



# Europe's equity renaissance

**FEV provides a compelling case for diversification away from the US.**

Update  
**29 August 2025**

Europe's stock market recovery versus the US may have stalled momentarily as animal spirits re-emerge Stateside, but there's a clear case for diversifying one's equity exposure away from America, and the Continent's outperformance over other peers remains strong.

It would be tempting to list the problems that could afflict the US (tariffs, valuations, concentration), but we believe that the self-help measures being instigated in Europe provides a constructive outlook in and of itself, so we'll focus on them, rather than speculate over a decline of corporate America, which seems unlikely.

There's a clear understanding of the need for greater continental unity and policy coordination. European nations were at the forefront of NATO's agreement to ramp up defence spending to 5% of their economic output by 2035.

Both Germany and the EU more broadly have made steps towards exempting defence spending from previous fiscal restraints, with the EU setting up a €150bn EU loan facility to fund military expenditure and Germany's constitutional debt brake reforms paving the way for the creation of a €500bn infrastructure investment fund.

A recent US-EU trade deal, billed as the biggest in history, removes some uncertainty over tariffs being foisted on the EU, too.

These self-help measures are, in and of themselves, encouraging and, if implemented well, they could release Europe from its economic growth malaise and supercharge both productivity and economic growth.

## A changing of the guard

European companies make up c. 12.6% of the iShares Core MSCI World UCITS ETF, as of 15/08/2025, and UK-based investors tend to exhibit a heavy home-bias, so allocations to continental Europe remain low. Yet, in our view, it no longer makes sense to ignore Europe in this way.

We suspect that after 17 years of continued US equity outperformance, the elastic is starting to snap, and we could see this reverse somewhat.

We won't hammer home the valuation discrepancy between the US and Europe too hard because that goes for the US and everywhere else, too. We will, though, note the very slight difference between continental Europe and the UK.

### Analysts:

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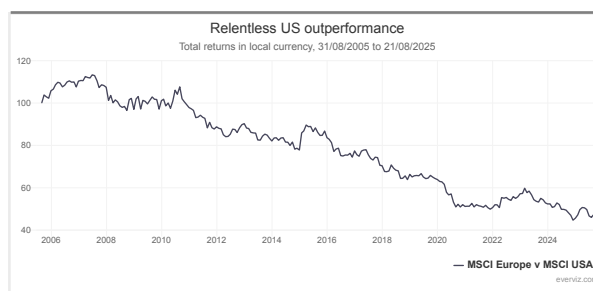
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**Fig.1: Europe Versus USA Relative Returns**



Source: Bloomberg

The MSCI Europe Index was trading on a forward price-to-earnings (PE) ratio of c. 14.3x and a price-to-book (PB) ratio of c. 2.2x as at 31/07/2025. By contrast, the MSCI United Kingdom Index sat on a forward PE of c. 12.8x and a PB of c. 2.1x on the same date. The 'cheap UK' headlines are undoubtedly true, yet, on some measures, Europe is on par with our domestic market.

Still, economic growth doesn't always equal stock market growth and valuations can stay cheap forever. The real key to harnessing any European renaissance is investing in the right companies.



The Continent's stock markets are dominated by world-leading companies whose products and services are highly sought-after globally. Two-thirds of benchmark revenues generated by European companies originate from outside the region.

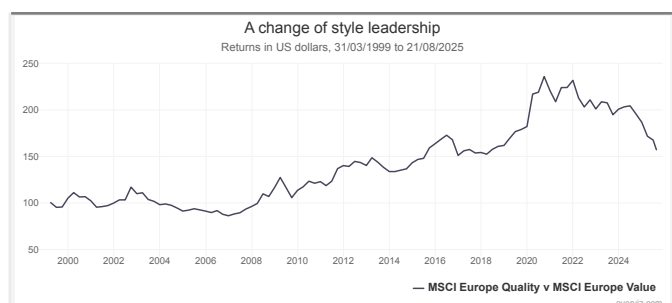
Less than a quarter of the chocolate, coffee, pet food and other products Nestle sells, or the luxury clothing and accessories sold by Hermes is bought in Europe; around one-third of L'Oreal's revenues from its beauty products comes from Europe. All these companies (and many peers) have a high proportion of their revenues coming from Asia, a region where there's a burgeoning middle class and favourable demographics to tap into.

## The case for quality

These companies, to one extent or another, exhibit the characteristics of 'quality stocks', an out-of-favour area of the European market during a five-year period where the MSCI Europe Value Index returned c. 95% versus a gain of c. 38% for the MSCI Europe Quality Index.

This is very much at odds with the longer-term data, which you can see below, showing that the MSCI Europe Quality Index had been outperforming the MSCI Europe Value Index from 31/03/1999 until late 2020.

**Fig.2: Quality Versus Value Relative Returns**



Source: Bloomberg

The characteristics quality companies clearly exhibit include stable or growing end-markets that are less exposed to economic cycles; clear business models; strong competitive advantages; and sensible balance sheets with conservative use of debt facilities that provides the basis to deliver sustainable dividend growth over time.

**Fidelity European (FEV)** stands out as a core European equity fund with a long and consistent track record of outperformance, in our view. Managers Sam Morse and Marcel Stötzel are primarily stock pickers who take a relatively neutral approach to sector weights, preferring to pick the best stocks within every sector.

Despite FEV not having an explicit income target, Sam and Marcel put a company's ability to grow its dividend at

the heart of their investment process, as companies that consistently grow their dividends significantly outperform those that cut or merely maintain their dividends.

The FTSE 100 is often cited as a good example of the importance of dividends as its price return over the past 20 years has been c. 75% but its total return, which includes reinvested dividends, has been much higher at 270%. The same is true, though to a slightly lesser extent, of the MSCI Europe, where the price return in local currency terms has been c. 86.5%, but the total return has been 227%.

Examples of this within the portfolio include Amadeus, which provides the booking platforms and other IT solutions underpinning the hotel and airline industries. Amadeus has made substantial investments aimed at increasing its lead over competitors and with the expectation that margins will expand and free cash flow growth will continue to be robust.

Elsewhere, Finland's Kone makes and installs lifts for buildings around the world, which is an inherently cyclical endeavour. However, the majority of Kone's profits are derived from maintenance of the lifts it has already installed, rather than putting in new ones. This provides what should be a cyclical company with greater stability and visibility of returns over time across different macroeconomic scenarios.

This bottom-up stock picking and focus on dividend-growing companies has enabled FEV itself to boast a track record of consistent dividend growth. Under Morse's tenure from 01/01/2011 to 22/08/2025, FEV's NAV total return has been c. 327%, compared to the benchmark's c. 213%. The yield is 2% and FEV was awarded a **Kepler Growth rating** for 2025.

FEV is a FTSE 250 investment trust, with £1.7bn in net assets and will swell to more than £2bn once its combination with **Henderson European Trust (HET)** completes. It is estimated that lower fees and economies of scale will mean that this landmark combination will bring down the OCF to a very competitive 0.68%, one of the lowest in the peer group. This size and liquidity, as well as FEV's quality, is shown in it having the narrowest discount in the sector, at 3.2% as of 19/08/2025.

Europe has unfairly been ignored by investors across the world, yet, as we've demonstrated, the outlook for European markets is as constructive as it's been for a long time. Arguably, there could be no better time for the creation of a £2bn flagship European equity trust.

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