



# Outlook 2026 - European equities



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## What is your central scenario for 2026?

Our outlook is more positive than the consensus among economists regarding Eurozone growth for 2026, which is expected to remain stable at just over 1%<sup>[1]</sup>. Indeed, while there may be questions about the speed of its implementation, the scale of the German investment plan should allow for a turnaround in European growth next year. This plan, combined with increased defense spending, could initiate a virtuous circle in Europe: the rise in investments (via order books) should increase the utilization of production capacities, which, in a context of low unemployment and growing adoption of artificial intelligence, could result in improved productivity. This growth could then restore confidence among households, who have so far continued to save massively. The consumption of part of these savings would help support growth, thus completing this virtuous circle.

In this context, the performance of European markets could, for a second consecutive year (in euro), surpass that of U.S. markets. While EPS<sup>[2]</sup> growth in Europe will ultimately be flat in 2025, analysts expect 12% growth for 2026<sup>[3]</sup>, driven in particular by the rollout of the German infrastructure plan, a less unfavorable currency effect, more moderate energy costs, and more favorable comparison bases. This “Bottom Up”<sup>[4]</sup> scenario, which we find credible, is not reflected in the valuation of European markets, which at 14.5x P/E<sup>[5]</sup>, is indeed above its historical average but remains the lowest among major geographic regions<sup>[6]</sup>.

## What could be the tailwinds?

Beyond the inflection in growth and still attractive valuations, several factors could support the performance of European equity markets. First, inflation has returned to target, allowing households to benefit from real income gains. Next, the rate-cutting cycle initiated by the ECB supports credit to businesses and households.

Other factors could also support European markets: the end of the conflict in Ukraine, even if this remains only a possibility at this stage, which would lower energy prices and benefit sectors exposed to the country's reconstruction. And, of course, a fiscal stimulus in China to support domestic demand weighed down by the real estate crisis. To achieve the 5% growth target, it seems increasingly likely that China will have to launch a stimulus plan once a "deal" is reached with the United States on tariffs. This plan has been awaited for a long time, but Europe would be the main indirect beneficiary. Finally, the continued return of flows to the Old Continent, already initiated this year, could support valuations.

## What are your main points of attention?

Beyond the high valuation around AI in the United States, which, if it were to correct, could weigh on all equity markets, two factors could slow the turnaround in European growth. First, the strength of the euro: if uncertainty around the U.S. fiscal situation and debt is only partially reflected in the level of long-term U.S. rates, the adjustment has occurred through the currency against all others, and particularly against the euro. If this trend were to persist—a plausible scenario, especially if the U.S. administration intervenes in Fed appointments and given the interest rate trajectories on both sides of the Atlantic—this context could continue to weigh on European exporting companies.

Finally, the introduction of tariffs in the United States could lead China to favor Europe as an outlet for its products, as evidenced by the increase in Chinese exports to the Old Continent. However, there is a growing political awareness in Europe, as shown by recent decisions such as the introduction of tariffs similar to those imposed by the United States on Chinese steel production surpluses dumped in Europe, or the decision to postpone beyond 2035 the end of combustion engine vehicles in response to Chinese automakers' market share gains in the electric vehicle segment.

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- [1]: Source: Consensus, November 2025
  - [2]: Earnings per share.
  - [3]: Source: Bloomberg, 28/11/2025
  - [4]: Approach based on fundamental company analysis.
  - [5]: Price Earnings ratio: price-to-earnings ratio
  - [6]: Source: Bloomberg, 28/11/2025

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(1) Source: Rothschild & Co Asset Management, 31/12/2025.

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