Europe's time to shine

The Trump administration's frontal assault on global trade will not spare Europe. But the main victim could be the U.S. stock market, not least because of the high valuation gap between the U.S. and Europe. Together with the reform of the German debt brake, this makes Europe's equities relatively interesting.


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IN A NUTSHELL

- Europe needs to find itself. It is being driven to do so by U.S. foreign policy, the war in Ukraine and weak growth.
- Global investors have already found Europe: in the first quarter the stock market has outperformed the U.S. market by the most in 25 years.
- Germany's new government and the fiscal and defense package that has already been passed could extend the market's momentum into the longer term.
- Trump's unexpectedly drastic tariff measures on April 2 caused markets to slump. While some tariffs were paused for 90 days on April 9, we are still revising our forecasts. The damage has been done, trust was lost. In our view the tariff policy produces only losers, but we think Europe's equities have less to lose than America's. We are therefore upgrading them to overweight.

Three reasons for the European spring

Investors, troubled by U.S. politics, welcome the fresh impetus in Europe

Even before Donald Trump shocked the whole world with his questionable tariff package at the beginning of April, market developments amazed even American investors. While the S&P 500 slid in the first quarter, European equities performed well, outperforming the U.S. market by more than they have since the bursting of the internet bubble in 2000 – the performance gap in Q1 was around 25%.

Three factors are behind this. First, at the end of 2024 the already bubbly U.S. stock market was given a further boost by Donald Trump's election victory. This led to historically high valuations and to a record-high weighting of U.S. equities in the global equity basket. This, in turn, increased the downside risk for American investments after Trump's first weeks in government unsettled voters, companies and markets alike. The chaos caused by talk of punitive tariffs and drastic cuts of the U.S. administration by the Elon-Musk-led Department of Government Efficiency (DOGE) overwhelmed the markets' hopes for deregulation and tax cuts. In addition, the Chinese artificial intelligence (AI) company DeepSeek put a damper on the myth of the almighty U.S. tech sector.

Second, under the impression that it can no longer count on U.S. support, Europe has responded to what seems the end of the post-war order. Germany's fiscal U-turn is important and will give other European countries greater fiscal leeway. In particular, the significant reform to Germany's debt brake, which limits the structural fiscal deficit to just 0.35% of gross domestic product (GDP), has been met with great enthusiasm by international investors. Third, these two developments took place when European equities were trading at a record discount of around 40% to U.S. equities and were more than ready to rebound. At the same time, Eurozone economic data has consistently exceeded economists' expectations since mid-2024, while in the U.S. the data began to disappoint in November last year.

Fig. 1: The economic figures for Europe are surprisingly positive, while those for the U.S. are negative.

Citi Economic Surprise Index. Sources: LSEG Data and Analytics, DWS Investment GmbH as of 4/3/25

Trump’s policies mainly produce losers – but Europe might suffer relatively less

In this report, we want to show why we believe that the German fiscal package can alleviate the country's growth problem somewhat without seriously endangering its creditworthiness. To do this, we look at how quickly the funds from the two packages (infrastructure and defense) will flow into the economy and to what extent the end of the debt brake could affect Bund yields.

In the second part of this report, we discuss our upgrade of European equities. With the Trump administration's latest tariff package, the coordinates of the global economy have changed significantly, especially since we assume that the U.S. government is convinced from its plan. The so-called Trump Put, i.e. the hope that Trump would not implement his most economically damaging ideas if the stock markets slumped enough, has proved to be wishful thinking. We believe it was the bond markets that forced him into a partial U-turn on April 9. Some of the highest tariffs will now be paused for 90 days. The damage has been done, however. The trade war with China is further escalating and companies’ capex plans are still faced with a more uncertain environment. And of course, tariffs are still being increased substantially. Our global growth forecasts and share-price targets will have to be adjusted downwards. We believe, however, that the forecast changes we will be making are liable to reinforce our case for a relative upgrade of Europe. Investor funds should continue to flow out of U.S. assets, which are still significantly more highly valued on a relative basis, to Europe.

1 / Friedrich Merz reigns even before becoming chancellor

1.1 What the trillion-euro package contains and what remains of the debt brake

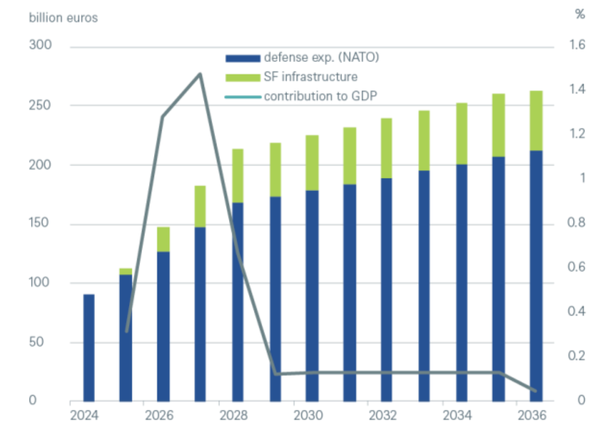
The incoming German chancellor, Friedrich Merz, managed on March 18 to obtain the needed two-thirds support in the Bundestag for constitutional amendments that free up fiscal spending. The first part of the constitutional amendment establishes a so-called special fund for 500 billion euros in additional investments over a period of twelve years in infrastructure and to achieve climate neutrality by 2045. Specifically, the federal government is allowed to spend 300 billion euros on infrastructure measures and the states 100 billion euros. The remaining 100 billion euros will go to the climate and transformation fund. The crucial point here is that the special infrastructure fund may only be used for “additional” investments. This is to ensure that the money does not end up in other projects or social spending.

The second part of the constitutional amendment concerns the federal states which in future will be allowed to take on debt amounting to 0.35% of GDP – this year that would be around 15 billion euros. Until now state budgets have always had to be balanced.

The third part of the constitutional amendment concerns defense spending (the Bundeswehr -- the armed forces; and other security measures). Spending that exceeds 1.0% of GDP will be disregarded when calculating the permissible new federal debt. Not only military defense, but also civil and population protection, cybersecurity and the intelligence services can benefit from this exception. We assume that defense spending according to the NATO definition will gradually increase from the current level of 90 billion euros (2024) to 170 billion euros from 2028. This would correspond to an increase from 2% to 3.5% of GDP.

Government spending could increase by up to 200 billion euros p. a.

Fig. 2a: Additional defense and infrastructure spending could add more than 1 percentage point to GDP growth by 2027



Sources: German Ministry of Defense, DWS Investment GmbH as of 4/7/25

Fig. 2b: The fiscal package hits overall underutilized capacities. But one needs to look at single sectors in Germany.

Sources: Haver Analytics, DWS Investment GmbH as of 3/31/25

This means that large parts of the German debt brake that previously kept the cyclically adjusted federal deficit to 0.35% of GDP have been dropped. Nevertheless, Germany will remain a solid debtor. Even if all possibilities are exhausted “to the limit,” the federal financing deficit is unlikely to exceed 4%, and in 2036, when the special fund has been used up, the public debt ratio would be just over 80% -- still the lowest among G7 countries. Under slightly more realistic assumptions, we expect the public debt ratio to be around 75% in twelve years.

Why we view the package positively

We assume that it will take several years before defense spending reaches the target of 3.5% of GDP. We also assume that the fiscal multiplier from this spending will initially be well below one (see figure 2a). Especially in the beginning, a lot of money will presumably be spent on restocking empty warehouses and some goods will be ordered from abroad. Only later are potential spillover effects on the rest of the economy likely to become visible. We take a similar approach when estimating infrastructure spending. Although we expect a fiscal multiplier of one from the outset, we assume that it will take years before the 50 billion euros per year are spent, given Germany’s slow-moving bureaucracy. However, since both fiscal impulses are aimed at underutilized capacities in industry, as Fig. 2b shows, we assume that they will provide a significant positive economic stimulus. That is why, in March, we have raised our growth forecasts for Germany to 0.4% this year and 1.6% next year. Thanks to growth and the comparatively low initial level of debt, we continue to see Germany as a financially solid borrower. After Trump's tariff package, we will in all likelihood have to reduce our estimates. However, we expect the debt ratio to remain at a relatively solid level.

Germany's growth problem calls for additional structural reforms

However, Germany has, above all, a big growth problem. Lagging investment in infrastructure is evident not only in many country comparisons; it can be seen by anyone who travels in Germany by any means of transport or tries to communicate electronically with the public authorities. The German Council of Economic Experts puts potential growth for Germany at just 0.5% per year. Without comprehensive structural reforms this meager growth won't improve and the new financing options for the federal government will prove merely a flash in the pan -- or inflationary.

The labor market is an important lever for raising potential growth. Structural reforms are urgently needed to improve labor supply. These would include steering migration towards more highly qualified immigrants, raising the statutory retirement age or, at least, the actual retirement age, and increasing incentives for the unemployed to take up work. This requires a comprehensive reform of social services. To be able to compete internationally in the long term, Germany also needs big investments in education, where it is also at risk of falling behind. It remains to be seen, however, whether the new federal government will take a sufficiently bold approach to structural reforms.

Political impact in Germany

The fiscal package, so celebrated outside Germany, could also have a high political toll domestically. Resignations in the Christian Democratic party (CDU) have increased since the election, and many members, but also Christian Democratic voters, are disappointed, especially because Merz had expressed completely contrary opinions on federal debt only a few days before the election.[1] Many people are not willing to accept that a disastrous conversation between Trump and Zelensky appears to have undermined the entire basis of his previous party program, leading him to fiscal expansionism. According to an Insa opinion poll from April 4, approval of the far-right Alternative for Germany (AfD) is at a historic high of 24% nationwide – on par with support for Merz's Christian Democrats.[2] The degree to which the mood in Germany will change depends on how clearly a change in political direction is implemented. So far, however, there is little sense that the election result and Merz's plans have sparked any enthusiasm among German companies. But we note that the coalition agreement presented on 9 April managed to exceed low expectations. Especially incentives for new investments and concrete measures on how to reduce red tape are positives.

1.2 Will the rest of Europe follow suit?

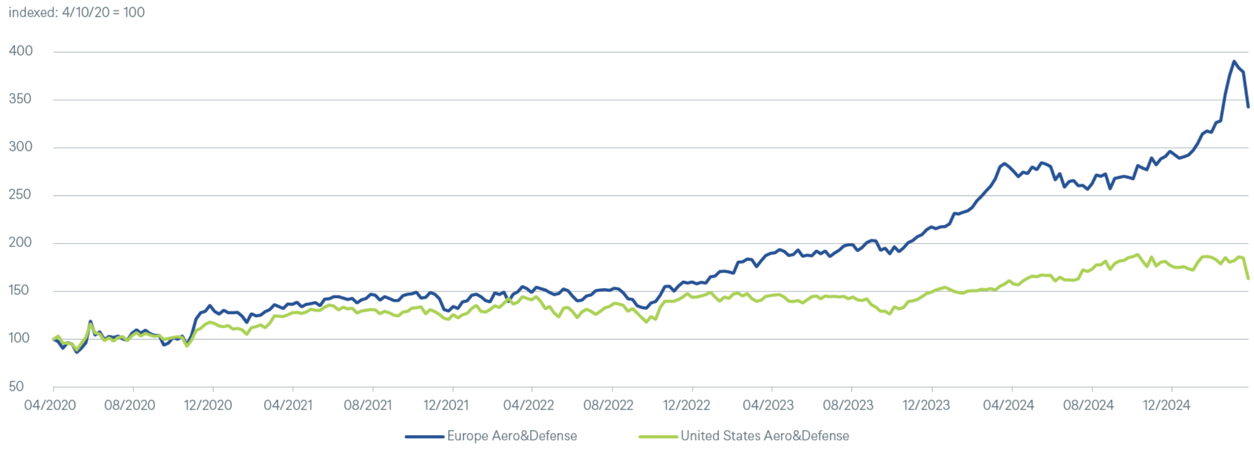
Smaller EU defense package planned, but budget restrictions are slowing down individual countries

The European Commission responded to the changing global security architecture with the ReArm Europe Plan – Readiness 2030. According to the Commission, "it will enable member states to access over €800 billion of defense investment, with mechanisms like the Security Action for Europe (SAFE), which will provide €150 billion of financing for joint military procurement. These funds will be channeled into European-made defense equipment, to foster innovation and ensure interoperability between national armed forces."[3] As part of the financing strategy, the Commission has encouraged Member States to make use of the Stability and Growth Pact's national escape clause, which allows them to temporarily increase defense spending within the fiscal rules. In addition, the European Investment Bank will play a key role in mobilizing private capital to support defense projects.

We are cautious about the package. Ultimately, only the 150 billion euros are really new funding that the European Union (EU) will provide. The willingness of individual Member States to make use of the escape clause of the Stability Pact to raise the further 650 billion euros is likely to be limited for a variety of reasons. Not only in the case of Italy and France the strained budgetary situation simply does not allow it at present.

[1] See Die Welt, March 25, 2025, CDU-Austrittswelle: „Das war definitiv das letzte Mal, dass ich auf so etwas reinfalle"
[2] See Wahlrecht, as of 4/4/25
[3] European Commission, March 12, 2025, "Introducing the White Paper for European Defence and the ReArm Europe Plan- Readiness 2030"

Fig. 3: European rearmament has been aggressively played on the stock exchange for over two years



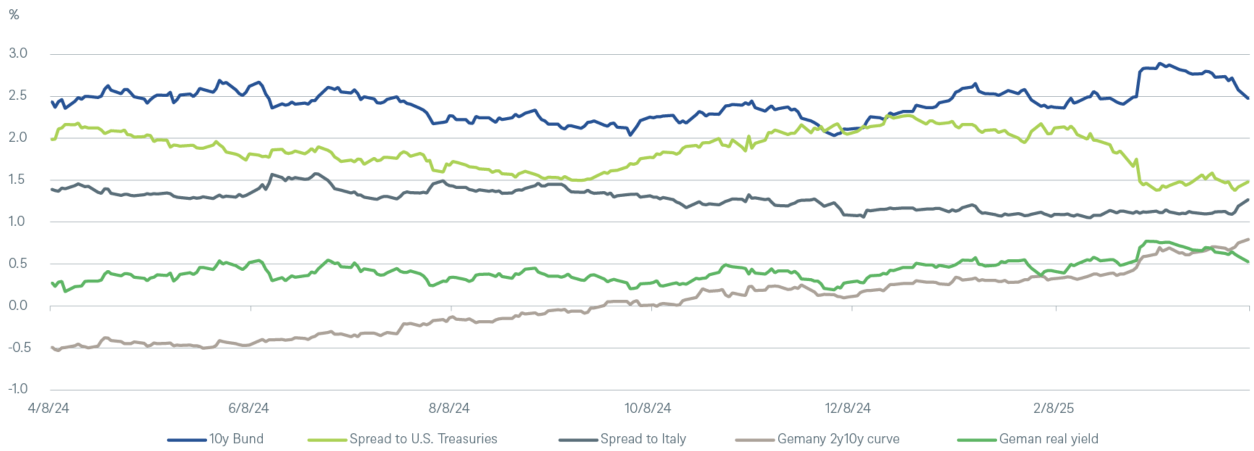
Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 4/4/25

1.3 Restrained reaction of the bond markets justified by debt outlook

German government bonds have reacted quite cautiously to the package overall. The initial impressive jump of 30 basis points in yields almost halved over the course of three weeks. The bond markets are now dominated by economic rather than inflation concerns. In response to the fiscal package and expected impact of potential Trump tariffs we have cut the forecast for interest-rate cuts by the European Central Bank (ECB) from three to one up to and including March 2026. Whether this needs to be amended because of the actual tariff policies remains to be seen.

We think there are two reasons for the muted market reaction. First, the market may have doubts that the fiscal package will have a significant impact on the federal budget as soon as 2026 and thus on borrowing by the federal government. Secondly, our model calculations, which are admittedly rudimentary given the many imponderables, show that even under very pessimistic assumptions the debt ratio in five years should not exceed 80% of GDP.

Fig. 4: The U.S. tariff shock is now the main driver of rates globally.



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 4/7/25

2 / We upgrade European stocks to Overweight

2.1 European equities – trend reversal or short-term correction?

Long history of woe for European equities, especially compared to the U.S.

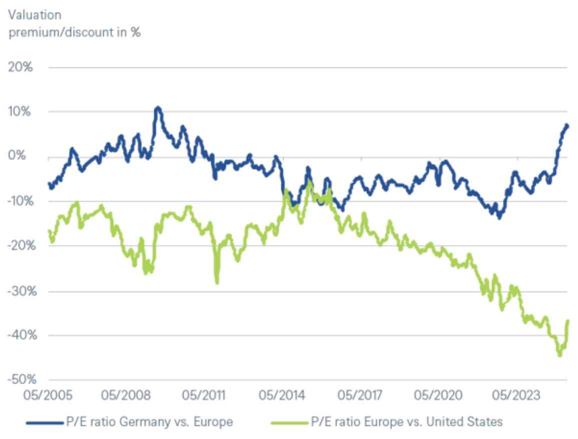
Even before the latest market ruptures, a trend reversal seemed to be in the air. The era in which U.S. equities left their global competitors far behind began with the end of the financial crisis in 2009 and was due to the decisive intervention of the U.S. Federal Reserve (the Fed), solid economic growth (albeit at the expense of rising debt and high budget deficits), and, of course, the dominance of the U.S. tech sector. But, remarkably, the election of Donald Trump last November marked the point at which German equities began to outperform American ones. Since end-2024 European equities have done the same. However, as Figure 5a shows, the most recent outperformance is small by comparison to the long-term underperformance. Figure 5b in turn, shows (indirectly) that this was also due to faster-rising U.S. earnings, as the valuation discount (measured by the price-to-earnings (P/E) ratio) fluctuated at around 20% for almost a decade. But from 2016 it widened to as much as 40%, strongly influenced, too, by rising valuations on U.S. markets – in 2021, the S&P 500 was trading at a P/E ratio of 22 on the estimated profits for the following year, compared to 16 in 2016. Within Europe, the charts also show that Germany is once again standing out positively after almost ten weak years. Although prices have only been performing significantly better for about half a year, Germany's 10% valuation discount to the rest of Europe in 2022 has turned into an almost equally high premium today.

Almost two decades of underperformance compared to the U.S. have led to a record valuation discount. Germany, in particular, has recently been able to close the gap somewhat.

Fig. 5a: Performance: European equities have underperformed the U.S. for decades. Within Europe, Germany has recently outperformed.*

* Based on regional Datastream total return equity indices. LSEG Data and Analytics, DWS Investment GmbH as of 4/7/25

Fig. 5b: Valuation (P/E ratio): Europe is still cheap compared to the U.S., while Germany is more expensive than Europe for the first time in 15 years.*



* Based on regional Datastream equity indices Sources: LSEG Data and Analytics, DWS Investment GmbH as of 4/4/25

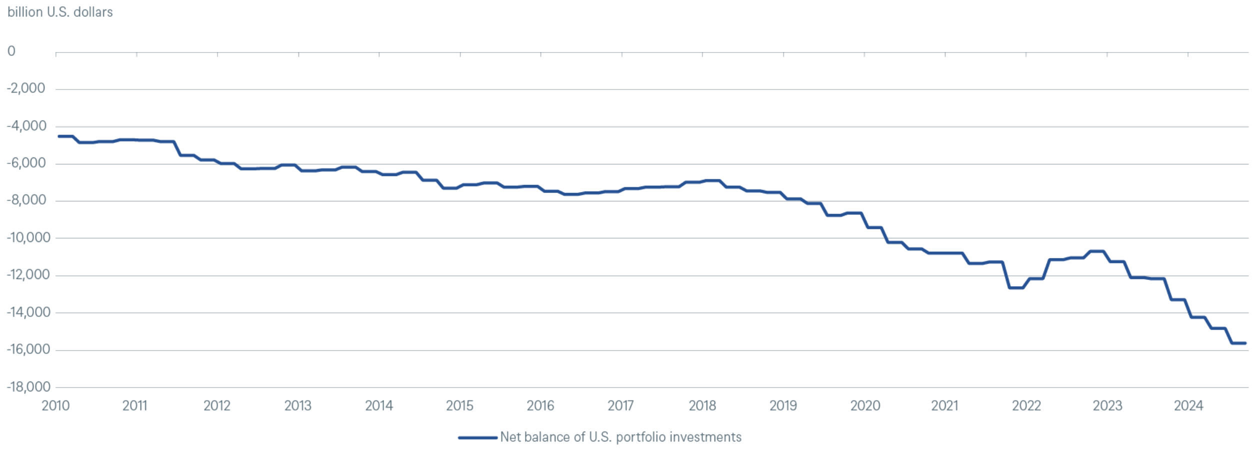
The good performance of Europe and especially Germany compared to the U.S. since the election of Donald Trump is remarkable given that export-oriented countries have been considered particularly vulnerable to Trump's punitive tariff plans from the outset. Whether investors already suspected at the time that Trump's election would weld the rest of the world more closely together, or whether the Dax, in particular, profited from the fall of the so-called traffic-light coalition led by the Social Democrats, also at the beginning of November 2024, and the prospect of early new elections, is everyone's guess.

After the slump in global markets at the beginning of April, Europe has completely retraced the additional valuation discount built up since mid-2024 against the U.S. But the discount still amounts to 33% (Fig. 5b shows smoothed 6-month figures). However, we assume that the P/E ratios based on future earnings give a distorted picture, since the earnings revisions for corporate results are implemented only after a slight time lag.

For years funds flowed mainly to the U.S.

Two things must be kept in mind when comparing the two markets: 1. The different market sizes: the S&P 500's 50 trillion U.S. dollar market capitalization stands in contrast to the Stoxx 600's 10 trillion euros, and if we focus on the second-line stocks, leaving out the 200 largest among the 600 companies, we are left with just 3 trillion euros. In other words: 6% of the S&P 500 will buy you Europe's entire small- and mid-cap sector. 2. With the onset of the Covid pandemic, the flow of foreign investment funds to the U.S. accelerated once again. Just as American consumers buy goods from abroad, foreigners buy American financial assets. Figure 6 shows the net position of these investments (i.e. the sum by which the investment volume of foreigners in the U.S. exceeds the investment volume of Americans abroad) –16 trillion dollars. Should even a portion of this flow back, simply because governments in the new multipolar world want to repatriate not only production facilities but also their capital, funds could continue to flow out of the U.S. and back into European financial assets for some time.

Fig 6: Foreign investors have built up USD 16 trillion worth of U.S. financial assets. Is this trend about to reverse?



Sources: Haver Analytics, DWS Investment GmbH as of 09/2025

Uncertain cyclical picture after Trump's tariff tantrum

The picture for sector returns since the beginning of the year has changed significantly with the market turbulence at the beginning of April. While cyclical stocks had led the ranking in Europe so far, investors have recently sought refuge in defensive stocks. Cyclicals have lost the lead they built up over defensive stocks over the past six months.[4] It is also plain to see that the very sectors that were still doing well until February lost the most – investors cashed in their winning chips. Growth concerns in the U.S. and the slowly emerging recovery in the manufacturing sector spoke in favor of Europe's sector mix with its stronger cyclical orientation until mid-March. This argument has weakened because of the tariff blow to trade, though we believe that the potential for disappointment for the growth segment is still higher in the U.S. Nonetheless, the technology sector continues to play an important role. Even the trend in artificial intelligence (AI) might now be seen as a positive factor for Europe: AI euphoria in the U.S., which mainly involved the inventors, enablers and providers of AI solutions, is slowly waning, while AI investing is only now starting to be a factor in Europe as the manufacturing industry uses AI to increase sales and reduce costs.

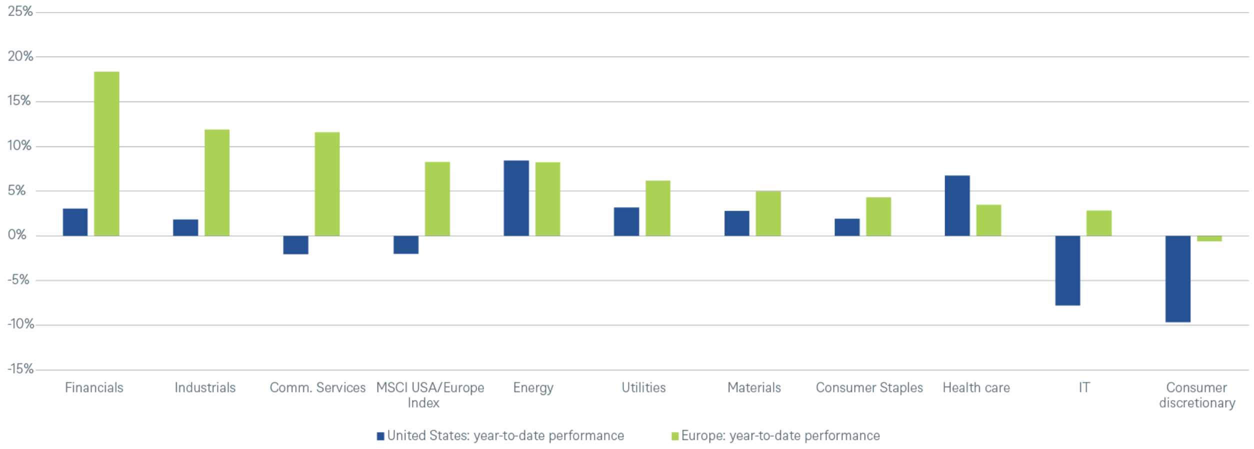
Structurally, the U.S. has the better sector mix; Europa has a stronger cyclical bias

The different sector compositions should always be borne in mind when discussing the structural drivers that distinguish U.S. and European equity markets. The U.S. markets have some things going for them. Due to their high weighting of technology, media/internet and healthcare companies, they are significantly less cyclical than Europe and, in our view, have a correspondingly higher proportion of high-margin "structural growth companies." Furthermore, these companies, like the entire S&P 500, have a higher profit margin than the Stoxx 600 (12.7% vs. 10.3% for 2024, according to Bloomberg). And even if the dominant technology stocks, represented by the Magnificent 7 Index, for example, have a valuation in 2024 that

[4] See, for example, the UBS EU Cyclicals vs Defensive pair index

is ambitious due to AI euphoria, we continue to expect them to make the main contribution to S&P 500 profits in the future. The better demographic basis also speaks in favor of U.S.-centered equities: in contrast to Europe, the total working population is still growing in the U.S. What currently, in our view, speaks against the U.S., of course, is the political situation. Tariffs *and* tariff uncertainty dominate the minds of company managements. If the tariffs announced by Trump are maintained, all international supply chains will be strained beyond breaking point. Defensive sectors continue to dominate in this market, of course.

Fig. 7: European stocks still ahead year-to-date, but sector performance has been shuffled with Trump's tariff tantrum



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 4/8/25

Valuation – cheap versus U.S. and in line with historic averages after market turbulences

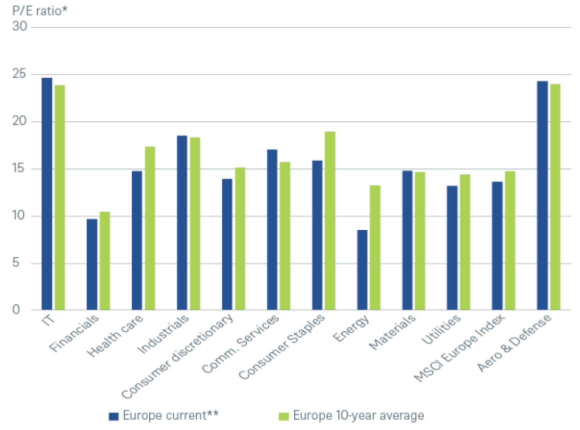
Figure 8a shows how the valuation of individual sectors compares with those in the U.S. Although the discount of European equities against the U.S. of over 30% is striking, there are major discrepancies between sectors. The valuations are very similar in two sectors that are currently in focus: information technology (IT) and aerospace and defense. Figure 8b, in turn, shows that with the recent market correction, half of the sectors in Europe are now cheaper than their ten-year average. However, this is again based on 2025 earnings estimates, which are likely to be too high.

Valuation (P/E ratio) of single European sectors versus the U.S. and versus own 10-year historical average

Fig. 8a: Europe still cheaper compared to the U.S.

* With the exception of Aero & Defense, which is based on the STOXX Europe Total Market Aerospace & Defense, all sector data is based on MSCI sub-indices. Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 4/8/25

Fig. 8b: Small divergence to 10-year average in Europe

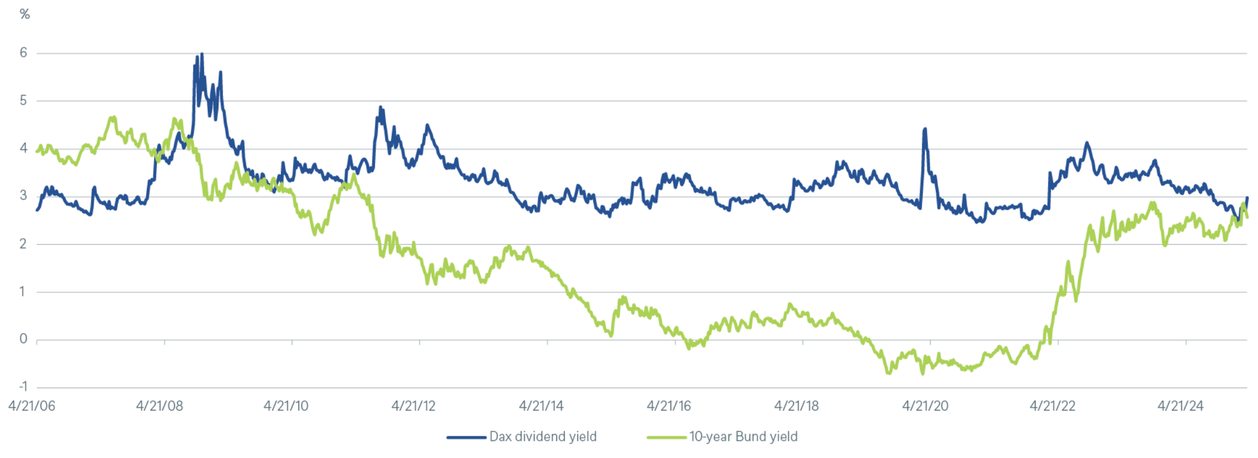


* With the exception of Aero & Defense, which is based on the STOXX Europe Total Market Aerospace & Defense, all sector data is based on MSCI sub-indices. ** Based on earnings expectations for 2025. Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 4/8/25

Earnings growth gap between EU and U.S. might narrow but short-term headwinds very likely

In terms of earnings momentum, Europe has looked rather bleak since the 2007/08 financial crisis – and the period from 2010-2020 could be called the lost-earnings-growth decade. For 2025 and 2026, we had previously expected the growth rates in profits in both regions to converge at a high-single-digit rate. We will have to review the absolute size of these estimates in the wake of Trump's tariff package – but the comparison could now turn out even more favorably for Europe. Even though the valuation discount compared to the U.S. is still historically very high and speaks for a European Overweight, another valuation ratio is currently coming into focus for European investors: the 10-year Bund yield and the Dax dividend yield are close to equal at around 2.5% after more than 12 years of sometimes high divergence, as Figure 9 shows. However, anyone concerned about a new surge in inflation because of the fiscal package and the tariff war is likely to favor equities over bonds.

Fig. 9: Measured by dividend yield, German equities are not cheap, neither historically nor relative to bonds.



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 4/4/25

2.2 European equities raised to Overweight

Until Trump's tariff packages, we had no regional preferences for equity investments. However, we have now decided to upgrade and overweight Europe. In addition to all the arguments already mentioned in favor of Europe's relative strength, we believe there is another important market aspect: should nervousness continue to prevail in the markets and riskier investments continue to be shunned we think that investors will create liquidity primarily where the most profits have been generated. And that has mainly been the case in growth sectors, which have a significantly greater market weight in the U.S. than in Europe.

No country preferences within Europe

We also have no preferences between German and European equities – not least because we hope that the change in German spending and debt policy could send a longer-term positive signal not only to German but also to European equity markets. However, for this to happen, it is imperative that the Chancellor-in-waiting, Friedrich Merz, can incorporate ambitious structural reforms into the coalition agreement with the Social Democrats, and that these are also visibly implemented. Especially important is a reduction in bureaucracy and measures to increase the labor supply.

Small and midcap stocks have catch-up potential and larger home share, but struggle with the weak economic outlook

The current economic environment is ambiguous for small and mid caps (SMid caps). They have several strong points:

1. Those seeking to distance themselves from the government chaos in the U.S. and to participate in European fiscal projects need companies with a high share of sales in their home market and a higher cyclical component. SMid caps offer both to a greater extent than large caps. For example, the Dax is assumed to have a European revenue share of only 30%, while the MDax (the 40 biggest German stocks after the Dax 40) has a 40% share.
2. SMid caps have suffered disproportionately from the rise in bond yields in 2022 and 2023, as shown in Fig. 10a, as their debt is financed on a shorter-term basis. For around two years now, SMid caps and large caps have been performing similarly on the stock market, in line with bond yields, which have been fairly stable since then. Worries about growth should prevent 10-year Bund yields from rising to 3% soon again.
3. As Fig. 10b shows, small caps are at a 15-year low compared to large caps, two standard deviations from the 15-year average. This is not in itself a signal that this is the right time to enter the market, but it is a strong structural argument in favor of the segment.

On the other hand, Trump's big tax package is hitting SMid caps twice, through market turbulence and because of economic fears. In addition, the tariff package affects all companies, regardless of their market capitalization, with a high degree of internationalization in their supply chains. In view of this mixed situation, we do not generally favor second-tier stocks in the European context but look for opportunities at the individual stock level.

Europe's small and mid (SMid) caps down significantly compared to large caps – despite better earnings momentum

Fig. 10a: High interest rates weigh on SMid Caps

* NTM = next twelve months. ** Stoxx Europe Mid 200. *** Stoxx Europe 50. Sources: Bloomberg Finance L.P., LSEG Data and Analytics, DWS Investment GmbH as of 4/7/25

Fig. 10b: Record valuation discount versus large caps

* Stoxx Europe Mid 200. ** Stoxx Europe 50. Sources: Bloomberg Finance L.P., LSEG Data and Analytics, DWS Investment GmbH as of 4/7/25

3 / Equity markets are facing difficult times. We believe that Europe may provide less risk.

Finally, we want to reiterate that our upgrade of European equities does not mean that we are certain to expect positive returns over the course of the year. The implementation of Trump's tariff plans – even after a 90-day pause -, is likely to cause further market volatility. Even the tariffs that are kept in place will already be burdening companies and consumers. Our upgrade is a relative upgrade, particularly against the U.S. market (which, after all, still accounts for two-thirds of the global equity market). Or, to put it more clearly: we believe that the downside risk for European equities is lower than for U.S. equities. At the same time, however, we also see better positive return potential in Europe should tariffs not be maintained at their current level. In any event, trust has been damaged for the long term, and the desire of companies and investors to reduce their positions in the U.S. is therefore understandable in our view.

Glossary

Artificial intelligence is the theory and development of computer systems able to perform tasks normally requiring human intelligence.

One basis point equals 1/100 of a percentage point.

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

The Citi Economic Surprise Index (CESI) tracks for various locales how actual economic data compares to consensus forecasts.

The Dax is a blue-chip stock-market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

The debt brake limits the German federal government to new borrowing of no more than 0.35% of gross domestic product.

The dotcom bubble refers to the rapid rise and eventual collapse of equity market valuations of technology stocks from the late 1990s to 2001.

The European Central Bank (ECB) is the central bank for the Eurozone.

The European Commission (EU Commission) is the executive body of the European Union (EU) which represents the interests of the EU.

The financial crisis refers to the period of market turmoil that started in 2007 and worsened sharply in 2008 with the collapse of Lehman Brothers.

Fiscal policy describes government spending policies that influence macroeconomic conditions. Through fiscal policy, the government attempts to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy.

The Group of 7 (G7) consists of the finance ministers and central-bank governors of the seven major advanced economies as reported by the International Monetary Fund: Canada, France, Germany, Italy, Japan, the United Kingdom and the United States. They meet to discuss primarily economic issues.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Magnificent 7 is a name for the group of the 7 largest stocks in the S&P 500.

The MDax is an equity index, which includes the 50 German Prime Standard companies ranked directly behind the 40 Dax companies, from sectors excluding technology.

NATO is a Western military alliance with currently 30-member states.

Overweight means the investment holds a higher weighting in a given sector or security than the benchmark.

The price-to-earnings (P/E) ratio compares a company's current share price to its earnings per share.

A recession is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

The S&P 500 is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

The Social Democratic Party of Germany (SPD), also referred to as the "Social Democrats," is a social-democratic political party in Germany that is considered center-left in the German political landscape.

The Stability and Growth Pact (SGP) is an agreement among the 27 member states of the European Union to foster and maintain the stability of the Economic and Monetary Union and to monitor and prevent an excessive fiscal deficit.

The Stoxx Europe 50 is an index representing the performance of the 50 largest companies across developed European countries.

The Stoxx Europe Mid 200 is an index representing the performance of 200 mid capitalization companies across 17 European countries.

The U.S. Federal Reserve, often referred to as "the Fed," is the central bank of the United States.

The UBS EU Cyclicals vs. Defensives pair is an index which represents the ratio of the UBS EU Cyclicals index (basket of European companies of economically sensitive industries) and the UBS EU Defensives index (basket of European companies which are less affected by business cycles).

Important information – EMEA, APAC, LATAM & MENA

Important information – North America

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