

EUROPEAN MARKETS TAKE CENTER STAGE IN 2025

AN UNEXPECTED TURN IN GLOBAL MARKET LEADERSHIP

As we approach year-end, the investment landscape has delivered one of its most surprising developments in recent memory. For the first time since 2023, European equity markets are demonstrating remarkable strength relative to their global peers—a shift that few analysts anticipated at the start of the year.

The numbers tell a compelling story: half of the world's twenty best-performing stock markets in 2025 are European. This level of regional dominance has occurred only three times since the euro's creation, making it a genuinely rare phenomenon worth examining closely.

SMALL MARKETS, OUTSIZED RETURNS

While household names like Germany and France have posted solid gains, some of Europe's smaller markets have delivered truly exceptional performance. Hungary, Slovenia, and the Czech Republic have each surged more than 60% when measured in U.S. dollar terms, placing them among the top ten performers globally. Spain, Poland, and Austria aren't far behind, while Germany itself has climbed 34% in dollar terms—a figure that significantly outpaces what most forecasters predicted.

To put this in perspective, the broad-based Stoxx 600 Index is approaching its largest outperformance versus the S&P 500 since 2006 when measured in dollars. This isn't just a matter of one or two sectors driving returns; it represents a broad-based resurgence across multiple European economies.

WHAT'S DRIVING THE EUROPEAN RENAISSANCE?

Several fundamental factors have converged to support European equities:

Inflation dynamics have favored Europe, where price pressures have moderated more significantly than in the United States. This has provided central banks with greater flexibility and supported consumer spending power.

Fiscal policy shifts represent perhaps the most dramatic change. Germany, historically cautious about government spending, has committed to substantial investments in defense and infrastructure. Lawmakers are poised to approve nearly €3 billion in military procurement—funds that will largely flow to domestic manufacturers, stimulating the local economy.

Trade war insulation has worked in Europe's favor. Countries with economies oriented toward domestic consumption, such as Italy and Spain, have proven more resilient during periods of elevated trade tensions. Their reduced exposure to cross-border tariff disputes has been a distinct advantage.

Technology sector positioning has also played a role. While U.S. markets have seen extraordinary gains from artificial intelligence-related stocks, some investors have grown concerned about valuation excesses. Europe's more modest exposure to this theme has actually attracted capital from those seeking to diversify away from concentrated tech positions.

THE CURRENCY FACTOR

An important component of these dollar-denominated returns stems from euro strength. The shared currency has appreciated 12% against the dollar this year, amplifying gains for U.S.-based investors holding European positions. Germany's fiscal stimulus commitments have been a primary catalyst for this currency movement.

EARNINGS EXPECTATIONS AND VALUATIONS

Looking ahead, analysts project that European corporate earnings can finally narrow the growth gap with their American counterparts. Stoxx 600 companies are expected to post approximately 11% profit growth in 2026, compared to 13% for S&P 500 constituents. After several years of lagging earnings, this convergence would represent meaningful progress. Perhaps most intriguingly, European stocks remain attractively valued despite this year's strong performance. The Stoxx 600 trades at roughly a 35% discount to the S&P 500 on a forward price-to-earnings basis. This valuation gap suggests that even modest earnings improvement could support further gains.

PUTTING U.S. PERFORMANCE IN CONTEXT

None of this suggests American markets have faltered. The S&P 500 has delivered approximately 16% returns in 2025, its third consecutive year of double-digit gains. The U.S. economy has proven resilient, and many investors maintain confidence in the domestic growth outlook.

However, the relative outperformance of European indices—even when measured in local currencies—indicates genuine fundamental improvement rather than merely favorable currency translation. Banking, defense, and renewable energy sectors have been particular standouts.

WHAT THIS MEANS FOR PORTFOLIOS

For investors, this European resurgence offers several considerations:

Geographic diversification has reasserted its value. The concentration of returns in U.S. technology stocks over recent years had led some to question whether international exposure remained worthwhile. This year's performance demonstrates why maintaining global diversification continues to make sense.

Valuation opportunities may exist in markets that have been overlooked. European equities' discount to U.S. stocks, combined with improving fundamentals, creates a potentially attractive risk-reward profile.

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*Wishing you and
your families a
Happy Holiday and
Blessed 2025!*

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(continued)

Currency effects can significantly impact international returns. The euro's strength has been a tailwind this year, though currency movements can work in either direction and should be considered when evaluating international positions.

LOOKING FORWARD

Whether European markets can sustain this outperformance into 2026 depends on several factors: the continuation of Germany's fiscal expansion, the trajectory of corporate earnings, developments in U.S.-Europe trade relations, and the relative pace of economic growth across regions.

What is clear is that 2025 has served as a reminder that market leadership rotates, sometimes in unexpected ways. The assumption that U.S. markets will automatically outperform proved incorrect this year, underscoring the value of maintaining a globally diversified approach to equity investing.

For those who have maintained exposure to European equities, this year has rewarded that patience. For those

who haven't, the combination of improved fundamentals and attractive valuations may warrant a fresh evaluation of whether international diversification deserves a place in their investment strategy.

As always, these observations should be considered within the context of your individual financial circumstances, risk tolerance, and long-term objectives. The markets' ability to surprise us—as they have this year with European strength—remains one of the constants in investing.

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HOLIDAY CLOSURES:

**CLOSING EARLY ~ DECEMBER 24TH
CLOSED ~ DECEMBER 25TH
CLOSING EARLY ~ DECEMBER 31ST
CLOSED ~ JANUARY 1ST**