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Whatever the case, Forstrong's CEO is back in the Danish capital of Copenhagen. Yes, the dining scene and the city's almost irritatingly perfect blend of order and bohemia—a place with no bad angles—keep us coming back to the Nordic region. And evidently, we're not alone: the city is packed and tourism is booming across the continent.

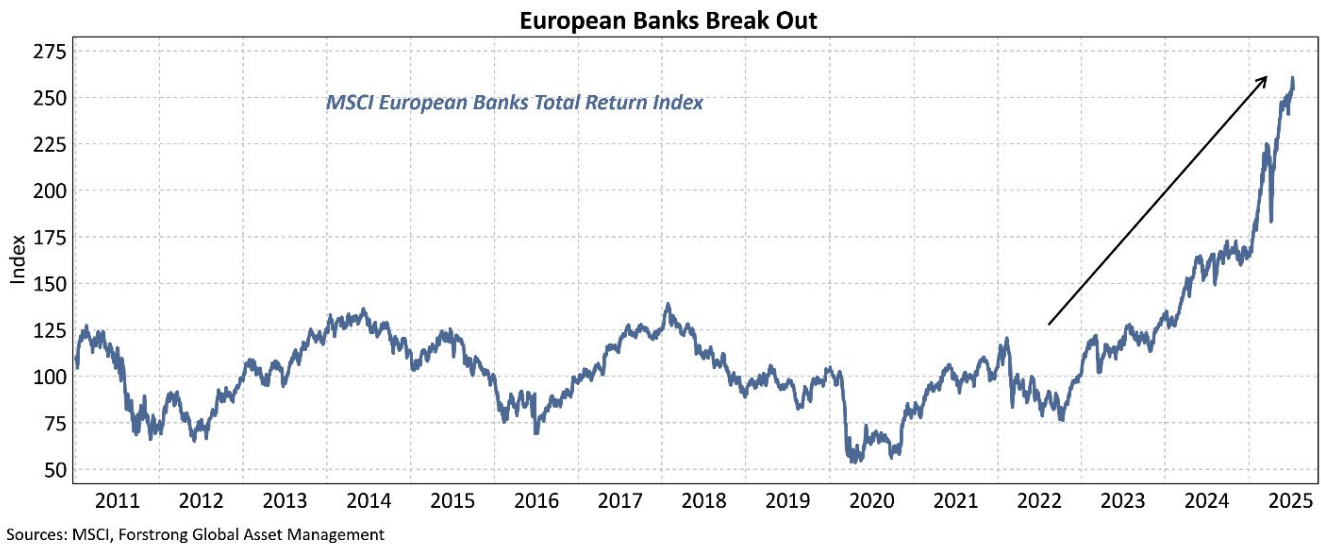
But beyond the vibe, something else is stirring: European stock markets are ripping.

The numbers have surprised nearly everyone. During the first half of the year, European stocks outpaced their American peers by the widest margin on record (in U.S. dollar terms)—a dramatic reversal after more than a decade in the doldrums. And it's not just equities. The euro surged 13% against the dollar over the same period.

Only in Denmark could a country create a world-class restaurant scene, rack up countless Michelin stars, and monetize culinary tourism to near perfection—and then give the planet an appetite suppressant like Ozempic. But Scandinavia, that wind-carved crown perched atop continental Europe, has always brimmed with irony. Sweden is known as a socialist's paradise, yet overflows with billionaires. Norway, awash in some of the world's largest proven oil reserves, sold 97% electric vehicles in June. And Finland—a land of silence and saunas—now shares the longest NATO border with Russia.

Notably, European bank stocks—those crucial barometers of liquidity and risk appetite—are leading the way. The region's Stoxx 600 Financials Index posted its strongest first half since 1997, fueled by turnaround plans and a flurry of M&A activity. Germany's Commerzbank is soaring, lifted by strong earnings and takeover interest. Spanish and Italian lenders are also rallying on renewed dealmaking. And despite the surge in prices, bank valuations still trade well below long-term norms.

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Berlin Goes Big

What's driving all this? The region has seen false dawns before, and the political instability and regulatory thickets that long deterred investors haven't disappeared. Broad equity valuations in Europe remain depressed relative to the US. But something more profound is now underway: an unintended consequence of Trump's economic nationalism and growing military isolationism has been to galvanize Europe into fiscal action on a scale not seen since German reunification in 1991.

In a defining moment for Germany—and by extension, the EU—policymakers have agreed to break from constitutional budget constraints, clearing the way for a colossal €500 billion infrastructure and defense spending plan. The measures amount to 11.4% of Germany's GDP—enough to stave off recession risks and begin

rebalancing the economy away from its heavy reliance on exports. Europe's largest economy is, at long last, committing to borrow and spend massively on defense and infrastructure. And the mood shift is real: even with plenty of skepticism still in the air, a quiet optimism is starting to take root—palpable everywhere we went.

The significance of this shift can't be overstated. The Eurozone's stagnation throughout the 2010s was shaped by two powerful forces: (i) a massive deleveraging cycle in the South following the credit-fueled boom of the 2000s, and (ii) self-imposed austerity in the North, which brought on the most contractionary fiscal stance since the Great Depression. Both trends have now run their course—setting the stage for a reflationary boom in the second half of the 2020s.

Europe's Competitiveness Problem

But fiscal reform is just the visible tip of a much larger iceberg. The EU's policy consensus is now shifting from a near-obsession with austerity and cost control to a broader focus on innovation and domestic demand resilience. The old orthodoxy manifested in negative interest rates, a chronically weak euro, and fragmented capital markets. It's hardly surprising that while the EU accounts for roughly 17% of global GDP, it hosts only five of the 50 largest companies in the S&P Global 1200. Innovation has been stifled for years.

Of course, the elephant in the room is Trump's trade war. Everywhere we went, Europeans expressed bafflement at the fickle, capricious nature of Trump's tariffs (join the club). But the direct economic impact on Europe will be far smaller than in the US. The OECD has estimated that the negative GDP impact on the US of 10% US tariffs will be four times greater than the effect on the EU. The reason is simple: while the US is less reliant on trade than Europe, Trump's tariffs would disrupt nearly all US trade—whereas they apply to only roughly 20% of EU exports that go to America.

EU policymakers are now strolling through an orchard of low-hanging fruit. Unlike in the US, the university sector remains fragmented—along with public support for research and innovation. A lack of capital scale and risk appetite has left EU funding sources far less robust than those in America. A Berlin-based startup founder put it

bluntly: 'We love Europe, but if we want to grow fast, we raise funds from US venture capital and scale up in the American market'.

Meanwhile, the IMF recently estimated that, despite the creation of a single market, the EU still suffers from major non-tariff barriers—ranging from inconsistent regulations to licensing requirements and other non-harmonized standards. The economic impact? These frictions amount to the equivalent of a 44% tariff on goods and a staggering 110% tariff on services.

Former ECB head Mario Draghi, in a scathing report last year, argued that fixing the EU's lagging competitiveness (driven by "fragmentation, over-regulation, insufficient spending and undue conservatism") would require €750–800 billion in additional annual investment, equivalent to 4.4–4.7% of EU GDP. That would push the region's investment-to-GDP ratio to levels not seen since the 1970s. Notably, no one seems to disagree with Draghi.

To be sure, Europe still has a long road to competitiveness. But even marginal steps can have a big impact. In the meantime, the economic cycle is already turning and showing up in the data. Credit growth is picking up. Manufacturing is stabilizing. The property sector in the North is showing early signs of life. All of this will help unlock future consumption at a time when real wage growth rose 2.9% year-over-year in Q1

2025, and Eurozone households are still saving 15.2% of disposable income—well above the pre-pandemic average of 12.8%. The bull case is that this cyclical pickup, combined with structural

tailwinds, helps shore up growth in the second half of 2025—before igniting a more powerful turnaround in 2026. Strong markets are already sniffing that out.

Investment Implications

We wrapped up the trip in Athens before venturing into the Aegean Sea to unwind in the Greek islands (pro tip: if you're prone to seasickness, skip the smaller island-hopping boats—they're not as glamorous as they sound.) Fittingly, we were last here 25 years ago (as a young analyst working for Germany's largest bank)—the start of the last major stretch of European equity outperformance over America (2000–09), a period that coincided with the painful unwinding of the US tech bubble.

US tech is unlikely headed for the same fate this time around. The mega-cap names driving US returns today are posting strong earnings and sitting on piles of cash. But these companies are at that tricky stage of having to live up to the AI hype and deliver a high return on the massive amounts of capital they have been deploying.

By contrast, European stocks trade at a 35% discount to their US peers—yet both are expected to deliver around 10% profit growth in 2026. The risk versus reward setup is compelling.

The increasingly footloose nature of global capital means that investment themes can now shift quickly. This is already happening. After years of neglect, European equity funds have attracted billions in new inflows since the start of 2025—a sharp reversal from the outflows of last year. Forstrong's strategies are aligned with this shift, holding active overweights in both European equities and bank stocks.

Investors shouldn't ignore this unfolding European Super Trend. As one Swedish executive told us: "The cycle has finally turned. It's time to catch the wave."

Tyler Mordy, July 2025

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