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Six plus one ways to invest in Europe

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Despite recent turbulence in the stock markets, investment opportunities are emerging in Europe, where macroeconomic and structural catalysts could boost select equities. Defensive champions and Swiss quality companies are in focus to benefit from stable earnings and attractive dividends.

Following recent setbacks in the stock markets, many investors are questioning whether now is a good time to make additional purchases. This is especially true in European stock markets, whose valuations were relatively low even before the declines of the past two weeks. Those with a low equity allocation might consider gradually building positions.

Indeed, various reasons support investing in select equities that benefit from specific trends, despite our overall Neutral assessment for the European region. In the report "Six ways to invest in Europe," we describe various macroeconomic and structural catalysts likely to drive individual European stocks. These include fiscal measures outlined in the coalition agreement under designated German Chancellor Friedrich Merz, which foresee an infrastructure and defense program of nearly one trillion euros, potentially boosting economic growth in the medium and long term. We also expect more stability and economic recovery in Eastern Europe from a possible ceasefire agreement between Russia and Ukraine. Additionally, ongoing negotiations between the US and the EU could lead to significantly higher defense spending in Europe, boosting the defense sector. Lastly, a recovery in manufacturing activities from very low levels is expected to support economic recovery.

Following recent stock market disruptions, we have supplemented our existing list of stocks benefiting from the aforementioned trends with various "defensive champions" that benefit from increased market volatility. Defensive stocks are characterized by stable earnings, making them attractive in uncertain market conditions. We see various sectors particularly appealing to investors seeking stability and reliable dividends, including consumer goods, health care, telecommunications, and utilities. In addition, we generally prefer small- and mid-cap European companies.

In addition to the mentioned “six ways" to invest in Europe, we favor another way: selected areas in our Swiss home market. Despite the tariffs imposed and partially lifted by the US in recent weeks, the direct impact on the local stock market is limited, as many companies produce locally and have high gross margins. The indirect effects of a weaker global economy are more significant, especially for economically sensitive companies.

We have lowered the expected earnings growth for the SMI in 2025 from 7.5% to 4% as tariffs slow the economy. Investors should focus on quality and service companies, as well as mid-caps and cyclical stocks with an infrastructure focus. Swiss stocks look fairly valued, with a price-to-earnings ratio at the historical average and attractive dividend yields. Low interest rates support growth and yield stocks, and high-quality dividend stocks are particularly interesting. Strategies benefiting from interest rate cuts are also attractive, while companies less affected by tariffs have an advantage.

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