



EUROPEAN EQUITIES OUTLOOK Q1 2026

Europe's comeback gaining momentum

Executive summary

European equities have made a strong start to 2026, with major indices gaining between 6% and 8% year-to-date — significantly outperforming US markets in euro terms. While the S&P 500 and Nasdaq 100 have delivered negative returns in EUR terms, European benchmarks such as the STOXX Europe 600 and MSCI Europe are up around 7% as of the end of February. Crucially, these headline figures mask considerable dispersion beneath the surface, with substantial sector rotation underway.



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Against this backdrop, four themes deserve particular attention from advisors: the geopolitical shift towards European strategic autonomy, the AI infrastructure investment wave, early signs of German fiscal recovery, and the relative attractiveness of European valuations.

Geopolitics and strategic autonomy

Geopolitical risks remain elevated, with airstrikes against Iran and subsequent Iranian retaliation creating significant volatility in European markets, although the situation has not yet produced a destabilizing shock. A key concern is the duration of the closure of the Strait of Hormuz, through which roughly 20% of the world's oil supply and around 30% of global seaborne oil trade normally pass, alongside substantial LNG and fertilizer shipments. Uncertainty also surrounds whether these military actions could eventually trigger a regime change in Iran, lead to a broader regional conflict, or settle into yet another prolonged geopolitical standoff.

EUROPE'S COMEBACK GAINING MOMENTUM

In the short term, tensions are pushing up oil and, to some extent, LNG prices, while the longer-term implications remain unclear given Iran's attractive oil and natural-gas reserves. Sector impacts are visible: luxury goods, banks, and travel and leisure face pressure, while oil and gas firms and certain European defense names benefit from higher prices and increased focus on defense capabilities.

Meanwhile, shifting US rhetoric on Greenland and the start-stop nature of Ukraine peace negotiations have also created near-term noise. However, the more durable takeaway is structural: Europe needs to invest meaningfully more in critical infrastructure, defence, and mission-critical technologies.

For many European companies with exposure to these themes — across industrials, energy, and telecoms — this represents a multi-year tailwind. Reducing dependency on single geographies in key supply chains is now a policy priority across the continent, and the equity implications are significant for well-positioned companies.

Sector performance: broad rotation underway

The sector picture in 2026 has been anything but uniform. The strongest performers year-to-date include Basic Resources (+18%), Telecommunications (+15%), Oil & Gas (+13%), and Utilities (+12%). These gains reflect a

combination of commodity price dynamics, infrastructure spending expectations, and defensive rotation.

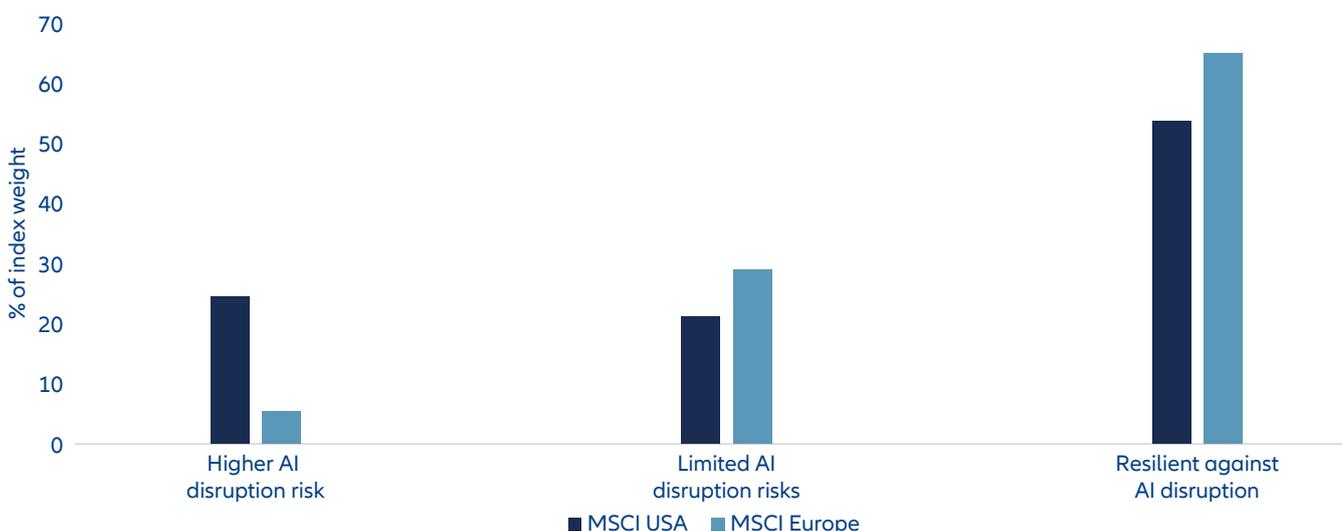
At the other end of the spectrum, Media (-11%) has been the notable laggard, while Travel & Leisure (-4%) as well as Automobile and Parts (-2%) are also modestly negative. Technology, while appearing slightly positive at the index level, conceals very significant dispersion at the individual stock level — a point that merits close attention.

Artificial intelligence: the infrastructure opportunity

Datacenter capital expenditure continues to accelerate at a pace that surprised even the most bullish observers entering this year. During the recent US earnings season, six major hyperscalers materially upgraded their capex plans. Current estimates for 2026 datacenter spending are now more than double what was projected at the end of 2024, with similar upward revisions extending into 2027 and 2028.

European companies are well-placed to capture meaningful share of this spend. Infineon is seeing increased demand for power semiconductors. Schneider Electric, Siemens, and Legrand benefit from rising demand for medium- and high-voltage distribution equipment, UPS systems, and battery storage. Schneider Electric also has exposure to liquid cooling solutions, while Siemens Energy is benefiting from growing US interest in on-site gas turbine generation.

Chart 1: Market structure US vs. Europe – industry groups



Source: Bloomberg, MSCI, AllianzGI, February 2026

Artificial intelligence: the disruption risk

AI also poses genuine risks to certain business models, particularly within software and technology services. The rapid advancement of large language models and AI-assisted coding has prompted a reassessment of SaaS valuations, as markets contemplate whether AI-native competitors could replicate or substitute existing software functionality at lower cost. European Software & IT Services stocks have come under pressure as a result, as have professional publishing and online classifieds.

We believe the companies best placed to navigate this risk are those with a combination of deep domain expertise, proprietary data, and strong integration into mission-critical or regulated processes. Crucially, producers of physical goods appear meaningfully more resilient than pure service providers.

The evolving partnership between Siemens and NVIDIA — focused on building an Industrial AI Operating System — illustrates how leading European industrials are moving from AI exposure to active AI adoption, combining NVIDIA's AI infrastructure with Siemens' industrial software, hardware, and domain knowledge.

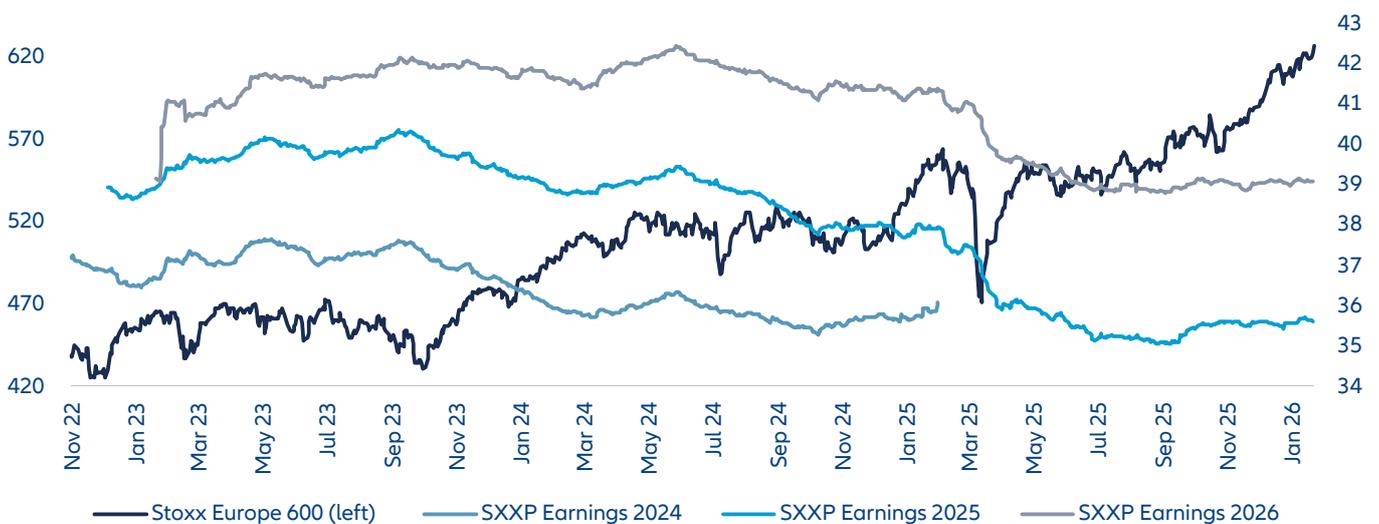
Germany: early signs of recovery

After two consecutive years of recession and GDP growth expected at just 0.2% in 2025, Germany remains a focus for investors seeking evidence of improvement. The new government's reform agenda has been met with scepticism in some quarters — understandably so, given the time required to implement policy in a coalition system.

However, a broad package of business-friendly measures has been enacted, most taking effect from January 2026: lower energy prices, accelerated depreciation allowances on machinery, new EV purchase incentives, planning reform to speed up construction approvals, and a phased 5 percentage point corporate tax reduction beginning in 2028. A retirement savings account (Altersvorsorgedepot) is also planned for 2027, which could structurally increase German retail participation in capital markets.

Importantly, early data suggests the economy is beginning to respond. Q4 2025 GDP came in at +0.3% quarter-on-quarter, the infrastructure PMI is rising, and manufacturing orders rose 5.7% in November and 7.8% in December. Even a recovery to around 1% GDP growth — with fiscal stimulus contributing 30–60 basis points — would represent a meaningful inflection for domestically oriented small and mid-cap names.

Chart 2: Stoxx Europe 600 – earnings estimates



Source: Bloomberg, February 2026

Earnings outlook

European earnings growth was subdued in 2025, with cyclical sectors including automotive, chemicals, and construction acting as drags, compounded by USD weakness weighing on currency translation. Despite these headwinds, earnings ended the year broadly stable.

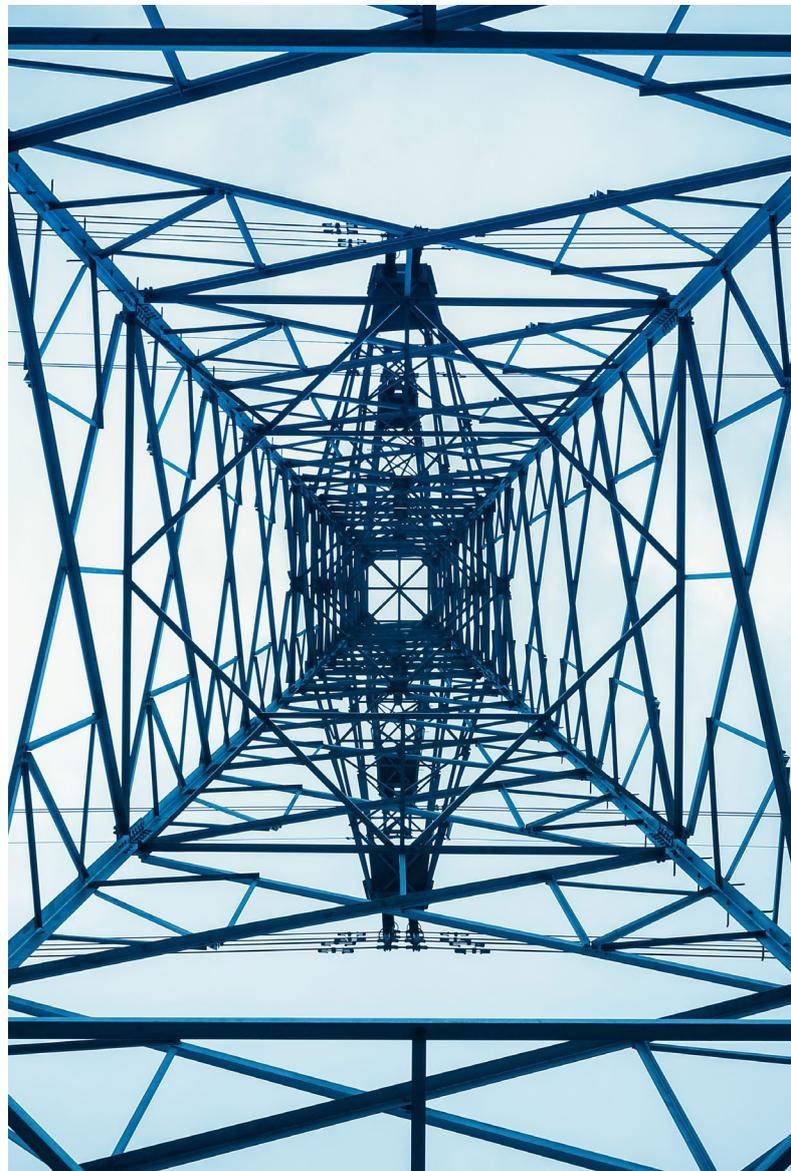
With the Q4 2025 earnings season in its final stages (approximately 70% of European companies have reported), corporate results show 55% beating EPS estimates, with Q4 EPS growth of around 4% and positive surprise of 2%. Financials continue to be a standout earnings growth contributor.

European equities continue to trade at a meaningful discount to US equities on most valuation metrics, and this gap has already begun to narrow in 2026. We see three drivers that could support further convergence. First, European indices have substantially lower exposure to sectors facing the most acute AI disruption risk than their US counterparts — in particular, Software & Services and Media. Second, a convergence in earnings growth rates between Europe and the US reduces the justification for a persistent valuation gap. Third, structural tailwinds — including increasing policy focus on European strategic autonomy, infrastructure investment, and growing retail participation in European capital markets — could provide durable support.

Conclusion: selective opportunities in a dynamic environment

European equities offer a compelling combination of reasonable valuations, improving earnings momentum, and exposure to structural growth themes in AI infrastructure, defence, and energy transition. The risk environment remains dynamic, and stock-level dispersion is high — creating opportunities for active, selective positioning.

Advisors should be alert to the distinction between companies that are enablers of AI-driven change (particularly industrials and equipment suppliers) and those more exposed to AI-driven disruption (software, services, and media). Within Germany specifically, early macro data warrants renewed attention to domestically oriented equities. And across European markets more broadly, the structural shift towards strategic autonomy is likely to be a durable, multi-year driver of returns.



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Past performance does not predict future returns. If the currency in which the past performance is displayed differs from the currency of the country in which the investor resides, then the investor should be aware that due to the exchange rate fluctuations the performance shown may be higher or lower if converted into the investor's local currency.

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