Is This Europe’s Big Break?

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Key Takeaways

- European equities are outpacing the U.S. market in early 2025, with the MSCI EMU Index up 11% year-to-date—nearly eight times the return of the S&P 500.
- The European Central Bank’s rate cuts and stabilizing inflation could create a “Goldilocks” scenario for stocks, while undervalued GRANOLAS stocks are now outperforming the struggling Magnificent 7.
- Investors seeking exposure to Europe without currency risk may benefit from the WisdomTree Europe Hedged Equity Fund (HEDJ), which neutralizes EUR/USD fluctuations and has outperformed the MSCI EMU Index year-to-date.

European equities are off to a strong start in 2025. The MSCI EMU (Europe) Index is up 11% year-to-date in local returns, while the S&P 500 is up just 1.4%. You're reading that right: Europe has so far delivered almost 8x the returns of the United States this year.

As shown in figure 1 below, Europe's outperformance is clear when comparing returns to the U.S. market.

Figure 1: Performance, Europe vs. U.S.

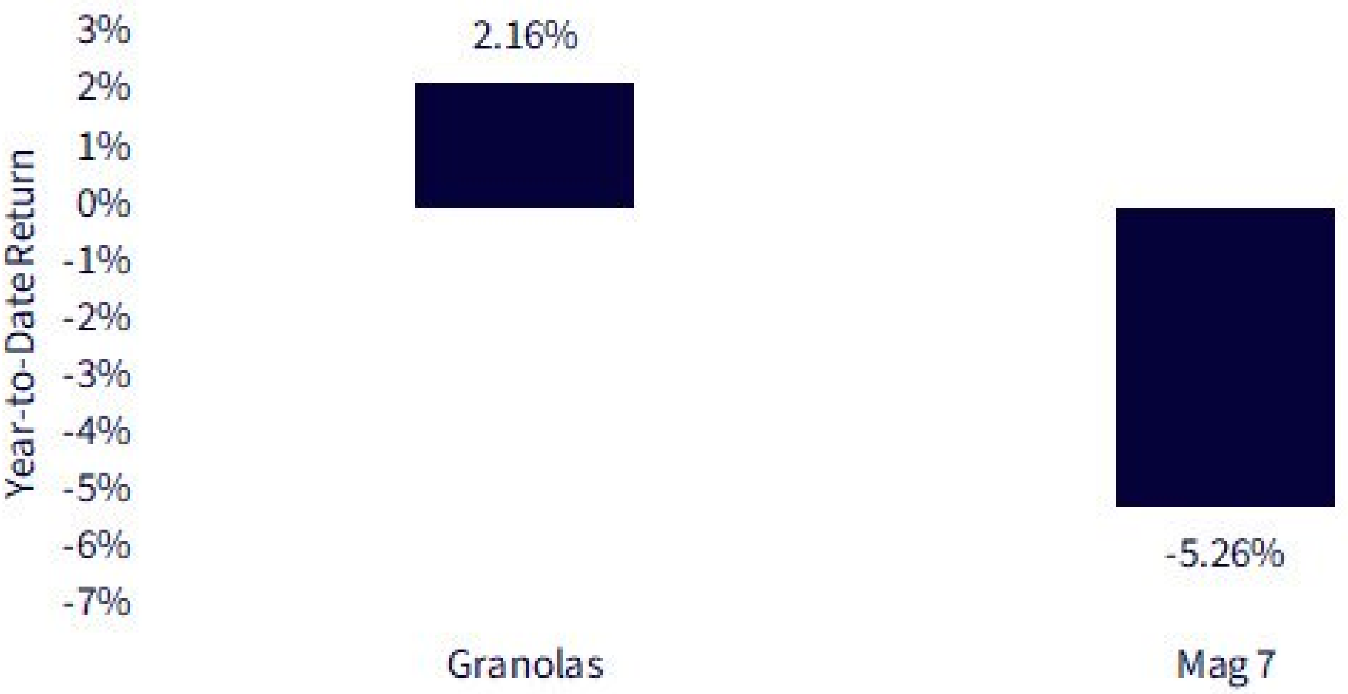
Sources: WisdomTree, FactSet. Data from 12/31/24–2/28/25. **You cannot invest directly in an index. Past performance is not indicative of future returns.**

As inflation is forecast to hover close to 2%—the target rate of the European Central Bank (ECB)—the ECB cut rates by 25 basis points in January and is expected to continue doing so until the middle of the year.

Depending on how the myriad geopolitical and regulatory issues surrounding the continent play out, the European market could realize a Goldilocks situation where equities are supported by lower rates and controlled inflation.

Last year, we discussed the GRANOLAS basket of 11 European stocks that appeared to hold its own against the Magnificent 7. After months of subsequent underperformance, the GRANOLAS are currently up 2.16% year-to-date, while the Magnificent 7 is down more than 5%. This contrast in returns is illustrated in the following comparison in figure 2.

Figure 2: Returns, GRANOLAS vs. Magnificent 7



Sources: WisdomTree, FactSet. Data from 12/31/24–2/28/25. **You cannot invest directly in an index. Past performance is not indicative of future returns.**

What's more impressive is that these companies have managed to deliver outsized returns at much smaller valuation metrics. The price-to-earnings (P/E) ratios of the two groups highlight this valuation gap, as seen in figure 3.

Figure 3: Price-to-Earnings, Magnificent 7 vs. GRANOLAS

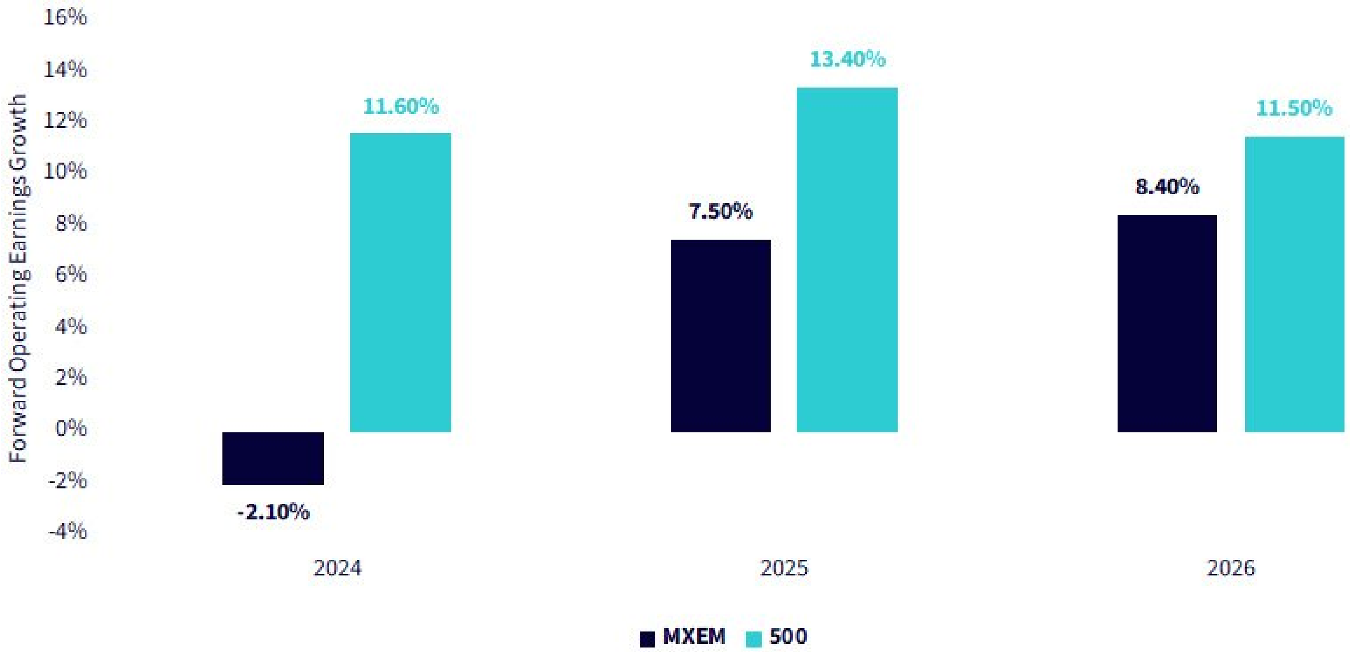
Name	P/E Ratio
Alphabet Inc. Class A	21.4x
Microsoft Corporation	31.4x
Apple Inc.	37.7x
Alphabet Inc. Class C	21.6x
Meta Platforms Inc Class A	27.4x
NVIDIA Corporation	41.2x
Tesla, Inc.	129.8x
Amazon.com, Inc.	37.1x
Average	**43.4x**

Name	P/E Ratio
L'Oreal S.A.	29.2x
LVMH Moet Hennessy Louis Vuitton SE	27.2x
AstraZeneca PLC	30.4x
Novartis AG	17.0x
Roche Holding Ltd	19.9x
GSK plc	17.5x
ASML Holding NV	38.6x
SAP SE	56.1x
Sanofi	19.2x
Nestle S.A.	19.4x
Roche Holding Ltd	18.8x
Novo Nordisk A/S Class B	28.5x
Average	**26.8x**

Source: WisdomTree, FactSet, as of 2/28/25. **Past performance is not indicative of future returns.**

European forward earnings growth is closing the gap with that of U.S. equities. At the time of writing, the difference between the MSCI EMU Index's and S&P 500's 2025 forward earnings growth is 5.9%. The difference for 2026 is almost halved at 3.1%. This narrowing gap in forward earnings growth is illustrated in figure 4.

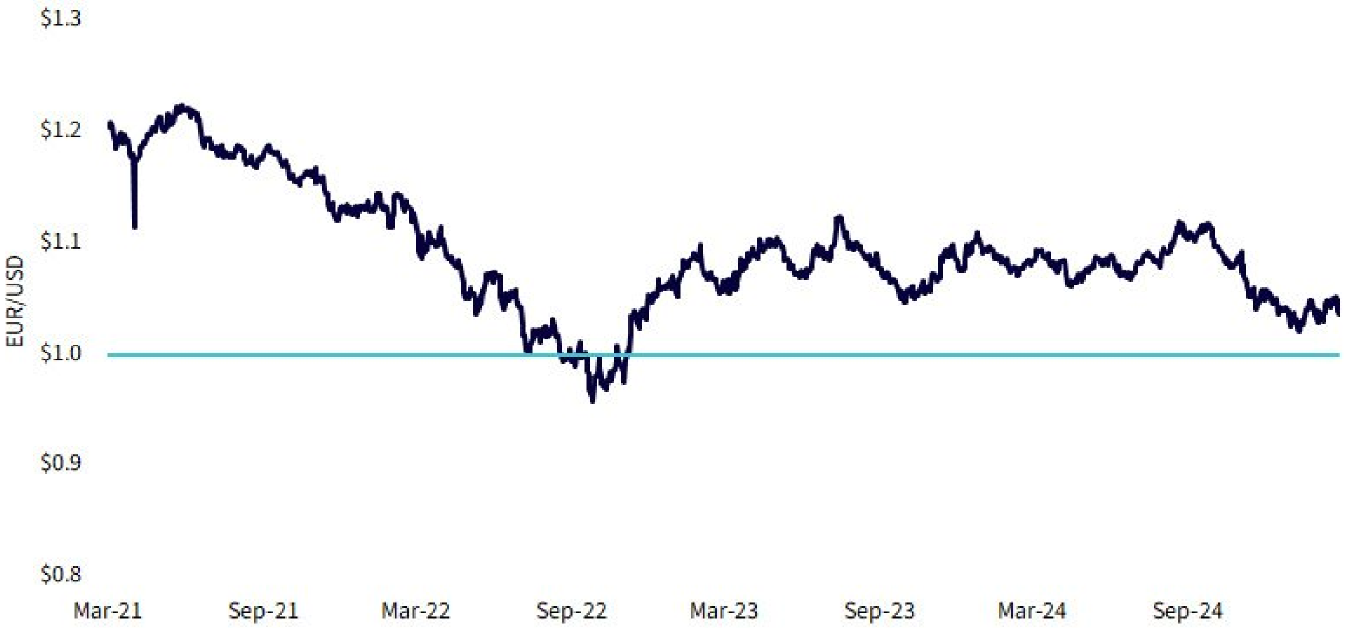
Figure 4: Forward Earnings Growth, S&P 500 vs. MSCI EMU Index



Sources: WisdomTree, FactSet, as of 3/10/25. Fundamental metrics show calendar-year growth rates for each respective metric (earnings, sales) compared to the prior year.

The euro made headlines when it fell to parity with the U.S. dollar in 2022. In 2025, the EUR/USD rate almost hit parity again at the beginning of the year. The historical trend of the EUR/USD exchange rate captures these fluctuations, as displayed in figure 5.

Figure 5: EUR/USD Exchange Rate



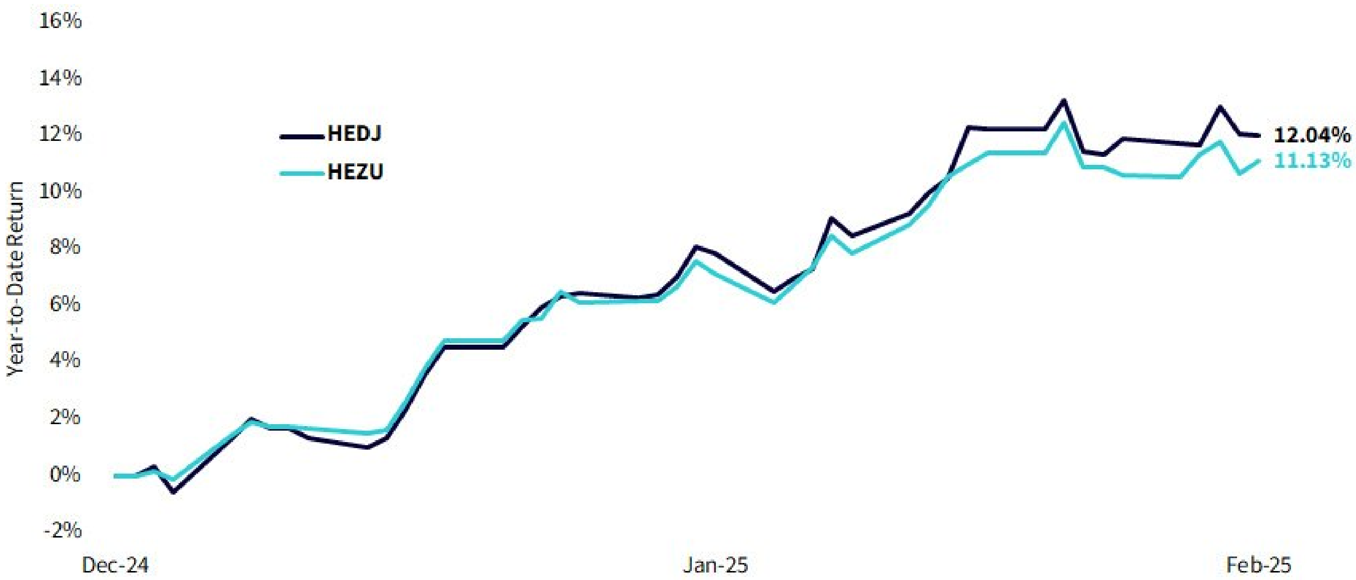
Source: WisdomTree. Data from 2/28/21–2/28/25.

It's difficult to say which direction the currency pair will move next, but investors who are seeking exposure to European equities without the effects of foreign exchange fluctuations may want to consider European hedged equity products such as the WisdomTree Europe Hedged Equity Fund (HEDJ) and the WisdomTree Europe Hedged SmallCap Equity Fund (EUSC).

WisdomTree Offerings

HEDJ tracks the WisdomTree Europe Hedged Equity Index, which allocates to dividend-paying eurozone equities with an exporter tilt. The Index neutralizes movements in the EUR/USD exchange rate through currency hedging. The performance comparison of HEDJ to the iShares Currency Hedged MSCI Eurozone ETF (HEZU) in figure 6 highlights how currency-hedged strategies have fared in this environment.

Figure 6: Performance, HEDJ vs. HEZU



Sources: WisdomTree, FactSet. Data from 12/31/24–2/28/25. All funds are managed differently and do not react the same to economic or market events. The investment objectives, strategies, policies or restrictions of other funds may differ and more information can be found in their respective prospectuses. Therefore, we generally do not believe it is possible to make direct fund to fund comparisons in an effort to highlight the benefits of a fund versus another similarly managed fund. Please see Figure 11 for material differences between the funds. **The performance data quoted represents past performance. Past performance is not indicative of future returns. 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 standardized performances, please click the respective ticker: HEDJ, HEZU.**

The WisdomTree Europe Hedged Equity Index only selects companies that derive at least 50% of their revenues from countries outside of Europe. This exporter tilt was a key driver of year-to-date outperformance relative to the MSCI EMU Index. The Index attribution breakdown in figure 7 below shows what has driven this performance.

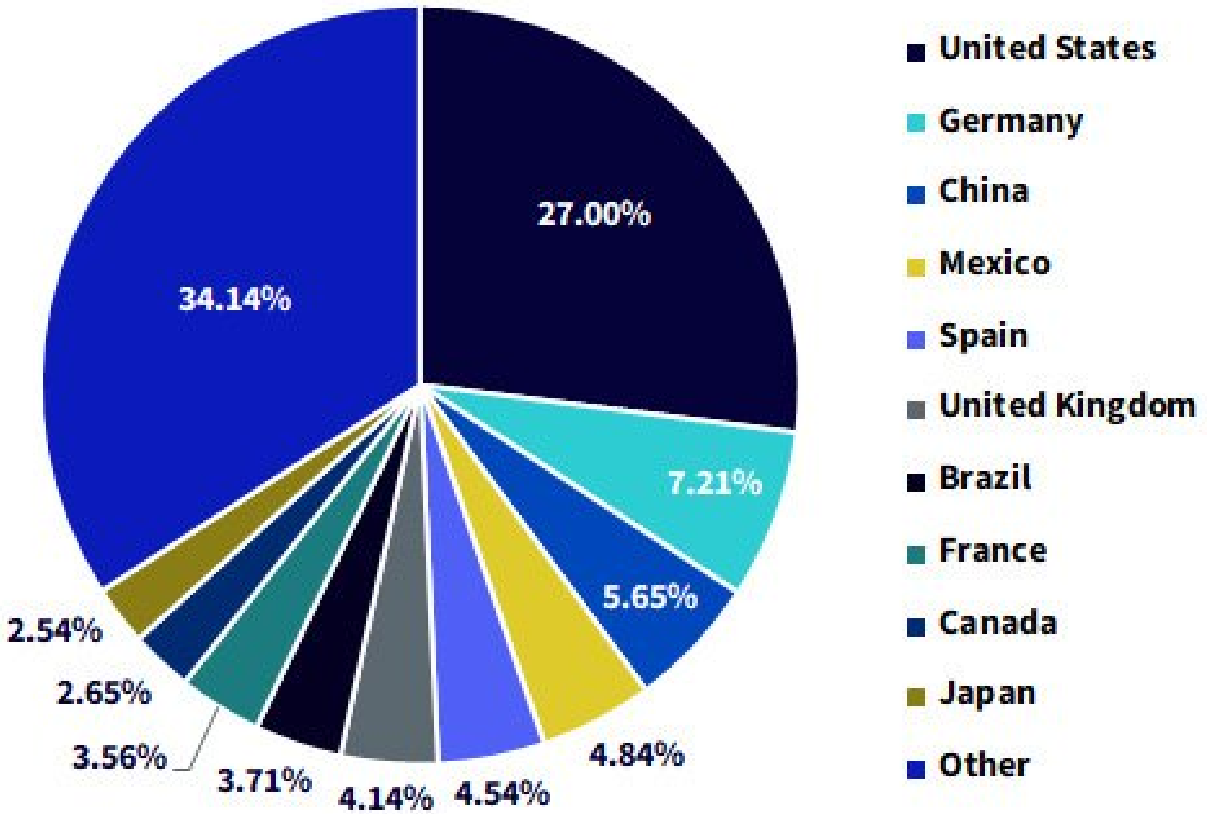
Figure 7: Index Attribution

Geographic Revenue Attribution									
Category	Attribution Components				Average Category Weight			Category Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
Export Focus	-0.35%	1.72%	0.78%	2.15%	100.00%	68.65%	31.35%	12.35%	9.82%
Domestic Focus	-0.79%	-	-	-0.79%	-	30.51%	-30.51%	-	13.63%
Total	**-1.12%**	**1.72%**	**0.78%**	**1.38%**	-	-	-	**12.35%**	**10.97%**

Sources: WisdomTree, FactSet. Data from 12/31/24–2/28/25. **You cannot invest directly in an index. Past performance is not indicative of future returns.**

The revenue exposure of these companies further illustrates how much of their business comes from outside Europe, as shown in figure 8.

Figure 8: Revenue Exposures, WisdomTree Europe Hedged Equity Index



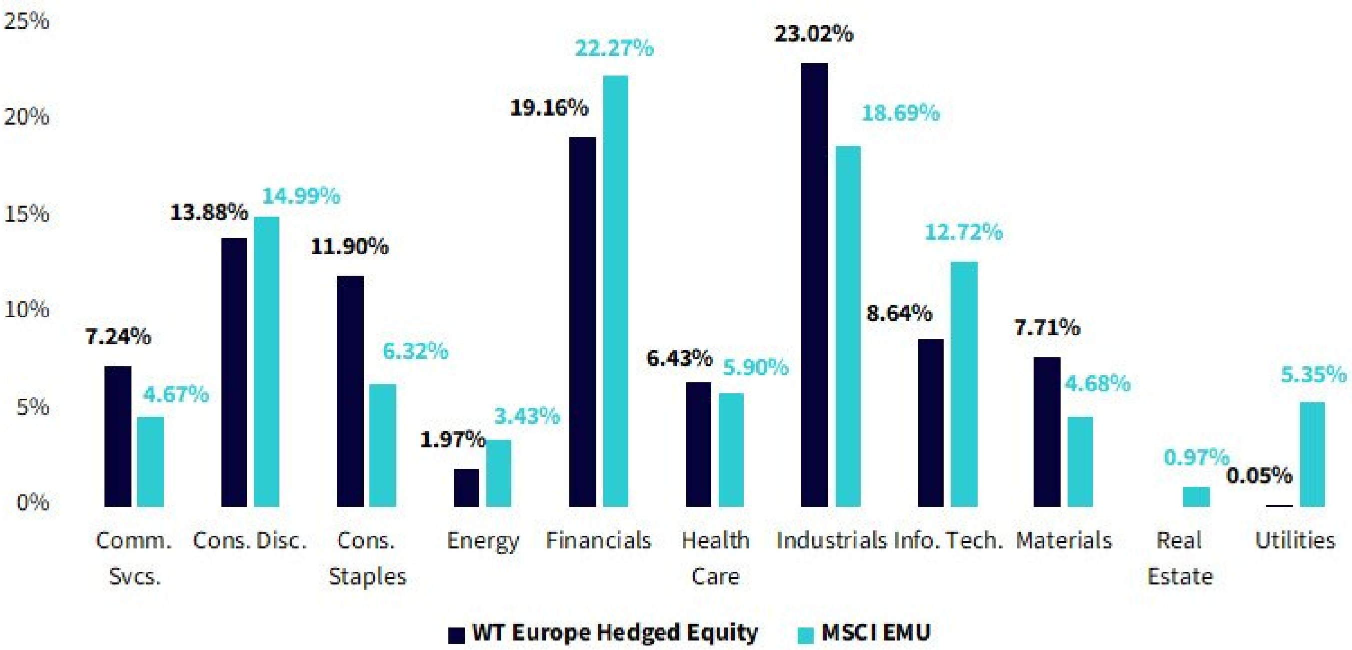
Sources: WisdomTree, FactSet, as of 2/28/25. **You cannot invest directly in an index.**

With governments enacting policy measures, central banks adjusting interest rates and geopolitical events shaking markets, it's easy to get lost in the noise. But one thing is certain: Success is rented, not owned.

And right now, European equities are snapping at the heels of American stocks to draw investors across the pond.

Additional Information

Figure 9: Sector Exposures



Sources: WisdomTree, FactSet, as of 2/28/25. **You cannot invest directly in an index.**

Figure 10: Fundamentals

Index	Dividend Yield	P/E	ROA	ROE
WT Europe Hedged Equity Index	2.56%	14.7x	2.00%	14.26%
MSCI EMU Index	2.88%	14.7x	1.51%	11.59%

Sources: WisdomTree, FactSet, as of 2/28/25. **You cannot invest directly in an index. Past performance is not indicative of future returns. 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 standardized performance, please click here.** For definitions of terms in the table above, please visit the glossary.

Figure 11: Important Information for Fund Comparison

Fundamentals	HEDJ	HEZU
Inception Date	12/31/09	7/9/14
Objective	WisdomTree Europe Hedged Equity Fund seeks to provide exposure to the European equity market while hedging exposure to fluctuations between the U.S. dollar and the euro.	The iShares Currency Hedged MSCI Eurozone ETF seeks to track the investment results of an Index composed of large- and mid-capitalization equities from developed market countries that use the euro as their official currency while mitigating exposure to fluctuations between the value of the euro and the U.S. dollar.
Expense Ratio	0.58%	1.12%
Index	WisdomTree Europe Hedged Equity Index	MSCI European Monetary Union 100% Hedged to USD Index
Assets Under Management	$1.67 billion	$713.80 million

Sources: WisdomTree, iShares, as of 3/13/25. For definitions of terms in the table above, please visit the glossary.

Important Risks Related to this Article

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

HEZU: Carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the Fund's prospectus and, if available, summary prospectus, which may be obtained by calling 1-800-iShares (1-800-474-2737) or by visiting www.iShares.com or www.blackrock.com. Read the prospectus carefully before investing.

Investing involves risk, including the possible loss of principal.

International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are often heightened for investments in emerging/developing markets or in concentrations of single countries.

The Fund's use of derivatives may reduce the Fund's returns and/or increase volatility and subject the Fund to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. The Fund could suffer losses related to its derivative positions because of a possible lack of liquidity in the secondary market and as a result of unanticipated market movements; such losses are potentially unlimited. There can be no assurance that the Fund's hedging transactions will be effective.

Investment in the Fund is subject to the risk of the underlying Funds.

Diversification may not protect against market risk or loss of principal. Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Any applicable brokerage commissions will reduce returns.