

# German elections: Positioning for opportunity

February 2025

## Quick read

**Germany's conservative CDU/CSU party has secured victory in the federal election. The removal of political risk premium should be net positive for German assets, given that uncertainty has been weighing on them since mid-2024.**

## Getting selective in Europe

- DAXEXx** iShares Core DAX UCITS ETF
- SXNPEX** iShares STOXX Europe 600 Industrial Goods and Services UCITS ETF
- IDEU** iShares Germany Govt Bond UCITS ETF
- IEGA** iShares Core EUR Govt Bond UCITS ETF

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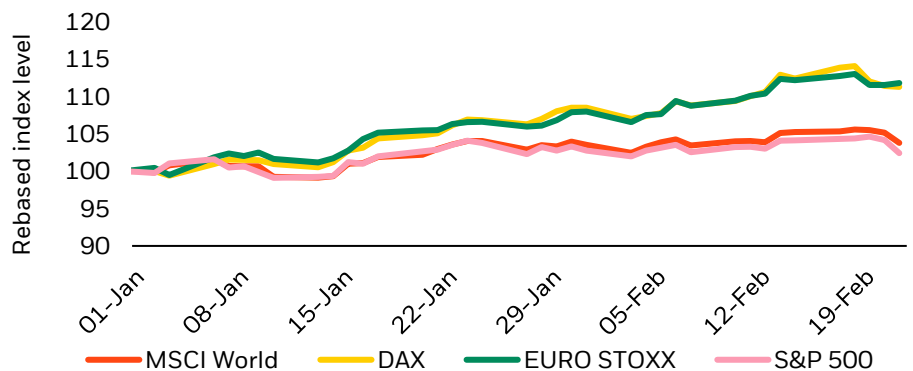
Germany's conservative CDU/CSU party has secured victory in the federal election, giving it the upper hand to start coalition talks. With the Greens short of seats, CDU/CSU's only viable two-party coalition is with the centre-left SPD. Regional markets may welcome a coalition with enough support to push through policy changes. The BlackRock Investment Institute sees catalysts emerging in European equities and stays overweight euro area government bonds. Read more in the BlackRock Bulletin, [German vote could open door to spending](#). Below, we delve into the implications across asset classes, with ETF implementation ideas.

## Equity

We see selective opportunities in European equities, which we express through high-conviction sector allocations, or through active strategies. In Germany, overarching political uncertainty has weighed on our conviction: we see room for upside with its removal, supporting exposures like the **iShares Core DAX UCITS ETF**. Proposed tax reforms and regulatory changes could support German earnings post-election, though the new government will likely need support to push them through; at the same time, the European Commission is simplifying environmental regulations and reducing reporting obligations to enhance competitiveness. German equity positioning remains light, so any positive change in Europe's growth narrative could impact valuations. The latest German ZEW survey shows a significant improvement in investor confidence, with the expectations index more than doubling in January MoM – the highest print in two years<sup>1</sup> – amid optimism around a new action-oriented German government and expected private consumption growth in the next six months. Investor money has already started to move – February is on track to be the largest inflow month for German equity ETPs (\$1.0B) since November 2018, largely unwinding a cumulative \$1.2B of global outflows over Q3 and Q4 2024.<sup>2</sup>

German equities have seen c.10% outperformance vs. US equities this year.<sup>3</sup> This has increased valuations, with the market now trading at 17.1x forward P/E vs. 15.7x for broader European equities, based on the Euro Stoxx index.<sup>4</sup>

**Chart 1: performance of German, European, US and global equities, 2025 YTD**



5Y annualised returns (%)	2020	2021	2022	2023	2024	2025 YTD
MSCI World	15.90	21.82	-18.14	23.79	18.67	5.49
DAX	2.83	15.18	-13.10	19.34	18.01	12.01
EURO STOXX	0.25	22.67	-12.31	18.55	9.26	10.33
S&P 500	18.40	28.71	-18.11	26.29	25.02	4.64

**The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Figures are net total returns, in US dollars. Source: BlackRock and Bloomberg, as of 19 February 2024. Note: based on total return indices for MSCI World, S&P 500, DAX and EURO STOXX.

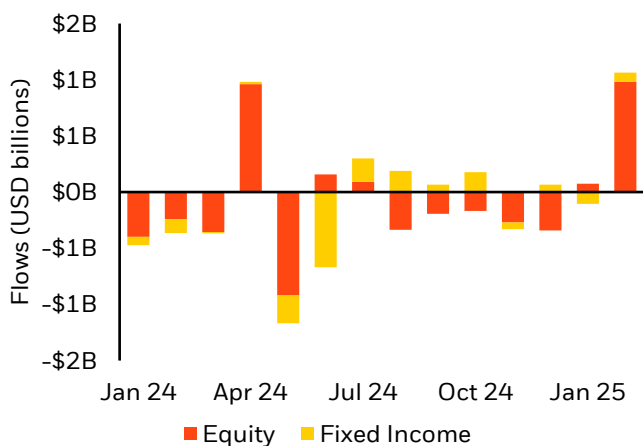
1, 3, 4 Source: Bloomberg, as of 18 February 2025. 2 Source: BlackRock and Markit, as of 14 February 2025.

Delving deeper, however, the index tilts towards two sectors where we see opportunities – industrials and financials. We see room to run in European banks: while the broader financials sector have had a tough earnings season, this was expected – and Q4 guidance points to solid results into 2025. The industry continues to look relatively cheap on a forward P/E basis (8.2x);<sup>5</sup> and the income on offer is also attractive (6.1% dividend yield).<sup>6</sup> On the industrials front, again valuations have risen, but we see potential for the sector to capture any upside in global or European growth, manufacturing, and any positive geopolitical headlines. Our **Fundamental Equity** team highlights the potential for lower gas prices if we see a Ukraine peace deal (European natural gas prices are currently over 4x US levels),<sup>7</sup> which could be meaningful to earnings cycles and growth. We express this view via precision ETFs, like the **iShares STOXX Europe 600 Industrial Goods and Services UCITS ETF**. US tariff uncertainty remains a risk to our view, with the latest announcements pointing to the European automobile, semiconductor and pharmaceutical sectors as likely targets.

### Fixed income

Flows into German bund ETPs highlight a lack of investor conviction, flip-flopping across the past four months. February inflows of \$0.1B have gone entirely into blended maturity ETPs. This comes despite persistent allocations to broader eurozone rates ETPs YTD (\$2.7B), with single country flows of \$1.0B each into France, Spain and Italy exposures.<sup>8</sup> Political uncertainty has tended to play out more in the bond than equity market in Europe: we see the passing of the election as net positive for Bunds, and lean into exposures like the **iShares Germany Govt Bond UCITS ETF**. We broaden our conviction in eurozone government bonds to the core, especially with peripheral spreads to bunds touching 5Y highs.

**Chart 2: Monthly flows into German equity and bond ETPs, January 2024 - February 2025**



Source: BlackRock and Markit, as of 14 February 2025.

We continue to see relative opportunities in euro area rates (including Bunds) vs. US Treasuries, and look to implement this view via exposures like the **iShares Core EUR Govt Bond UCITS ETF**. We still see a more accommodative rate backdrop from the European Central Bank (ECB): we expect back-to-back cuts in H1 this year to take rates to 2%, with further room to ease in H2 should growth deteriorate or tariff announcements prove less benign than expected. This looks fairly well-priced by markets, at least in H1 – we see less interest-rate uncertainty in the eurozone vs. the US, which makes us more comfortable leaning into the full yield curve – especially with scarce options elsewhere.

We are keeping a close eye on fiscal policy in Germany. The incoming government will likely face significant fiscal challenges, with an average funding gap of €23B per year (0.5% of GDP) for the next legislature, or c. €100B over four years.<sup>9</sup> Options to create fiscal space include: 1) reforming the constitutional debt brake, 2) creating an off-budget defence fund; and/or 3) establishing a special infrastructure investment fund. Our **Fundamental Fixed Income** team is cautiously optimistic on the new government's ability and willingness to deliver fiscal easing, but expects a relatively limited and non-immediate (2026+) increase in expenditures.

Ultimately, consensus expects fiscal spending to increase over the next term, which we think is reasonable; this would be a driver of long-end yields in the medium-term. However, there is potential for volatility in Bunds around any 'debt brake' announcement paving the way to higher spending. Nearer-term, a potential settlement of the war in Ukraine could reduce inflationary pressures via lower natural gas costs, as noted previously, which could be a tailwind for Bunds.

### FX

The euro's recent rise against the USD is in line with rising optimism around a potential peace deal in Ukraine, which could improve the euro area's terms of trade. Given the region's ongoing monetary policy divergence vs. the US and UK, we still think the case is limited for further near-term EURUSD upside – in fact, the recent appreciation has mostly unwound the tariff premium in the currency, when compared to rate differentials. We continue to see risks that the EURUSD will fall back to parity in the next quarter, particularly given widening rate differentials – with the US Federal Reserve keeping rates higher for longer, while the ECB is on a path to continue easing into the summer – and US tariff implementation from Q2 onwards.

<sup>5</sup> Source: Bloomberg, as of 18 February 2025. <sup>6, 7</sup> Source: BlackRock Fundamental Equities, February 2025. <sup>8</sup> Source: BlackRock and Markit, as of 14 February 2025. <sup>9</sup> Source: Deutsche Bank, as of 20 February 2025.

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#### **iShares Core € Govt Bond UCITS ETF EUR (Acc)**

Counterparty Risk, Credit Bail in Risk, Liquidity Risk

#### **iShares Core DAX® UCITS ETF (DE)**

Concentration Risk, Counterparty Risk, Equity securities

#### **iShares Germany Govt Bond UCITS ETF EUR (Dist)**

Concentration Risk, Counterparty Risk, Credit risk, Equity securities, Liquidity Risk

#### **iShares STOXX Europe 600 Industrial Goods & Services UCITS ETF (DE)**

Concentration Risk, Counterparty Risk, Equity securities

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