



# Quarterly Strategy Q3 2025 – European Equities



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European markets: attractive relative valuations ahead of the start of a virtuous cycle

**Unlike the US market, whose valuation has been inflated by optimism surrounding artificial intelligence, the European market remains attractively valued ahead of the rollout of upcoming recovery plans. So far, the limited impact of tariffs on US growth and inflation has supported both market performance and valuations, with an increasing concentration of gains around a handful of major stocks. In contrast, the rise in European markets has been more evenly distributed, and valuations have yet to factor in the potential positive effects of forthcoming stimulus measures.**

Tariff effects slow to materialise in the real economy

The third quarter of 2025 was marked by escalating trade tensions, driven in particular by Donald Trump's protectionist agenda. He managed to impose average tariffs of 17.9%<sup>1</sup> generating a total of USD 118 billion in customs revenues since the beginning of the year<sup>2</sup>. Paradoxically, the temporary suspension of reciprocal measures has allowed the global economy to show resilience, prompting the IMF to raise its growth forecast to +3.2% for the year<sup>3</sup>. In the United States, GDP growth rebounded strongly in the second quarter (+3% annualized<sup>4</sup>), driven by the recovery in consumption and, above all, by net exports. Inflation remains high, prompting the Federal Reserve to keep interest rates unchanged in July despite internal divisions. In August, a moderation in the labor market and stable inflation allowed Jerome Powell to consider a rate cut, which materialized in September with a 25-basis-point reduction and the promise of further cuts to come. However, political pressure from the White House on the Fed and the increasingly authoritarian

tendencies of the U.S. president have reignited institutional concerns. In the Eurozone, growth slowed (+0.1% in Q2<sup>5</sup>), affected by trade tensions, particularly in Germany. The ECB, after eight consecutive rate cuts, paused in July, while acknowledging an exceptionally uncertain environment. The fixed income market has remained stable, with inflation under control at around 2%<sup>5</sup>. Nonetheless, political uncertainty, particularly in France, could influence the monetary policy trajectory. In financial markets, the second-quarter earnings season was broadly positive, supporting U.S. equities. Productive investment, fueled by expectations of gains linked to artificial intelligence, has become a new growth driver, although risks related to the trade war and geopolitical tensions persist.

## Markets continue to rebound on both sides of the Atlantic, but with pronounced valuation differences

American investors have, for now, seen their two main fears subside: the impact of tariffs appears limited on inflation, and growth remains resilient. In this context, the start of the U.S. rate-cutting cycle has boosted American indices, particularly the technology sector, which continues to benefit from announcements of massive investment plans.

This allowed the US indices to continue their rebound with the S&P 500 up 8.2% over the quarter in euros, driven by the technology segment, as evidenced by the 11.5% rise in the Nasdaq over the period<sup>6</sup>. The Eurostoxx also rose, but to a lesser extent at +4.1%. Since the beginning of the year, however, its outperformance remains marked, with an increase of 18.1% compared to 1.1% for the S&P 500, helped by a significant currency effect.

The outperformance of the value style<sup>7</sup> was confirmed over the quarter with a performance of 6.3% (compared to 3.2% for the growth style<sup>8</sup>), again driven by the banking sector, which gained 16.8%. Other top-performing sectors included commodities and industrial goods, which are gradually benefiting from the positive effects of the upcoming infrastructure plan, as well as healthcare, which rebounded on encouraging news from the United States. Conversely, media, financial services, and food & beverage sectors continued to struggle.

The rebound in US markets has further widened the valuation gap on both sides of the Atlantic. The US market is now valued at 23.0x in P/E, reaching all-time highs. This valuation is mainly driven by technology "megacaps", leading to a phenomenon of concentration that is reminiscent of the situation that prevailed during the dot-com bubble. By contrast, with a much more reasonable valuation of 14.9x, market concentration in Europe has fallen back to low levels: the ten largest capitalizations represent only 15.5% of European indices, compared with 37.2% in the United States. This confirms that the rise in European indices has been more broadly based.

## Europe : vers un cercle vertueux porté par l'investissement public ?

While the growth of EPS<sup>9</sup> in Europe will ultimately be zero in 2025, analysts expect growth of 12.4% for 2026, driven in particular by the deployment of the German infrastructure plan<sup>10</sup>.

We share this view that this plan, coupled with increased defence spending, could indeed initiate a virtuous circle in Europe. Increased investment (via order books) should lead to higher production capacity utilisation, which, in a context of persistently low unemployment, could translate into improved productivity. This increase in growth and productivity could then restore confidence among households, which, in line with Ricardian reflexes, have continued to save heavily until now. Consumption of part of these savings would help to support growth, thus completing the virtuous circle. which, by Ricardian reflex, have so far continued to save massively. The consumption of part of these savings would help to support growth, thus closing this virtuous circle.

While analysts seem to believe in the beneficial effects of this plan, this is not the case for economists who continue to bet on stable growth for the Eurozone in 2026 at around 1.1%<sup>11</sup>, despite the scale of the German plans, which should represent, on paper, nearly 2% of additional growth per year for Germany. However, the rise in anticipated indicators such as manufacturing PMIs<sup>12</sup>, which have returned to levels close to 50, seems to validate this trend. In any case, it does not seem to us to be reflected in the valuation of the European markets, which, at 14.9x P/E, is certainly above their historical average but is the lowest of the major geographical areas.

Although political risk is returning to Europe, with renewed political instability in France, we do not believe this will jeopardise the deficit trajectory in the coming years. In our view, the real challenge remains the 2027 presidential election, even if this instability could lead to some volatility in the markets (particularly the CAC 40) between now and then. This situation should be viewed in the context of the situation in the United States, where the Trump administration's interventionism in the appointment of key positions also constitutes a significant risk.

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- [1] Source :The Budget Lab, Yale University, 26/09/2025.  
 [2] source: CBO (Congretional Budget Office), octobre 2025.  
 [3] Source : World Economic Outlook Update, FMI, Juillet 2025  
 [4] source: Bureau of Economic Analysis, octobre 2025.  
 [5] Eurostat, octobre 2025  
 [6]Source : Bloomberg, 30/09/2025.  
 [7] A "value" strategy is when the investor is looking for companies that are undervalued by the market at a given time, i.e. whose market valuation is lower than it should be in relation to the company's results and the value of the company's assets. Value investors select stocks with low price-to-book ratios or high dividend yields.  
 [8] The "growth" style investor focuses mainly on the growth potential of corporate earnings in the hope that the growth in sales and earnings will be higher than that of his sector or the market average.  
 [9] Earning per share ; Bénéfices par action  
 [10] Source : Factset, Goldman Sachs, 10/10/2025.  
 [11] Macroeconomic projections, ECB, September 2025.  
 [12] Purchasing Managers' Index, an indicator reflecting the confidence of purchasing managers in a sector of activity. Above 50 it expresses an expansion of activity, below 50, a contraction.

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