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European markets first to benefit from Donald Trump's policies

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Over the course of the quarter, the indecisiveness of the new Trump administration weighed on the confidence of both US consumers and businesses. The latest decisions on tariffs heightened these concerns, leading observers to question the possibility of a recession in the United States.

Confidence shifts sides

What a turnaround compared with the beginning-of-year consensus, which had bet everything on American exceptionalism being unstoppable! Although President Trump's announcement of a 90-day suspension of tariff implementation helped to ease fears of a short-term recession, the back-and-forth and contradictory statements created significant instability, weighing on growth prospects and inflation trends. For now, although "hard data"[1] appears resilient, leading indicators and confidence indices point to a slowdown in activity. The inflationary nature of the announced measures prevents the Fed from considering rate cuts, even as inflation expectations are on the rise.

The situation in Europe is different. While growth remains sluggish, PMIs[2] are rebounding in their industrial component, suggesting that a low point may have been reached, though not yet returning to expansion territory. Inflation continues to decline, standing at 2.6%[3], allowing the ECB to carry out two rate cuts since the beginning of the year. Notably, political and economic instability has now shifted sides. While German elections and the French political landscape had previously weighed on European indices, fears over the loss of American military support, combined with the trade war launched by the new administration, have spurred Europe—often at its best when under pressure—into action. Countries across the Old Continent have strengthened ties and responded with unity, expressed through a desire to break free from American defence oversight. The European Union has embarked on a vast plan to remilitarise the region, and the new German Chancellor has proposed using fiscal leeway to break budgetary constraints by initiating a German infrastructure stimulus plan alongside significant military spending.

Prior to the US tariff announcements, the situation in China appeared to be stabilising, with activity data improving. For instance, industrial production posted strong year-on-year growth of 5.9% as of March, and retail sales rose by 4.0% y/y over the same period[4]. However, the blow dealt by the escalation of reciprocal tariffs with the United States is likely to impact the 5% annual growth target. The Chinese government may, in response, launch a vast stimulus programme to boost domestic growth and unlock the household savings stockpile, thereby limiting the negative effects of the trade war.

European equities outperform their US peers

In this context, European markets nevertheless delivered positive performance in the first quarter. The Eurostoxx (dividends reinvested) rose by 7.7%, while the STOXX Europe 600 gained 5.9%, benefiting to a lesser extent from the German announcements[5]. Domestic European sectors primarily drove the indices, notably banks, insurance, and telecommunications, while internationally exposed cyclical sectors suffered, such as travel & leisure, media, retail, and consumer goods. Technology in Europe remained relatively resilient, falling only around 3%[6] despite concerns about the trade war's impact and the "Deepseek moment"[7], which heavily affected the sector in the US. Another key feature in European index performance was the marked outperformance of the Value style[8], which rose by 10.7%[6] compared with the Growth style[9].

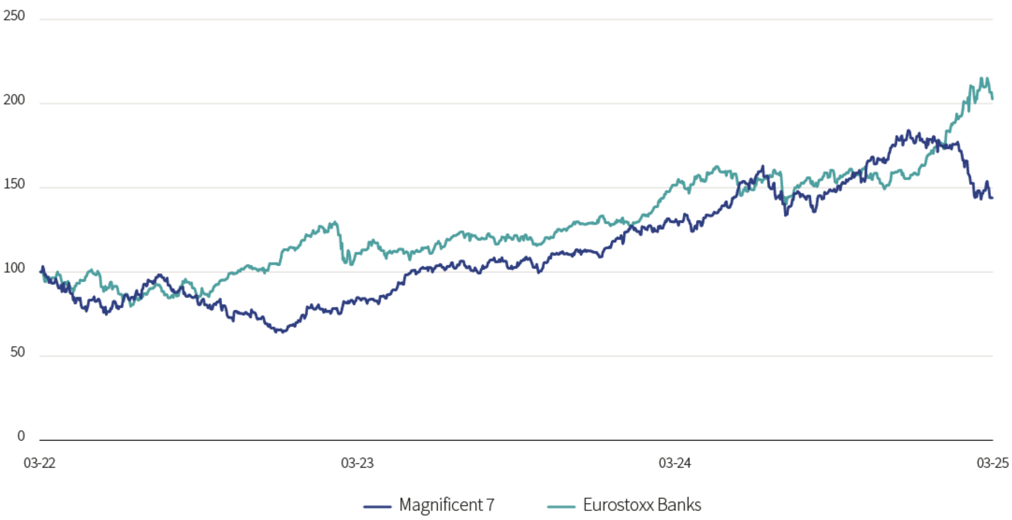
S&P 500 and Eurostoxx index performance over 3 years
Base 100 at 31/03/2022

Source : Bloomberg, 31/03/2025. Performance in euros, dividends reinvested

However, the main takeaway from this first quarter is the outperformance of European indices over their US counterparts: the S&P 500 declined by 8.4% over the period, while the Nasdaq dropped by 14.1%[5]! Yet, this outperformance is not new. Few investors realise that over a three-year period, in euro terms, the Eurostoxx has outperformed the S&P 500, or that the Eurozone banking sector has delivered three times the return of the "Magnificent 7"[10] over the same period. This trend may well continue, as evidenced by the nascent return of capital flows to Europe, reflecting a rebalancing of asset allocations. Indeed, since the start of the year, the US dollar—along with other "Trump trades"[11]—has been directly affected, and it is becoming increasingly difficult to justify current valuation levels, which remain close to historic highs on the S&P 500, in an environment that is becoming ever more uncertain, particularly in terms of US consumer confidence. Furthermore, the market downturn is weighing on the wealth effect, compounded by concern over the inflationary nature of the announced tariffs.

Performance of the "Magnificent 7" and European banking stocks over 3 years

Base 100 at 31/03/2022



Source : Bloomberg, 31/03/2025. Performance in euros, dividends reinvested

It is also worth noting that Europe's relative outperformance versus US markets since the beginning of the year has persisted even during the market correction that followed the "Liberation Day". European markets did not amplify the US market decline. Several factors help explain this: the loss of the US dollar's "safe haven" status and the end of American exceptionalism, the German stimulus and remilitarisation plan that should support European growth, the ECB's policy—seen as more accommodative in a less inflationary environment than in the US—and finally, more attractive valuations in Europe at 12.2x P/E[12] (below the historical median of 13.3x) compared with 18.6x in the US (for a historical median of 16x).

Hope despite the trade war

Looking ahead, we remain confident that the announcements of the German infrastructure stimulus and the European remilitarisation plan will support the European economy over the medium to long term. The positive impact of these measures—initially driving European domestic and cyclical sectors—was completely erased by the tariff announcements. Even though it is clear that the tangible effects of these policies on the economy will not be felt before 2025, they represent a shift in fiscal policy within Europe, led primarily by Germany's decision—contrary to the United States, where the Trump administration remains focused on deficit reduction.

Of course, short-term uncertainty remains high, linked to the announced tariff measures. The situation is difficult to predict, particularly as it depends on the decision of a single individual. Will Donald Trump maintain his stance, even at the risk of dragging the United States—and likely the global economy—into recession? The Eurostoxx, in any case, has erased all positive news from the beginning of the year and is beginning to price in a slowdown in activity. Tariffs will undoubtedly impact the US's trading partners, but the European Union does not appear to be a priority for Washington. This situation may allow the region's growth to hold up until the German stimulus is implemented. Other short-term catalysts could support European markets: the resolution of the Russia-Ukraine conflict, which has faded into the background, and a Chinese stimulus plan from which Europe would be the main indirect beneficiary.

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[1] Data measuring economic activity.
[2] Purchasing Managers' Index, an indicator reflecting the confidence of purchasing managers within a specific sector. A reading above 50 signals expansion, while a reading below 50 indicates contraction.
[3] Source: Eurostat, April 2025.
[4] Source: National Bureau of Statistics of China, April 2025.
[5] Source: Bloomberg, 31/03/2025. Performance in euros, dividends reinvested.
[6] Source: Bloomberg, 31/03/2025.
[7] Refers to the announcement of the launch of DeepSeek, a Chinese AI solution directly challenging US sector leaders, offering significantly lower financial and energy costs, which disrupted their market valuations.
[8] A "value" strategy refers to an approach in which the investor seeks companies that are undervalued by the market at a given time — that is, whose market valuation is below what it should be in light of earnings and asset value. Value investors typically select stocks with low price-to-book ratios or high dividend yields.
[9] A "growth" investor focuses primarily on companies with strong earnings growth potential, hoping that revenue and profit growth will outpace that of the sector or market average.
[10] The "Magnificent 7" refers to seven major US technology stocks: Microsoft, Nvidia, Tesla, Meta, Apple, Alphabet and Amazon.
[11] Market movement favourable to certain stocks in reaction to Donald Trump's policies.
[12] Price Earnings Ratio: price-to-earnings ratio.

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