

# Europe's Reawakening: From Periphery Play to Policy Powerhouse

Published November 17, 2025

**Christopher Gannatti, CFA**

Global Head of Research

## Key Takeaways

- Europe's fiscal expansion has evolved into a long-term rearmament and modernization cycle, driving capital investment in aerospace, energy and infrastructure.
- The European Central Bank's pivot to rate cuts and a positively sloped yield curve are fueling credit growth and supporting rate-sensitive sectors.
- European equities now trade at a steep discount to U.S. markets, yet show improving margins, dividend growth and leadership grounded in fundamentals.

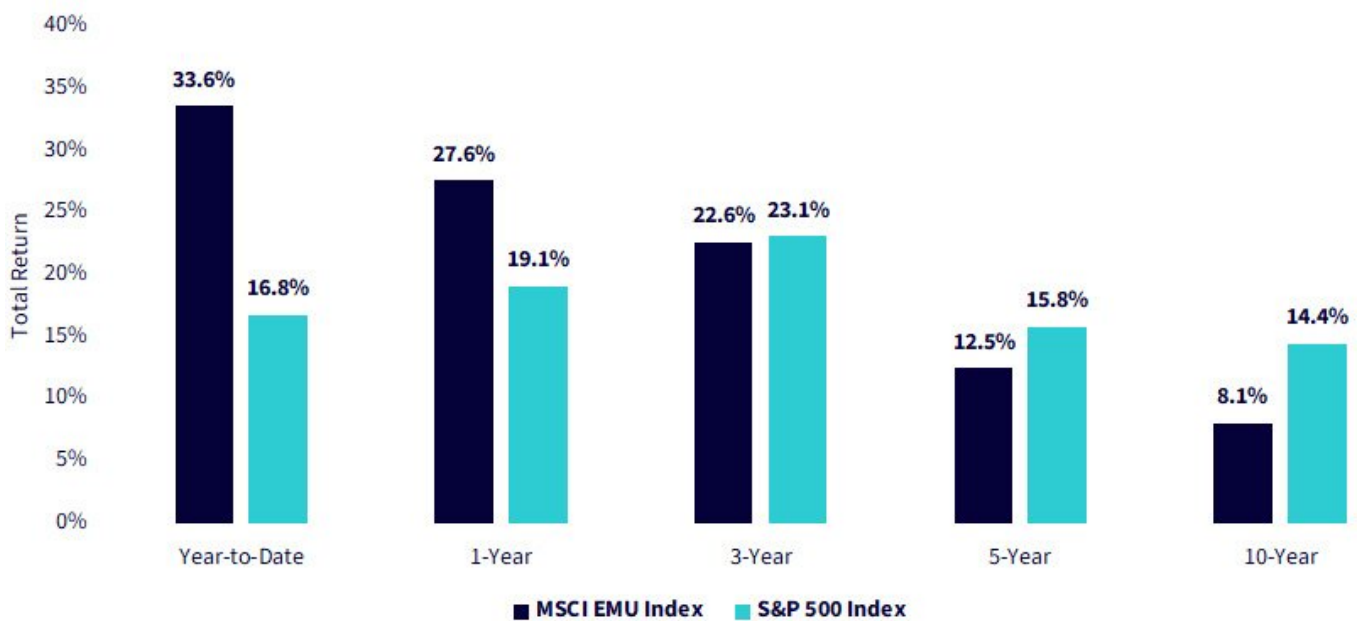
After a decade of muted growth and policy hesitation, Europe has reemerged as a dynamic force in global equity markets. Fiscal expansion, defense spending acceleration and monetary easing are converging to create, potentially, one of the most constructive European equity market backdrops in recent memory.<sup>1</sup> The market's breadth, dividend strength and valuation support make it an increasingly strategic complement to U.S. equity exposure.

- **Defense spending and industrial renewal:** Europe's post-pandemic fiscal expansion has evolved into a long-term rearmament and modernization cycle. Defense budgets are at multi-decade highs, catalyzing capital investment in aerospace, energy and digital infrastructure. The result is an industrial revival that underpins earnings durability and creates a new class of beneficiaries—Europe's capital goods and engineering champions.<sup>2</sup>
- **Monetary easing and financial tailwinds:** The European Central Bank has turned decisively dovish, leading major developed-market peers with rate cuts aimed at stimulating lending and investment. A positively sloped yield curve and lower real rates have begun to revive credit demand, particularly in core banking and consumer finance. Europe's monetary policy now serves as a tailwind rather than a constraint, supporting earnings momentum in rate-sensitive sectors.<sup>3</sup>

- Market performance and valuation strength:** European equities have quietly delivered strong, broad-based returns, outpacing expectations as earnings revisions turn positive. The MSCI EMU Index now trades at a significant discount to the U.S. equity market on multiple valuation metrics, despite expanding profit margins and rising dividend payouts. Leadership is increasingly rooted in fundamentals—steady earnings, disciplined capital allocation and policy alignment—rather than multiple expansion.<sup>4</sup>

As we see in figure 1, European equities are showing clear momentum relative to U.S. markets. The MSCI EMU Index has delivered a **33.6% year-to-date gain**, roughly double the S&P 500's **16.8%**, marking a decisive shift in performance leadership. Over the past one and three years, Europe has also closed the return gap, supported by accelerating earnings revisions, monetary easing and fiscal tailwinds. This performance resurgence reflects more than short-term relief—it signals a durable recovery driven by industrial reinvestment, rising defense spending and strong dividend growth. After years of lagging the U.S., Europe's equity story is now one of cyclical strength reinforced by structural transformation.

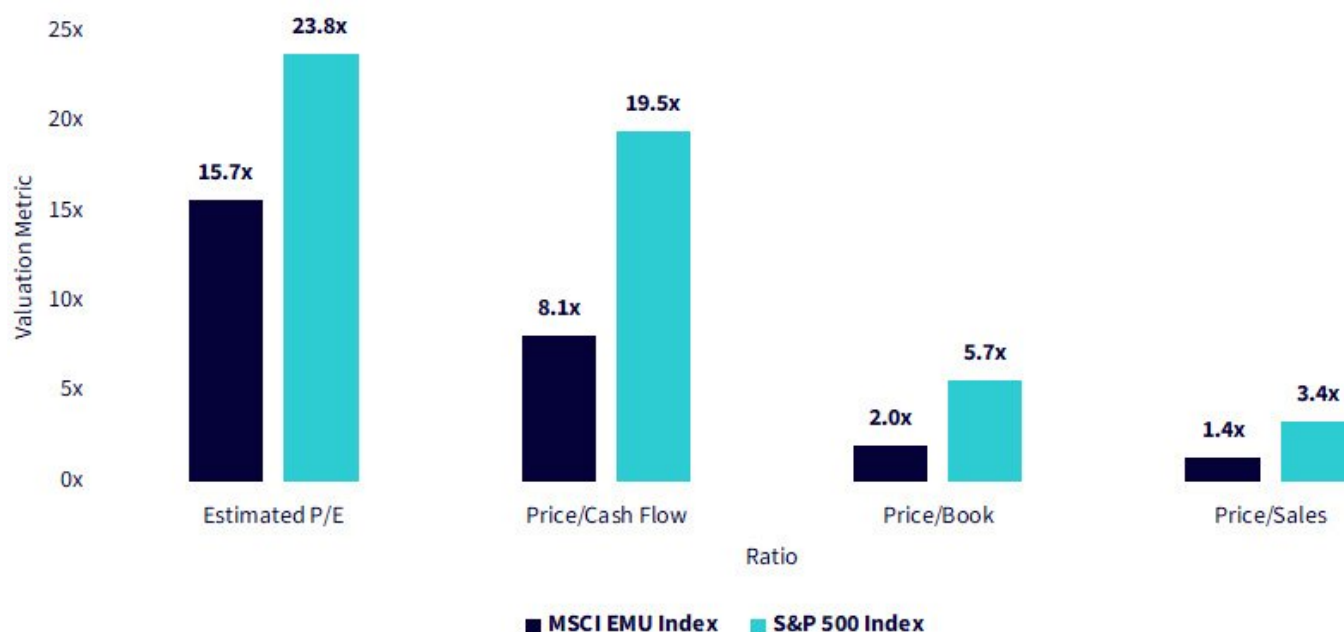
**Figure 1: European Equities Are Showing Clear Momentum Relative to U.S. Markets**



Sources: WisdomTree, FactSet, Morningstar, with data as of 11/5/25. **You cannot invest directly in an index.**

As seen in figure 2, European equities trade at a steep valuation discount to the U.S. The MSCI EMU Index commands just 15.7 times forward earnings versus 23.8 times for the S&P 500, with similarly lower ratios across cash flow, book value and sales. This wide gap highlights Europe's compelling relative value amid improving fundamentals and accelerating earnings momentum.

## Figure 2: European Equities Offer Compelling Relative Value vs. U.S. Markets



Sources: WisdomTree, FactSet, Morningstar, with data accessed as of 11/5/25, based on index constituents as of 9/30/25. For definitions of terms in the chart above, please visit the [glossary](#). **You cannot invest directly in an index.**

## Conclusion: Europe's Comeback Is Built on Substance

Europe's story is no longer about survival—it's about competitive renewal. Fiscal stimulus, monetary normalization and industrial reinvestment have combined to reset the region's growth potential. For investors seeking cyclical leverage with structural support, Europe offers both value and velocity.

For those looking to express this view:

- [WisdomTree Europe Hedged Equity Fund \(HEDJ\)](#)
- [WisdomTree European Opportunities Fund \(OPPE\)](#)

1 Sources: A. García-Serrador et al., "Europe | EU Priorities: Defence Spending & Multipliers," BBVA Research, 9/16/25; "Combined Monetary Policy Decisions and Statement," European Central Bank, 10/30/25.

2 Sources: "A Different Lens on Europe's Defence Budgets," McKinsey & Company, 2/12/25; "Time to Be Strategic: How Public Money Could Power Europe's Green, Digital and Defence Transitions," European Central Bank, 7/25/25.

3 Sources: R. Daugherty, "Why the Smart Money Is Moving to Europe – The Yield Curve Is Telling Us to Buy," Forbes, 6/11/25; S. Soubeyran, "Fixed Income Insights: Europe," London Stock Exchange Group, June 2025.

4 Source: Bloomberg, with data covering the 2025 year through 11/5/25.

## Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty

**HEDJ:** Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile and these investments may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

**OPPE:** There are risks associated with investing, including the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. This Fund focuses its investments in Europe, thereby the impact of events and developments associated with the region can adversely affect performance. The securities of small-capitalization companies generally trade in lower volumes and are subject to greater and more unpredictable price changes than larger-capitalization stocks or the stock market as a whole. The Fund uses various strategies to attempt to minimize the impact of changes in the value of the euro against the U.S. dollar and these strategies may not be successful. Derivative investments can be volatile and these investments may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs.

Please read each Fund's prospectus for specific details regarding the Fund's risk profile.