Newsletter - Europe Capital Markets 2Q 2026

September 2026

Table of Contents

Executive Summary (1/2)

Resilient growth and diverging policy expectations shape markets in 2Q 2026

Macro and Growth Overview

- Growth across Europe and the UK is expected to remain subdued through 2026–27, as higher energy costs, weaker external demand, and persistent structural headwinds continue to weigh on activity, with higher public and defense spending providing only partial support.
- The ECB raised policy rates by 25 basis points in 2Q 2026, while the Bank of England kept rates unchanged, highlighting a divergence in policy responses as the ECB prioritized inflation risks and the BoE balanced easing inflation against slowing domestic growth.
- Inflation reaccelerated in parts of Europe during 2Q 2026, particularly in the Euro area and several major economies. Meanwhile manufacturing activity improved and moved further above the 50 basis points threshold in most major economies, signaling a modest recovery in industrial momentum despite a subdued growth outlook.

Currencies, Bond Yields, and Markets

- Currencies remained under pressure in 2Q 2026, with EUR/USD and GBP/USD strengthening early in the quarter before reversing lower, as resilient US economic data and expectations of a more hawkish Federal Reserve supported the US dollar against these currencies.
- Bond yields diverged across regions in 2Q 2026, with UK gilt yields declining on expectations of Bank of England easing, while Eurozone yields also fell despite the ECB's June rate hike as weaker growth expectations supported bonds. By contrast, US Treasury yields ended 2Q 2026 higher, as resilient economic data and inflation concerns reduced expectations for Fed easing.
- 2Q 2026 market leadership rotated toward growth and cyclical sectors, with technology, banks, and consumer-related stocks outperforming on AI optimism, resilient earnings, and improving risk sentiment, while energy reversed 1Q gains as lower oil prices weighed on the sector.

Executive Summary (2/2)

Valuation dispersion shifts focus to selective opportunities in 2Q26

The Valuation and Earnings Perspective

- US equities continued to trade at a meaningful premium to Europe in 2Q 2026, with the S&P 500 maintaining a substantially higher forward earnings multiple than the STOXX Europe 600.
- The valuation differential was supported by stronger US earnings momentum, while Europe's earnings outlook remained comparatively weaker.
- The US market's greater exposure to technology, AI, and other structural growth sectors, together with a resilient economic backdrop and stable policy expectations, continued to underpin the premium.

European Mining's 2Q Reset

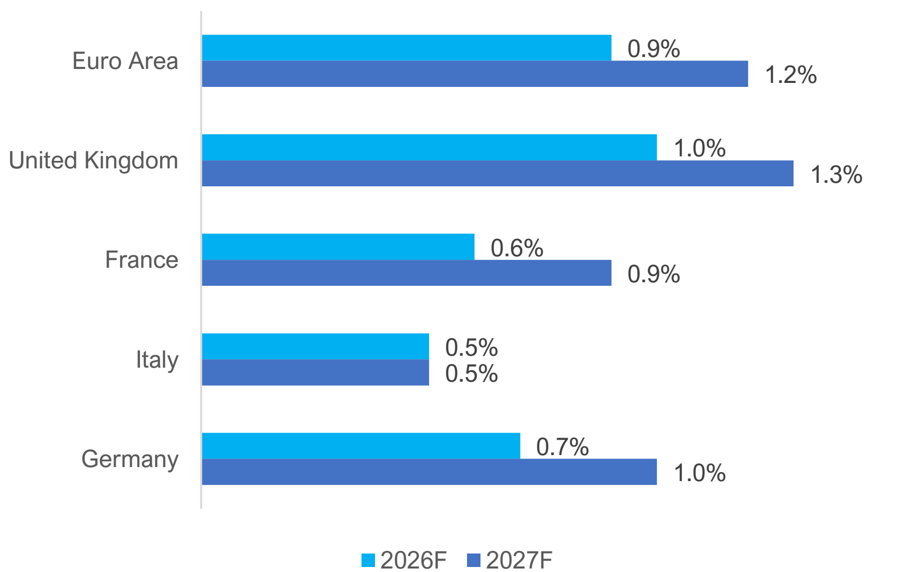
- Europe's headline valuation discount masks meaningful sector dispersion, with mining standing out in 2Q26 as a sector where price weakness outpaced the change in earnings expectations.
- The sector's reset was valuation-led rather than earnings-led, as relative prices de-rated despite improving relative forward EPS and only partly recovered after quarter end.
- Copper's demand case remains supported by electrification, grid investment, and AI/data center demand, but stronger prices and the post-2Q rebound mean the opportunity is selective rather than sector-wide.

Europe Macroeconomic Performance (1/2)

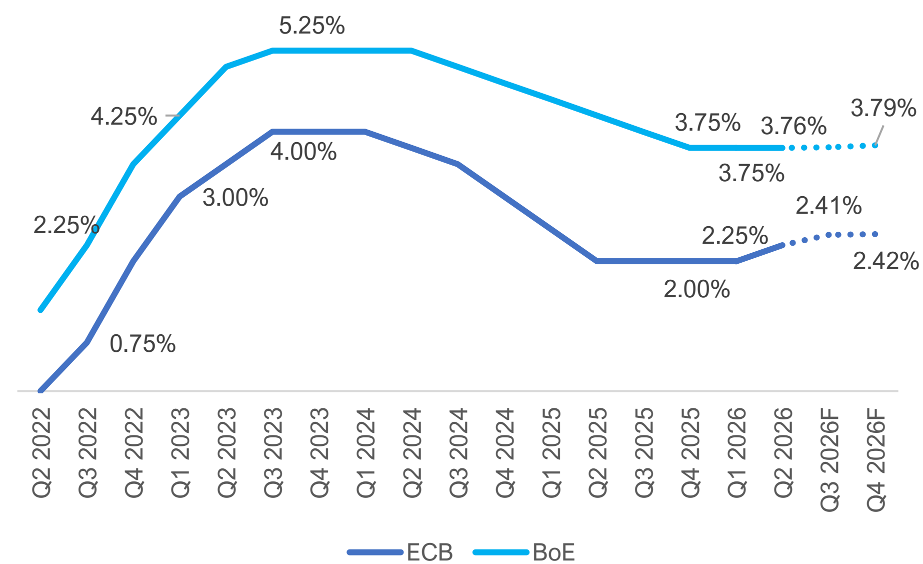
Soft growth persist as ECB hikes and BoE holds

- Growth across Europe and the UK is expected to remain subdued through 2026–27, as higher energy prices, weak consumer confidence, and persistent structural headwinds continue to weigh on activity. Growth forecasts have been revised lower, particularly for Germany, despite some fiscal cushioning, while the UK is expected to record only modest growth as energy-related pressures gradually ease.
- The ECB raised its key policy rates by 25 basis points to 2.25% in 2Q 2026, as rising energy prices and heightened geopolitical tensions increased inflation risks despite a weaker growth outlook.
- The Bank of England kept the Bank Rate at 3.75% in Q2, as easing inflation and slowing economic activity were offset by concerns that higher and more volatile energy prices could reignite inflationary pressures.

GDP Growth Forecast (IMF, 2026F–27F)



Central Bank Policy Rate Trend (ECB and BoE)



***Sources:** Aranca Research, IMF, Bloomberg*

Europe Macroeconomic Performance (2/2)

Manufacturing activity strengthens as inflation pressures re-emerge across Europe

Inflation

Country	2025												2026					
	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
UK	3.0%	2.8%	2.6%	3.5%	3.4%	3.6%	3.8%	3.8%	3.8%	3.6%	3.2%	3.4%	3.0%	3.0%	3.3%	2.8%	2.8%	2.6%
Eurozone	2.5%	2.3%	2.2%	2.2%	1.9%	2.0%	2.0%	2.1%	2.2%	2.1%	2.1%	2.0%	1.7%	1.9%	2.6%	3.0%	3.2%	2.8%
Germany	2.8%	2.6%	2.3%	2.2%	2.1%	2.0%	2.0%	2.2%	2.4%	2.3%	2.6%	2.0%	2.1%	1.9%	2.7%	2.9%	2.6%	2.3%
France	1.8%	0.9%	0.9%	0.9%	0.6%	1.0%	1.0%	0.9%	1.1%	0.8%	0.8%	0.7%	0.3%	0.9%	1.7%	2.2%	2.4%	1.8%
Italy	1.7%	1.7%	2.1%	2.0%	1.7%	1.7%	1.7%	1.6%	1.8%	1.3%	1.1%	1.2%	1.0%	1.5%	1.7%	2.7%	3.2%	3.0%

Manufacturing PMI

Country	2025												2026					
	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Eurozone	46.6	47.6	48.6	49.0	49.4	49.5	49.8	50.7	49.8	50.0	49.6	48.8	49.5	50.8	51.6	52.2	51.6	51.4
UK	48.3	46.9	44.9	45.4	46.4	47.7	48.0	47.0	46.2	49.7	50.2	50.6	51.8	51.7	51.0	53.7	53.9	52.5
Germany	45.0	46.5	48.3	48.4	48.3	49.0	49.1	49.8	49.5	49.6	48.2	47.0	49.1	50.9	52.2	51.4	50.1	50.3
France	45.0	45.8	48.5	48.7	49.8	48.1	48.2	50.4	48.2	48.8	47.8	50.7	51.2	50.1	50.0	52.8	49.7	51.2
Italy	46.3	47.4	46.6	49.3	49.2	48.4	49.8	50.4	49.0	49.9	50.6	47.9	48.1	50.6	51.3	52.1	52.9	52.2

- Manufacturing PMIs moved further above the 50 basis points threshold across most major European economies during 2Q 2026, indicating a modest recovery in industrial activity. At the same time, renewed inflation across much of Europe, suggesting that while manufacturing conditions are improving, renewed price pressures may limit the scope for aggressive monetary easing.

Sources: *Aranca Research, Eurostat, S&P Global*

Asset Class Performance

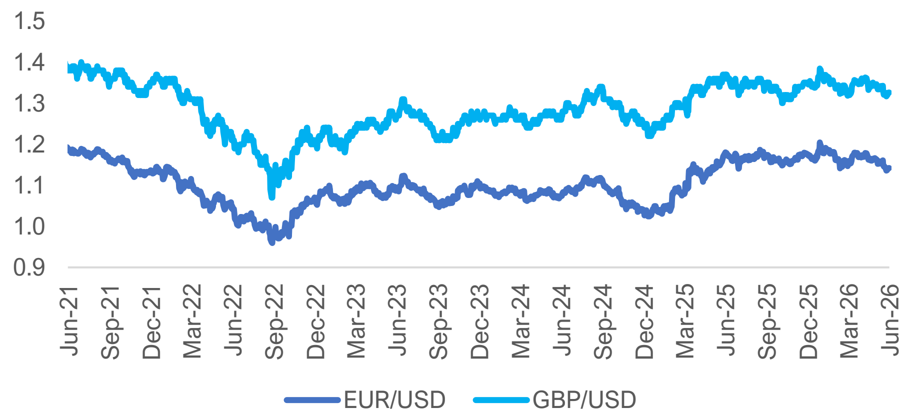
US dollar strengthens, while government bond yields diverge across regions

- **FX markets reversed after a strong April:** EUR/USD and GBP/USD rallied to quarterly highs in mid-April, consolidated in May, and weakened in June as resilient US data and a relatively hawkish Fed supported the dollar. The euro ended the quarter modestly lower, while sterling remained broadly unchanged.
- **Developed-market bond yields diverged:** UK gilt yields declined in 2Q 2026, as easing inflation and softer data reinforced expectations of BoE rate cuts. Euro-area yields also fell despite the ECB's June hike, supported by moderating inflation and a weaker growth outlook. Conversely, US Treasury yields rose as economic resilience strengthened the higher-for-longer rate narrative.

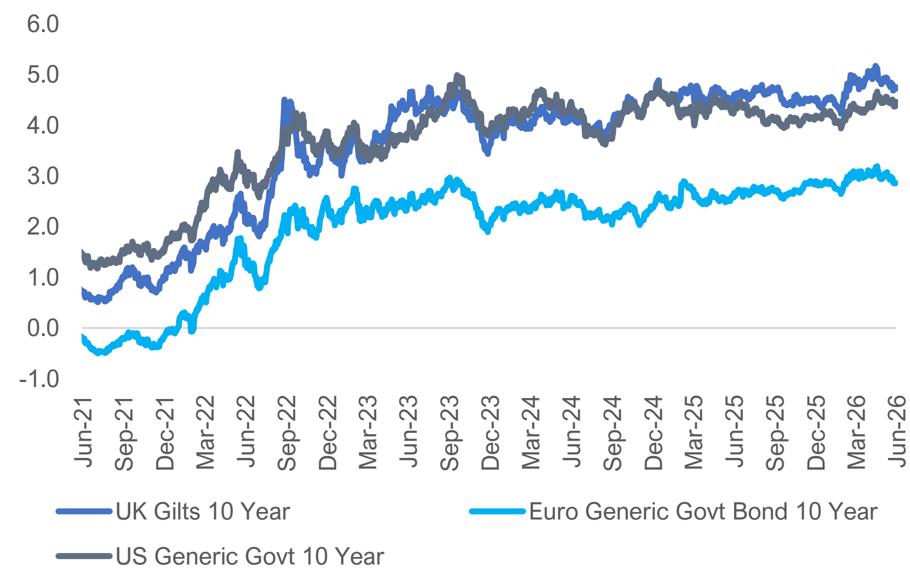
Currency Performance vs. the USD

Spot Returns vs. USD (%)

	1-Mo	1Y	3Y	5Y
EUR	-2.0%	-3.1%	4.7%	-3.7%
GBP	-1.4%	-3.2%	4.4%	-3.9%



10-Year Government Bond Yields



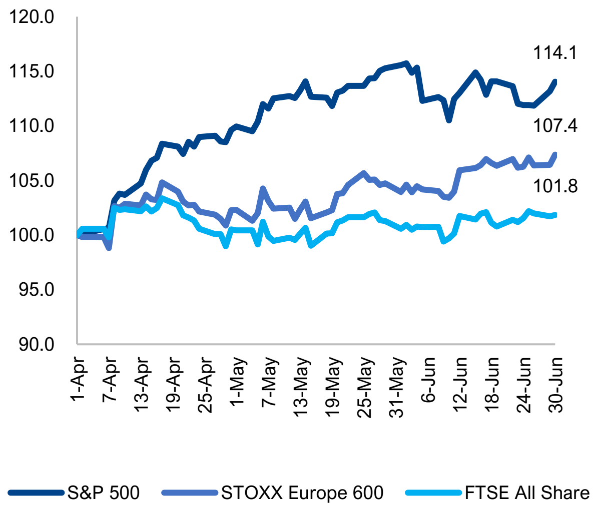
Sources: *Aranca Research, Bloomberg*

European Equity Market Analysis

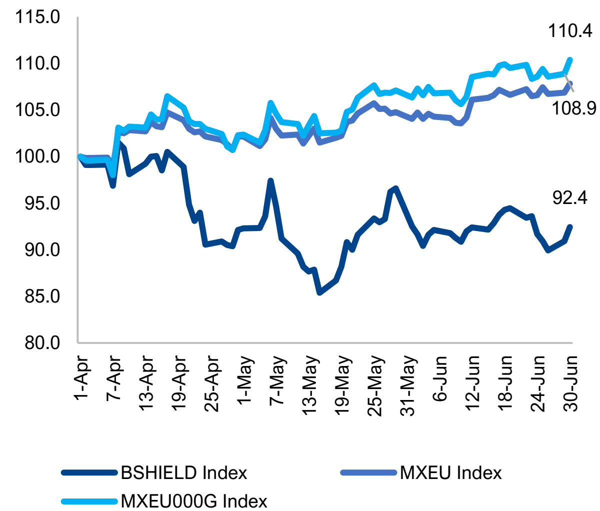
European equities rebound in 2Q 2026 as risk appetite returns

- The STOXX Europe 600 reversed March’s sell-off in 2Q 2026, supported by easing geopolitical and energy concerns, lower oil prices, improving earnings expectations, and renewed risk appetite despite persistent euro-area economic weakness.
- Performance leadership reversed in 2Q 2026, as broader European equities outperformed defense stocks. Renewed technology optimism and improving risk sentiment drove equity markets higher, while defense stocks consolidated after strong 1Q gains.
- European banks outperformed over the period, as higher rates and resilient fundamentals supported earnings, while strong capital positions and shareholder returns offset concerns around slower growth and tighter financial conditions.

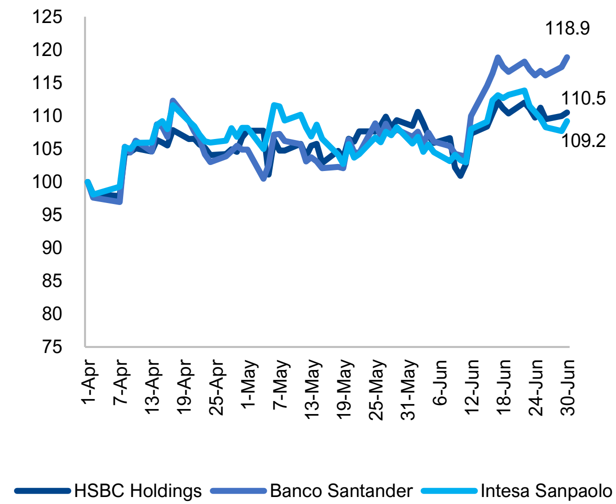
European Index Performance



European Defense vs. Broader and Growth Benchmarks



STOXX Europe 600 Banks (Top 3)



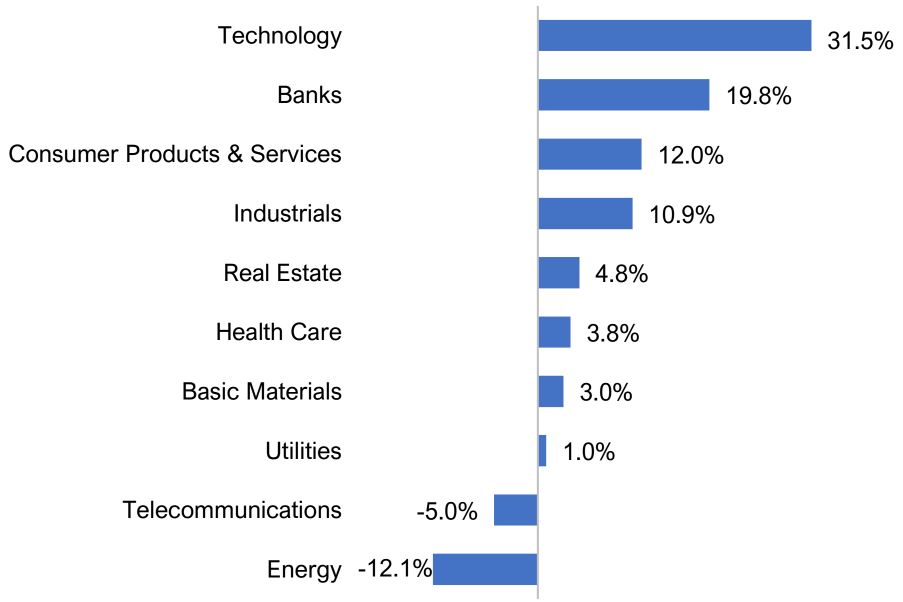
Sources: *Aranca Research, IMF, Bloomberg*

European and UK Sector Performance

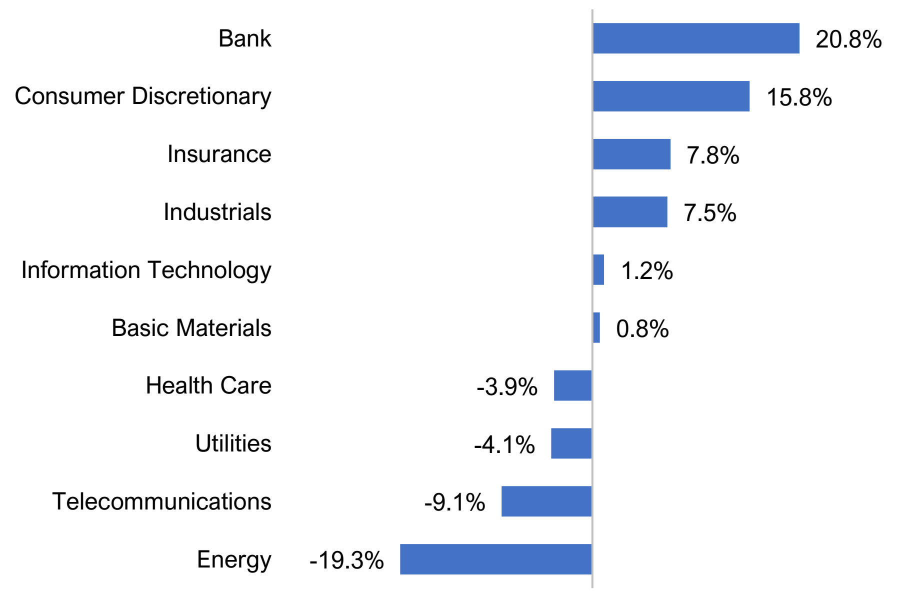
Market leadership rotates toward growth and financials in 2Q 2026

- **STOXX Europe 600 leadership shifted toward growth and cyclicals:** Technology led on sustained AI momentum and robust semiconductor earnings, while Banks, Consumer Products & Services, and Industrials benefited from improving risk appetite. Energy reversed its 1Q gains as oil prices retreated, while Telecommunications lagged amid the rotation toward higher-growth sectors.
- **FTSE All-Share leadership rotated toward Financials and domestic cyclicals:** Banks outperformed on resilient earnings and a supportive rate backdrop, alongside gains in Consumer Discretionary, Insurance, and Industrials. Energy surrendered its 1Q strength, as lower oil prices weighed on commodity stocks, while Telecommunications and Utilities lagged as investors moved away from defensives.

STOXX Europe 600



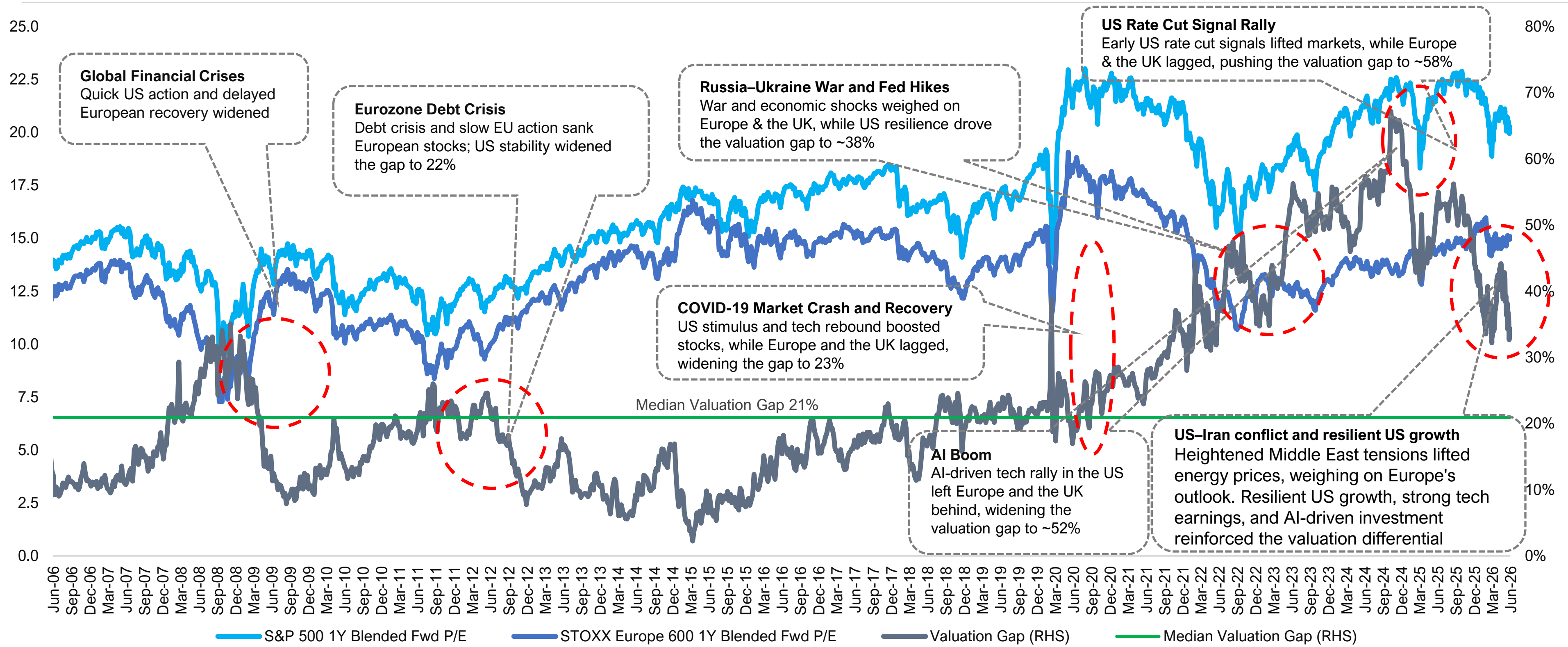
FTSE All-Share



Sources: *Aranca Research, Bloomberg*

Valuation Gap in the US versus European Equity

Valuation gap driven by superior US growth expectations



US Valuation Premium Underpinned by Superior Earnings Growth in 2Q 2026

- **Premium valuation:** The S&P 500 traded at ~20x forward earnings in 2Q 2026 versus ~15x for Europe, implying a valuation premium of ~34%
- **Stronger fundamentals:** The premium reflected superior US earnings momentum, with ~21% NTM EPS growth versus ~12% in Europe, reinforced by AI-led investment, greater exposure to structural-growth sectors, and a resilient economic and policy backdrop

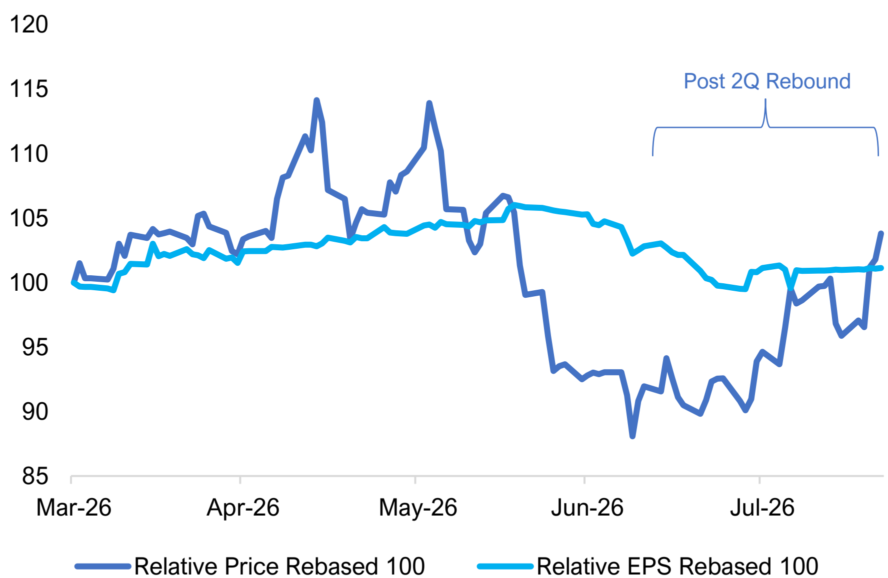
Europe's headline valuation discount masks meaningful sector dispersion. European mining offers a case in point, with its 2Q de-rating occurring despite resilient relative earnings expectations.

Sources: *Aranca Research, Bloomberg*

European Mining's 2Q Reset: Valuation-Led and Not Earnings-Led

Against this backdrop of valuation dispersion, European mining de-rated in 2Q despite improving relative EPS

Relative Price and EPS, Rebased



2Q sell-off was valuation-led

Mining underperformed MSCI Europe by 7.2% in 2Q, even as relative forward EPS improved by 5.3%

Multiple compression drove the correction

Relative P/E fell 10.9ppt, showing market compressed valuation faster than earnings expectations moved

Post-quarter rebound reduces the easy upside

Relative price recovered 11.9% after quarter-end, partly reversing the 2Q reset

Implication

Earnings support remains intact, but after the rebound, this is a selective screen and not a broad basket call

-7.2%
2Q relative price performance vs. MSCI Europe

+5.3%
2Q relative forward EPS vs. MSCI Europe

-10.9 pp
2Q P/E premium/discount change vs. MSCI Europe

+11.9%
Post-2Q relative price rebound to August 21

Mining's 2Q reset highlights the valuation dispersion in Europe. With **EPS expectations holding up,** the key question is **whether copper fundamentals still support the earnings story.**

Sources: *Aranca Research, Bloomberg; data as of August 21, 2026*

AI and Grid Investment Add a New Leg to Copper Demand

AI adds to the existing demand base supported by electrification, renewables, EVs, and traditional infrastructure

Copper already has structural demand support

Electrification, renewable capacity, EVs, and grid expansion remain the core long-term demand drivers

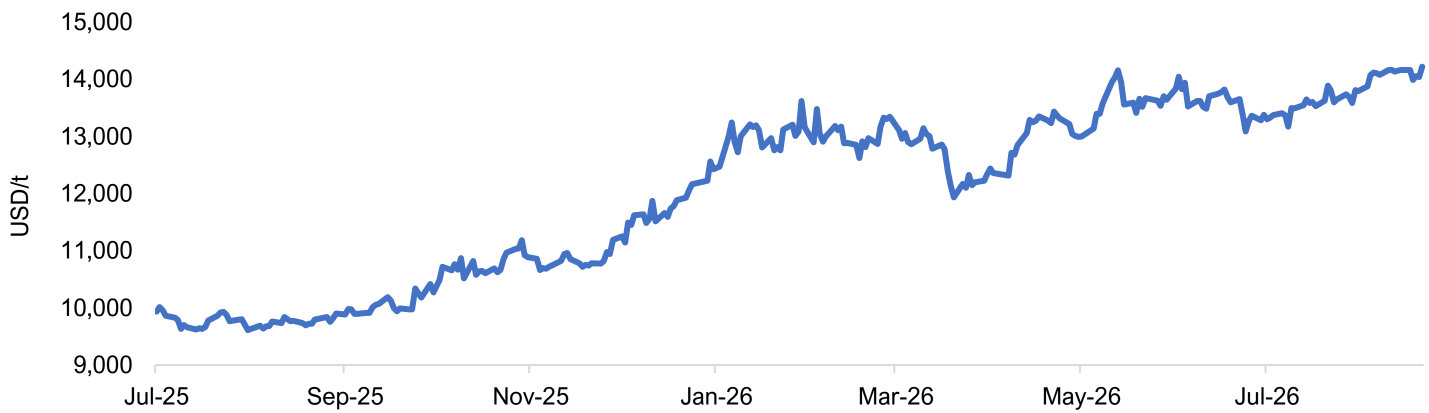
AI adds a new source of demand

S&P Global expects AI/data center copper demand to increase from 1.1mn t in 2025 to 2.5mn t by 2040

The indirect impact could be broader

Data centers increase electricity demand and require additional generation, transmission, and grid infrastructure, extending copper demand beyond the facilities

Copper prices reflect both structural support and near-term volatility



+44.0%
14-month move
Jul 1, 2025–Aug 21, 2026

+8.4%
2Q26 move
Apr 1–Jun 30, 2026

Copper's **structural demand case remains intact,** but stronger prices and the post-2Q mining rebound mean the **investment case now depends on selectivity** and not broad sector exposure.

Sources: *Aranca Research, Bloomberg, S&P Global, "Copper in the Age of AI" (January 2026); copper data as of August 21, 2026*

Valuation Dispersion Supports a Selective Mining Screen

Copper-linked demand remains supportive, but the post-2Q rebound calls for valuation discipline

Company	MCap (USD m)	Main Exposure	Copper exposure	NTM EV/EBITDA Percentile Rank 5yr	NTM EV/EBITDA Percentile Rank 10yr	NTM P/E Percentile Rank 5yr	NTM P/E Percentile Rank 10yr	Screen View
Copper-linked miners								
KGHM	18,535	Copper, silver	High	20	15	37	45	Best fit: copper exposure with reasonable valuation support
Antofagasta	52,538	Copper	High	86	92	52	64	Copper pure-play, but valuation support is limited
Boliden	16,957	Copper, zinc, smelting	Medium-High	83	80	54	67	Thematic fit, but not clearly cheap after rebound
Anglo American	59,470	Copper, iron ore, others	Medium-High	88	94	86	93	Thematic exposure, but valuation support is weak
MEDIAN				**85**	**86**	**53**	**66**	
Diversified miners with copper exposure								
Glencore	95,591	Diversified	Medium-High	96	85	76	71	Copper and trading exposure, but valuation screen is stretched
Rio Tinto	177,711	Diversified	Medium	97	94	96	93	Quality diversified miner, but valuation screen is unattractive
MEDIAN				**97**	**90**	**86**	**82**	
Copper value-chain								
Aurubis	9,126	Copper smelting, recycling	High, processing-led	93	96	75	87	Copper value-chain exposure, but valuation is already rich
MEDIAN				**93**	**96**	**75**	**87**	
Valuation support but weaker copper linkage								
Norsk Hydro	19,435	Aluminium, energy	Low / Indirect	45	31	35	18	Valuation support, but weak fit with copper/Al thesis
Fresnillo	32,372	Silver, gold	Low	77	48	26	15	Valuation support, but precious-metals exposure weakens thematic fit
MEDIAN				**61**	**40**	**31**	**17**	

The opportunity is not in buying European mining as a basket. The better screen is **selective exposure** to names where copper linkage, reasonable valuation, and balance-sheet comfort overlap, with **KGHM standing out** most clearly on the available valuation screen.

Sources: *Aranca Research, Koyfin; data as of August 21, 2026.*

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