

# BlackRock®

**Investment perspectives**  
November 2025

# What's needed for Europe's investment renaissance?

European equities have lagged their U.S. peers since the global financial crisis. A brief run of outperformance this year raised hopes of a turnaround. What's needed to sustain a revival? And where can investors find opportunities today?

**UNDER EMBARGO UNTIL  
5.00 AM GMT / 6.00 AM CET ON  
WEDNESDAY, NOV. 19, 2025**

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# Summary

- After a strong run for over a decade, Europe's economy slowed sharply when the global financial crisis (GFC) hit, and it has struggled to get back on its feet since. **Yet a period of outperformance for European equities this year and optimism around the region's reform agenda has raised hopes of a possible economic and investment renaissance.** We look at what would be needed for those hopes to become a lasting reality – and where we see selective opportunities emerging right now.
- Part of the reason European growth has been modest since the GFC is because the bloc has been hit by more shocks, including the sovereign debt crisis, the pandemic, a surge in energy prices after Russia's invasion of Ukraine and U.S. tariffs. But at the core of the issue are several structural challenges: weak productivity growth, relatively tight fiscal and monetary policy, market fragmentation, underdeveloped capital markets, red tape and heavy regulation, and an aging workforce.
- Yet European stocks had a strong start this year as policymakers signalled a renewed sense of urgency around addressing these structural challenges: **Rising geopolitical fragmentation has pushed Europe to act more decisively on defense, energy security and encouraging households to put more of their savings, including €14 trillion in bank deposits, into productive investments.**
- **Some concrete steps we've seen include changes to the European Union (EU) fiscal rules, making them more flexible so countries can invest more** – like through the €800 billion "Readiness 2030" defense plan and Germany's €500 billion infrastructure fund. The bloc is working to cut energy costs and rely less on imports, while the EU's new Savings and Investment Union (SIU) aims to make it easier for people to invest and for companies to raise money.
- Progress in these parts of the reform agenda is creating a range of near-term investment opportunities. **We see opportunities in defense, utility companies, electric power and grids, and – as conduits of rising government spending and private investment – banks and other financials as well as public and private credit.**
- **We also see today's action driving investment opportunities further into the future – in particular, linked to the energy transition and AI.** In both areas, Europe will need to balance international cooperation and competition. For example, Europe is opting to cooperate with China on clean tech given its dominance in the field, with some automotive companies creating joint ventures with Chinese rivals to integrate their batteries into electric vehicles.
- The long-term shift toward low-carbon power – including a renewed focus on nuclear energy – and the buildout of AI infrastructure present long-term opportunities in companies supplying the materials, technology and engineering behind them. **Private capital is stepping up to fund this transformation, with investment in areas like manufacturing, energy systems and data centers surging and expected to keep growing.**
- We think the actions underway could help narrow the persistent gap between European and U.S. stocks, especially given the discount at which European equities trade – across every single sector – versus U.S. stocks. **But to move from a selective approach to a lasting overweight stance on the broad European equity market, we would need to see more business-friendly policies and deeper capital markets, including progress on banking union.**
- Relative performance also depends on how U.S. equities do. Here, how the AI theme evolves will matter greatly. The U.S. has a clear head start, but it's not certain which companies will generate the revenues once AI infrastructure has been built out. **If Europe can lead the way on AI adoption, that could give its economy and markets a big leg up.**
- **Ultimately, If investors feel confident that Europe can and will advance reforms, not only under economic and political stress but also in "normal times", that could unlock a new era for Europe's financial markets.**

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# Structural challenges

After growing healthily in the 1990s and early 2000s, Europe’s economy was hit hard by the global financial crisis (GFC). Since then, growth has been rather lackluster relative to the U.S. That’s partly because Europe has been hit by a series of new shocks, including the sovereign debt crisis, the pandemic and Russia’s invasion of Ukraine that spiked energy prices relative to the U.S. and China. U.S. tariffs this year have further exposed some of Europe’s weaknesses. But at the core of the region’s weak growth are several structural challenges. Plenty of ink has already been spilled on those, such as in the [report for the EU](#) authored by former European Central Bank President Mario Draghi, so we highlight just a few key ones below. Addressing these could turn around the region’s fortunes, in our view.

GDP per capita in the EU has lagged that in the U.S. See the chart below left. Around 70% of that gap is down to **weaker productivity growth**, mainly because lower-growth industries – like manufacturing and banking – make up a greater share of the EU economy, while the fast-growing tech sector is a bigger chunk of the U.S. economy. Outside tech, labor productivity trends are similar in the two blocs. Yet it’s notable that European companies spent about half as much as U.S. companies on research and innovation as a share of GDP in recent years, according to [2023 data from Eurostat](#).

European growth may also have been held back by **tighter fiscal and monetary policy** than in other major economies. That reflects Europe’s more rigid fiscal rules and its difficulty driving collective action outside crises. A spell of fiscal austerity in some Member States after the 2011-12 sovereign debt crisis, plus less monetary policy easing than in the U.S., likely explains some of that decade’s relative underperformance. We saw a similar divergence after the pandemic.

Another factor hampering Europe: **greater market fragmentation**. In Europe, many sectors remain highly fragmented, including financial services, energy and digital communications. That limits the ability of European companies to scale up across the whole continent. A [European Commission study from 2019](#) estimates internal trade frictions knock around 10% off potential GDP.

Europe has **much less developed capital markets** than the U.S. In 2021, equity financing measured about 91% of GDP in Europe but 220% in the U.S., according to a [European Central Bank \(ECB\) paper](#). Venture capital is also much **smaller in Europe**: The U.S. is home to 241 companies that are under 50 years old yet have a market cap above \$10 billion. The EU has just 14 such companies. This striking gap could also stem from Europe having fewer high-growth companies.

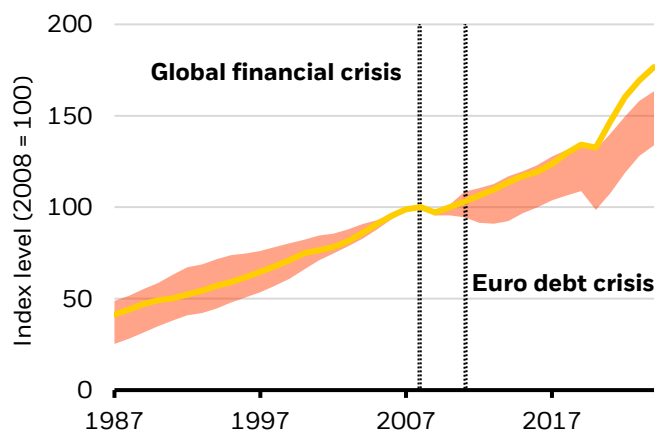
The EU has typically taken a more **precautionary and interventionist regulatory approach** in areas from labor markets to product standards. That has its benefits, like consumer protection and social safety nets, but can also weigh on businesses. Europe’s strict competition policy has blocked some big mergers – again, with benefits for market openness and competition, but potentially preventing the emergence of Europe-based firms with the scale of U.S. tech giants.

The EU also has a bigger **demographic disadvantage**. Its working-age population shrunk for over a decade and is set to decline further – by nearly one million people per year over the next few decades, a [2021 Eurostat study](#) shows. That’s the steepest decline among developed markets, except Japan, and will weigh on the region’s potential economic growth.

How has this all translated into European equity performance? Corporate earnings have lagged the U.S. since 2008 and are still below their pre-GFC peak. See the right chart. MSCI data shows that MSCI Europe is up 6.2% in local currency terms, on average, each year in the last 20 years and 8.6% in the last 10 years – lagging MSCI U.S. by 4.8% a year in the last 20 years and 6.6% in the last 10 years. Prospects for more government spending in Europe gave its equities a boost this year. But we think sustaining a longer-term revival depends on addressing more of its structural challenges.

## Europe’s economic underperformance...

GDP per capita, 1987-2024

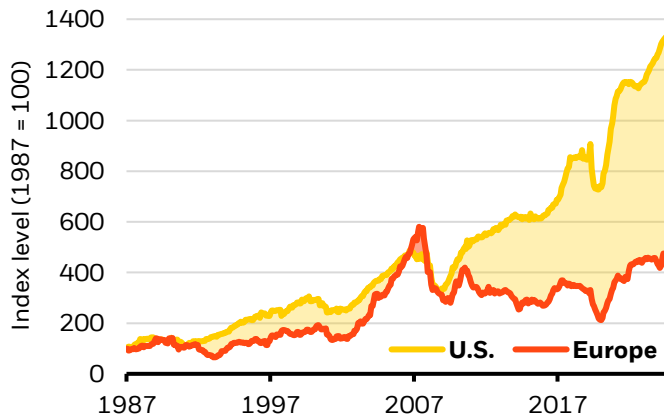


- U.S.
- Range across France, Germany, Italy and Spain

Source: BlackRock Investment Institute, World Bank, with data from LSEG Datastream, November 2025. Note: The chart shows the range of GDP per capita across France, Germany, Italy and Spain (shaded area) and U.S. GDP per capita (solid line). GDP per capita is measured in local currency at current prices, not seasonally adjusted.

## ...leaves its equities trailing

U.S. and European company earnings, 1987-2025



The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: BlackRock Investment Institute, MSCI, with data from LSEG Datastream, November 2025. Note: The lines show the 12-month trailing earnings per share for U.S. and European companies in local currency. Index proxies: MSCI USA, MSCI EMU.

# Renewed sense of urgency

For several years, a relatively stable world, cheap energy from Russia and a workforce boosted by immigration and higher female participation reduced the sense of urgency around addressing the challenges laid out on the previous page – except during crises like the pandemic. But recent geopolitical developments have restored a sense of urgency: Russia’s invasion of Ukraine, weakened NATO guarantees and rising protectionism, including U.S. tariffs, have jolted Europe into prioritizing defense, energy security and deeper capital markets. The EU’s complex architectural setup means it may not achieve all of its reform agenda, but we see several areas where cross-border political support could be – or has been – sufficient to drive real policy action. That can, in turn, be supportive of European growth and certain sectors.

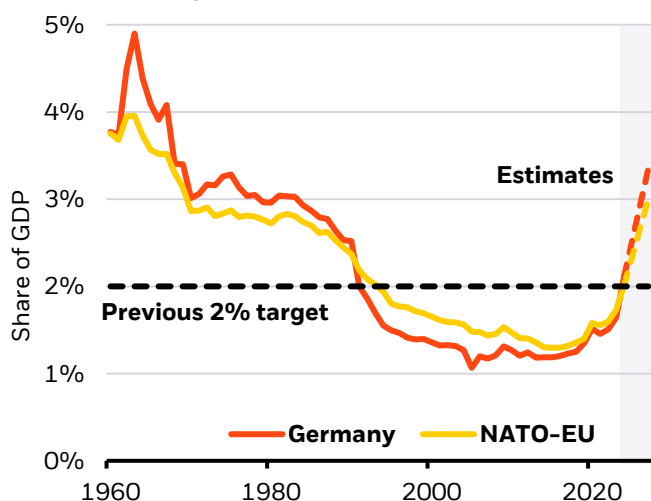
For example, the EU fiscal policy framework has become more flexible, especially since the 2024 revision of the Stability and Growth Pact. Fiscal adjustment plans can now extend from four years to seven if linked to structural reforms – an innovation that could give governments more space to invest, in our view. Governments can deviate temporarily from budget rules at the EU or country level. That enabled swift responses to the pandemic and Ukraine war and facilitated more defense investment. The European Commission’s €800 billion “Readiness 2030” defense plan includes such a temporary exception from fiscal rules. It also announced €150 billion of EU defense loans (“SAFE”). Germany suspended its “debt brake” to enable more defense spending and approved a €500 billion infrastructure fund that includes defense. In June, NATO members agreed to target defense and defense-related spending of 5% of GDP by 2035, up from the previous 2% target aimed to lift spending that had long been below that. See the left chart. That could boost European growth, but mainly in countries with the most means and desire to spend on defense, like northern Europe. Yet in the near term, some share of EU defence spending is likely to go to U.S. suppliers, muting the impact on Europe’s growth.

We also believe progress can be made on the Savings and Investment Union (SIU), that aims to channel more of Europe’s savings, including €14 trillion sitting in bank deposits, into productive investments – especially strategic priorities like defense, energy and innovation. One way is by improving access for EU citizens to capital markets. Europeans are big savers: about a third of household financial assets are kept in cash and deposits, versus about 17% in the U.S. See the right chart. That has resulted in less financial wealth: European household net wealth in 2024 was about 165% of GDP versus about 370% in the U.S. as of June 2025, per Eurostat and Federal Reserve data. Auto-enrolment in pension funds, the launch of EU savings and investment accounts and policies supporting retail participation in capital markets could see more cash invested into risk assets over time, potentially boosting both household wealth and consumer spending. The SIU also seeks to broaden financing options for companies. The supply of venture capital, for example, appears sufficient for current demand but is limited: European pension fund assets make up 25% of GDP versus 140% in the U.S. per a 2020 ECB bulletin. Likewise, the ECB’s bank lending survey does not suggest a lack of credit to Europe’s economy, but measures that relieve capital charges for banks could support European growth and return on capital in the banking sector. The EU Commission is taking steps in this direction, [proposing securitization reforms in June](#).

Another area we see urgency driving progress? Energy. Power prices in the EU are more than double those in the U.S. and China and it’s heavily reliant on imports, making the bloc vulnerable to external forces and geopolitical risks. It has been able to substitute most Russian gas with more diversified liquefied natural gas and the Commission presented a comprehensive Action Plan for Affordable Energy. It aims to promote competition in supply and reducing permitting times for new clean power supply and energy infrastructure. Looser fiscal rules are boosting energy investment too. [In August, Germany announced](#) that a fifth of its €500 billion infrastructure fund is earmarked for decarbonization efforts.

## Stepping up spending

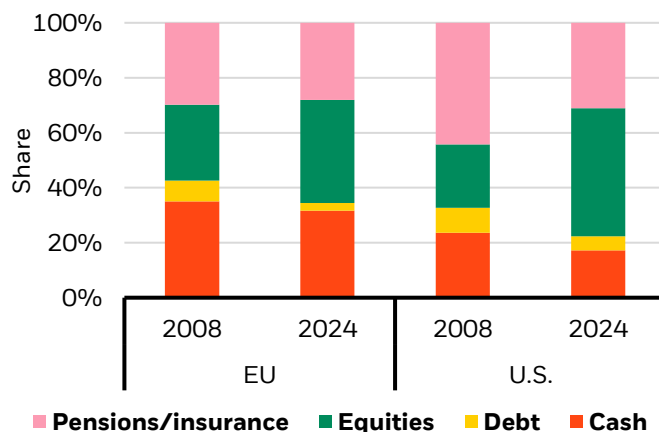
Defense spending, 1960-2027



**Forward looking estimates may not come to pass.** Source: BlackRock Investment Institute, NATO, World Bank, European Commission, July 2025. Note: The solid lines show defense spending as a share of GDP for Germany and European NATO countries. The dotted line estimates assume current plans to boost defense spending are realized.

## Still sitting on a pile of cash

Household financial assets, 2008 and 2024



Source: BlackRock Investment Institute, Eurostat, Federal Reserve, November 2025. Note: EU data include currency and deposits (AF.2), debt securities (AF.3), equity and investment fund shares or units (AF.5) and insurance, pension and standardised guarantee schemes (AF.6) from household balance sheets. U.S. data is comprised of comparable categories found in Z.1 (B.101). Data show household financial assets as a share of total financial assets. Categories are harmonised to ensure comparability across regions; minor residual items are excluded for clarity.

# Near-term opportunities

The positive steps outlined on the previous page have created a sense of optimism around the EU improving its growth prospects. Indeed, we upgraded our view on broad European stocks from underweight to neutral back in February on news of rising fiscal spending. Yet we think more is needed on the policy front to support an overweight at the broad index level. That’s why we think investing in Europe is still – for now – mainly about finding selective opportunities driven by the increasingly pro-growth agenda. We also look for sectors and industries poised to benefit from mega forces like geopolitical fragmentation and the future of finance. Based on the reforms we think have momentum, we see near-term opportunities in defense, energy, infrastructure and financials – with plenty of overlap between the themes.

**Defense:** Defense budgets are rising across Europe. In June, NATO allies committed to spending 3.5% of GDP on core defense and 1.5% on security-related initiatives by 2035. The €800 billion REARM Europe plan aims to drive flows into infrastructure, logistics, cybersecurity and advanced manufacturing. Yet we stay selective for now given the surge in both earnings and valuations in its aerospace and defense sector, with equities rising over 60% this year as of Oct. 31, LSEG data show. We also see a risk that near-term execution of the EU’s defense plans disappoints. Yet in the medium term, we think hefty government spending plans will uphold the premium this sector enjoys versus broader European equities. Among sectors, we see opportunities in defense tech – not just AI and software companies, but also IT services and hardware like semiconductors that enable advanced technologies. We think many private companies in defense tech could launch initial public offerings in coming years, allowing investors to tap this theme via public markets.

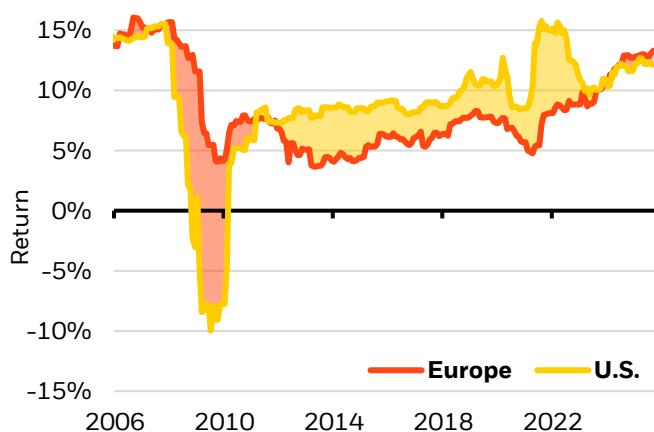
**Energy:** We see the political focus on energy as a major positive near-term driver for European utilities, especially the ones with sizeable exposure to power grid/network operators. The desire to diversify away from Russian energy likely means buying more U.S. gas in the near term. Indeed, the EU has signed an energy deal with the U.S., agreeing to purchase \$750 billion of U.S. energy products, including liquefied natural gas and nuclear technology. Efforts to improve the region’s energy security could give a near-term boost to renewables producers with competitive moats, grids, batteries and manufacturers of electrical equipment like gas turbines. It will take some years before nuclear power becomes a viable large-scale alternative and before wider industrial reshoring can fully materialize.

**Financials:** We expect EU banks, insurers and asset managers to be conduits of rising public spending on infrastructure and defense. Since banks are typically the main providers of retail investment products in Europe, they are also the nexus for converting savers into investors and could benefit from progress on the SIU. They’re also profitable, well capitalized and past peak regulation in our view, even if EU competition policy and national sentiment still prevent some cross-border consolidation in the sector. Moreover, we expect positive policy rates and steeper yield curves than pre-pandemic – supporting banks’ net interest margins. European banks have delivered higher average returns on shareholder capital than U.S. banks. See the left chart. Efforts to revive Europe’s securitized market are also well underway.

**Public and private credit:** We see an attractive entry point in European credit given the yield advantage versus the U.S. See the chart below right. That’s supported by policy-driven issuance such as SAFE loans, improving bank profitability, easing regulation, a broadly stable macroeconomic backdrop and the relative high quality of European credit indices. It could also benefit if low-yielding bank deposits are progressively shifted into income-seeking assets. We also like private credit: it offers a funding avenue for companies that are too small to tap public credit markets. It may benefit as companies remain private for longer, according to Pitchbook data as of April 2025.

## Europe’s banks catch up

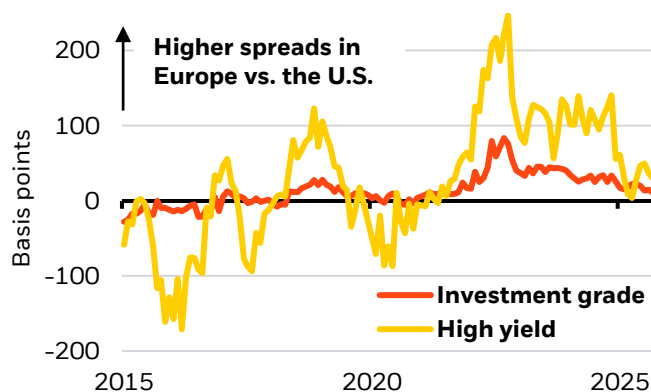
Financial sector return on equity, 2006-2025



The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Capital at risk. Source: BlackRock Investment Institute, MSCI, with data from LSEG Datastream, November 2025. Note: The lines show the return on equity for the MSCI EMU and MSCI USA financial indexes.

## Spying value in European credit

Europe vs. U.S. ratings-adjusted credit spreads, 2015-25



Past performance is not a reliable indicator of current or future results. It is not possible to invest in an index. Indices are unmanaged and index performance does not account for fees. Capital at risk. Source: BlackRock Investment Institute, Aladdin, with data from Bloomberg, November 2025. Note: The chart shows the difference in spreads between Europe and U.S., assuming an equal make up of credit quality. Ratings-adjusted spreads are calculated by multiplying U.S. rating weights in the index with the regional spreads for the corresponding rating. Index proxies are: Bloomberg U.S. Credit Index, Bloomberg Euro Aggregate Corporate Index, Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index, and Bloomberg Euro High Yield Index.

# Longer-term opportunities

We also see areas where today’s reforms can drive investment opportunities further into the future – in particular, linked to the energy transition and the rise of AI. In both of these areas, Europe will need to strike a balance between cooperation and competition with the U.S. and China to ensure competitiveness.

On energy, Europe’s desire to decarbonize and ensure security of supply makes transitioning to lower-carbon sources a multi-year imperative. Recent policy shifts in Europe favor a coupling of **nuclear energy** with renewables. As noted on the last page, the buildout of nuclear energy takes decades if it requires the construction of new nuclear plants, thus typically representing longer-term investment opportunities. We see opportunities in producers of “picks and shovels” – or the essential tools needed to develop the industry – like uranium mining and fuel cycle companies, manufacturers of nuclear components and equipment, and providers of specialized engineering, procurement and construction services.

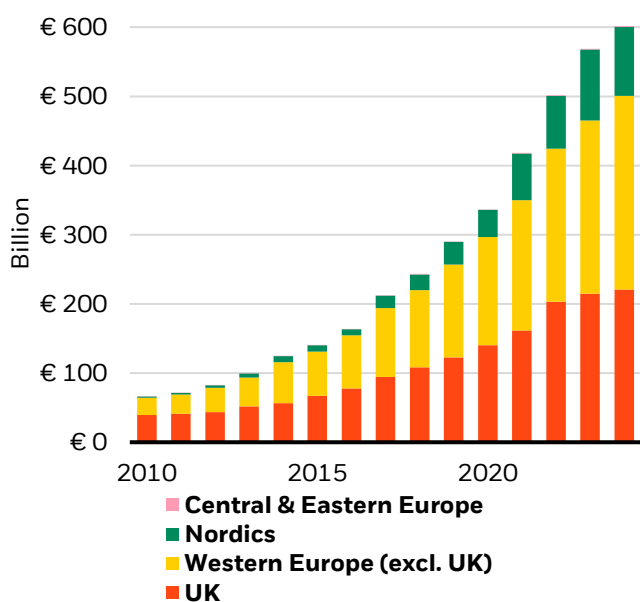
Europe is approaching **critical minerals, batteries and electric vehicles** via a mix of collaboration and competition with other countries. The EU’s Critical Raw Materials Act aims to diversify the bloc’s access to materials that are key not just to the low-carbon transition but also to its defense ambitions and the digital transition. In the case of clean tech, Europe is selectively cooperating with China given its dominance in this field. Some European automotive companies, for example, are already creating joint ventures with Chinese firms to integrate their clean tech, especially batteries, into electric vehicles and drones. At the same time, ongoing talks around countervailing duties – or taxes on imported goods that have been heavily subsidized by a foreign government – on electric vehicles illustrate the balance Brussels is seeking: localizing jobs in return for market access as a “carrot”, but also a willingness to use “sticks” like tariffs, fines and quotas.

We think Europe will need to support its fledgling AI sector to avoid being permanently dependent on other countries – notably the U.S. and Asia. Yet we still expect to see extensive cooperation with the U.S. as Europe opts for U.S.-developed AI models over Chinese ones. That said, the push for cheaper energy and the AI buildout are creating longer-term opportunities in European **infrastructure** spanning both public and private markets – for example, in European data centers, the real estate to house them and the energy to power them. Some of those can benefit immediately as government prioritization of AI drives demand now. Electrical equipment manufacturers, grid/electrical asset owners and equipment suppliers exposed to the AI buildout could also benefit. Yet we also see a need to reduce red tape and streamline permitting and licensing processes for European infrastructure projects. For example, between 2020 and 2022, the average time to commission wind energy projects in Europe was over four years – versus three in China and less than two in the U.S. See the chart below right.

Within private markets, we like private equity in advanced manufacturing and automation, as well as infrastructure funds focused on industrial retrofitting, energy systems and logistics. Infrastructure is now the second-largest asset class for private capital in Europe, according to [Preqin data](#), with total assets under management exceeding €600 billion and growing at the fastest rate over the last five years compared to other regions globally. See the left chart. We see private capital more broadly as essential to financing economic growth and driving innovation across Europe in the years ahead.

## Rapid infrastructure growth

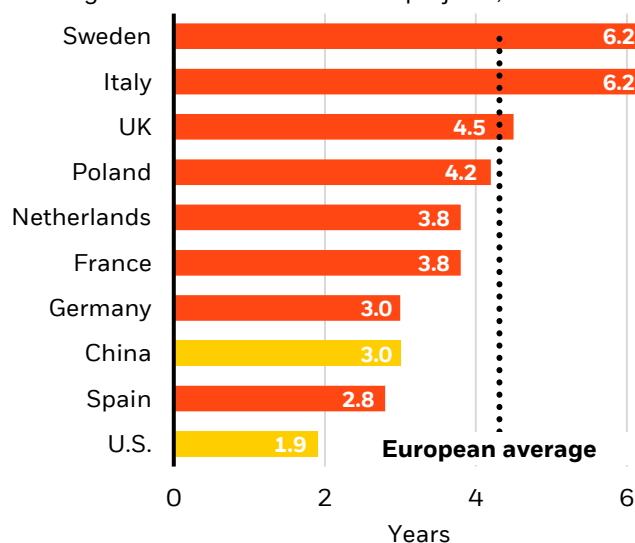
Infrastructure assets under management, 2010-2024



Source: BlackRock Investment Institute, with data from Preqin, November 2025. Note: The bars show the assets under management in infrastructure funds.

## Many years to build

Average time to commission wind projects, 2020-22



Source: BlackRock Investment Institute, with data from ETH Zurich, November 2025. Note: The bars show the average commissioning times for onshore wind projects delivered between 2020-22. The black line shows the average for the European countries in the chart, including the UK.

# More needed for a broad resurgence

Based on what we see in motion on the reform front, we see a plethora of investment opportunities across European countries, sectors and industries. But for now, they are just that: selective. What would be needed for European economic and earnings growth to accelerate both in absolute terms and versus the U.S.? What would be enough to justify a broad overweight to European equities?

We do think the actions underway are already enough to narrow the persistent gap between European and U.S. stocks, especially since valuations of European equities have already adjusted substantially: the price-to-earnings ratio of European equities traded at a discount of mostly 20% or below to their U.S. peers in the 2000s and early 2010s. That is now around 35%, indicating that stronger earnings growth in the U.S. has already been priced in. See the left chart. That said, every major European sector, without exception, trades at a discount to its U.S. equivalent, LSEG data show. That might suggest there is a broad-brush “U.S. premium” priced in that doesn’t necessarily account for the nuances and different sector compositions of the two markets – and thus in some cases might not be justified. See the right chart.

But what would it take not just to close the gap but for European equities to sustainably take the lead over the U.S.?

First, we think more business-friendly economic policy is needed. That means loosening regulations, as well as removing internal trade and financial market barriers that knock an estimated 10% off potential GDP. We believe that should boost the corporate sector’s return on both public and private capital – making it more likely that capital mobilized in Europe is also invested in Europe, rather than flowing abroad to find higher returns elsewhere. It would also make it more likely that Europeans choose to participate in European capital markets – in turn boosting households’ net wealth as a share of GDP. Pension funds could also generate stronger, above-inflation returns, growing retirement wealth. The result: a positive feedback loop: wealth creation via capital markets would make Europeans likely to spend more, boosting GDP.

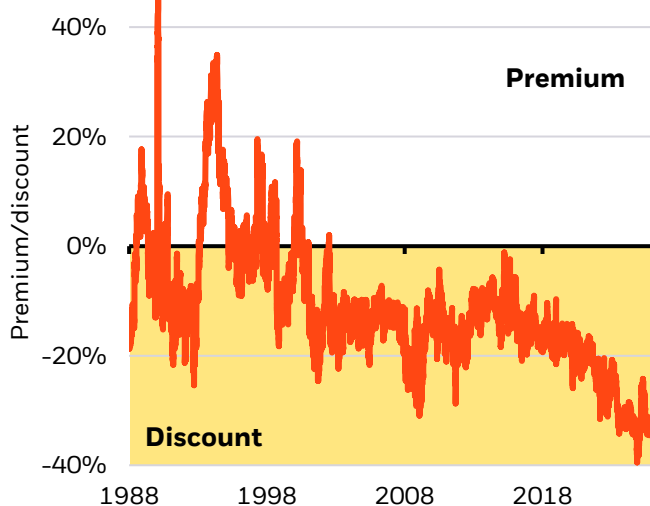
Second, more developed capital markets would serve as a growth engine, helping mobilize capital into productive investments. Deeper EU bond markets and EU “safe assets” – highly liquid financial assets with minimal credit risk – such as a Eurobond could lower borrowing costs, lift foreign demand and dim the risk of euro area fragmentation. A bigger role for centralized fiscal capacity could also make it easier to scale up efforts in key strategic areas. See more on business-friendly policy and capital market reform in BlackRock’s “[Roadmap to growing European Capital Markets](#)”.

Third, Europe’s performance relative to the U.S. will also depend on developments in the U.S. Given that big tech accounts for a sizable share of the S&P 500, how the AI theme plays out will matter greatly. The U.S. has a clear head start, with the bulk of AI investment happening there, but it’s not certain yet which companies will generate the revenues once AI infrastructure has been built out. If Europe can lead the way in AI adoption, that could give its economy and its markets a big leg up, especially if the revenues accrue to the users of AI rather than the builders of it.

What are the chances of success in these areas? The EU’s complex architecture creates some hurdles. But not everything requires majority support. And total success isn’t needed on every front – just enough to reassure investors that Europe can advance reforms in “normal times”, not only under economic and political stress. For example, financial markets would likely take a strong positive signal from progress on the banking union, which has so far been slow. Jean Monnet, one of the founders of the EU, famously said “Europe will be forged in crises”. Can Europe now prove him wrong?

## A steep discount

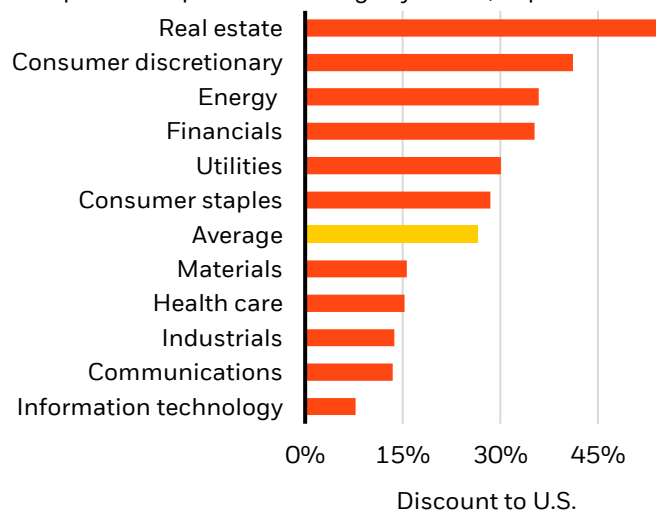
Europe vs. U.S. price-to-earnings ratio, 1988-2025



Past performance is not a reliable indicator of current or future results. It is not possible to invest in an index. Indexes are unmanaged and index performance does not account for fees. Capital at risk. Source: BlackRock Investment Institute, with data from LSEG Datastream, November 2025. Note: The chart compares the 12-month forward price-earnings ratio – a valuation metric – of the MSCI Europe ex. UK & MSCI USA indexes. The line shows the ratio of the valuation of MSCI Europe ex. UK relative to MSCI USA.

## Potential bargains?

Europe vs. U.S. price-to-earnings by sector, Sept. 2025



Past performance is not a reliable indicator of current or future results. It is not possible to invest in an index. Indexes are unmanaged and index performance does not account for fees. Capital at risk. Source: BlackRock Investment Institute, Aladdin, with data from Bloomberg, November 2025. Note: The chart compares the 12-month forward price-earnings ratio – a valuation metric – of the MSCI Europe & MSCI USA GICS sector indexes.

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