

Trust must be earned

Unlocking Europe's economic potential

July 2025



Europe presents a diverse landscape, characterized by its varied and well-established economies. The region combines stability with innovation, supported by robust regulatory frameworks that foster growth.

But what truly sets Europe apart in the global economic arena?

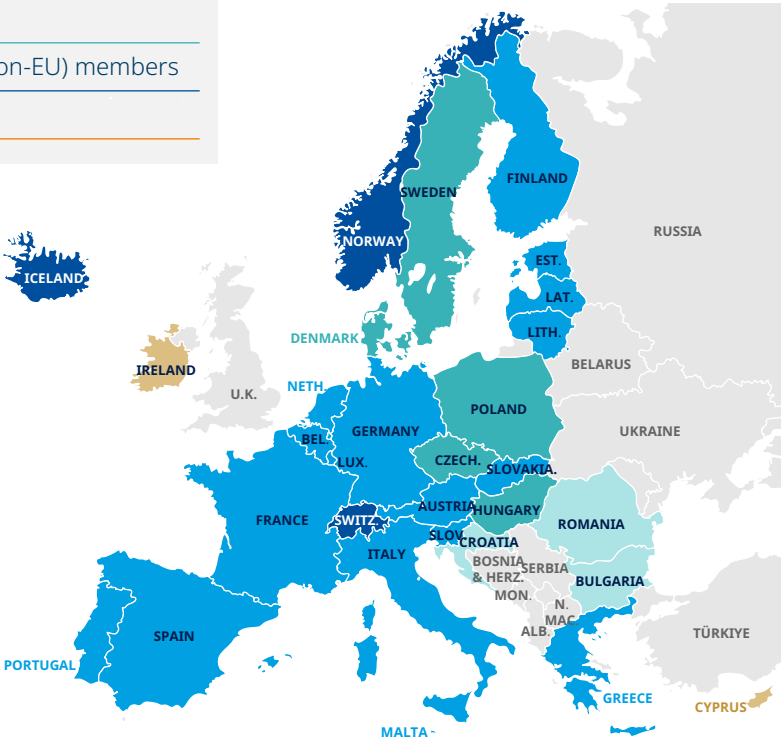
And how can investors effectively tap into this potential?

Europe, European Union and the Eurozone

While Europe consists of approximately 50 sovereign states¹, 27² of these have chosen to integrate both politically and economically as part of the European Union (EU). Among these, 20³ countries form the Eurozone⁴, having adopted the Euro as their official currency. This integration not only enhances economic cooperation but also creates a unified market that is attractive to both domestic and international investors.

European Treaty groups 2025

INSTITUTION	YEAR ESTABLISHED	NUMBER OF MEMBERS
European Union	1993	27 members
Schengen	1985	25 (EU) + 4 (non-EU) members
Eurozone	1999	20 members



The Euro, the most tangible symbol of European unity

Introduced in 1999⁵, the Euro stands as the most tangible symbol of European unity and collaboration, having been instrumental in promoting economic integration and stability within the Eurozone. By simplifying cross-border operations, the Euro enhances the efficiency of the single market, facilitating seamless trade and investment across member states. Its significance extends beyond Europe, as it is recognized internationally as the second most widely held reserve currency globally.

1. Europe is composed of approximately 44 to 50 countries, depending on the context and the criteria used for defining a country. The number can vary due to political recognition and geographical definitions. For instance, the United Nations recognizes 44 countries in Europe, while some lists may include territories and regions that are sometimes considered separate entities.

2. Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden. The United Kingdom officially left the European Union on January 31, 2020. This event is commonly referred to as "Brexit."

3. Austria, Belgium, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.

4. The Eurozone is also called Euro area or Euroland.

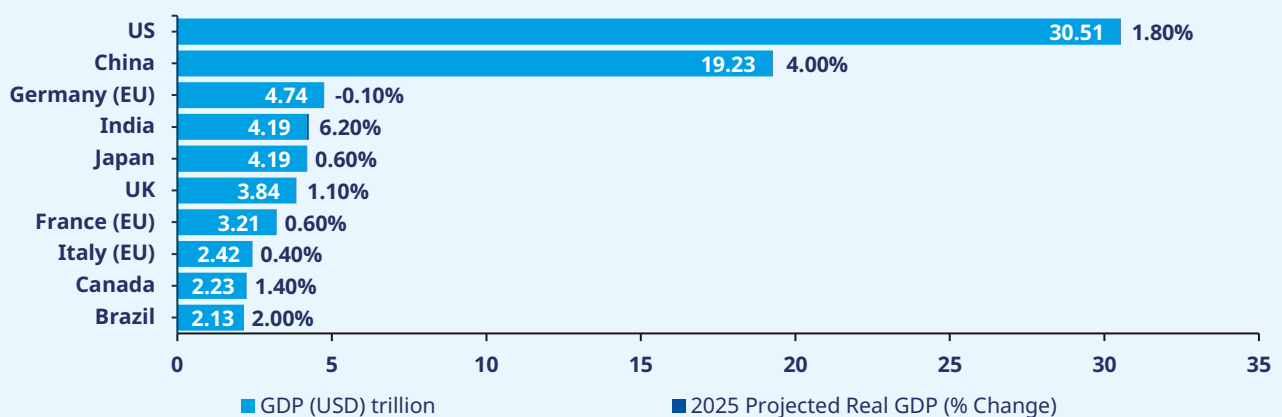
5. The Euro was introduced on January 1, 1999, as an electronic currency for banking and financial transactions. Physical Euro coins and banknotes were later introduced on January 1, 2002.

At the heart of this monetary system is the **European Central Bank (ECB)**, the central authority responsible for **managing the Euro and fostering economic health within the Eurozone**. Established in 1998, the **ECB's primary mandate is to maintain price stability**, which is essential for sustainable economic growth. It accomplishes this by setting key interest rates and controlling the money supply, which involves regulating the amount of money in circulation and influencing borrowing costs. This careful management aims to keep inflation rates close to, but below, 2% over the medium term, thereby promoting a stable economic environment that is conducive to investment and growth.

European Union's economy and trade

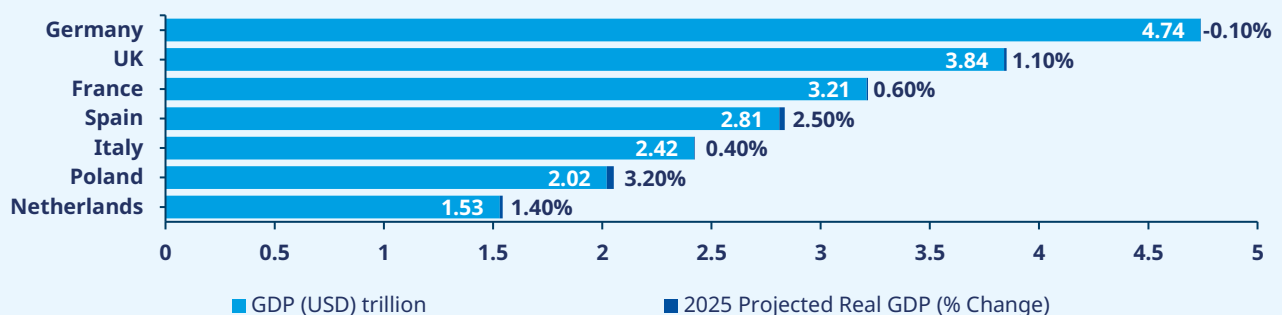
The EU ranks among the world's largest economic entities, boasting a **Gross Domestic Product (GDP) of €17 trillion**, which represents the total value of all goods and services produced within its member states. Germany stands out as the primary contributor to this economic output, followed closely by France and Italy.

Top 10 largest economies in the world 2025 (USD trillion)



Source: Amundi Investment Institute, IMF, May 2025.

Top 7 largest economies in Europe 2025 (USD trillion)



Source: Amundi Investment Institute, IMF, May 2025.

The services sector is a significant catalyst of the EU economy, contributing 72% to the overall GDP, while the industrial sector accounts for nearly all of the remaining share. Furthermore, the EU is the world's leading exporter of manufactured goods and services, accounting for approximately 14% of global trade in goods⁶.

Consequently, Europe has the foundations in place to remain a key player on the global stage. However, in an increasingly fragmented world, **it is essential for the EU to focus on its competitiveness to sustain growth.**

As the world stands on the brink of another digital revolution, driven by the adoption of artificial intelligence (AI), and as the world leader in sustainability and environmental standards, Europe needs an ambitious push to advance in its reforms, **attract foreign direct investments (FDI) and lead the way in high-growth sectors over the medium to long term.** These sectors include renewable energy, semiconductors, pharmaceuticals, artificial intelligence (AI), and electric vehicles (EVs)⁷.

6. Source: European Union, *Facts and figures on the European Union*.

7. https://www.ey.com/en_gl/foreign-direct-investment-surveys/ey-europe-attractiveness-survey.

European capital markets

Integral to this economic landscape are Europe's capital markets, which facilitate financing activities and foster innovation. By providing a platform for businesses to raise capital, these markets enable companies to invest in research and development, thereby driving economic growth and job creation. Despite Europe's strong and proud history of capital markets, highlighted by the significance of public companies listed in Europe, the region still faces an over-reliance on the banking system and the fragmented nature of those markets.

Largest companies in the EU by market capitalization⁸

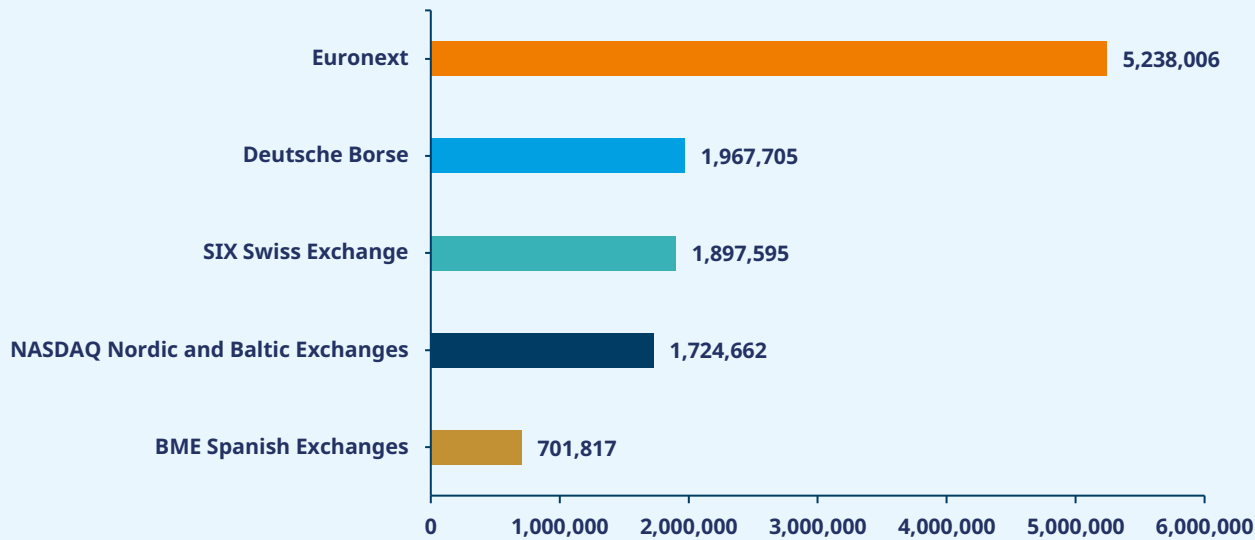


8. Source: <https://companiesmarketcap.com/european-union/largest-companies-in-the-eu-by-market-cap/>. Data as of 4 July 2025.

To address these issues, several measures have been implemented, **starting with the introduction of the Capital Markets Union (CMU) Action Plan⁹ in 2015**. This initiative aims to enhance the efficiency, scale and resilience of EU stock markets, while supporting access to public markets for small and medium-sized enterprises (SMEs). As a result, smaller EU companies are expected to be better positioned to attract global investors.

Although European equity markets lag behind the US in terms of capitalisation, they are distinguished by their ease of transaction. **Key stock exchanges, such as Euronext¹⁰** serve as pivotal access points, facilitating efficient capital flows and offering exposure to a broad spectrum of industries.

European stock exchanges ranked by market capitalization (USD billion)



Source: World Federation of Exchanges, December 2024. Market capitalisation in billion US dollars.

Complementing the equity markets, the fixed income landscape in Europe is equally significant, with **Germany, France, Italy, and Spain constituting the largest individual sovereign bond markets in the EU**. Alongside the UK, these markets are structurally more advanced than other European sovereign bond markets.

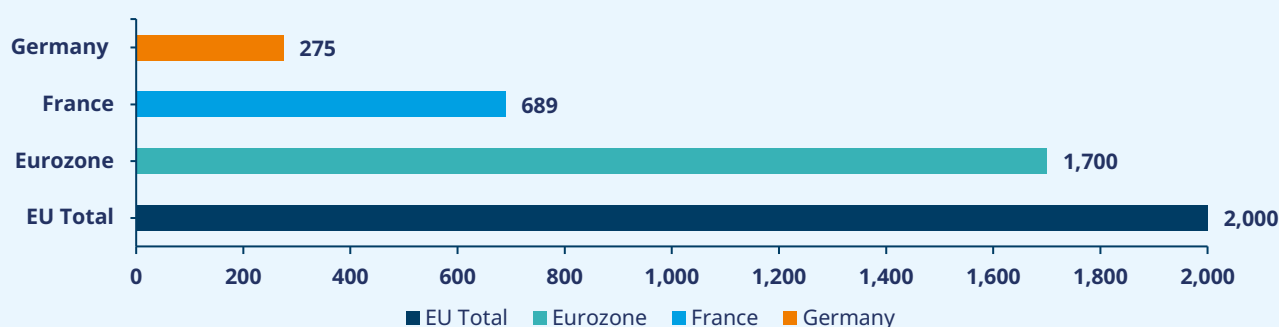
In the realm of corporate bonds, **the global surge in bond financing is particularly noteworthy in the region**, where the financial sector has traditionally been more bank-centric compared to the US¹¹. Historically, debt securities have played only a minor role as a source of corporate financing in Europe, with the bond market dominated by only the largest firms. However, the entry of smaller issuers is on the rise, marking a crucial transition from a predominantly bank-based system to one with greater reliance on capital market funding.

9. The Capital Markets Union (CMU) Action Plan, introduced by the European Commission in 2015, is a key initiative aimed at creating a single market for capital across the European Union.

10. The Euronext is a pan-European stock exchange with locations in Amsterdam, Brussels, Dublin, Lisbon, Milan, Oslo, and Paris.

11. Source: *Europe's growing league of small corporate bond issuers: New players, different game dynamics* | CEPR.

Debt securities issued by non-financial corporations (Q2 2024)¹² (USD billion)



Source: Deutsche Bank Research, *Corporate Bond markets in Europe – a structural perspective*, October 10, 2024.

On the investor side, one-third of the outstanding corporate debt is held domestically, while nearly half is held by investors from the Eurozone, excluding the home market. **Investors based outside the Eurozone account for one-fifth of the funds provided.**



To further attract foreign investors, stronger integration among countries is necessary, as debt securities are still affected by numerous local rules and realities. **These issues remain high on the political agenda**, with their importance in enhancing Europe's competitiveness being central to two recent reports commissioned to Enrico Letta¹² and Mario Draghi¹³.



Capturing European growth over the medium term

While growth in 2025 is expected to be modest, **the medium-term outlook for Europe appears promising. New reforms, structural changes and anticipated investments in the coming years** are likely to stimulate economic activity across the continent, which can also benefit from a skilled talent pool. Additionally, **Europe's diversified economy and strong domestic demand** can provide resilience amid geopolitical tensions.

Recent developments in US policy towards Ukraine have prompted a significant response from Europe, underscoring the urgent need for strategic decisions regarding defence independence. In light of the military disengagement of the US, Europe must assume greater responsibility for its own security, a transition that is not yet fully prepared for.

To address these challenges, the European Commission has recently presented, as part of the

ReArm Europe Plan/Readiness 2030, an ambitious defence package, offering financial incentives to EU Member States to drive a substantial rise in defence capabilities investments¹⁴.

As Europe enhances its military funding, various scenarios that could unfold in response to the ongoing situation in Ukraine should also be considered. The possibility of a ceasefire would be the most favourable one, as it could lead to stabilization in energy prices, which are critical for Europe's economic health. Additionally, the estimated \$524 billion¹⁵ required for reconstruction in Ukraine offers substantial opportunities for companies operating in the region, driving demand across various sectors and fostering economic growth.

12. Enrico Letta is a prominent Italian politician and academic. He served as the Prime Minister of Italy from 2013 to 2014, leading a grand coalition government. Letta is a member of the Democratic Party and has held various ministerial roles throughout his political career, including Minister of European Affairs and Minister of Industry. He is also known for his work as the Secretary to the Council of Ministers. Beyond politics, Letta is an accomplished author and serves as the Dean of the Paris School of International Affairs at Sciences Po in Paris.

13. Mario Draghi is a distinguished economist and statesman. He served as the Prime Minister of Italy from February 2021 to October 2022, during which he led a government of national unity. Prior to this, Draghi was the President of the European Central Bank from 2011 to 2019, where he played a crucial role in managing the Eurozone crisis. Known for his decisive leadership, Draghi famously pledged to do "whatever it takes" to preserve the euro. His career also includes roles as the Governor of the Bank of Italy and Chair of the Financial Stability Board. Draghi's contributions to European economic stability have earned him widespread recognition, and he remains a key figure in discussions on European competitiveness and integration.

14. Source: European Commission, "Commission unveils the White Paper for European Defence and the ReArm Europe Plan/Readiness 2030", March 2025, https://ec.europa.eu/commission/presscorner/detail/en/ip_25_793.

15. Source: United Nations, "Ukraine: Post-war reconstruction set to cost \$524 billion | UN News", February 25, 2025.

While valuations compared to the US are attractive across the entire region, we find **mid-caps** particularly appealing, offering lower valuations and stronger earnings growth compared to large-cap stocks. Looking at sectors, in addition to **defence & aerospace, infrastructure, industrials, basic resources, software and banks** are all expected to benefit from this environment.

Distinctive opportunities are also available in fixed income, where **yields are still at compelling levels** compared to historical averages. **Investment grade debt** is exhibiting strong fundamentals, such as contained leverage and high margins. We see opportunities in the **banking sector**, as the curve steepening driven by the ECB will allow them to borrow short-term cheaply and lend longer term at higher rates.



Access opportunities in Europe with Amundi



At Amundi, we harness our **extensive expertise in both equity and fixed income** to provide a comprehensive range of investment solutions tailored to meet the diverse needs of clients.



As **Europe's largest asset manager**¹⁶, our strong presence and resources on the ground enable us to develop and maintain deep insights into Europe's economies, markets, political landscape, and demographics. **This position us uniquely to understand the evolving dynamics in the region.**



We believe that the European equity and fixed income markets offer attractive opportunities **for both domestic and international investors**, allowing them to enhance portfolio diversification and optimize risk-adjusted returns.

16. Source: IPE "Top 500 Asset Managers" published in June 2025, based on assets under management as of December 31, 2024.

Important information – Marketing Communication

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