Investors Are Rethinking U.S. Exceptional-ism—And Shifting to Europe

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Key Takeaways

- European equities, particularly German stocks, are gaining traction in 2025, challenging the long-standing dominance of U.S. markets as valuation gaps and performance trends shift.
- Germany's DAX Index is significantly outperforming the S&P 500 Index, fueled by strong earnings, pro-growth policy reforms and rising global demand for exports.
- With U.S. stock valuations reaching historically high levels, investors are increasingly turning to undervalued European markets as a compelling alternative for global diversification.

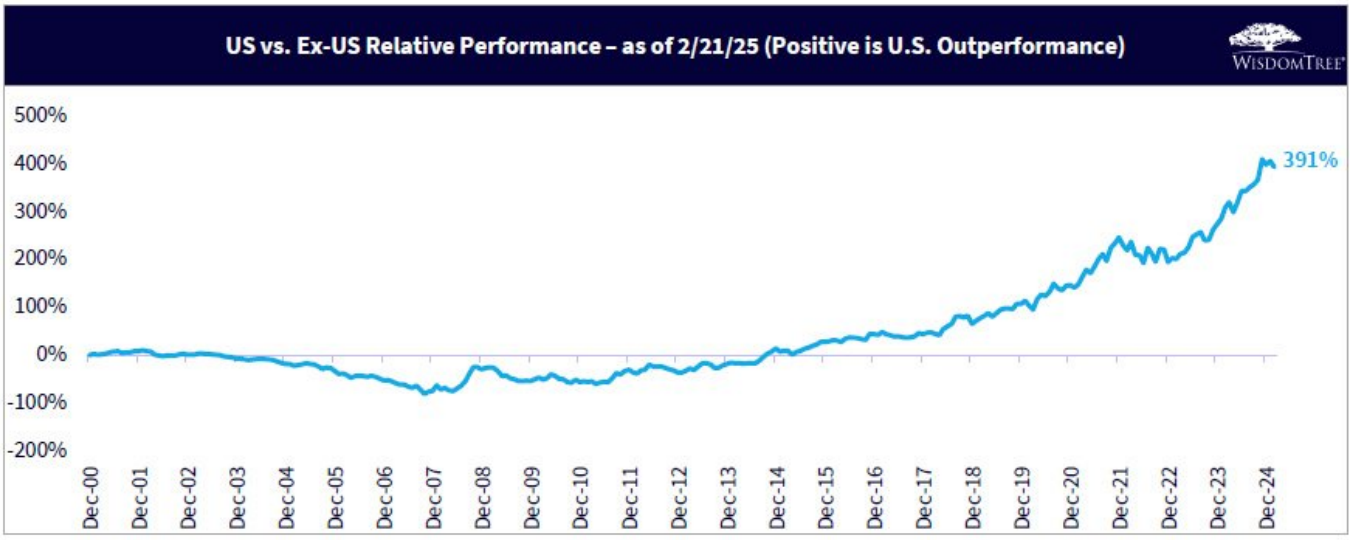
For years, the U.S. stock market has been the world’s favorite playground for investors, a place where capital flowed freely and returns piled up. But investing isn’t about nostalgia—it’s about where the next great opportunities lie. And in 2025, those opportunities are increasingly cropping up outside the U.S. European equities, particularly German stocks, are making waves, attracting fresh capital and delivering performance that challenges the old “American exceptionalism” narrative.

Regarding the difference between U.S. and non-U.S. equities, we can see in figure 1:

- Over the long term, the U.S. has outperformed, but a lot of this outperformance was concentrated more in recent years than in, say, the 2000s or early 2010s.
- It’s important for investors to remember that it is very difficult to find trends in history that last forever, but it’s very easy to find trends that move in waves. We have just experienced a big wave of U.S. equity market outperformance.

Figure 1: Quantifying U.S. Exceptionalism in Equities

US vs. Ex-US Relative Performance – as of 2/21/25 (Positive is U.S. Outperformance)			
12/29/00—12/31/09	12/31/09—12/31/19	12/31/19—2/21/25	YTD
-54.32%	194.30%	70.47%	-4.98%



Sources: WisdomTree, MSCI, S&P. Data begins 12/29/00 to coincide with the inception of the MSCI AC World ex-US Index, the universe of non-U.S. stocks. U.S. measured by the S&P 500 Index universe. **You cannot invest directly in an index. Past performance is not indicative of future returns.**

There is a famous expression1:

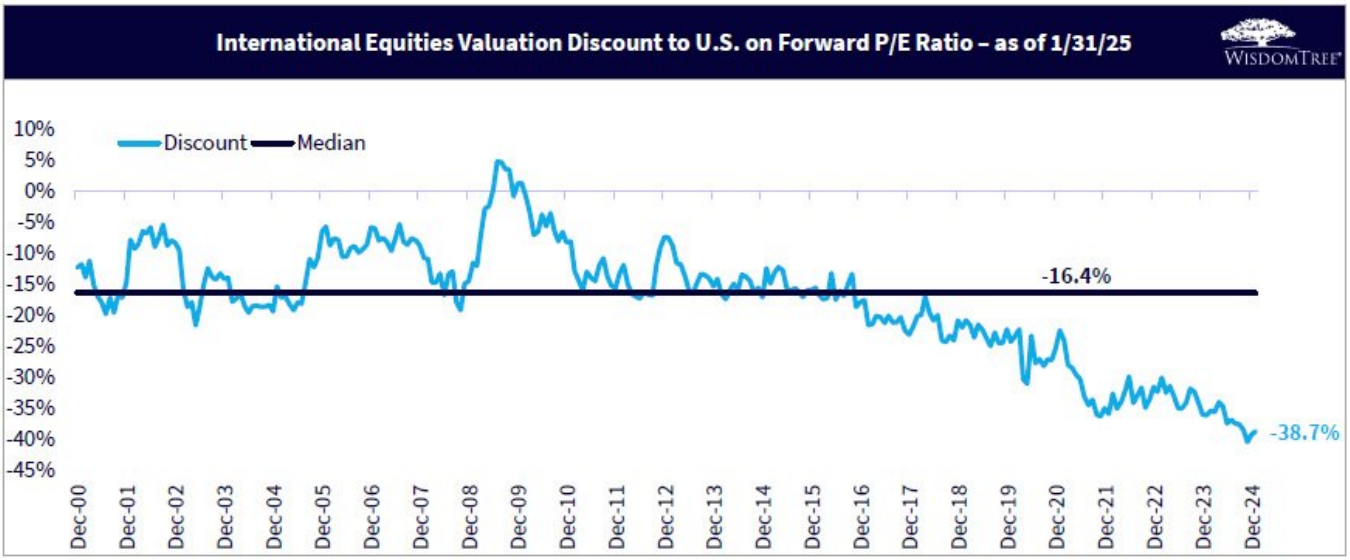
In the short run, the market is a voting machine but in the long run, it is a weighing machine.

Figure 1 essentially shows us what we already know—the votes have been tallied, and the U.S. equity market has won the performance race in recent years. Figure 2, however, shows the most common detail that is conveyed when people talk about the weighing machine—valuation. Fundamentals matter. The starting valuation of an investment matters:

- The discount, on a forward price to earnings ratio (P/E) basis, of non-U.S. stocks to U.S. stocks is almost 40%. Looking back to the year 2000, we haven't seen a discount quite like this.
- The impact of such a valuation disparity, unfortunately, does not immediately portend a change in the trend. We like to picture a coiled spring, where you can imagine the tension building. If something happens externally to disrupt the spring, it can move quite quickly. It's just impossible to know ahead of time what will disrupt the spring.

Figure 2: Quantifying the Weighing Machine with the Growing Valuation Disparity

Forward P/E Ratio Valuations – as of 1/31/25			
U.S. Current	**Ex-US Current**	**U.S. Historical Median**	**Ex-US Historical Median**
23.3x	14.3x	17.1x	14.0x



Sources: WisdomTree, MSCI, S&P. Data begins 12/29/00 to coincide with the inception of the MSCI AC World ex-US Index, the universe of non-U.S. stocks. U.S. measured by the S&P 500 Index universe. **You cannot invest directly in an index. Past performance is not indicative of future returns.**

Europe's Market Rally: Undervalued but Gaining Traction

A big regional equity market block outside of the U.S. is in Europe, and Europe has been getting a lot of attention in this first quarter of 2025.

European stocks have long been priced at a discount, and while some of that gap has narrowed, the valuation discrepancy is still striking. The MSCI EMU Index of large- and mid-cap European stocks trades at just 14 times forward earnings, compared to 22 times for the S&P 500.2

In figure 3b, we can see how some of WisdomTree's Funds, that focus on European equity exposure, have returned 10% (or more) to start 2025, while the S&P 500 Index benchmark of U.S. equity performance has returned less than 5%. True, it's a short period, but this is how changes in trends begin.

- The WisdomTree Europe Hedged Equity Fund (HEDJ) is designed to track the total return performance, before fees and expenses, of the WisdomTree Europe Hedged Equity Index. This strategy focuses on dividend-paying stocks from within different markets that use the euro currency. Each company must generate at least 50% of revenue from outside Europe, meaning the strategy is focused on exporters. The strategy also neutralizes the performance of the euro currency against the U.S. dollar.

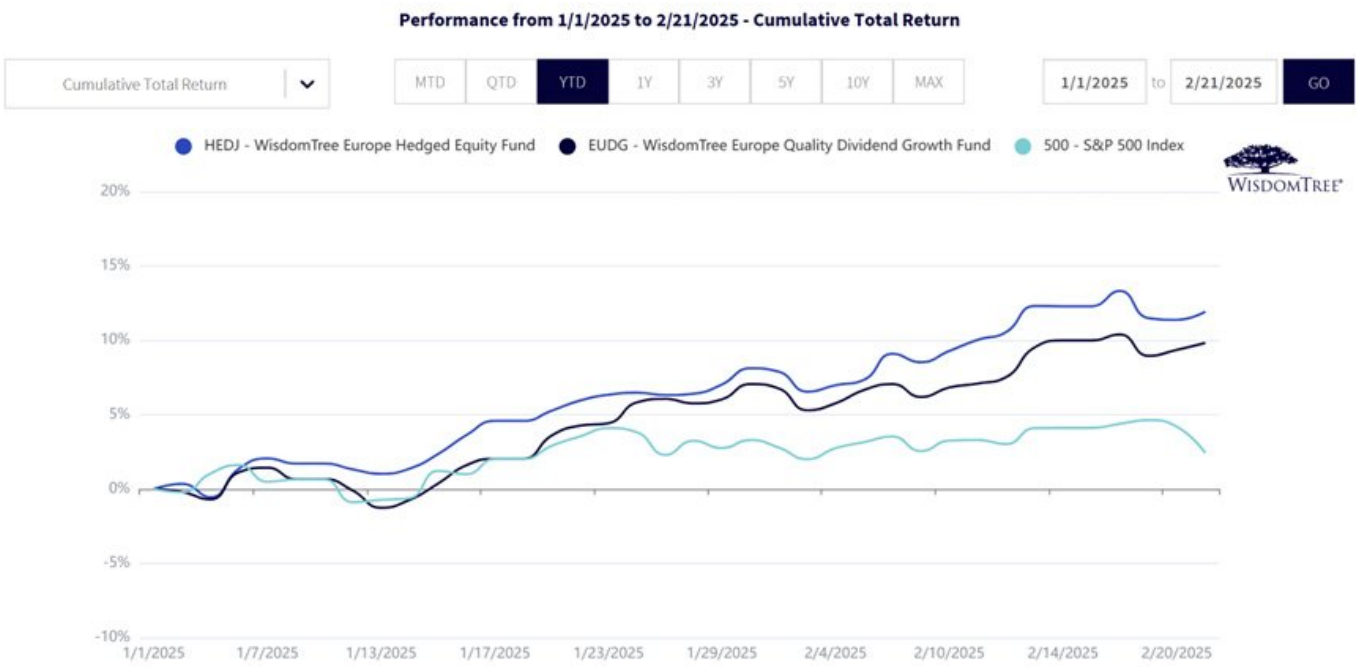
- The WisdomTree Europe Quality Dividend Growth Fund (EUDG) is designed to track the total return performance, before fees and expenses, of the WisdomTree Europe Quality Dividend Growth Index. This is a broad-based European equity strategy, including both eurozone and non-eurozone equity markets. The focus is on dividend-paying companies with strong growth and quality metrics.

Figure 3a: Standardized Performance

Fund/Index Name	Fund Ticker Symbol	Fund Inception Date	Fund Expense Ratio	1-Year	3-Year	5-Year	10-Year	Since Fund Inception
WisdomTree Europe Hedged Equity Fund (NAV)	HEDJ	12/31/09	0.58%	5.65%	6.25%	7.55%	8.10%	7.82%
WisdomTree Europe Hedged Equity Fund (MP)	HEDJ	12/31/09	0.58%	5.21%	6.27%	7.48%	8.14%	7.80%
WisdomTree Europe Quality Dividend Growth Fund (NAV)	EUDG	5/7/14	0.58%	-3.56%	-1.90%	4.19%	5.57%	4.11%
WisdomTree Europe Quality Dividend Growth Fund (MP)	EUDG	5/7/14	0.58%	-4.31%	-2.23%	3.96%	5.54%	3.99%
S&P 500 Index				25.02%	8.94%	14.53%	13.10%	

Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, accessed 2/24/25, with returns as of 12/31/24. NAV denotes total return performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance click the relevant ticker: HEDJ, EUDG.**

Figure 3b: European Equities Come out Strongly to Start 2025



Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, accessed 2/24/25, with returns from 1/1/25–2/21/25. NAV denotes total return performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance, click the relevant ticker: HEDJ, EUDG.**

Investment Flows into Europe

Market sentiment is a fickle thing. For years, fund managers shied away from European equities, citing slow growth and structural inefficiencies. But in mid-2024, the tide started turning. Overweight positions in European stocks are at their highest level in years.3

BNP Paribas has emerged as a standout performer, attracting investors with its valuation advantage over U.S. banking giants like JPMorgan Chase.4 The shift isn't just about cheap stocks—it's about investors rediscovering markets that offer solid fundamentals at a reasonable price.

Germany's Market Resurgence: Political and Economic Catalysts

Germany's DAX Index isn't just beating the S&P 500—it's crushing it. In 2025, it has gained **six times** as much as its American counterpart.5 That kind of outperformance doesn't happen by accident. Strong corporate earnings, a stable political environment and global demand for German exports are fueling the rally.

Policy Reforms Boosting German Equities

Germany's latest election reshuffled the deck in ways that investors like. The newly elected government is prioritizing infrastructure spending, tax reforms and regulatory easing—pro-growth policies that markets are responding to in real time.6

Monetary policy is also helping. The European Central Bank (ECB) has signaled further rate cuts, giving markets another leg up.7 Defense stocks, in particular, are seeing a surge. Rheinmetall, a leading military equipment manufacturer, is soaring as Europe boosts its defense spending amid rising geopolitical tensions.8

Risks to U.S. Market Dominance

- **Overvaluation Concerns**
  - Nothing lasts forever—not even a decade-long bull run. The S&P 500 currently trades at 24.9 times forward earnings, far above its historical average of 16.9 Investors are asking the hard question: how long can this continue?
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- **Structural Risks in the U.S. Economy**
  - America's stock market dominance isn't just about earnings—it's about perception. And right now, cracks are forming. The U.S. accounts for **70% of global equity market valuation**, making it especially vulnerable to sentiment shifts.10 Meanwhile, persistent inflation, soaring government debt and an expanding amount of private credit are adding to concerns.11
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Conclusion: Where Investors Should Look Next

Markets evolve. Narratives change. Investors who cling too tightly to yesterday's winners risk missing tomorrow's opportunities.

As U.S. stock valuations flirt with unsustainable levels, international markets—particularly in Europe—offer compelling alternatives. The value rotation isn't just theoretical; it's already happening.

Germany, in particular, stands out. With political and economic shifts working in its favor, the DAX is positioned to keep outperforming.12

The U.S. stock market still holds powerful structural advantages, but investors are starting to weigh them against mounting risks. The message is clear: global diversification isn't just smart—it's necessary.

1 Benjamin Graham and David L. Dodd, *Security Analysis,* 6th ed., 2008.

2 Source: Randall W. Forsyth, "European Stocks Are Still on Sale. Where to Shop Now," *Barron's*, 2/21/25

3 Source: Forsyth, 2/21/25.

4 Source: Forsyth, 2/21/25.

5 Source: Brian Swint, "Why Germany's Election Means Its Stocks Will Keep Beating the S&P 500," *Barron's*, 2/24/25.

6 Source: Swint, 2/24/25.

7 Source: Swint, 2/24/25.

8 Source: Swint, 2/24/25.

9 Source: Dambisa Moyo, "U.S. Stocks Have Trounced Other Markets. Here Are 3 Risks to American Exceptionalism," *Barron's*, 2/21/25.

10 Source: Moyo, 2/21/25.

11 Source: Moyo, 2/21/25.

12 Source: Swint, 2/21/25.

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Please read the Fund's prospectus for specific details regarding the Fund's risk profile. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Dividends are not guaranteed and a company currently paying dividends may cease paying dividends at any time. As these Funds can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

HEDJ: 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. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs.

EUDG: This Fund focuses its investments in Europe, thereby increasing the impact of events and developments associated with the region which can adversely affect performance. 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.