

Consensus views of stock markets have shifted - will Europe remain favored?

DAX plus 20% - Nasdaq minus 10%

At the beginning of the year, markets still assumed that the US economy would maintain its high growth rate for the time being and that Europe would struggle to emerge from stagnation. In the meantime, perspectives have changed. On the one hand, there are increasing signs of an economic slowdown in the USA. The most apparent reason for this is the new administration's radical approach to streamlining the state apparatus. In addition, the escalation on tariffs is having anything but a reassuring effect on US consumers and the broader economy.

On the other hand, Europe has awakened from its slumber with the US' irritating behavior towards Ukraine and their questioning of the NATO defense alliance. Europe has decided to improve their defense capabilities and wants to invest billions in armament and security. Germany's new government is playing a central role, as it wants to rush an investment package of 500 billion through parliament, much to everyone's astonishment. This new "activism" in Europe will prove to be a stimulus for the economy.

An impressive shift in preferences has started to materialize in financial markets. The German stock index has gained around 20% (in USD) since the beginning of the year, while the Nasdaq has lost around 10%. The weakness of the US market is partly due to disillusionment with the AI hype, a topic that will remain in focus for a long time to come from an investor's perspective. However, the shift in the relative attractiveness of US equities in favor of European equities is also well supported by valuations, as European equities are at a historic low compared to US equities.

The economic impetus for Europe depends on what and when the plans of the European governments and the EU are implemented. Turning away from the rearmament plans in the hope that everything will be different in four years' time seems rather out of the question. All the more so as it is doubtful that the unpredictable Trump and Putin will bring about an early and sustainable ceasefire in Ukraine.

In our opinion, it is not time for euphoria, but rather that this newly evolved backdrop suggests adjustments to the portfolio are in order. For Europeans, especially the Swiss, the domestic market should be strengthened in the portfolio and exposure to tech stocks should be reduced, but by no means eliminated. For USD-based investors, exposure to Europe is advisable, especially as currency gains are also possible. Normally, a relative weakness in growth in the USA compared to the rest of the world leads to a decline in the value of the US dollar.

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