The growing case for European equities

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Fahad Hassan
Director, CIO, ASPIM

Key Takeaways

- Three years of stagnation create a powerful launch pad
- The earnings gap with the US is closing
- Breadth is real and underappreciated
- Germany's fiscal impulse is just beginning

European equities have spent much of the past decade as the perennial also-ran of global portfolios. Investors who allocated to the region on valuation grounds alone were repeatedly frustrated as earnings failed to deliver. Thankfully, as we think about the second half of 2026, the case for European equities does not rest on valuation nor on geopolitical optimism. It rests on broadening earnings acceleration that isn't yet reflected in relative performance.

For investors seeking to access this opportunity, the WisdomTree Europe Infrastructure UCITS ETF (WBLD) and WisdomTree Europe Value UCITS ETF (WTVE) provide targeted exposure to sectors and investment styles that we believe are well positioned to benefit from these trends.

Three years of stagnation create a powerful base effect

MSCI Europe earnings down 1.5% in 2025[1], capping three years of no earnings growth. The culprits were well-documented. The Autos sector recorded severe earnings deterioration and was the dominant driver of weakness within the Consumer Discretionary sector. The wider discretionary complex was hit by weak consumer sentiment and margin compression.

The consequence is that 2026 earnings are growing off an unusually depressed base, and consensus expectations for approximately 15% EPS growth this year aren't built on optimism. Strip out discretionary and underlying European EPS growth still runs at approximately 10% year-on-year. These numbers represent a broad-based recovery across most of the index, occurring with only modest revenue assumptions. 2026 Europe sales growth is forecast at approximately 5% meaning that margin expansion is doing significant additional work[2].

The earnings gap with the US

US earnings growth, powered by an extraordinary run in mega-cap technology, could be peaking on a year-on-year basis. The Magnificent Seven[3] posted blended Q1 2026 earnings growth of approximately

63%[4]. Large non-operating gains at Alphabet, Meta and Amazon accounted for a significant part of the jump, however. The comparisons get harder from here, through the second half of 2026 and into 2027.

Meanwhile, European earnings are accelerating. While 2026 consensus EPS growth for the MSCI Europe sits at approximately 15%, third and fourth quarter earnings growth is expected to approach 20%[5]. A narrowing transatlantic earnings growth differential, driven by European acceleration rather than US weakness, historically pulls global allocations toward Europe.

Breadth is the underappreciated element

Perhaps the most compelling feature of the current European earnings recovery is its breadth. In prior cycles, surges were heavily dependent on one or two sectors. The 2026 recovery looks different. Financials are contributing approximately 3.7 percentage points to aggregate Europe EPS growth and Energy a further 3.5 points. Information Technology, Industrials, Materials, and Communication Services are all contributing positively as well[6].

Notably, since the Iran-US conflict broke out in March 2026, European 2026 EPS estimates have moved higher, driven by upward revisions in Energy and Technology.

This breadth has practical implications for portfolio construction. Capital Goods, Banks, Mining, Semi-conductors and Consumer sectors display the strongest positive correlation to the manufacturing cycle. If Europe Purchasing Managers' Index (PMIs) continue to recover, these sectors could be among the primary beneficiaries.

Germany's fiscal impulse

One underappreciated element in the European earnings recovery is the scale and timing of German fiscal stimulus. Through April 2026, only €11 billion of the €40 billion[7] earmarked for infrastructure spending in 2026 had been deployed. The shortfall reflected planning delays and bureaucratic inertia rather than any retreat from the commitment. The €500 billion fund is real.[8]

Germany's fiscal position is shifting decisively. The general government deficit is set to widen from approximately 2.7% of gross domestic product (GDP) in 2025 to 3.7% in 2026 and above 4% in 2027, as defence and infrastructure spending steps up. That is roughly 1.5% of GDP of fiscal loosening over two years. The Finance Ministry's own monitoring report estimates the fund has already added approximately 0.5 percentage points to GDP, and most of the committed capital has yet to leave the door. With consensus GDP growth forecasts for Germany in the 0.6–0.9% range for 2026 (Bundesbank, IFO, European Commission), even a moderate acceleration in disbursements moves the needle. For Capital Goods, Construction Materials and infrastructure-linked businesses, the earnings tailwind from spending that builds through 2027 and 2028 could be substantial[9].

For investors seeking structured exposure to the European earnings recovery, two WisdomTree ETFs stand out as natural expressions of this theme.

WisdomTree Europe Infrastructure UCITS ETF (WBLD)

Infrastructure is the direct beneficiary of Germany's delayed but accelerating fiscal deployment, the continent-wide commitment to energy transition, and the long-term capex cycle in data centres, power grids and transport networks. WBLD provides exposure to European infrastructure companies. Capital Goods, Construction Materials and electrical equipment names that carry the strongest positive correlation to PMI recovery and government investment spend. As German disbursements accelerate and broader European infrastructure investment builds, this segment of the market could potentially see earnings upgrades.

WisdomTree Europe Value UCITS ETF (WTVE)

WTVE offers systematic access to the European value factor when the macro backdrop is recovering. Business surveys (PMIs) have started to recover, credit conditions are robust and declining energy prices will boost household purchasing power. Banks, Financials, and capital-light industrials with pricing power are well represented in a Value-tilted European strategy, and these sectors may be well positioned to benefit if the earnings recovery develops as expected.

What could disappoint

The risks are real and worth spelling out. A renewed escalation in the Iran-US conflict would reprice energy, knock sentiment indicators and likely reverse the PMI recovery that underpins much of the cyclical earnings thesis. European companies generate a large share of revenues internationally, so the outlook is sensitive to any deterioration in global growth. The Autos sector, despite its welcome role as a base-effect contributor in 2026, faces structural headwinds from the electric vehicle (EV) transition that will not resolve quickly. And while Germany's fiscal commitment is genuine, multiple independent research institutes have raised concerns that part of the fund's spending is substituting for existing budget lines rather than funding net new investment.

Conclusion

For investors looking beyond near-term market noise, the European earnings picture appears cleaner and more broadly supported than at any point in the past three years. A recovering macroeconomic backdrop, combined with the operational leverage, cyclical exposure and valuations of many European businesses, has renewed investor interest in the region. WBLD and WTVE provide exposure to companies that may benefit from themes such as German fiscal expansion or an improvement in global economic growth.

1 Bloomberg Finance L.P and MSCI, 15 July 2026.
2 Bloomberg Finance L.P and MSCI, 15 July 2026.
3 The Magnificent Seven is a group of mega cap stocks: Apple, Alphabet, Microsoft, Amazon.com, Meta Platforms, Tesla and Nvidia.
4 FactSet Insight, 21 May 2026.
5 Bloomberg Finance L.P and MSCI, 15 July 2026.
6 JPM Global Market Strategy, 29 June 2026.
7 Bloomberg Finance L.P, 1 June 2026.
8 Economic forecast for Germany, European Commission, 21 May 2026.
9 As above.

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