

# From fragile to formidable: the silent revival of European banks

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## Key Takeaways

- European banks have delivered strong and consistent profitability over recent years, which many investors may not fully appreciate given the sector's historically cyclical reputation.
- Unlike sectors like industrials, manufacturing, or consumer goods, European banks are less directly exposed to global trade and tariff disruptions.
- With clear buffers against economic shocks, improving asset quality, and favourable long-term trends, the sector is positioned not just to endure volatility—but to thrive in it.
- Related Products [WisdomTree EURO STOXX Banks 3x Daily Leveraged](#), [WisdomTree FTSE MIB Banks](#) Find out more

In today's financial markets, where macroeconomic uncertainty, shifting interest rate expectations, and geopolitical fragmentation dominate headlines, institutional investors are searching for sectors with both defensive fundamentals and offensive potential. Few sectors meet that dual objective as effectively as European banks. Once considered the weak link in global finance, Europe's financial institutions have undergone a quiet but significant transformation—emerging from the post-GFC1 era as well-capitalised, profitable, and operationally lean organisations.

Against this backdrop, investors have two differentiated WisdomTree instruments at their disposal to capitalise on the sector's strength. The [WisdomTree EURO STOXX Banks 3x Daily Leveraged ETP \(3BAL\)](#) offers a tactical, leveraged route to magnify exposure to European bank equities. Meanwhile, the [WisdomTree FTSE MIB Banks ETP \(ITBL\)](#) provides a focused UCITS-eligible option to access Italian bank performance with a longer-term horizon in mind.

## Strong fundamentals back the investment case

European banks have delivered strong and consistent profitability over recent years, which many investors may not fully appreciate given the sector's historically cyclical reputation. As of the fourth quarter of 2024, the aggregated annualised return on equity (RoE) for European banks stands at 10.5% (1 Jan 2024 – 31 Dec 2024), according to the European Banking Authority (EBA) risk dashboard for Q4 2024<sup>2</sup>. This figure is not only robust by historical standards but also compares favourably with global peers, particularly considering the region's more conservative risk profile and tighter regulatory standards.

Much of this profitability has been driven by net interest income (NII), which has expanded meaningfully during the recent monetary tightening cycle. Although the net interest margin (NIM) eased only slightly to 1.66% in Q4 2024 according to EBA<sup>3</sup>, it remains above pre-pandemic levels, reflecting healthy loan yields relative to funding costs.

Beyond profitability, capital adequacy is perhaps the clearest indicator of how far the sector has progressed. As of Q4 2024, the average fully loaded Common Equity Tier 1 (CET1) ratio among European banking institutions stood at 16%—a level well above regulatory minimums and historical averages<sup>4</sup>. This capital surplus provides ample flexibility to absorb credit shocks, continue dividend payments, and support balance sheet expansion.

Meanwhile, asset quality has continued to improve. The non-performing loan (NPL) ratio across European banks was 1.88% in Q3 2024, down from over 3%<sup>5</sup> just a few years ago according to the European Banking Authority's (EBA) risk dashboard<sup>6</sup>. This improvement is a direct result of tighter underwriting standards, stronger economic oversight, and proactive provisioning policies. Importantly, this strength in loan books has remained intact even as headline inflation and interest rates have risen, indicating that borrowers—both corporate and retail—are not showing systemic stress.

## **Structurally resilient in the face of external shocks**

Unlike sectors like industrials, manufacturing, or consumer goods, European banks are less directly exposed to global trade and tariff disruptions. Their revenue base is primarily domestic or regional, and they remain one step removed from the frontlines of trade disputes. While protectionist policies may weigh on borrower cash flows over time, the lagged transmission of these effects allows banks to respond proactively, whether through tightened lending standards or credit hedging.

Regulatory architecture further enhances resilience. European banks operate under a ring-fenced regulatory regime, meaning each legal entity is supervised and capitalised independently in its home country. This compartmentalisation limits the potential for cross-border contagion, making the sector structurally less vulnerable to global supply chain shocks or localised financial crises.

Additionally, the European Central Bank and national regulators continue to run rigorous stress tests simulating economic scenarios far more severe than most plausible outlooks. These stress scenarios often assume double-digit unemployment, sharp declines in GDP<sup>7</sup>, and abrupt market corrections. The fact that banks consistently pass these tests with adequate capital buffers reinforces their reputation as a well-defended segment of the equity market.

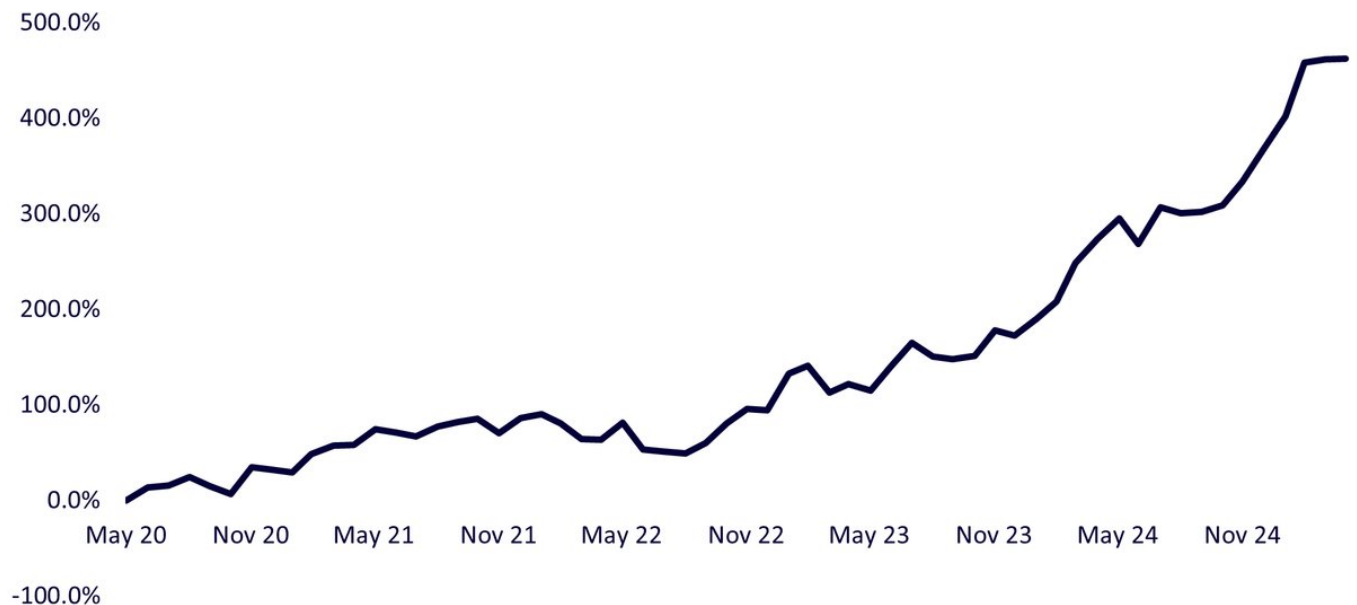
## Strategic and tactical tools for exposure: ITBL and 3BAL

Given these tailwinds, investors looking to allocate toward the sector can choose between two vehicles—each designed with a different objective and investment horizon in mind.

For longer-term, unleveraged exposure, the [WisdomTree FTSE MIB Banks ETP \(ITBL\)](#) offers direct access to the Italian banking sector. The fund tracks the FTSE MIB Banks 15% Capped Net Tax Index, which includes major institutions such as UniCredit, Intesa Sanpaolo, and Banco BPM. These banks have posted exceptional results over the past year. For instance, Banco Sabadell reported a 58.6% increase in net profit year-on-year for Q1 2025, while UniCredit and Intesa continue to exceed capital and profitability targets, according to their Q1 2025 earnings releases.

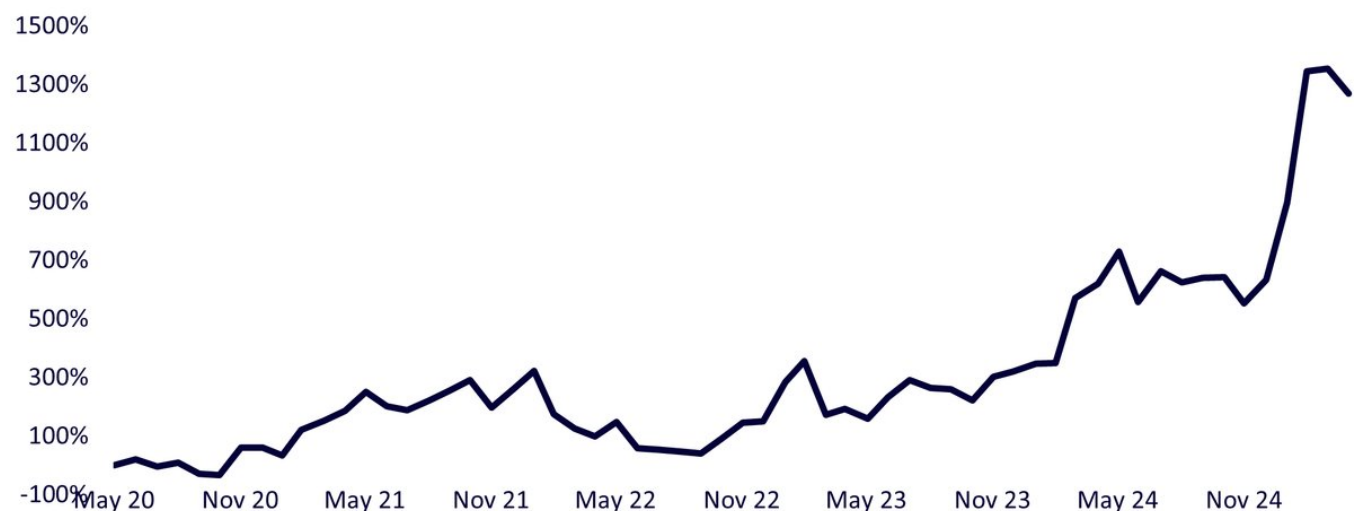
For investors with a shorter-term tactical outlook, the [WisdomTree EURO STOXX Banks 3x Daily Leveraged ETP \(3BAL\)](#) provides 3x daily leveraged exposure to the EURO STOXX Banks Index. This index captures a broad basket of leading European banks, including BNP Paribas, Santander, and Société Générale. 3BAL is particularly suited for trading around macro events, earnings seasons, or technical breakout patterns.

### Figure 1: Last 5 years of cumulative monthly returns of the WisdomTree FTSE MIB Banks ETP (ITBL)



Source: WisdomTree, Bloomberg. From 30 April 2020 to 30 April 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

**Figure 2: Last 5 years of cumulative monthly returns of the WisdomTree EURO STOXX Banks 3x Daily Leveraged ETP (3BAL)**



Source: WisdomTree, Bloomberg. From 30 April 2020 to 30 April 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

### Conclusion

European banks are no longer the laggards of global finance. They are now among the most capitalised, profitable, and operationally efficient segments of the equity market. With clear buffers against economic shocks, improving asset quality, and favourable long-term trends, the sector is positioned not just to endure volatility—but to thrive in it.

Furthermore, potential monetary policy shifts—including the European Central Bank's expected rate adjustments in the second half of 2025—could actually prolong the profit tailwind for banks, especially if rates settle at levels that preserve net interest margins without causing asset quality deterioration.

Whether through the tactical lens of [3BAL](#) or the strategic exposure provided by [ITBL](#), institutional investors have compelling tools at their disposal to capitalise on the sector's current strength and its future potential.

1GFC = Global Financial Crisis of 2007-2008.

2,3,4<https://www.eba.europa.eu/publications-and-media/press-releases/eueea-banking-sector-remains-stable-amidst-evolving-geopolitical-challenges-0>

5<https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwizrOj79J6NAXeXEEAHRBPOf4QFnoECDQQAQ&url=https%3A%2F%2FEuropean-economy.eu%2F2021-1%2Fnon-performing-loans-an-old-problem-in-a-new-situation%2F%3Fdid%3D6006&usg=AOvVaw12BaEvCh-PHnLGm9ggsR3w&opi=89978449>

6<https://scoperatings.com/ratings-and-research/research/EN/178265#:~:text=The%20consolidat->

ed%20non%2Dperforming%20loan,total%20stock%20to%20EUR%20376bn.

7GDP = Gross Domestic Product.

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