Revisiting the Museum—Europe's Macro Renaissance

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Key Takeaways

- Policy shifts, especially in defense and infrastructure, are driving a new era of fiscal stimulus in Europe, with Germany leading the way. This marks a fundamental departure from the austerity mindset of the past.
- European equities trade at a 30% discount to U.S. equities. Yet this disconnect comes despite strong shareholder returns and improving fundamentals, signaling a potential re-rating opportunity.
- European firms are combining rising buybacks with steady dividends, now delivering higher shareholder yield than the S&P 500. This reflects growing capital discipline—and a quantifiable edge for long-term investors.

Europe is in the early innings of a renaissance. Germany's DAX index just hit record highs, helped by revived enthusiasm for defense and infrastructure and reduced trade tension.1 From bilateral trade breakthroughs to potential de-escalation in U.S.-EU tariff battles,2 the policy pendulum is swinging from fragmentation toward cooperation. These aren't abstract headlines—they are real forces influencing equity risk premiums, cash flow visibility and strategic capital plans.

The most startling example of this pivot is Germany. Once the center of fiscal discipline, it is now excluding defense spending from its budget rules. Chancellor Merz put it bluntly, "In light of the threats to our freedom and peace on our continent, the same must now apply to our defense: whatever it takes." This is the *new European opportunity*. Countries there are willing to do what is necessary to safeguard peace. And the knock-on effects of these investments in itself make Europe worth a second look.

Source: Rheinmetall investor presentation, as of 3/12/25. CDU is the Christian Democratic Union, CSU is the Christian Social Union, SPD is the Social Democratic Party, GDP is gross domestic product. The "debt brake" is a fiscal rule in Germany's constitution designed to enforce budgetary discipline.

Tickets to the Museum Are Cheap

There is a joke that Europe is a museum. That may have been the case in the past. But it is dramatically shifting from a staid and relatively dull investment landscape to one of the more compelling. *Yes*, the various economies have been struggling in recent years. *Yes*, the returns versus various U.S. indexes have lagged, as seen in figure 1. But there are shifts happening that deserve a second look.

It's amazing to see 20% outperformance for the MSCI Europe Index over the MSCI USA Index in the first four months of 2025. In figure 1, to get close to this on a full-year basis, one must look all the way back to 2006.

Figure 1: U.S. Equities Outperformed European Equities in 13 of the Last 20 Full Years

Year	MSCI USA Index	MSCI Europe Index	Difference	Europe or USA Outperformed?
2005	5.1%	9.4%	-4.3%	Europe
2006	14.7%	33.7%	-19.0%	Europe
2007	5.4%	13.9%	-8.4%	Europe
2008	-37.6%	-46.4%	8.9%	USA
2009	26.3%	35.8%	-9.6%	Europe
2010	14.8%	3.9%	10.9%	USA
2011	1.4%	-11.1%	12.4%	USA
2012	15.3%	19.1%	-3.8%	Europe
2013	31.8%	25.2%	6.6%	USA
2014	12.7%	-6.2%	18.9%	USA
2015	0.7%	-2.8%	3.5%	USA
2016	10.9%	-0.4%	11.3%	USA
2017	21.2%	25.5%	-4.3%	Europe
2018	-5.0%	-14.9%	9.8%	USA
2019	30.9%	23.8%	7.1%	USA
2020	20.7%	5.4%	15.3%	USA
2021	26.5%	16.3%	10.2%	USA
2022	-19.8%	-15.1%	-4.8%	Europe
2023	26.5%	19.9%	6.6%	USA
2024	24.6%	1.8%	22.8%	USA
2025 YTD	-5.1%	15.3%	-20.4%	Europe

Source: MSCI. 2025 YTD refers to 12/31/24–4/30/25. **Past performance is not indicative of future results.**

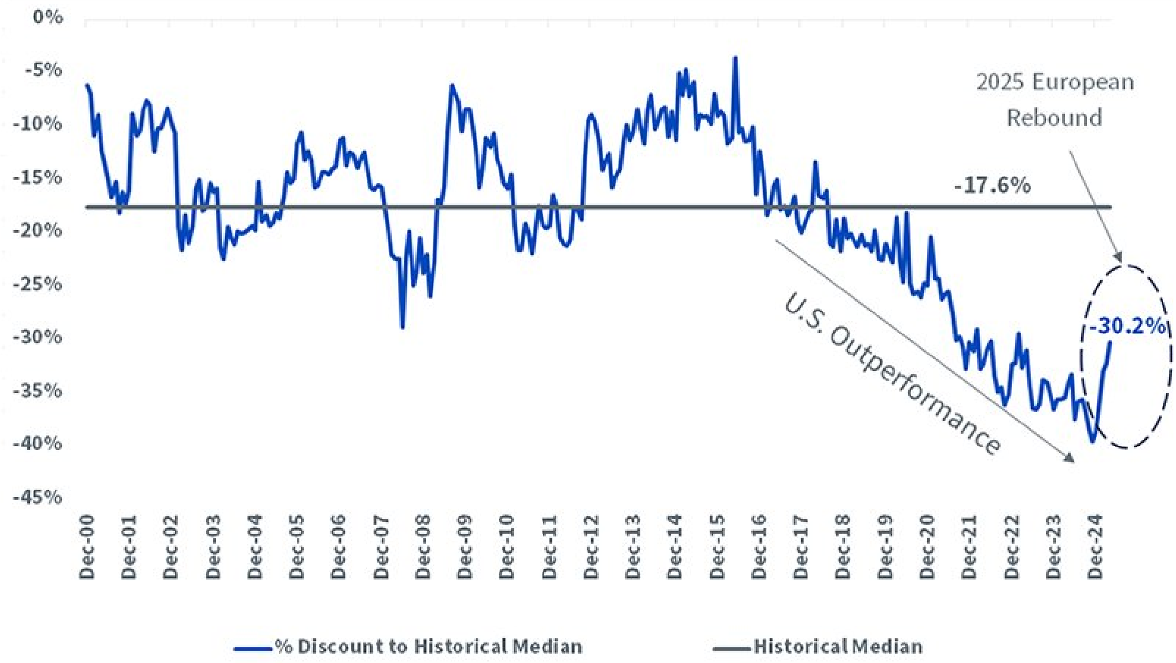
European equities now trade at a 30% valuation discount to U.S. equities, which is well below the long-run average of 18%.3 This isn't just about being cheap. The decomposed 10-year return attribution shows a stark reality: while U.S. equities soared on the back of multiple expansion, Europe endured the opposite—valuation compression—even as it continued to pay out more of its earnings to shareholders. Picture it: European firms showed up quarter after quarter, delivering dividends and executing buybacks, but their price-to-earnings ratios fell as sentiment and global capital favored flashier growth stories elsewhere. The earnings were there. The cash distributions were real. But the market withheld recognition. That dynamic may now be reversing. With a shift in macro momentum, this mispricing becomes the foundation for a compelling, forward-looking allocation case.

Today's macro turn, aided by fiscal tailwinds and shifting sentiment, sets the stage for reversal.

Figure 2: 30% Off: The European Equity Discount Hiding in Plain Sight

Forward P/E Ratio Valuations – as of 4/30/25			
U.S. Current	Europe Current	U.S. Historical Median	Europe Historical Median
21.0x	14.7x	17.2x	14.1x

European Equities Valuation Discount to U.S. on Forward P/E Ratio – as of 4/30/25

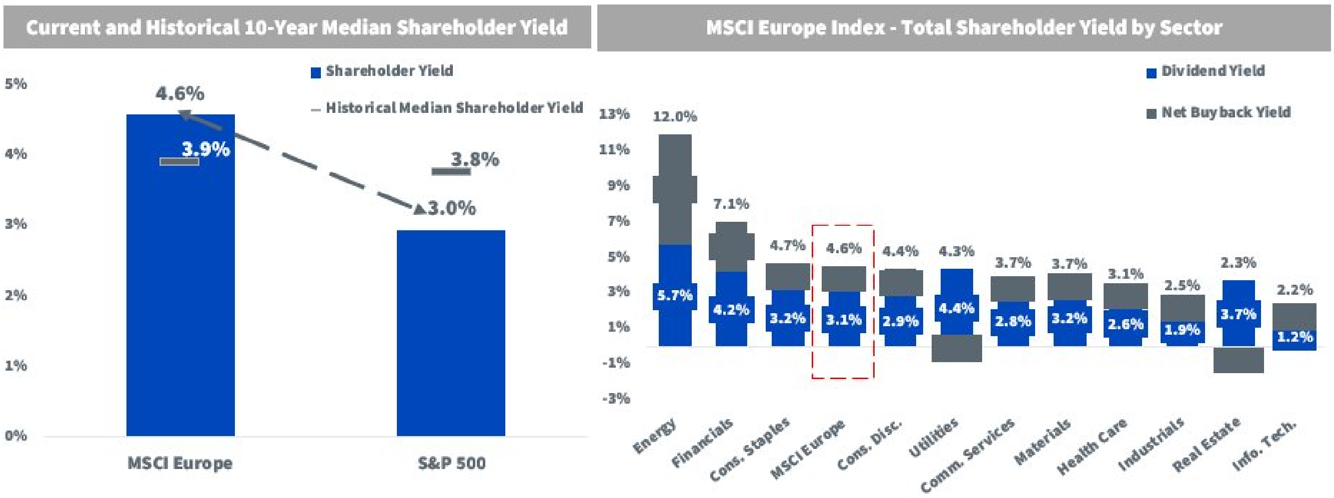


Sources: WisdomTree, FactSet. Past Performance is not indicative of future returns.

What Europe Learned from the U.S.

While U.S. markets popularized the concept of buybacks, the European story has quietly evolved. European firms have steadily increased their repurchases, supplementing their already strong dividend culture. As of April 2025, the MSCI Europe Index sported a 1.6% advantage in shareholder yield over the S&P 500 Index.4 It's a signal of underappreciated corporate discipline and a potential inflection point in capital return dynamics.

Figure 3: The Quiet Shift: Europe's Shareholder Yield Is No Longer Playing Catch-Up



Sources: WisdomTree, FactSet, MSCI, S&P, as of 4/30/25. Shareholder Yield = Dividend Yield + Net Buyback Yield. **You cannot invest directly in an index.**

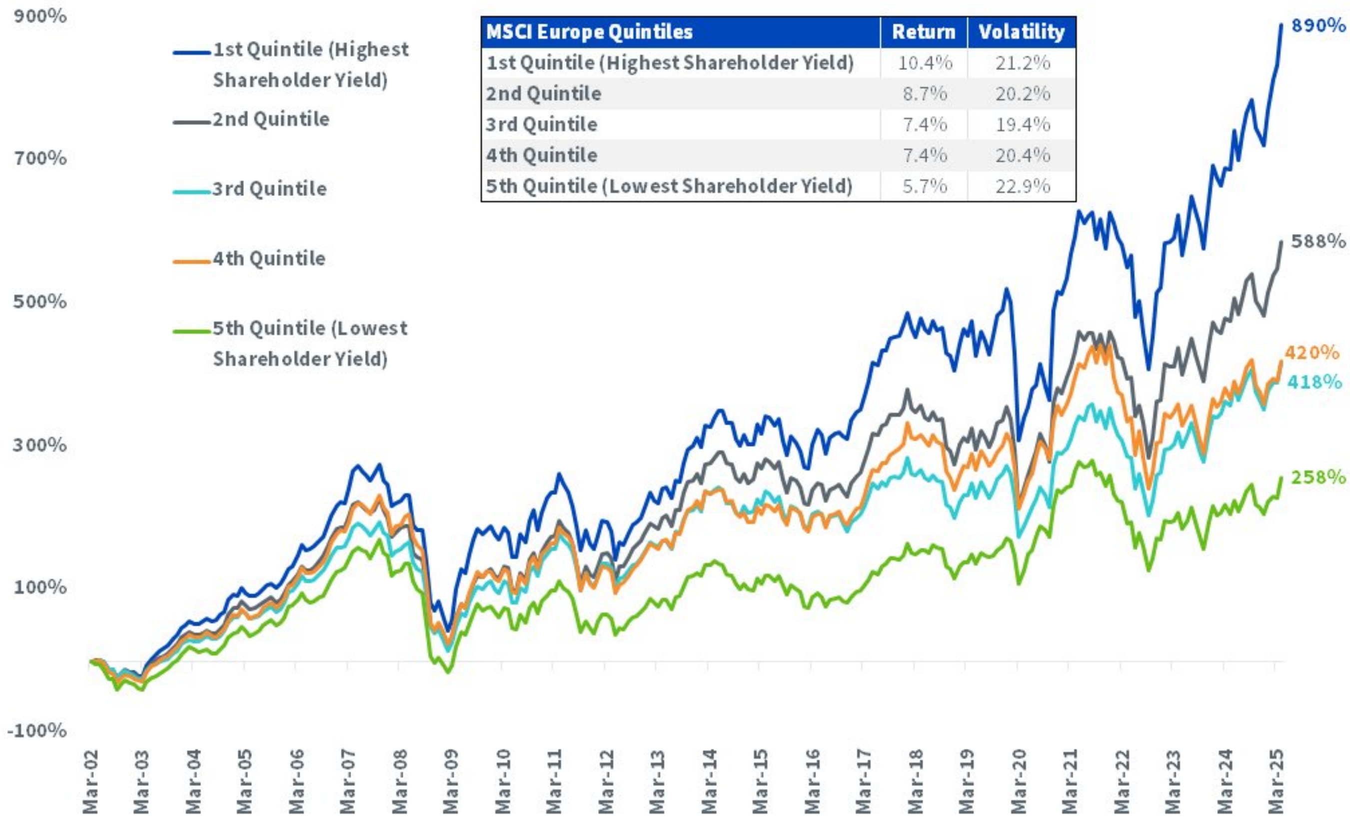
Why Shareholder Yield Matters Today

In an investing world that's often preoccupied with growth-at-any-price or short-term volatility spikes, shareholder yield is a reminder that the long game still counts. It combines dividends and net buybacks—two of the most tangible ways a company can reward its shareholders. In a capital allocation landscape shaped by capital discipline and margin pressure, the ability to return capital consistently signals confidence and operational strength.

A Quantifiable Edge

Over the past two decades, companies in Europe with high shareholder yields have consistently outperformed those with low yields—by more than 450 basis points annualized.5 This isn't a niche anomaly. It's a persistent, sector-neutral factor that rewards firms with disciplined capital return behavior and penalizes diluters and value traps. By integrating buyback data into the yield equation, we modernize what used to be an overly dividend-centric lens.

Figure 4: Shareholder Yield: The Quiet Factor that Compounded Relentlessly

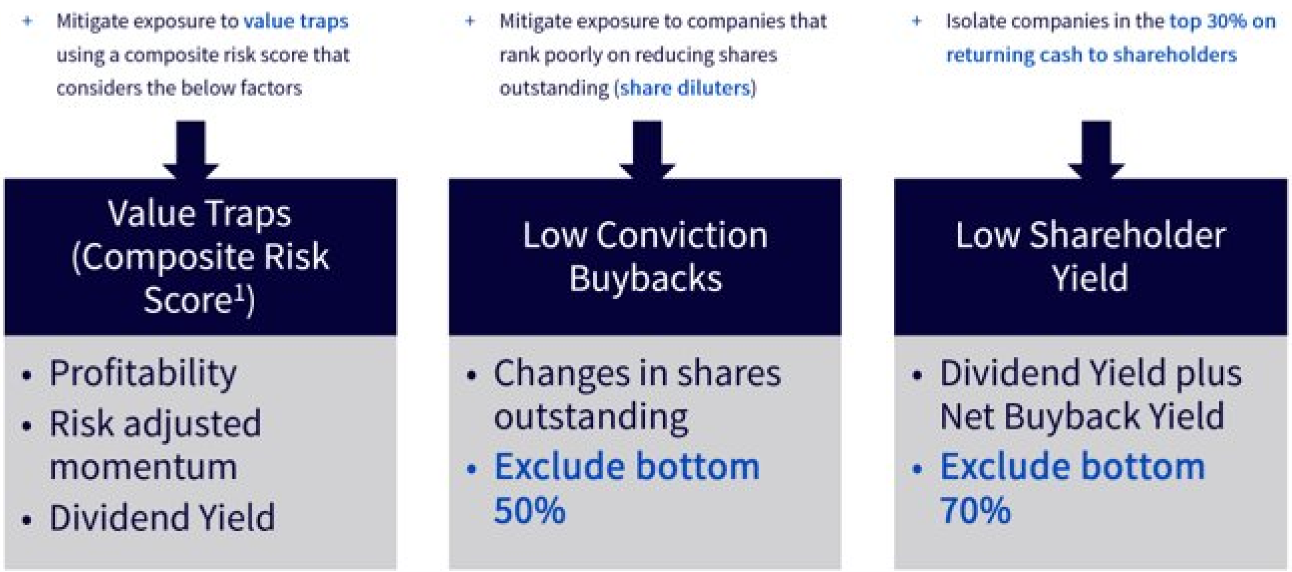


Sources: WisdomTree, FactSet, MSCI. **Past performance is not indicative of future returns.**

Not Just Yield for Yield's Sake

Before we ever get to the highest yielding companies, we start with a crucial three-layer filter. First, we remove value traps using a composite risk score grounded in quality and momentum. Second, we exclude companies with low conviction in repurchase behavior—those that don't consistently reduce share count. Third, we focus only on the top 30% in total shareholder yield, combining dividends and buybacks. The illustration below breaks down this methodology.

Figure 5: Managing the Risk of Letting Fundamentals Drive toward High-Risk Stocks



Source: WisdomTree.

Building a New European Equity Strategy

The WisdomTree European Opportunities Fund (OPPE) reflects a synthesis of two powerful forces: the discipline of shareholder yield and the dynamism of thematic allocation. Roughly two-thirds of the portfolio is dedicated to high shareholder yield; the rest targets companies aligned with long-term themes like defense realignment, digital infrastructure and reshoring. It's a fundamentally weighted, dynamically hedged approach engineered to make the most of Europe's moment.

The Takeaway—An Overdue Reassessment

Europe has long been the value sleeve in a global portfolio. Rightfully so. There were cutting-edge, fast-growing technology firms for investors to seek out. But today, shareholder yield and defense-centered stimulus reframe the narrative—a powerful combination of discipline, reflecting capital stewardship, and fiscal tailwinds to rejuvenate growth. These policy shifts result in a more resilient, more rewarding picture for European equities. The last decade was not lost. But it was certainly squandered. Now it isn't just diversification. It's directional conviction with a long runway.

1E. Herbert & I. Smith, "German Stocks Hit Record High as Trade Optimism Buoys Markets," *Financial Times*, 5/9/25.

2Source: K. Mackrael, "EU Targets American Aircraft, Car Parts for Possible Tariffs if Talks Fail," *The Wall Street Journal*, 5/8/25.

3Sources: WisdomTree, FactSet. Past performance is not indicative of future returns.

4Sources: WisdomTree, FactSet, MSCI, S&P, as of 4/30/25. Shareholder Yield = Dividend Yield + Net Buyback Yield. **You cannot invest directly in an index.**

5Sources: WisdomTree, FactSet, MSCI. Past performance is not indicative of future returns.

Important Risks Related to this Article

Prior to June 02, 2025, the Fund was known as the WisdomTree Europe Hedged SmallCap Equity Fund (EUSC). On that date the fund's investment policy changed.

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 Fund invests in derivatives in seeking to obtain a dynamic currency hedge exposure. 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. 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. Derivatives used by the Fund may not perform as intended. 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. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.