

# Brightening outlook for Europe's stock markets

## Investment strategy insights

Author: Matthew Carter, Strategist, UBS AG London Branch

- We believe Eurozone equities can rally, supported by a cyclical recovery, a return to earnings growth, and attractive current valuations.
- The structural backdrop is the strongest it has been in 15 years, supported by healthier banks, a robust capex outlook, and the potential for further EU reforms.
- We highlight sectors with the most distinctive strengths, leading European companies, and firms that have been excessively sold off following AI-related disruptions.



Source: Shutterstock

In recent months, headlines have been dominated by the disruptive potential of artificial intelligence, persistent geopolitical tensions, and most recently, the Supreme Court’s decision to strike down US President Trump’s “reciprocal” tariffs. These global narratives, while important, can easily distract investors from a more encouraging story unfolding closer to home: The improving economic and market outlook across Europe’s equity markets.

As the dust settles from recent volatility, the case for European equities—particularly in the Eurozone—has grown stronger, supported by a combination of macroeconomic resilience, sectoral opportunity, and attractive valuations.

Europe’s economy is showing clear signs of stabilization and recovery. After a challenging period marked by energy shocks and weak external demand, leading indicators now point to a broadening upturn. Real incomes should rise as inflation moderates and high levels of household savings offer a potential boost to spending. Fiscal policy in Germany, in particular, should also translate into stronger growth in the country and the broader Eurozone this year and next. The European Central Bank’s (ECB) judgment that monetary policy is “in a good place” means clarity on interest rates, which can help some more rate-sensitive sectors. These factors are laying the groundwork for a more robust growth

trajectory in 2026.

Better economics is only part of the story. There are three main reasons why Eurozone equities stand out to us in the current environment:

**First, Eurozone stocks should be supported by an improving cyclical outlook** driven by improving consumer and business confidence, trade clarity, and supportive monetary and fiscal policy. After three years of stagnation, we see earnings growing 7% in 2026 and 18% in 2027.

**Second, we believe the structural backdrop is at its brightest in 15 years.** This is thanks to a healthier banking sector, brighter outlook for capital expenditure, low private sector borrowings, the Eurozone’s exposure to structural themes beyond tech, and the potential for EU reform.

**Third, we believe Eurozone stocks offer reasonable valuations,** considering our outlook for earnings and relative to other equity markets.

Within the Eurozone, beneficiaries of structural change include: IT companies and industrials, which are supported by trends such as electrification, data center buildouts, reshoring, and defense spending; and utilities, which benefit from rising power demand and electrification. Many of these sectors are also trading at attractive valuations.

---

This report has been prepared by UBS AG London Branch. **Please see important disclaimers and disclosures at the end of the document.**

Corners of the market that can benefit from fiscal support and clarity on the rates outlook include: banks as they enjoy an earnings re-acceleration, prospective loan growth, and healthier fee income; German equities, where lackluster sentiment can improve on exposure to growth-sensitive stocks and national fiscal spending plans; and real estate, a beneficiary of lowered rates and recovering property prices.

For investors in the Middle East and Africa seeking more internationally focused ideas, the European Leaders theme provides access to European companies that are positioned to benefit from both global trends—such as artificial intelligence, power and resources, and longevity—and Europe’s ambitious structural reforms.

More nimble investors may also want to look at how recent AI disruption fears have led to indiscriminate selling in parts of the European equity market, particularly among companies perceived as vulnerable to automation or software replacement. Many of these businesses retain strong fundamentals, underpinned by solid operational metrics. As a result, share price volatility has increased and some solid companies with unique positive investment stories have sold off. We believe this has led to appealing entry points for select companies in software, business services, media/internet, some industrial segments, and financial services.

### Global asset class preferences definitions

The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

**Attractive:** We consider this asset class to be attractive. Consider opportunities in this asset class.

**Neutral:** We do not expect outsized returns or losses. Hold longer-term exposure.

**Unattractive:** We consider this asset class to be unattractive. Consider alternative opportunities

**Note: For equities, we have a five-tier rating system with two additional preferences**

**Most Attractive:** We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.

**Least Attractive:** We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.

When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."

## Appendix

### Risk Information

UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. Additional disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research**.

#### Generic investment research – Risk information:

This publication is **for your information only** and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. UBS may utilise artificial intelligence tools ("AI Tools") in the preparation of this document. Notwithstanding any such use of AI Tools, this document has undergone human review.

In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on

the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.

Different areas, groups, and personnel within UBS Group may produce and distribute separate research products **independently of each other**. For example, research publications from **CIO** are produced by UBS Global Wealth Management. **UBS Global Research** is produced by UBS Investment Bank. **Research methodologies and rating systems of each separate research organization may differ**, for example, in terms of investment recommendations, investment horizon, model assumptions, and valuation methods. As a consequence, except for certain economic forecasts (for which UBS CIO and UBS Global Research may collaborate), investment recommendations, ratings, price targets, and valuations provided by each of the separate research organizations may be different, or inconsistent. You should refer to each relevant research product for the details as to their methodologies and rating system. Not all clients may have access to all products from every organization. Each research product is subject to the policies and procedures of the organization that produces it. The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS Group as a whole, of which investment banking, sales and trading and principal trading are a part.

Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client's circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit [www.ubs.com/research-methodology](http://www.ubs.com/research-methodology). Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.

**Important Information About Sustainable Investing Strategies:** Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or Sustainable Investing considerations may inhibit UBS's ability to participate in or to advise on certain investment opportunities that otherwise would be consistent with the Client's investment objectives. The returns on a portfolio incorporating ESG factors or Sustainable Investing considerations may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by UBS, and the investment opportunities available to such portfolios may differ.

**External Asset Managers / External Financial Consultants:** In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties.

**USA:** This document is not intended for distribution into the US and / or to US persons.

For country information, please visit [ubs.com/cio-country-disclaimer-gr](http://ubs.com/cio-country-disclaimer-gr) or ask your client advisor for the full disclaimer.

**Additional Disclaimer relevant to Credit Suisse Wealth Management**

You receive this document in your capacity as a client of Credit Suisse Wealth Management. Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Except as otherwise specified herein and/or depending on the local Credit Suisse entity from which you are receiving this report, this report is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

Version A/2026. CIO82652744

© UBS 2026. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.