

Europe summer 2025: Headlines galore

Frédérique Carrier – London

This summer has brought heavy news flow in Europe, from the detailed announcement on German infrastructure spending to the U.S.-EU trade deal and diplomatic talks on the war in Ukraine. We look beyond the headlines to identify what we view as attractive areas of the European equity market.

Coming in “thick and fast”

A key pillar of the euro area growth recovery over the next few years is Germany’s renewed fiscal drive. According to RBC Capital Markets, recent announcements point to not only very sizeable, but also front-loaded, spending, in its words, “thick and fast.”

In a radical shift from many years of fiscal prudence, the German government announced in March that it would:

- Create a 10-year €500 billion infrastructure fund which would not count towards the government’s borrowing limit and
- Stop counting any defence spending above one percent of GDP towards that limit.

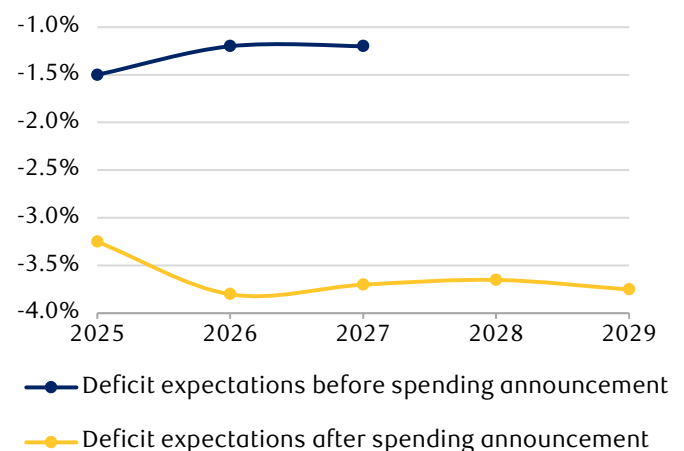
The Federal Ministry of Finance announced concrete figures behind these pledges in late June.

The German government is front-loading its special infrastructure fund, with around €58 billion by 2026, alongside some €25 billion in annual defence spending. Peak stimulus and the deepest fiscal deficit are penciled in for 2026.

Moreover, the details released by the Finance Ministry show that a high share of the spending is going to areas which should boost economic growth. In 2025 alone, €22 billion, or about 0.5 percent of German GDP, is

Front-loaded spending will deepen Germany’s deficit

German Finance Ministry’s deficit expectations (% GDP)



Source - German Finance Ministry, Bundesbank, RBC Capital Markets, RBC Wealth Management

going to rail sector improvements. Furthermore, there is €4 billion per year for housing projections, €4 billion for digitalization, and €6.5 billion for education and childcare.

RBC Capital Markets expects this spending to be a substantial stimulus for German and, therefore, euro area growth in 2025 and 2026, though the stimulus should fade

For perspectives on the week from our regional analysts, please see [pages 3–4](#).

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Priced (in USD) as of 8/20/25 market close (unless otherwise stated). Produced: 8/21/25, 15:29 ET; Disseminated: 8/21/25, 15:40 ET

beyond that point. This increases RBC Capital Markets' confidence in its slightly above-consensus growth estimates of 1.3 percent and 1.5 percent, respectively, for this year and next for the bloc as a whole.

The trade deal beyond the headlines

The U.S. and the European Union (EU) reached a deal in late July that introduces 15 percent tariffs on most EU exports, including automobiles, pharmaceuticals, and semiconductors. Tariffs on steel and aluminium remain subject to global tariffs of 50 percent, though discussions are ongoing regarding possible reductions.

Furthermore, the European Commission, which negotiated the terms of the deal on behalf of member states, committed to the EU investing \$600 billion in the U.S. economy and purchasing \$750 billion in U.S. energy exports over the next three years.

Initially, the deal was poorly received in Europe. The 15 percent tariffs were higher than the 10 percent tariffs which had been in place since April 2025, so it seemed the EU had capitulated. This disappointed many observers given the EU market of 450 million people with high per-capita spending power is a geo-economic force.

We note, however, that the agreed-upon tariff is lower than the 30 percent U.S. President Donald Trump threatened in June. And while the 15 percent rate doesn't compare as favourably with the UK's 10 percent tariff, the torrent of trade deals with other trading partners announced since then feature tariffs that are at or above 15 percent, suggesting to us that the EU is not in a weaker competitive position after all.

The concessions made—the promise of higher European investment and energy purchases—cannot be fulfilled by the European Commission. While it has the authority to negotiate trade deals, it has no power over private investment, nor does it have the authority to tell companies where to buy energy. The RBC Capital Markets Commodity Strategy team is skeptical that \$750 billion in U.S. energy can be delivered to the EU in the next three years.

Finally, the EU has not given up regulating U.S. multinationals on European soil, nor its power to impose a digital services tax (it still holds those valuable cards).

Meanwhile, it appears that Trump has abandoned the idea of treating the value-added tax—a sales tax typically over 20 percent—levied by EU member states as an unfair tax barrier to U.S. exports.

Overall, we believe this deal is not as disadvantageous to Europe as early reactions have suggested.

Buoyed sentiment?

After a strong start to the year, and a swift recovery from the April 2 reciprocal tariff announcement correction, European equities have stalled this summer, their performance overshadowed by that of the U.S. tech sector and currency moves. But overall, the STOXX Europe ex UK Index has still returned over 13 percent year to date in local currency terms (including dividends), ahead of the S&P 500's 9.5 percent return in dollar terms. Thanks to the significant U.S. dollar weakening versus the euro this year, returns of the STOXX Europe ex UK are around 28 percent in U.S. dollar terms.

Performance has been driven by value stocks including banks (up almost 60 percent in local currency), with construction and materials, insurance, and utilities all gaining more than 20 percent. Most quality stocks have underperformed, partly reflecting the market rotation into value but also a range of idiosyncratic factors resulting in earnings downgrades.

Looking forward, we believe a diplomatic resolution to the Ukraine conflict could act as a positive catalyst for European equities. Hope of reconstruction efforts could arise though this would require hostilities to come to a sustainable end. If that were to be the case, banks, particularly those with Central and Eastern Europe exposure, would likely benefit, in our opinion, as would construction and aggregate firms. Lower energy prices, thanks to reduced transport and insurance costs, could also benefit the region but the price improvement is likely to be marginal as EU sanctions on Russia will likely persist, even with an eventual ceasefire.

Overall, while sentiment could improve in the short term for European risk assets on the back of seemingly successful diplomatic efforts, we caution against being overly optimistic about an immediate, lasting end to the hostilities as the issues associated with this are complex.

Regardless, in our view, the investment case for Europe remains, based on an economic recovery thanks to lower interest rates, the German fiscal programme, and the EU's commitment to investing in its defence industry. The STOXX Europe ex UK Index trades at 16.2x the next-12-months consensus earnings forecast, slightly above its long-term average, a premium we believe is warranted given the region's improved medium-term growth outlook.

We continue to prefer sectors we think are likely to benefit from the fiscal stimulus, such as select industrials, including defense, and materials. In our view, banks should benefit from the region's improved medium-term growth outlook, while continuing to offer attractive dividends and share buybacks opportunities.

With contributions from Thomas McGarrity, CFA

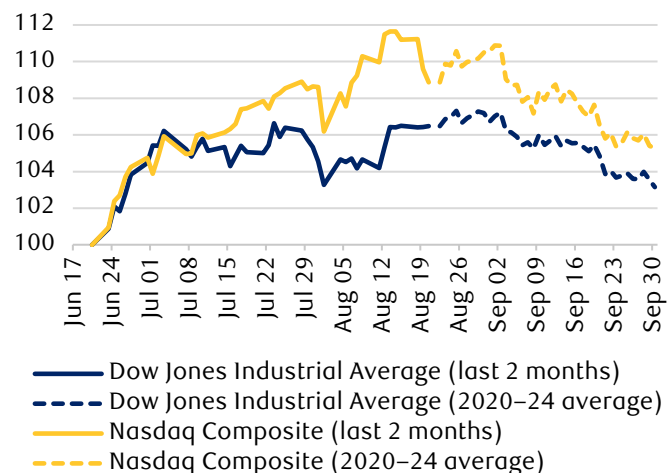
UNITED STATES

Alan Robinson – Seattle

- **U.S. stock indexes suffered a summer swoon during the week** with the S&P 500 logging its fifth straight losing session by midday Thursday. Three factors drove the weakness: fund flows out of technology stocks, profit-taking ahead of the annual Jackson Hole meeting hosted by the Kansas City Fed, and generally weaker economic data. The tech-heavy Nasdaq underperformed the value-oriented Dow Jones Industrial Average after a strong run higher since the start of July. Investors also flagged the likelihood of the traditional seasonal weakness in stocks beyond Labor Day (see chart).
- **Stretched valuations for AI-related stocks have been a key talking point this summer**, but this concern was brought into sharp focus by comments from OpenAI CEO Sam Altman that AI “...may be in a bubble.” An MIT study released during the week added to the malaise with a finding that despite \$30–\$40 billion in total enterprise spending on generative AI, 95% of organizations are seeing no business return, although this is likely due to flawed enterprise integration as generic AI tools don’t learn from or adapt to workflows. And Meta Platforms, Inc. (META) piled on by announcing a freeze in AI hiring during the week.
- **All eyes were on the Jackson Hole Economic Symposium starting Thursday (8/21)**, with a focus on Fed Chair Jerome Powell’s speech on interest rate policy on Friday (8/22). We will be looking for any deviation from the minutes of the July Federal Reserve meeting in which a majority of the 18 policymakers in attendance “judged the upside risk to [tariff-driven] inflation as a greater risk than a weak labor market.” The speech may provide

Get ready for cooler conditions

Relative performance over the last two months, with implied historical trend through September



Source - RBC Wealth Management, FactSet; daily data 6/20/25–8/20/25, with five-year historical average trend overlaid through 9/30/25, normalized with 6/20/25 = 100

clarity into the Fed’s reaction to a potential stagflationary environment, although Powell may still lean dovish, particularly with the futures market pricing in an 80% chance of a 25 basis point interest rate cut in September.

CANADA

Matt Altro, CFA & Zachariah Muhn – Toronto

- **Housing in Canada remains a key focus for economists, investors, and consumers** as the market is informed by and, in turn, informs broader economic health, spending trends, and inflation. All these factors share an underlying driver: jobs. According to our third-party research provider, it’s not the unemployment rate that matters but the number of jobs lost. More lost jobs lead to more desperate sellers, which creates more inventory and ultimately can lead to steeper price declines, according to the provider. That said, despite a rising unemployment rate, this metric can be artificially inflated by new entrants to the job market, a theme we are seeing in Canada. This and a supply shortage are restricting significant price declines in the market. After years of outsized population growth, Canada is actively trying to address its housing deficit by building more homes. Housing starts over the past four years are the highest we’ve seen in Canadian history. However, the most unaffordable markets in Canada (Toronto and Vancouver) are lagging in adding new supply. RBC Economics believes that peeling back barriers to new builds including high development and construction costs would be a step in the right direction in alleviating supply-starved conditions.
- **Inflation pressures in Canada eased modestly in July**, with headline inflation coming in at 1.7% y/y (consensus: 1.8%) compared to 1.9% in June. The prior removal of the consumer carbon tax drove some of this drop with gasoline prices falling 16.1% y/y. Nevertheless, core inflation, which excludes typically volatile food and energy prices, still edged down to 2.5% y/y from 2.6% the month prior. Underlying price dynamics were mixed among the Bank of Canada’s (BoC) preferred core inflation measures with the average of CPI-trim (stripping out the most volatile price changes) and CPI-median increasing slightly to 3.05% (up from 3.0% in June) while the three-month moving average of core inflation rates slowed to 2.43% (down from 3.39% in June). While the broader easing was likely a welcome sign for the BoC, the data is unlikely to change the central bank’s policy rate path given the breadth of inflation pressures in the basket of goods and services remains broad with nearly 30% of the components boasting annualized three-month inflation rates above 5%. The next CPI report will land just ahead of the BoC’s Sept. 17 policy meeting and could prove decisive as officials weigh whether to lower the policy rate further after holding it steady at 2.75% for three consecutive decisions.

EUROPE

Frédérique Carrier & Rufaro Chiriseri, CFA – London

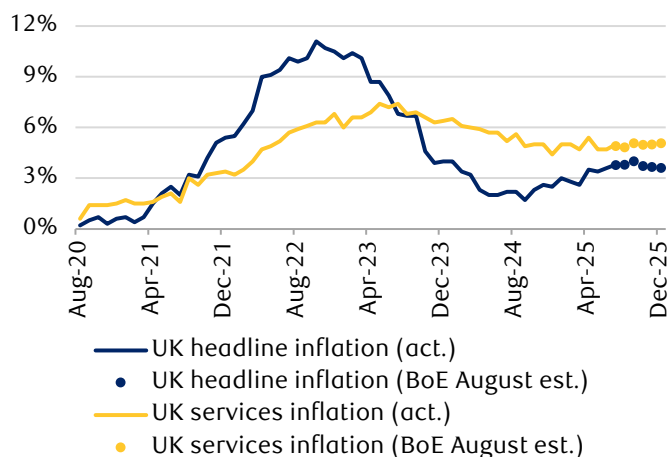
■ **We upgraded UK equities to Market Weight from Underweight earlier this month.** The domestic economy is relatively less sensitive to trade with the U.S., while the stock market valuation discount to other countries has reached an all-time high. This and low investor positioning in the market supported our upgrade.

■ As the UK does not have a large goods trade surplus with the U.S., it avoided being in the crosshairs of U.S. trade wrath. It is the only country to have secured a deal with a low 10% tariff on goods it exports to the U.S. **Importantly, car and aerospace manufacturers benefit from major tariff reductions (cars move to 10% from 27.5% and engines and aircraft parts to 0% from 10%).** In addition, the U.S. exempted the U.K. from global tariffs of 50% on steel and aluminium with discussions ongoing to bring these tariffs to zero from 25%. Thus, although not a major trading partner with the U.S., the UK finds itself in a relatively strong position compared to other countries.

■ UK equities have derated consistently since the 2016 Brexit referendum as investors priced in political uncertainty and weaker growth prospects. The FTSE All-Share Index is trading on less than 14x next twelve months consensus earnings and close to a record discount compared to global equities, even accounting for sector differences. **UK dividends are also higher than those in other regions, with the 2025 dividend yield close to 3.5%—an increasingly important consideration for investors, in our opinion, as interest rates fall.**

■ **We maintain our long-held preference for quality UK large-cap stocks trading at a valuation discount to foreign competitors.** We also favour attractively valued Financials, given their high level of shareholder returns via both dividends and share buybacks.

Headline and services inflation in line with Bank of England forecasts for now



Source - Bank of England, Bloomberg; data as of 8/20/25, 15:00 UK time

■ Meanwhile, the macroeconomic picture remains satisfactory. **Headline July UK inflation surprised to the upside, reaching 3.8% y/y from 3.6% y/y in June.** Services inflation, which the central bank closely watches, also surprised to the upside and was modestly above the Bank of England's (BoE) target. Our year-end Bank Rate call of 3.75% against market expectations of 3.85% hinges on the headline and wage inflation moving back in line with the BoE's August forecasts.

ASIA-PACIFIC

Jasmine Duan – Hong Kong

■ **Chinese onshore equities reached a decade-high level this week,** reflecting sustained improvement in market sentiment and investor confidence. The Shanghai Stock Exchange Composite Index rose 2% this week, extending its rally to an increase of nearly 22% from its April low.

■ **Easing trade tensions between the U.S. and China, which removed a major market overhang, supported the upward momentum.** In a low-interest-rate environment, we believe investors are increasingly seeking assets that offer higher returns. As a result, capital is shifting into equities from lower-yielding bonds. Additionally, China's exports remain strong, and the large trade surplus continues to be a key source of onshore liquidity. Should investor confidence and the positive "wealth effect" observed since the beginning of the year persist, we expect onshore liquidity to remain supportive of further market gains.

■ **Meanwhile, Japan's benchmark Nikkei 225 broke out of its 17-month trading range, reaching new highs this week.** A weakening Japanese yen, which has pushed exporters higher, especially automaker stocks, partly fueled the rally. Clarity on U.S. tariffs has increased our optimism regarding Japan's domestic corporate earnings outlook and broader economic prospects.

■ **In South Korea, early August export data indicated to us resilience in external demand. Exports in the first 20 days of August rose 7.6% y/y, surpassing the 5.8% increase for the full month of July.** A surge of semiconductor shipments, which increased almost 30% compared to the same period last year and accounted for nearly 25% of total exports, helped drive the strong export number. Automobile exports climbed 22% during the same period, and imports increased slightly by 0.4%, resulting in a trade surplus of US\$833 million.

MARKET Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	6,395.78	0.9%	8.7%	14.3%	46.4%
Dow Industrials (DJIA)	44,938.31	1.8%	5.6%	10.0%	30.3%
Nasdaq	21,172.86	0.2%	9.6%	18.8%	59.3%
Russell 2000	2,269.35	2.6%	1.8%	5.9%	22.0%
S&P/TSX Comp	27,878.76	2.3%	12.7%	21.0%	40.7%
FTSE All-Share	5,028.28	1.4%	12.5%	11.1%	26.9%
STOXX Europe 600	559.09	2.4%	10.1%	9.1%	24.7%
EURO STOXX 50	5,472.32	2.9%	11.8%	12.7%	29.9%
Hang Seng	25,165.94	1.6%	25.5%	43.7%	40.2%
Shanghai Comp	3,766.21	5.4%	12.4%	31.4%	20.3%
Nikkei 225	42,888.55	4.4%	7.5%	12.7%	36.4%
India Sensex	81,857.84	0.8%	4.8%	1.3%	26.0%
Singapore Straits Times	4,219.54	1.1%	11.4%	25.2%	32.9%
Brazil Ibovespa	134,666.46	1.2%	12.0%	-1.0%	16.7%
Mexican Bolsa IPC	58,221.47	1.4%	17.6%	7.8%	9.5%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	4.291%	-8.3	-27.8	48.4	3.6
Canada 10-Yr	3.446%	-1.2	22.1	43.8	-27.0
UK 10-Yr	4.672%	10.3	10.4	75.7	-0.3
Germany 10-Yr	2.717%	2.2	35.0	50.2	9.5
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	4.53%	0.7%	4.5%	2.3%	11.5%
U.S. Investment-Grade Corp	4.95%	0.8%	5.1%	3.4%	15.2%
U.S. High-Yield Corp	6.99%	0.5%	5.6%	8.2%	22.6%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	3,348.58	1.8%	27.6%	33.2%	77.2%
Silver (spot \$/oz)	37.90	3.2%	31.1%	28.7%	66.6%
Copper (\$/metric ton)	9,595.15	0.4%	10.9%	5.6%	16.8%
Oil (WTI spot \$/bbl)	63.21	-8.7%	-11.9%	-14.6%	-22.2%
Oil (Brent spot \$/bbl)	66.95	-7.7%	-10.3%	-13.3%	-21.0%
Natural Gas (\$/mmBtu)	2.77	-11.0%	-23.9%	25.8%	8.4%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	98.2540	-1.7%	-9.4%	-3.1%	-5.0%
CAD/USD	0.7206	-0.2%	3.7%	-1.9%	-2.3%
USD/CAD	1.3876	0.1%	-3.5%	1.9%	2.4%
EUR/USD	1.1652	2.1%	12.5%	4.7%	7.2%
GBP/USD	1.3458	1.9%	7.5%	3.3%	5.7%
AUD/USD	0.6434	0.1%	4.0%	-4.6%	0.4%
USD/JPY	147.3300	-2.3%	-6.3%	1.4%	1.3%
EUR/JPY	171.6600	-0.2%	5.5%	6.2%	8.5%
EUR/GBP	0.8658	0.2%	4.6%	1.4%	1.4%
EUR/CHF	0.9370	1.0%	-0.3%	-1.4%	-2.3%
USD/SGD	1.2851	-1.0%	-5.9%	-1.5%	-5.3%
USD/CNY	7.1758	-0.3%	-1.7%	0.7%	-1.5%
USD/MXN	18.7668	-0.6%	-9.9%	-1.2%	10.0%
USD/BRL	5.4829	-2.1%	-11.2%	0.1%	10.3%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.72 means 1 Canadian dollar will buy 0.72 U.S. dollar. CAD/USD 3.7% return means the Canadian dollar has risen 3.7% vs. the U.S. dollar year to date. USD/JPY 147.33 means 1 U.S. dollar will buy 147.33 yen. USD/JPY -6.3% return means the U.S. dollar has fallen 6.3% vs. the yen year to date.

Source - Bloomberg; data as of 8/20/25

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As of June 30, 2025

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			Count	Percent
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Hold [Sector Perform]	561	38.14	151	26.92
Sell [Underperform]	44	2.99	5	11.36

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