

Special Report

Europe Capital Markets Newsletter – 4Q25



Executive Summary (1/2)

Macro & Growth Overview

- Growth in Europe and the UK is expected to stay modest through 2026–27, with only gradual improvement and persistent structural constraints.
- The ECB kept rates unchanged through 4Q25 while the BoE made a small rate cut, reflecting a careful, data-driven stance rather than a clear easing cycle.
- Inflation continued to cool and PMI levels hovered around the 50 mark, signaling steady but subdued economic activity across major European economies.

Currencies, Bond Yields, and Markets

- Currencies stabilized in 4Q25, with EUR/USD and GBP/USD broadly flat on a quarterly basis, showing that earlier FX trends paused as markets awaited clearer macro signals.
- Bond yields moved differently in Q4 2025, with UK gilt yields falling as fiscal concerns eased, eurozone yields rising marginally, and US Treasury yields ending the quarter broadly unchanged despite mid-quarter swings.
- Sector performance in 4Q25 was selective, with banks and defensives leading gains in Europe and the UK, while technology and domestic cyclical sectors lagged.

Executive Summary (2/2)

The Valuation and Earnings Perspective

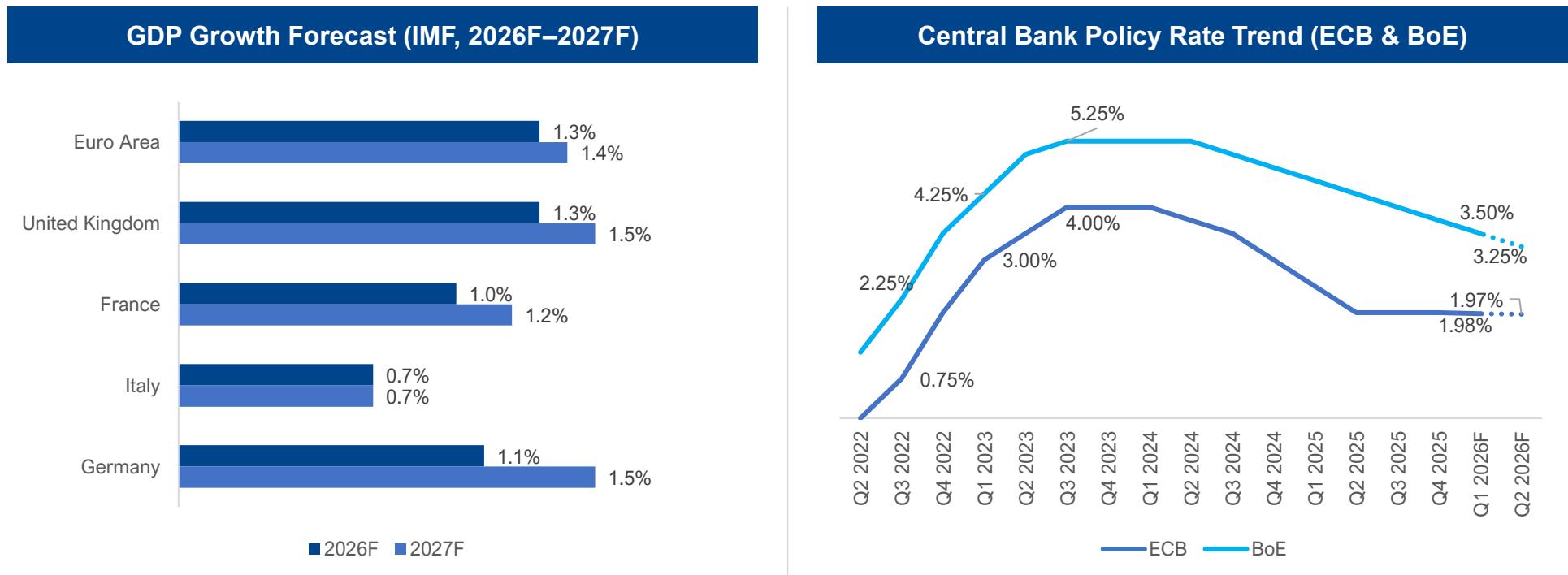
- The valuation gap between the US and Europe remained wide in 4Q25, with the S&P 500 trading far above the STOXX Europe 600 on blended forward P/E.
- The gap was supported by stronger US forward earnings expectations compared with Europe, where growth forecasts were muted.
- Structural differences such as the US index having a higher weight in technology and other growth sectors also contributed to the persistent premium.

Grid Upgrade: A Multi-year Investment Theme

- Europe's electrification is grid-constrained, with ~€584bn of investment needed by 2030 and ~€1.2tn by 2040, making grid upgrades a multi-year "must-spend" theme.
- Macro conditions favor high-visibility capex plays, supported by a 2.0% ECB deposit rate, ~2.0% inflation, modest growth (+0.2% QoQ GDP) and weak manufacturing (PMI 48.8).
- Beneficiaries span HV/HVDC cables, grid equipment, automation and grid operators, but valuation dispersion supports selective exposure over a broad basket.

Growth Remains Slow, While Central Banks Move Carefully on Interest Rates

- Growth across the euro area is expected to remain modest through 2026 and 2027, with only a slight pickup supported by higher public spending in countries like Germany while structural challenges persist. The lingering effects of past energy price increases, weak manufacturing, and limited benefit from the recent technology-driven investment cycle continue to weigh on activity. Other major European economies, including France, Italy, and the United Kingdom, follow the same subdued growth pattern.
- The ECB kept policy rates unchanged at 2.0% through 4Q25, signaling confidence that inflation is close to target and that the eurozone growth is stabilizing, allowing policymakers to remain on hold after an extended easing phase.
- The Bank of England cut rates by 25 bps to 3.75% in December, reflecting easing inflation and softer labor-market conditions, while emphasizing that any further cuts will be gradual and data-dependent.



Source: IMF, Bloomberg, Aranca Research

Cooling Inflation and Gradual PMI Stabilization Across Major European Economies

Inflation

Country	2024						2025											
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec
UK	2.2%	2.2%	1.7%	2.3%	2.6%	2.5%	3.0%	2.8%	2.6%	3.5%	3.4%	3.6%	3.8%	3.8%	3.8%	3.6%	3.2%	NA
Eurozone	2.6%	2.2%	1.7%	2.0%	2.2%	2.4%	2.5%	2.3%	2.2%	2.2%	1.9%	2.0%	2.0%	2.1%	2.2%	2.1%	2.1%	2.0%
Germany	2.6%	2.0%	1.8%	2.4%	2.4%	2.8%	2.8%	2.6%	2.3%	2.2%	2.1%	2.0%	2.0%	2.2%	2.4%	2.3%	2.6%	2.0%
France	2.7%	2.2%	1.4%	1.6%	1.7%	1.8%	1.8%	0.9%	0.9%	0.9%	0.6%	1.0%	1.0%	0.9%	1.1%	0.8%	0.8%	0.7%
Italy	1.6%	1.2%	0.7%	1.0%	1.5%	1.4%	1.7%	1.7%	2.1%	2.0%	1.7%	1.7%	1.7%	1.6%	1.8%	1.3%	1.1%	1.2%

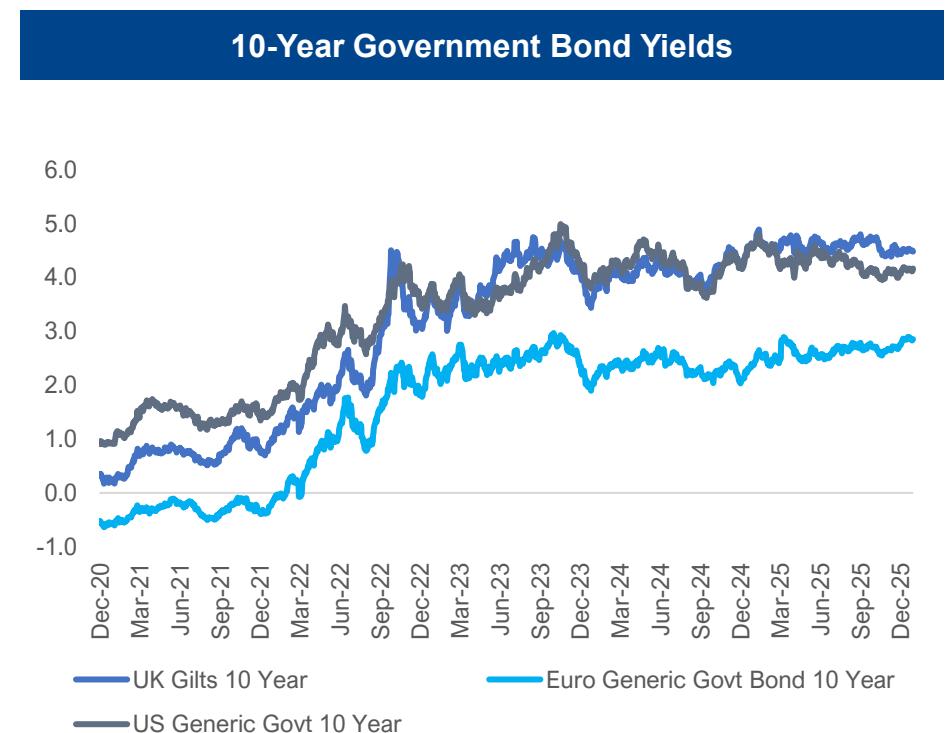
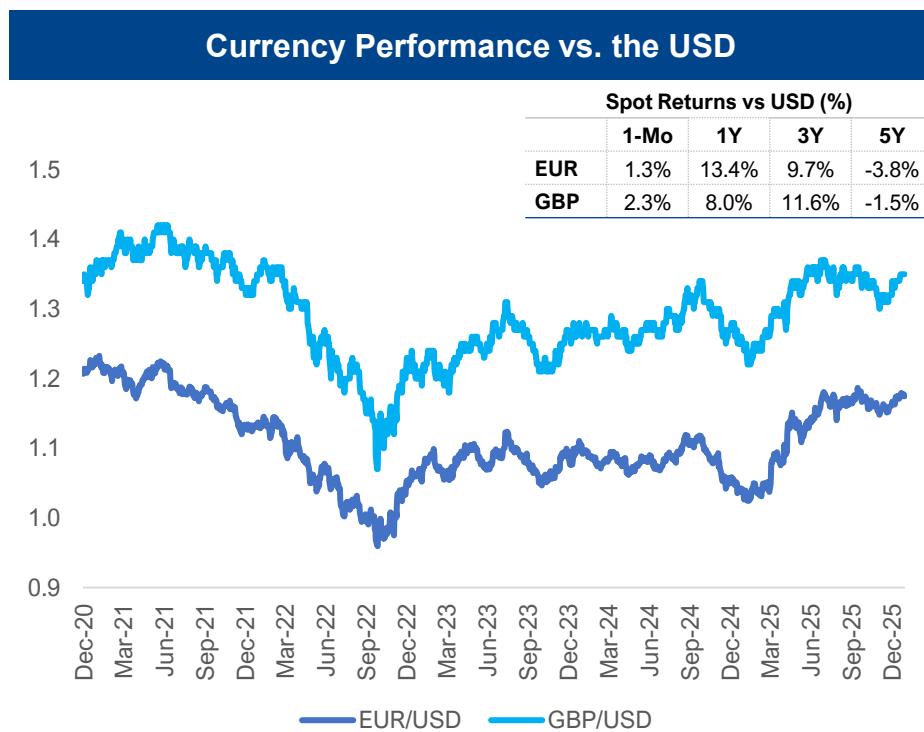
Manufacturing PMI

Country	2024						2025											
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec
Eurozone	45.8	45.8	45.0	46.0	45.2	45.1	46.6	47.6	48.6	49.0	49.4	49.5	49.8	50.7	49.8	50.0	49.6	48.8
UK	52.1	52.5	51.5	49.9	48.0	47.0	48.3	46.9	44.9	45.4	46.4	47.7	48.0	47.0	46.2	49.7	50.2	50.6
Germany	43.2	42.4	40.6	43.0	43.0	42.5	45.0	46.5	48.3	48.4	48.3	49.0	49.1	49.8	49.5	49.6	48.2	47.0
France	44.0	43.9	44.6	44.5	43.1	41.9	45.0	45.8	48.5	48.7	49.8	48.1	48.2	50.4	48.2	48.8	47.8	50.7
Italy	47.4	49.4	48.3	46.9	44.5	46.2	46.3	47.4	46.6	49.3	49.2	48.4	49.8	50.4	49.0	49.9	50.6	47.9

Source: Eurostat, S&P Global, Aranca Research

Currencies Stabilize in 4Q25, While Government Bond Yields Diverge Across Regions

- EUR/USD and GBP/USD strengthened sequentially from Q1 to Q3 2025 before entering a consolidation phase toward the year-end. Both currency pairs traded within a relatively narrow range in Q4, indicating stabilization rather than a continuation of the earlier appreciation trend.
- In Q4 2025, 10-year government bond yields moved differently across regions. UK gilt yields eased during the quarter, showing that investor concerns around government finances and interest rates reduced. Euro area yields edged higher as the economic outlook improved, and the central bank kept rates unchanged. US Treasury yields were mostly stable, fluctuating during the quarter but ending at similar levels, reflecting steady growth alongside gradual rate cuts.

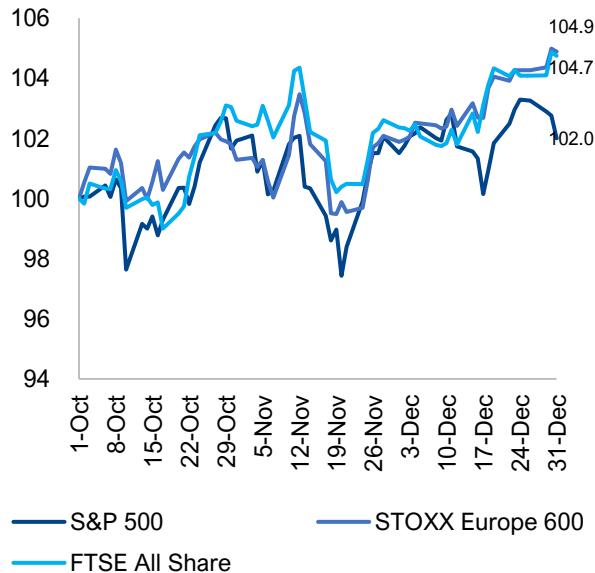


Source: Bloomberg, Aranca Research

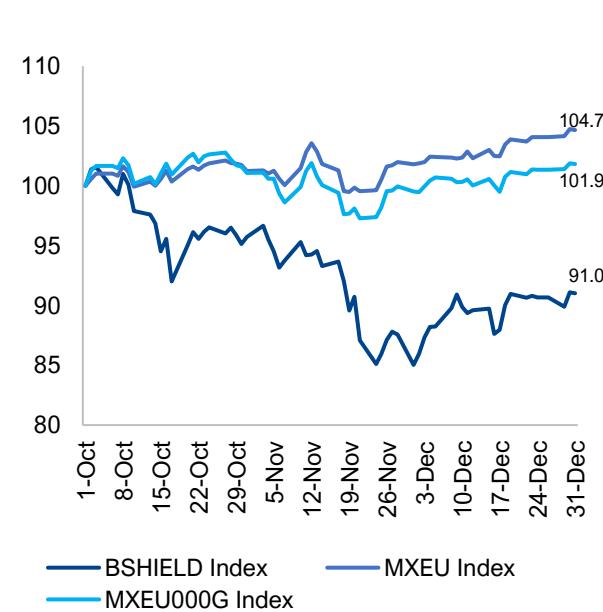
European Equities Outperform US in Q4 2025

- European equities outperformed the US in 4Q25, supported by resilient growth and easing inflation. The STOXX Europe 600 and FTSE All-Share delivered mid-single-digit gains over the quarter, compared with more modest returns from the S&P 500. Following a pullback in mid-November, European markets recovered in December, ending the quarter near highs.
- Sector performance diverged, with European defense stocks underperforming broader benchmarks in the quarter.
- Supported by solid earnings, strong capital positions, and stable credit quality, European banks recorded steady share price performance and were key contributors to index gains.

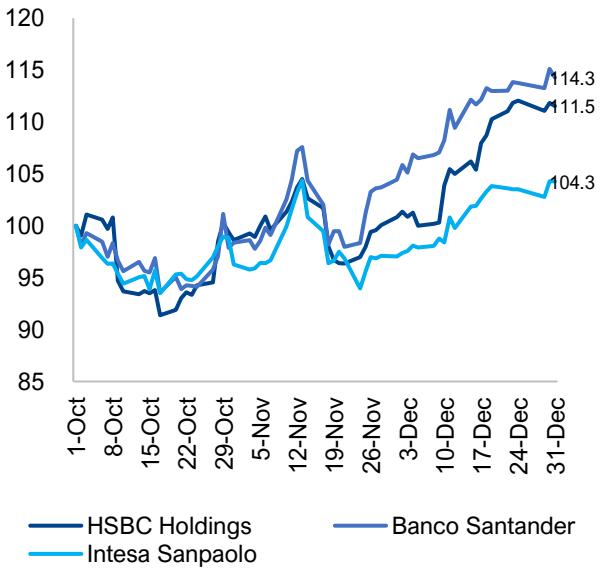
European Index Performance



European Defense vs Broader and Growth Benchmarks



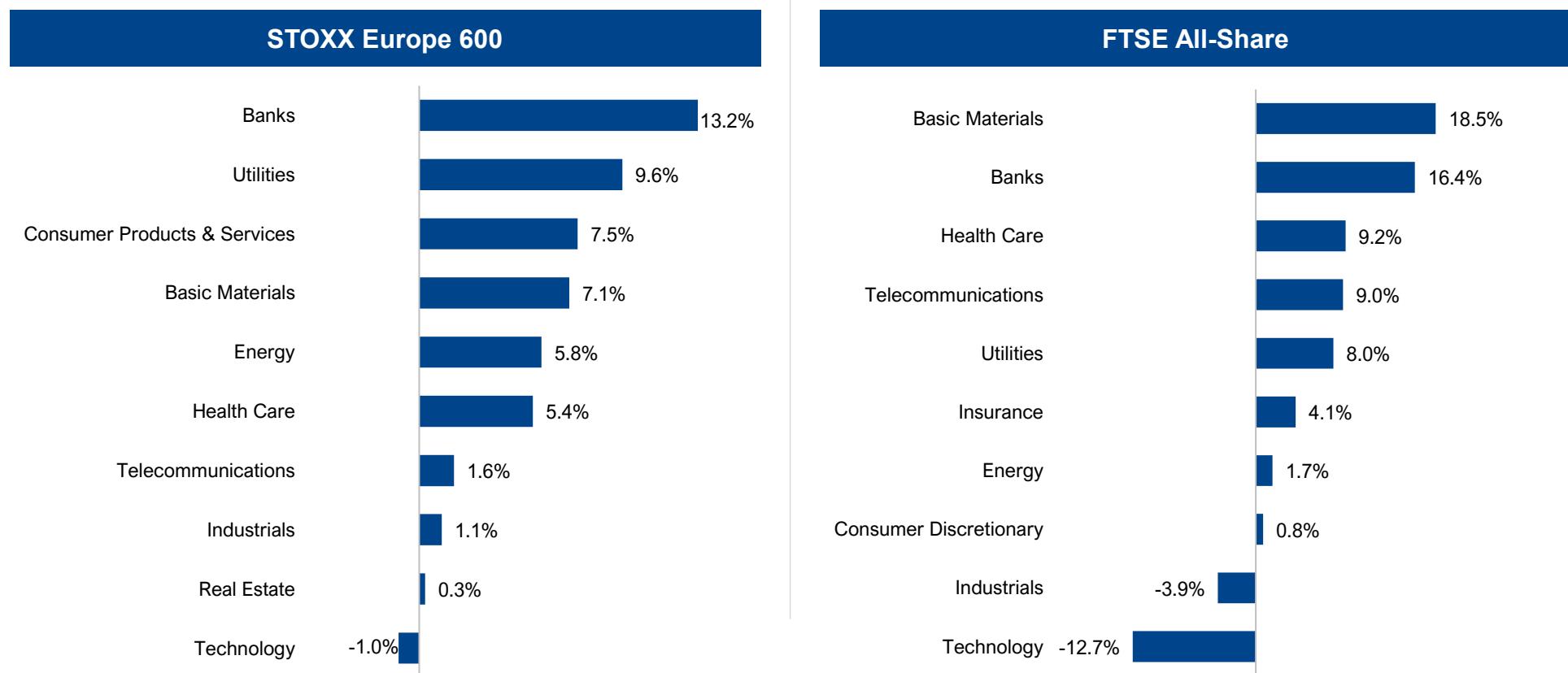
STOXX Europe 600 Banks (Top 3)



Source: Bloomberg, Aranca Research; all charts rebased starting from Oct 1, 2025,
BSHIELD Index: Bloomberg Europe Defense Index, MXEU Index: MSCI Europe Index, MXEU000G Index: MSCI Europe Growth Index

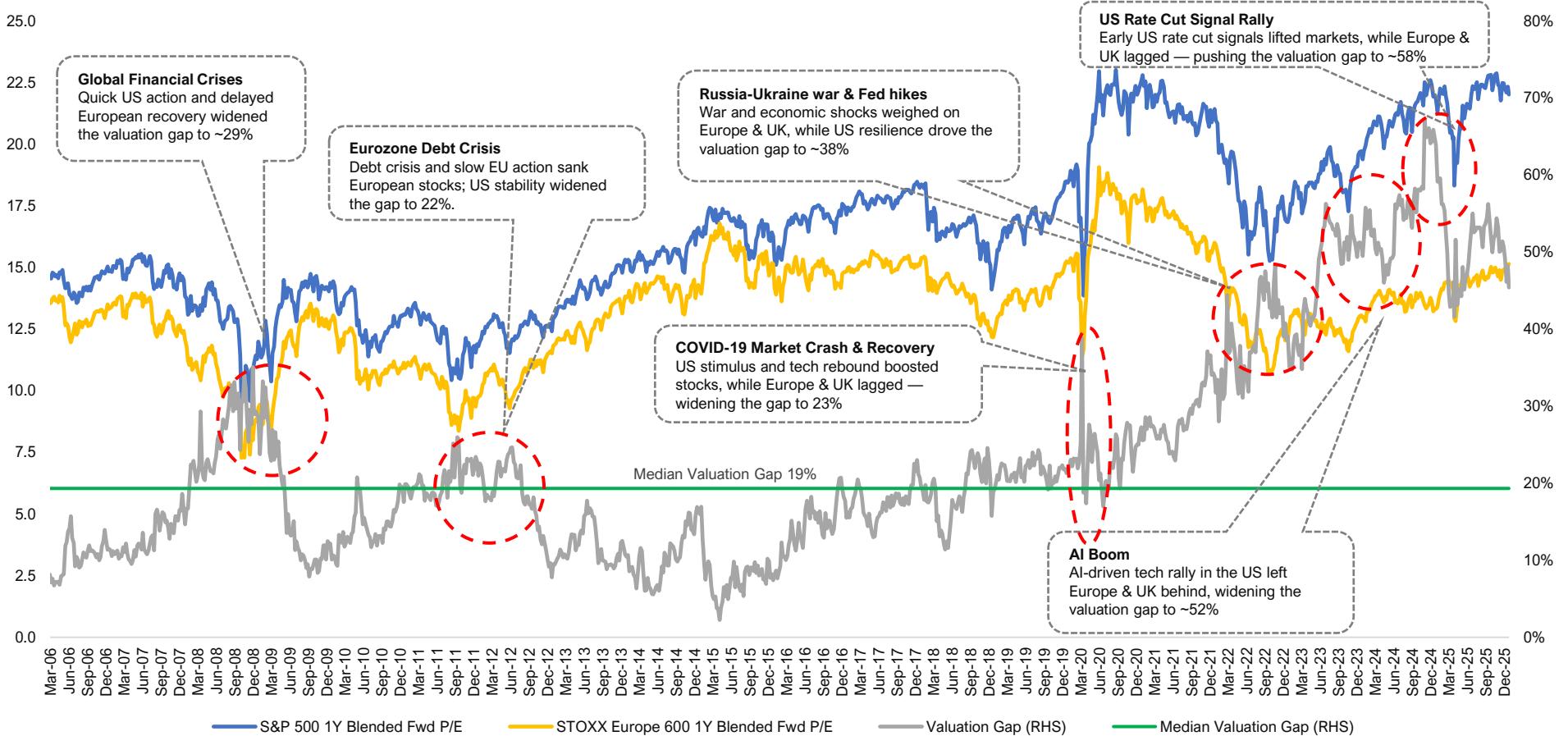
Selective Rotation Favored Globally Exposed Sectors in 4Q25

- The STOXX Europe 600 sector performance in 4Q25 reflected selective rotation rather than a broad-based rally. Banks led gains in 2025, while utilities and health care benefited from earnings visibility. Cyclical sectors held up on resilient global activity, while technology lagged amid continued selectivity toward growth.
- The FTSE All-Share extended gains and ended the quarter near multi-year highs, led by globally exposed sectors such as banks, mining, and energy. Performance was supported by resilient global demand, firm commodity prices, and a weaker pound, while domestically focused sectors lagged amid subdued UK consumer conditions.



Source: Bloomberg, Aranca Research

Valuation Gap Reflects Growth Expectations and Structural Differences



In Q4 2025, the US traded at a clear premium, with the S&P 500 at ~22x 1-year blended forward P/E versus ~15x for Europe, implying a ~50% valuation gap. This reflected strong US earnings expectations, with next-12-month EPS growth of ~16% versus ~9% in Europe (consensus). The gap also mirrors structural index differences, as US indices have high exposure to technology and other high-growth sectors.

Source: Bloomberg, Aranca Research

Europe's Power Grid is Emerging as the Binding Constraint to Electrification

- Europe's energy transition is increasingly constrained by grid capacity rather than power generation. Rapid expansion of renewables, electrified transport, heat pumps and data-center demand is outpacing the ability of transmission and distribution networks to connect new loads, leading to growing connection queues and project delays across multiple countries.
- This challenge is structural rather than cyclical. The European Commission's EU Action Plan for Grids (November 2023) estimates that €584bn of investment is required this decade to align grid capacity with electrification needs. Reflecting the scale of the shortfall, the EU has since outlined a ~€1.2 trillion grid upgrade its requirement over 2024–2040, highlighting that grid reinforcement represents a multi-decade investment cycle, and not a short-term catch-up.
- Ageing infrastructure further compounds the challenge. ~40% of Europe's distribution grids are over 40 years old, while substantial cross-border transmission expansion is still required to integrate renewables efficiently and balance regional supply.

National policy is increasingly aligning with this reality

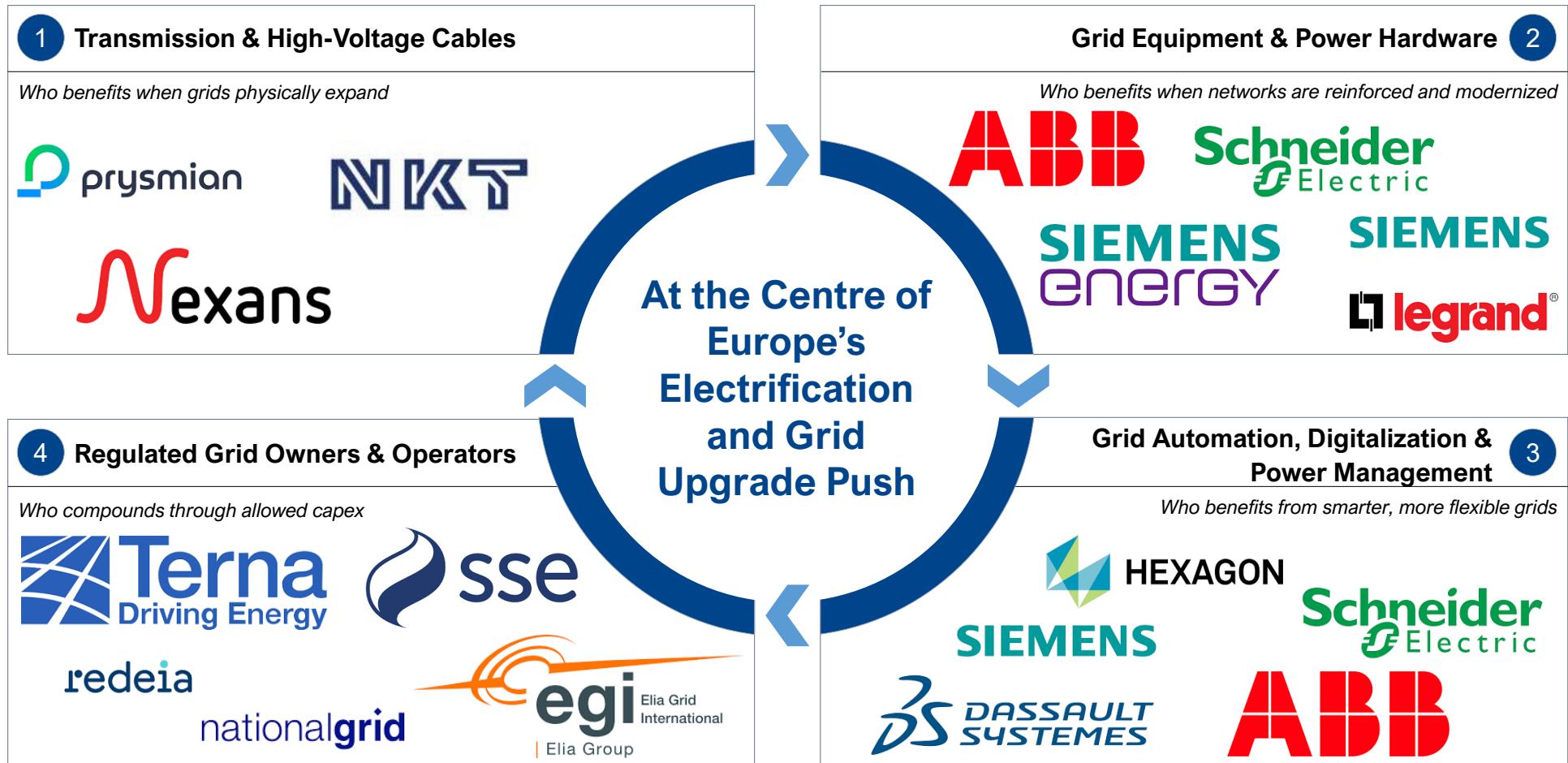
Spain has proposed raising its grid investment cap by 62% through 2030, with €13.6bn of trunk-network investment planned for 2025-2030, explicitly citing the increasing demand from data centers and system reliability needs.

Germany, the EU's largest economy, has framed 2025 as a year of elevated infrastructure investment, linking record federal spending to grid modernization and broader energy-system resilience.

Europe's grid infrastructure is aging, and expansion is structurally slow. A significant share of the distribution network is decades old, while new lines and substations face lengthy permitting processes and extended equipment lead times, making grid reinforcement inherently multi-year.

Source: European Commission, Aranca Research

Europe's Grid Upgrade Creates Multiple Structural Winners



Accelerating electrification, renewable integration and grid resilience spending are set to drive sustained earnings growth across select European grid infrastructure segments.

Note: Platform names span multiple layers; buckets show revenue exposure pathways

Source: Aranca Research

Valuation Dispersion Reinforces the Need for Selectivity Across Grid Enablers

Company	Industry	Country	Market Cap (USD m)	EV/EBITDA				P/E			
				EV/EBITDA		NTM EV/EBITDA Percentile Rank		P/E		NTM P/E Percentile Rank	
				FY25E	FY26E	5yr	10yr	FY25E	FY26E	5yr	10yr
Transmission & High-voltage Cables											
Prysmian	Electrical Equipment	Italy	31,870	13.3x	11.8x	100	100	23.6x	20.6x	96	97
NKT	Electrical Equipment	Denmark	6,610	12.8x	12.0x	82	67	27.0x	27.1x	55	64
Nexans	Electrical Equipment	France	6,195	6.8x	6.6x	41	68	15.6x	15.0x	49	63
MEDIAN				12.8x	11.8x	82	68	23.6x	20.6x	55	64
Grid Equipment & Power Hardware											
Siemens	Industrial Conglomerates	Germany	234,621	16.3x	14.8x	100	100	23.1x	20.2x	100	100
Schneider Electric	Electrical Equipment	France	153,428	17.2x	15.4x	70	85	27.1x	23.6x	80	90
ABB	Electrical Equipment	Switzerland	139,500	20.8x	17.9x	100	99	29.8x	26.6x	98	95
Siemens Energy	Electrical Equipment	Germany	135,263	18.1x	14.1x	99	99	36.4x	26.1x	63	59
Legrand	Electrical Equipment	France	38,888	16.3x	14.8x	73	82	25.1x	22.3x	71	76
MEDIAN				17.2x	14.8x	99	99	27.1x	23.6x	80	90
Grid Automation, Digitalization & Power Management											
Siemens	Industrial Conglomerates	Germany	234,621	16.3x	14.8x	100	100	23.1x	20.2x	100	100
Schneider Electric	Electrical Equipment	France	153,428	17.2x	15.4x	70	85	27.1x	23.6x	80	90
ABB	Electrical Equipment	Switzerland	139,500	20.8x	17.9x	100	99	29.8x	26.6x	98	95
Dassault Systemes	Software	France	36,852	13.7x	13.0x	4	2	18.3x	17.5x	3	2
Hexagon	Electronic Equipment Instruments and Components	Sweden	30,902	16.7x	14.7x	54	61	24.4x	22.0x	47	54
MEDIAN				16.7x	14.8x	70	85	24.4x	22.0x	80	90
Regulated Grid Owners & Operators											
National Grid	Multi-Utilities	UK	79,876	12.4x	10.9x	57	70	15.5x	13.9x	55	45
SSE	Electric Utilities	UK	37,631	11.7x	9.6x	72	75	15.5x	12.8x	68	74
Terna	Electric Utilities	Italy	21,583	11.1x	10.5x	32	25	17.2x	17.1x	64	78
Elia Group	Electric Utilities	Belgium	14,575	12.7x	10.3x	52	43	22.2x	19.4x	37	58
Redeia Corporacion	Electric Utilities	Spain	9,374	11.3x	10.9x	88	94	16.0x	15.8x	62	76
MEDIAN				11.7x	10.5x	57	70	16.0x	15.8x	62	74

Source: S&P Capital IQ, Koyfin data as on January 19, 2026, Aranca Research



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