outlook is underpinned by major investment programmes underway in Germany and, more broadly, by the gradual recovery in economic activity across Europe.

A second scenario arises when the market anticipates a particularly unfavourable outcome and prices assets accordingly, without fully recognising their resilience. This was notably the case during the Covid-19 crisis, which presented numerous opportunities in heavily penalised cyclical sectors, such as energy and aerospace. We therefore increased our holdings in several integrated oil companies, as well as in Airbus. Similar situations can now be observed in certain segments exposed to artificial intelligence. For several companies, regarded by the market as 'AI losers', we believe that the earnings outlook remains more resilient than the market appears to anticipate, thereby creating attractive investment opportunities. This is particularly the case in the software sector, a notable example being SAP, which has seen its valuation multiples come under significant pressure due to fears of potential disruption from artificial intelligence. It is also the case for companies with proprietary databases, a captive customer base and which have already integrated AI into their offerings, such as Wolters Kluwers and Publicis. For these companies, the fundamentals remain sound and the growth prospects remain intact. According to our value-based investment approach, these companies currently represent attractive opportunities: the market is questioning their business model, whilst their ability to create value remains largely intact. Today's 'AI losers' could therefore become tomorrow's market winners.

Finally, certain opportunities arise when valuations appear consistent with their historical levels, and the potential for earnings growth is not sufficiently factored in. The semiconductor sector provides a recent example. By the end of 2025, multiples appeared relatively normalised, but still reflected earnings that were temporarily depressed by a slowdown in several end markets. We believed at the time that these cyclical markets were nearing a turning point. The recovery, driven by investment in artificial intelligence-related infrastructure and data centres, subsequently confirmed this analysis. We gradually reduced our positions as this improved outlook was fully priced in by the market, and closed out our positions in June.

Conversely, our approach also leads us to rule out certain sectors despite their particularly low valuations. The automotive sector is a case in point today. Despite a P/E multiple of 8.2x4 – the most attractive on the European market – the sector continues to face significant structural challenges, including intensifying competition from China in the electric vehicle market, persistently weak demand and a more protectionist trade environment in the United States. Against this backdrop, the earnings outlook remains under pressure and, at this stage, does not provide us with sufficient visibility on the sector's ability to recover, despite the numerous restructuring plans that have been put in place.

Weitere Infos zu den Fonds

R-co Conviction Equity Value Euro



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- (1) Source: Bloomberg, 18 September 2026.
(2) Source: Goldman Sachs, Europe Weekly Kickstart, 18 September 2026.
(3) Source: Bloomberg, Eurostat and IEA, September 2026.
(4) Purchasing Managers' Index (PMI), an indicator reflecting the confidence of purchasing managers within a given sector. A reading above 50 signals an expansion in activity, while a reading below 50 indicates a contraction.
(5) Source: S&P Global, 31 August 2026.
(6) A value strategy refers to an investment approach whereby investors seek companies that are undervalued by the market at a given point in time, meaning that their market valuation is below what their earnings and underlying assets would suggest. Value investors typically select securities with low price-to-book ratios or high dividend yields.

SRI Risk: 2/7

We have classified this product in risk class 2 out of 7, which is a low-risk category and primarily reflects its exposure to private debt instruments, while maintaining a modified duration ranging from 0 to +8. In other words, potential losses arising from the product's future performance are considered low and, should market conditions deteriorate, it is highly unlikely that our ability to pay you would be affected. The risk indicator assumes that you hold the product for three years. If you do not, the actual risk may differ significantly and you could receive less in return. The risk scale ranges from 1 (lowest risk) to 7 (highest risk); the lowest category does not mean a "risk-free" investment. The risk category associated with this fund is not guaranteed and may change over time.

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(1) Quelle: Rothschild & Co Asset Management, 31/07/2026.

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