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Precision insights: Europe

Updated November 2024

Going local: Europe through a country lens

We outline our latest views on European single country equities and debt, expanding upon the BlackRock Investment Institute's (BII) Euro-denominated tactical granular views. This document is updated regularly to reflect the latest macro and political developments in this complex and dynamic asset class.

The BII is currently underweight broad Europe ex-UK equities, and neutral euro area government bonds.

Latest changes:

- **Our highest conviction is in the UK:** we are constructive across UK assets, given a relatively positive macro backdrop, greater policy certainty post-election, and Bank of England (BoE) rate path pricing – which looks the least dovish among major central banks.

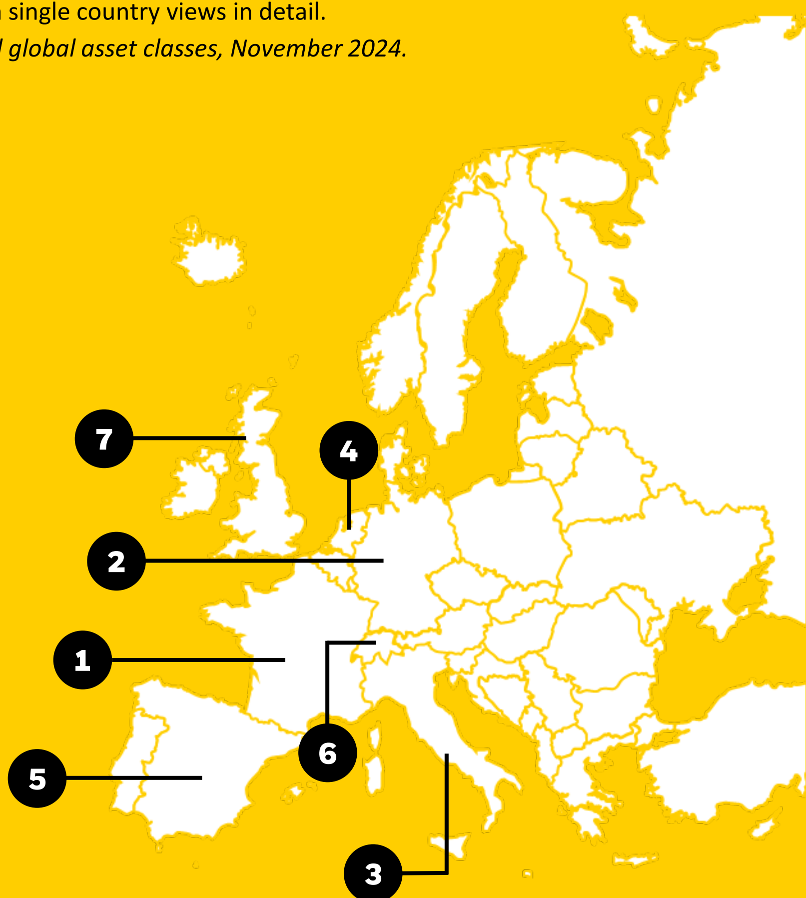
Click on the regions below to explore our precision European single country views in detail.
Six to 12-month tactical views on selected assets versus broad global asset classes, November 2024.

	Market	*Equity view*	*Debt view*
1	France	↓	—
2	Germany	—	—
3	Italy	↓	—
4	Netherlands	—	●
5	Spain	—	—
6	Switzerland	↓	●
7	UK	↑	↑

See following page for full view table.

Key:

Constructive ↑ Less constructive ↓
Mixed — No view ●



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Market	Equity		Fixed income		Outlook
	View	*ETP flows YTD*	*View*	*ETP flows YTD*	
France	↓	**$0.6B**	▬	**$1.0B**	Increased political and policy uncertainty since the summer elections keep us less constructive on French equities – despite supportive valuations – and mixed on OATs, amid persistent budget deficits and a sluggish pace of structural reforms.
Germany	▬	**-$1.4B**	▬	**-$0.6B**	Within our mixed view on German equities, we've turned cautiously more constructive. We like bunds relative to US Treasuries (USTs), amid increasing divergence between euro area and US inflation and growth dynamics.
Italy	↓	**$0.0B**	▬	**$0.4B**	We are less constructive on Italian equities: H1's rally and earnings growth was driven by unsustainable fiscal stimulus, with less supportive fundamentals. We stay mixed on BTPs: the spread over bunds screens as narrow, but domestic conditions look favourable.
Netherlands	▬	**$0.0B**	●	**$0.0B**	We take a mixed view on Dutch equities. While the index is concentrated, returns have been diversified. We see a favourable earnings backdrop, and fair valuations versus its own history.
Spain	▬	**$0.2B**	▬	**$0.1B**	We are mixed on Spanish assets: in equities, we note favourable valuations and earnings momentum versus euro area peers, but moderating economic growth. While the government bond market faces challenges as quantitative tightening intensifies, continued offshore demand should serve as a supportive technical factor.
Switzerland	↓	**$2.9B**	●	**-$0.1B**	We are less constructive on Swiss equities: a relatively defensive sector tilt should boost the equity index as a quality play, but valuations and middling earnings momentum prompt us to look for opportunities elsewhere.
UK	↑	**$2.5B**	↑	**$2.9B**	We are constructive across UK assets. The macro backdrop is a relative bright spot – and the BoE's rate path pricing less dovish – versus developed market (DM) peers. Our view is further supported by a more stable political outlook post-election.

Source: BlackRock and Markit, as of 12 November 2024. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

Figures are in US dollars, unless stated otherwise. There is no guarantee that any forecasts made will come to pass.

Five-year performance of European indices

Total asset returns (%)	2019	2020	2021	2022	2023	2024 YTD
MSCI Europe	23.8	5.4	16.3	-15.1	19.9	5.5
MSCI France	25.7	4.1	4.1	-13.3	21.4	-2.2
MSCI Germany	20.8	11.5	11.5	-22.3	23.0	11.4
MSCI Italy	27.3	1.8	1.8	-14.4	37.1	14.3
MSCI Netherlands	32.1	24.1	24.1	-27.7	25.8	1.4
MSCI Spain	12.0	-4.8	-4.8	-7.3	31.9	13.1
MSCI Switzerland	32.3	11.6	11.6	-18.3	15.7	3.4
MSCI UK	21.0	-10.5	-10.5	-4.8	14.1	9.5

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 12 November 2024.

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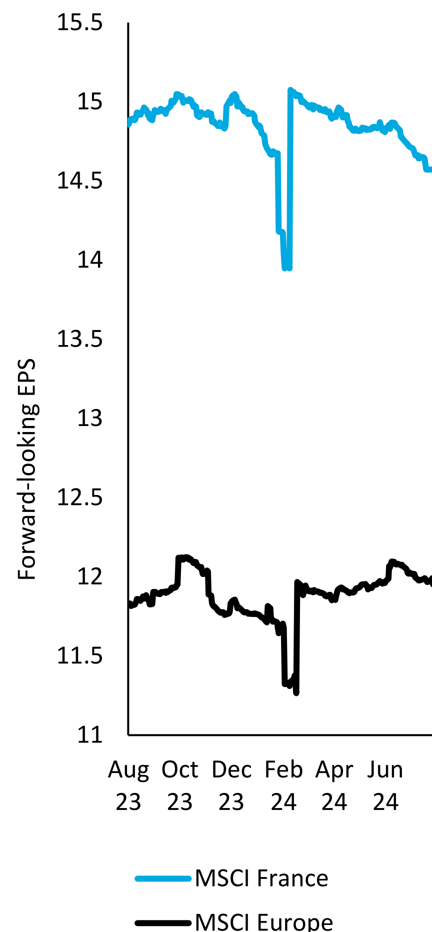
FRANCE: A STRONGER EARNINGS OUTLOOK?

We maintain a less constructive view on French equities, despite supportive valuations, in light of increased political and policy uncertainty since the summer parliamentary elections. Prime Minister Michel Barnier's minority government remains on precarious footing – and is likely to face challenges in the months ahead. This persistent policy uncertainty, in our view, outweighs any fiscal boost from deficit reduction. Although only a small portion of the revenues and operations of major French companies are tied to domestic activity, France's economy grew at a moderate pace in Q2, with GDP rising by 0.3% quarter-on-quarter – slightly above expectations. This growth was mainly supported by foreign trade, while domestic demand, including household consumption and investment, has remained relatively weak.[1]

Nevertheless, we believe select sectors show promise beyond the temporary boost in economic activity projected for Q3 2024 due to the Paris Olympics. MSCI France's 12-month forward EPS growth of 5.4%, outpacing the Euro Stoxx and MSCI Europe indices, reflects prospective strength in luxury and IT services, indicating that opportunities persist in French equity markets, with valuations still close to February 2024 levels at 15x forward P/E.[2]

Chart 1: Chart 1: Earnings are structurally better in France versus rest of Europe



Source: Bloomberg, as of 7 August 2024.

We hold a mixed stance on French OATs, after France faced warnings from the EU for breaching fiscal rules and saw its sovereign credit rating downgraded earlier this year. Persistent political uncertainty, ongoing budget deficits, and the sluggish pace of structural reforms continue to pose significant challenges, we think. The spread between French 10-year OATs and German bunds has remained stable but near the highs reached before the June elections,[3] reflecting that markets are conscious of these headwinds.

Digging deeper, the reliance on foreign investors for French debt is a double-edged sword. While they have historically enjoyed yield pickups and liquid markets, foreign ownership is more 'flighty' – particularly on political risks, signalling potential for yields to be pushed higher. In our view, the end of France's pandemic-era quantitative easing (QE) programme, which had significantly suppressed yields by purchasing up to €739B of bonds, is likely to further pressure the market as private investors seek higher yields to absorb increased net issuance, underscoring our neutral view.

The 2025 Finance Bill released in October announced measures projected to lower the deficit from an estimated 6.1% of GDP in 2024 to 5.0% in 2025. Market reaction was muted, perhaps in acknowledgment of the considerable implementation challenges ahead that could weigh on fiscal consolidation. Following the budget announcement, Fitch placed France on negative outlook, noting that "fiscal policy risks have increased since our last review".

There is no guarantee that any forecasts made will come to pass.

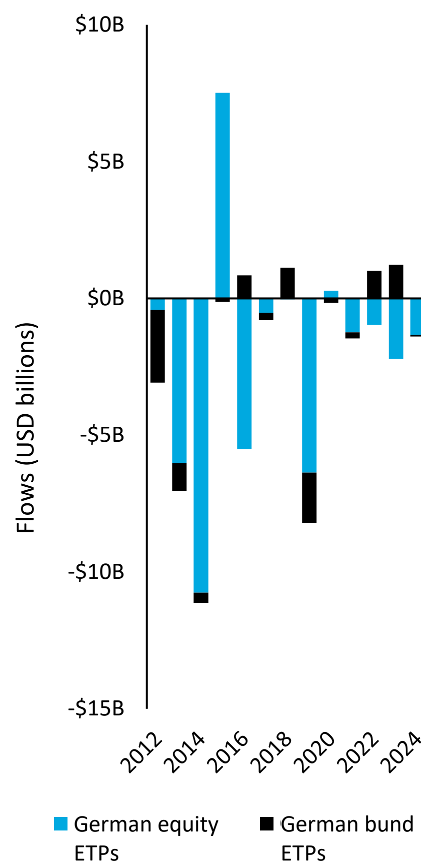
1, 2, 3 Source: Bloomberg, as of 22 October 2024.

GERMANY: STAYING NEUTRAL

We keep a mixed view on German equities, after turning cautiously more constructive last quarter. Having been range-bound over the summer, the DAX Index has been trading comfortably back above 50-day moving averages since September – defying a backdrop of increasingly sluggish macro data and a still-lacklustre recovery in energy-intensive sectors, with industrial production more than 10% below pre-pandemic levels.[4] Fundamentals have held up: the European region has witnessed a wave of negative earnings revisions this quarter (with MSCI Europe 12-month forward EPS at -14.3%) yet Germany has remained relatively resilient (12-month forward EPS at -10.5%, full-year at -6.6%); in fact, the index is still expected to deliver solid 12-month forward earnings growth (11.1% versus 8% for MSCI Europe). At 12.8x 12-month forward P/E, valuations are in line with 10-year averages but remain relatively attractive versus broad Europe (13.9x).[5]

Relative to European peers that have highly concentrated sector or company exposures, the DAX also represents a more diversified index, with sector weightings of 19% in financials, 18% in IT, 18% in industrials, and 14% in consumer discretionary.[6] The ongoing European Central Bank (ECB) rate-cutting cycle should provide a supportive macro environment for the cyclically-tilted index – we are seeing early signs of recovery from the ECB's Bank Lending Survey, where Q3 data showed a strong pickup in mortgage demand amid loosening credit standards for mortgages (which bodes well for housing investment), but continued sluggishness in business loan demand (which points to weaker business investment). Further along the recovery cycle, investors may consider the MDAX and SDAX, which derive 33% and 50% of revenue exposure domestically, respectively, versus c.20% for the DAX.[7] Positioning is light: cross-asset ETP flows into German assets have been lacklustre since 2015.[8] Households have also moved towards international equities, shedding their home bias: the share of listed German equities in German households' equity portfolios has fallen from 75% ten years ago to 50% today.[9]

Chart 2: German assets persistently under-owned in the ETP universe



Source: BlackRock and Markit, as of 28 October 2024.

We like bunds relative to USTs this quarter – directionally, we see the yield on the 10-year tenor moving closer to 2% by year end. This cross-market trade is supported by the increasing divergence between euro area and US inflation and growth dynamics; we also like bunds against the backdrop of the US election, where fiscally expansionary policy proposals could put pressure on long-end USTs, with markets spooked by ever-rising deficit concerns. Any front-loading or acceleration in ECB cuts would require a worsening of economic conditions – while the unemployment rate has stayed at a historical low of 6.4%, surveys point to slowing employment growth and a moderation in labour demand.[10] We continue to monitor labour market developments in Europe, as we expect to see a modest increase in the euro area unemployment rate in the coming months. Ultimately, however, we think the bar is high for the ECB cutting at clips larger than 25bps – we expect back-to-back cuts (25bps at each six-weekly meeting) to reach c.2% by H2 2025, which we consider close to neutral.

Higher policy uncertainty following the withdrawal of a key coalition partner from the German government in November may pose risks to our view: we will closely monitor developments and revisit our stance as needed.

There is no guarantee that any forecasts made will come to pass.

4, 6 Source: BlackRock, as of 25 October 2024. **5, 7, 9** Source: Morgan Stanley, as of 18 October 2024. **8** Source: BlackRock and Markit, as of 28 October 2024. **10** Source: Bloomberg, as of 25 October 2024.

ITALY: LACK OF CATALYSTS

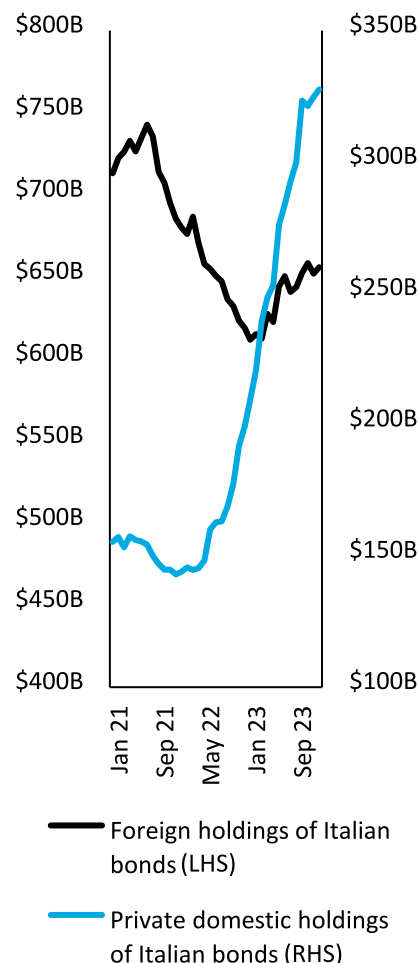
We remain less constructive on Italian equities. While valuation dynamics look more favourable than elsewhere in Europe, the rally and growth in earnings in the first half of the year appeared to be predominantly driven by substantial fiscal stimulus in 2022-2023,[11] including the National Recovery and Resilience Plan (NRRP) and energy relief packages under Next Generation EU – a boost that is unlikely to be sustained or replicated in the coming years. Italy's real GDP growth eased to 0.2% quarter-on-quarter in Q2 2024, with net exports lagging despite some positive domestic contributions. The labour market remains resilient, with moderate wage pressures, but industrial production is still down from levels recorded after the onset of the energy crisis in 2022.[12]

Italy's FTSE MIB Index is currently trading at a depressed forward P/E multiple of 10x,[13] reflecting a market grappling with a lack of catalysts and a weak economic outlook. The index's primary sectors, including banking, autos, and energy, are also facing weaker earnings after a strong start to the year. Headline 12-month forward EPS growth remains negative at -12.9%.[14] Despite these headwinds, we see some upside from dividends and share buybacks in banks and energy.

We stay mixed on Italian BTPs: the spread over German bunds screens as narrow,[15] given Italy's budget deficits and debt profile – which has drawn caution from the EU. However, domestic conditions remain favourable, with strong demand from Italian households for BTPs at elevated yields. Robust demand underscores our neutral view, with Italian retail investors buying €45B of BTPs in 2023.[16] However, the pace of household demand has decelerated since Q4 2023 as yields have retreated from their late-2023 peaks – see chart. Given this backdrop, the absorption of next year's elevated supply may hinge on non-resident investors stepping in to fill the gap, particularly as their market share remains below historical norms. With Italy's funding needs set to increase by nearly €70B in 2025, due to the phasing out of the ECB's Pandemic Emergency Purchase Programme (PEPP),[17] we think that pressure on Italian bonds is likely to rise.

While current conditions provide some stability, the medium-term outlook remains uncertain, with risks related to fiscal policy, debt sustainability, and market confidence.

Chart 3: Domestic retail buying of BTP is accounting for a larger share



Source: Bloomberg, as of 7 August 2024. Figures in USD billions.

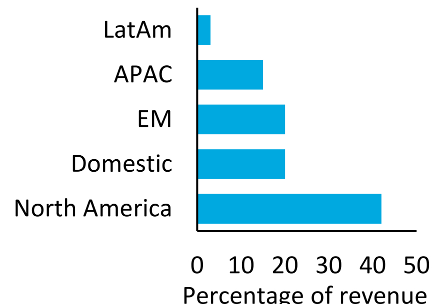
There is no guarantee that any forecasts made will come to pass.

11, 12, 13, 14, 15 Source: Bloomberg, as of 22 October 2024. **16, 17** Source: Goldman Sachs, as of 18 October 2024.

NETHERLANDS: MORE THAN JUST TECH

We are mixed on Dutch equities. Unlike the concentrated AI-driven rally in DM equities YTD, the Dutch index's double-digit returns have been well-diversified, led by healthcare, financials and semiconductors – despite high exposure to the latter.[18] We are encouraged by the earnings outlook: 12-month forward EPS growth is tracking at 19.6% and 2025 growth is expected to rise to 21.6% – far ahead of the 8% and 9%, respectively, for MSCI Europe. With a 12-month forward P/E of 16.1x, valuations at first glance appear elevated (especially versus European counterparts), but are in line with the 10-year range.[19] One source of near-term concern is the fact that the index derives an estimated 42% of revenues from North America – well above the pan-European average of 22% – and just 20% of revenues domestically – see chart.[20] We prefer to take benchmark exposure until uncertainty abates on future US trade policy.

Chart 4: High revenue generation from North America could be a source of short-term volatility



Source: Morgan Stanley, as of 8 August 2024. Based on the AEX index.

SPAIN: GOOD, BUT NOT GREAT

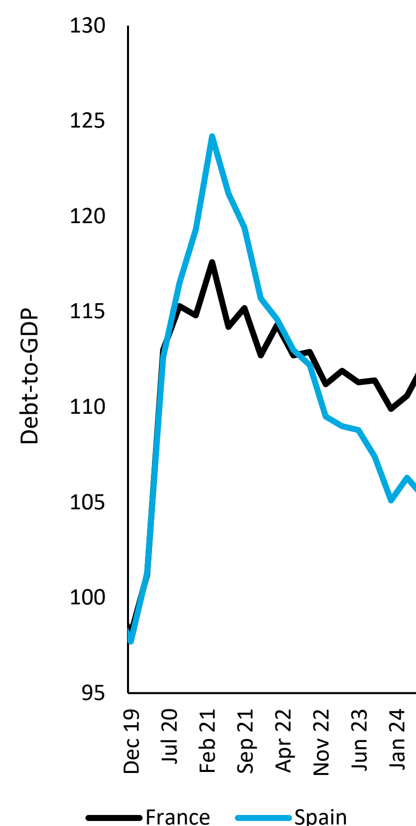
We stay mixed on Spanish equities amid favourable valuations and earnings momentum compared to other euro area stocks, but potential for economic growth to slow next year. Spain's economy grew by 0.8% in Q2 2024, surpassing consensus estimates (0.5%), driven by net trade and steady gains in investment and household consumption.[21] Despite this strong performance, growth is anticipated to moderate to 0.4%-0.5% in upcoming quarters,[22] though we think it should be buoyed by consumer spending and EU recovery fund investments.

The IBEX index's 12-month forward earnings growth sits at a mild 0.9% but remains much stronger than its peripheral peer, the FTSE MIB (-12.9%). The IBEX's P/E ratio remains depressed, down almost 30% since the 2022 peak, at 11.1x – lower than both MSCI Europe and the STOXX 600.[23] This signals an attractive entry point, in our view.

We also maintain a mixed view on Spanish government bonds. Spain has navigated quantitative tightening (QT) more effectively than countries like Italy, in our view, partly due to increased foreign investment as the Bank of Spain has scaled back its involvement. While the broader market faces mounting challenges as QT intensifies, continued offshore demand serves as a supportive technical factor for Spanish bonds, particularly given relatively tight spreads compared to Italian BTPs.[24]

Despite ongoing political uncertainty following the July 2023 general elections, where slim majorities heightened the risk of gridlock among the coalition of Spanish political parties, Spain has demonstrated strong fiscal performance this year. The country has notably outpaced France in reducing its debt-to-GDP ratio, which has been steadily declining since March 2021,[25] creating a relatively favourable environment for rates. The EU expects Spain's deficit to reach 3% this year and is not recommending disciplinary measures as it has for France. Spain has also cut its debt much faster than France post-pandemic. Its government expects a drop to under 103% of output this year, from around 120% in 2020.[26]

Chart 5: Spain's debt-to-GDP ratio has been falling faster versus some core peers



Source: Bloomberg, as of 30 June 2024.

There is no guarantee that any forecasts made will come to pass.

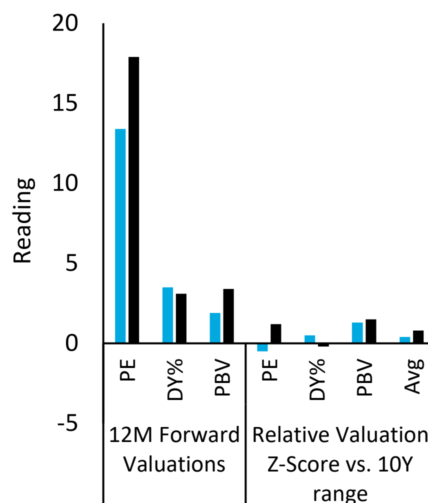
18 Source: Bloomberg, as of 25 October 2024. **19, 20** Source: Morgan Stanley, as of 18 October 2024. **21, 22, 23** Source: Bloomberg, as of 22 October 2024. **24, 25** Source: Goldman Sachs, as of 18 October 2024. **25** Source: Reuters, as of 1 October 2024.

SWITZERLAND: NOT THE TIME FOR SAFE HAVENS

We are less constructive on Swiss equities. The index's strong tilt to healthcare (34%) and financials (19%) helps the region stand out versus European peers as a relatively defensive exposure:[27] in theory, this should bode well for the Swiss equity index as a quality play, given the recent slowdown in activity data within Europe. Yet valuations and good-but-not-great earnings momentum at this juncture (with 12-month forward EPS growth at 10.6x)[28] – along with our view that euro area growth is not in dire straits – prompt us to look for opportunities elsewhere.

With a 12-month forward P/E of 17.8x, valuations are not only elevated versus broad Europe (13.9x) but also against the index's own historical average (at nearly one standard deviation above the 10-year range).[29] High revenue exposure to the US (29%)[30] could also be challenging for exporters, given increasing tariff risks.

Chart 6: Swiss equities are expensive for a defensive exposure



MSCI Europe ■ MSCI Switzerland

Source: Bloomberg, as of 8 August 2024.

There is no guarantee that any forecasts made will come to pass.

27 Source: Bloomberg, as of 25 October 2024. **28, 29, 30** Source: Morgan Stanley, as of 18 October 2024.

UK: A RELATIVE BRIGHT SPOT

We are positive on UK assets. The macro backdrop is a relative bright spot versus DM peers: there are few immediate challenges to growth, the labour market looks resilient, and inflation is below target.[31] At the same time, the BoE's rate path pricing is the least dovish among major central banks and well priced by the market. Our view is further supported by a more stable political outlook since the UK election, alongside the potential to increase investment within the economy, announced as part of the Chancellor's Autumn Budget. We see this supporting UK equities, with little impact on our gilts view. Ultimately, we see the Budget announcement as a clearing event: the removal of some uncertainty could allow UK companies to begin long-term investment plans that have been held up until now.

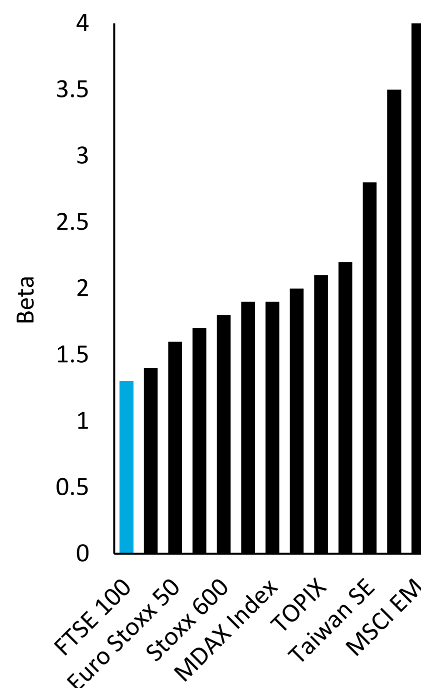
In equities, we are comfortable taking risks across market-capitalisation segments. We like UK large caps as a way to add cyclicality and some defence into equity allocations. The relative resilience of its sector makeup looks attractive, with sectors such as consumer staples (17.7%) and healthcare (12.1%) forming significant parts of the index.[32] We also like UK large-cap equities as a way for investors to hedge 'big tech' exposure globally – tech makes up less than 1% of the FTSE 100 index, with a 0.2 correlation to the 'Magnificent 7' mega-cap tech stocks from 2020 to now.[33] Large-cap UK equities also offer a broader hedge to global trade developments: the beta of UK equity market returns to changes in world trade is the lowest among DM equity indices – see chart.[34]

We also like UK mid and small caps relative to elsewhere in Europe and the US – partly as a rate-cut trade, but also given the relatively stronger UK macro backdrop. We see significant value within this segment and favour an active approach to unlock opportunities. Valuations in the UK look attractive, with small caps trading at a 12-month forward P/E of 14x; UK mid caps are similarly well-positioned, trading at a P/E of 16.4x, below their 10-year average.[35] On the large cap side, UK equities trade at a 40% discount to DM equities, based on a 12-month forward P/E ratio[36] – we think this points to the region being overlooked by investors, despite the UK's healthy macro backdrop and attractive valuations.

Across fixed income, we see opportunity in gilts and corporate bonds. We like sterling-denominated corporates – with c.5% income on offer[37] at a time when spreads are extremely tight elsewhere in the credit world. Despite spreads elsewhere tightening close to late-2021 levels, sterling corporates still trade at a discount relative to the US and Europe, at both the headline index level but also on a rating-adjusted basis.[38] For instance, the spread between BBB-rated sterling corporates and their US counterparts is approximately 20bps wider – providing an attractive entry point, in our view, for investors seeking higher yields without significantly increasing credit risk.[39]

We are comfortable taking gilt risk across maturities as we see the BoE cutting more than markets are pricing. Gilts have cheapened significantly since mid-September relative to both USTs and bunds, driven by policy rate differentials and residual fiscal concerns. The spread between 10-year gilts and bunds is 195bps[40] – we see room for this to drop closer to pre-UK election levels over the coming months, particularly as the market digests the favourable fiscal outlook.

Chart 7: The UK's low beta of equity returns to world trade growth could offer a hedge to global trade developments



Source: Datastream, WorldScope, Goldman Sachs Global Investment Research, July 2024.

There is no guarantee that any forecasts made will come to pass.

31, 36, 37, 39, 40 Source: Bloomberg, as of 28 October 2024. **32** Source: Bloomberg, as of 28 October 2024. Based on the FTSE 100 index. **33, 38** Source: BlackRock and Bloomberg, as of 28 October 2024. **34** Source: Datastream, WorldScope, Goldman Sachs Global Investment Research, July 2024. **35** Source: Bloomberg, as of 28 October 2024. Based on the FTSE 100 Index and the MSCI World Index.

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