WELLINGTON MANAGEMENT®

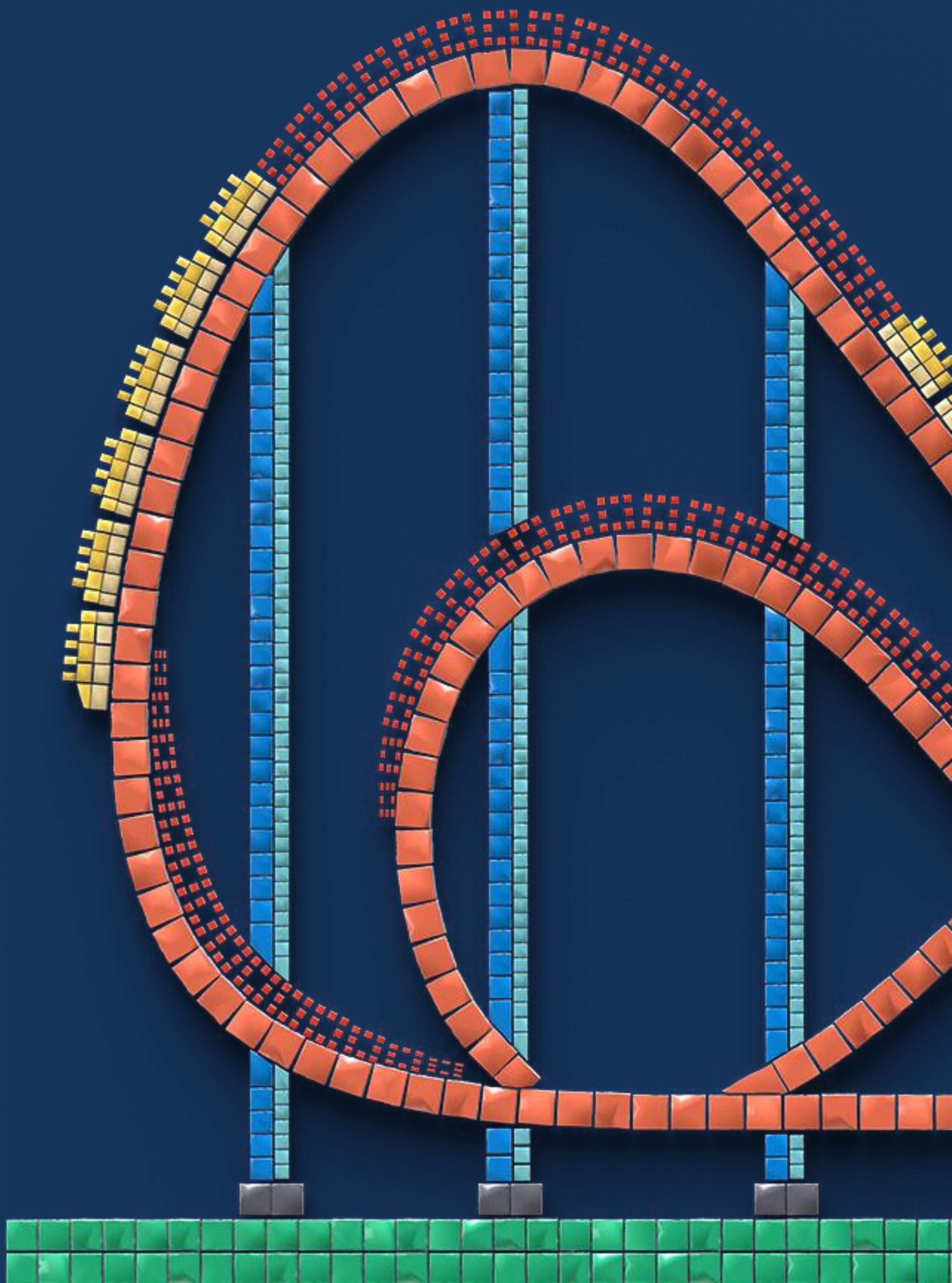
EMEA Investment Forum

INVESTING WELL IN AN AGE OF UNCERTAINTY

PLENARY SESSION

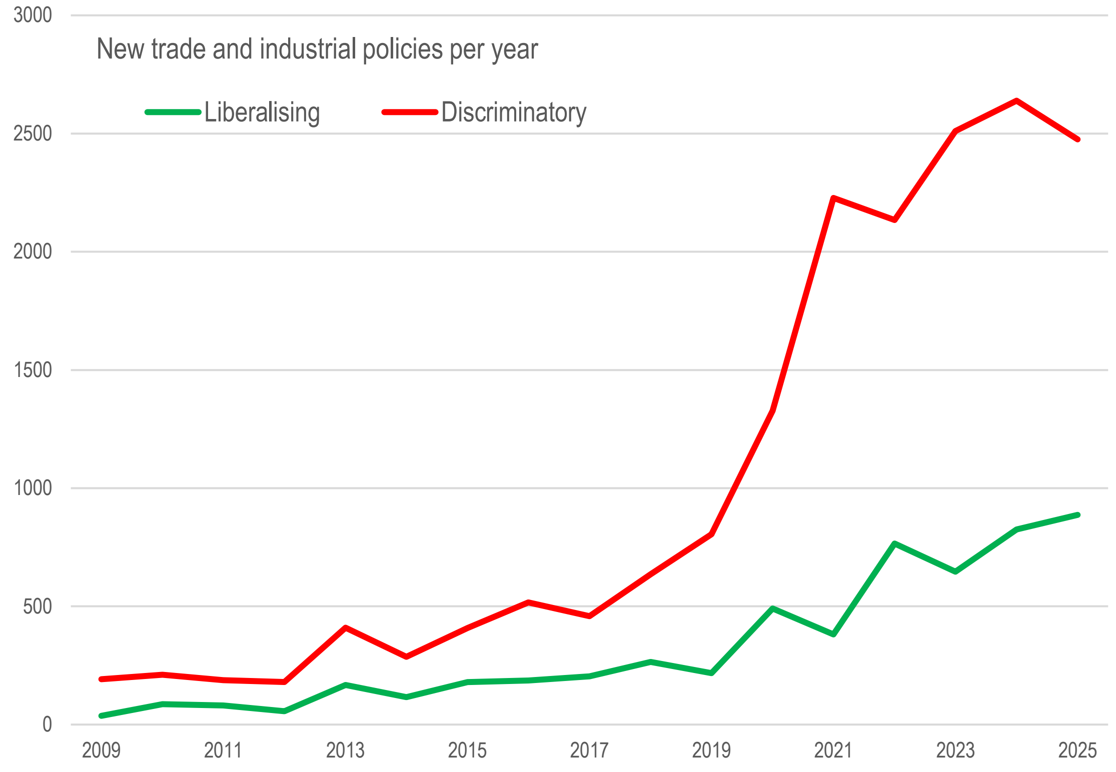
The changing face of Europe

Nicolas Wylenzek, Macro Strategist



A regime shift in progress...

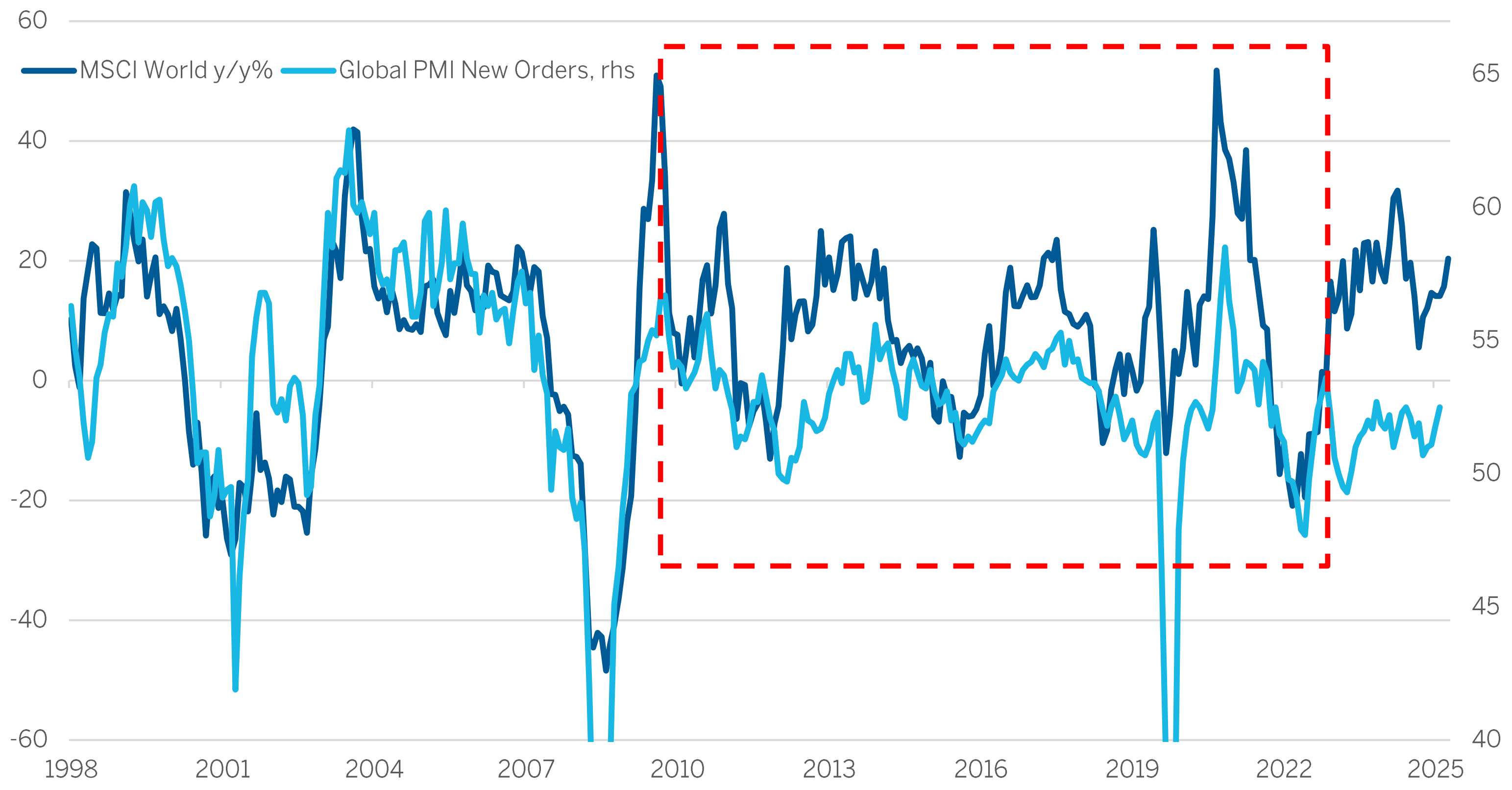
Driver 1: Globalization is slowing as trade conflicts are increasing, and Europe is one of the most impacted regions...



Source: Global Trade Alert, World Bank, as of October 31 2025

A regime shift in progress...

Driver 2: Monetary policy is likely to change structurally...



Since the GFC, central banks were able to keep monetary policy unusually loose for a given level of growth, this meant equity returns were significantly better than the historical relationship with the cycle suggested. This will change if inflation is structurally higher (demographic change, fiscal spending on energy transition/ defence, tariffs and geopolitical uncertainty).

Source: DataStream, Bloomberg, as of October 31 2025

A regime shift in progress…

Driver 3: Europe is turning more domestically focussed and interventionist

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A shifted attitude towards fiscal spending – Industrial policy to support domestic demand and achieve policy goals. Issuance of mutual debt, more flexible fiscal rules and the German fiscal stimulus are clear indications.

National security gaining importance – Supply chain resilience, onshoring, energy independence and defense drive policy. This will result in major changes to subsidies and regulatory support for key industries.

A return to positive rates – Healthy banks are the backbone of Europe's transmission mechanism and Europe is overweight value stocks, which benefit from higher rates in relative terms.

Demographic is having an increasing impact – Europe's population is aging fast. For the first time Europe's workforce is expected to shrink over the coming years. Labour hoarding and strong wage growth despite a weak macro backdrop are already reflections of this.

Exposure to the next "super cycle" – Europe missed the last tech cycle but has significant exposure to the energy transition

A regime shift in progress...

Impact: European financial markets are changing...

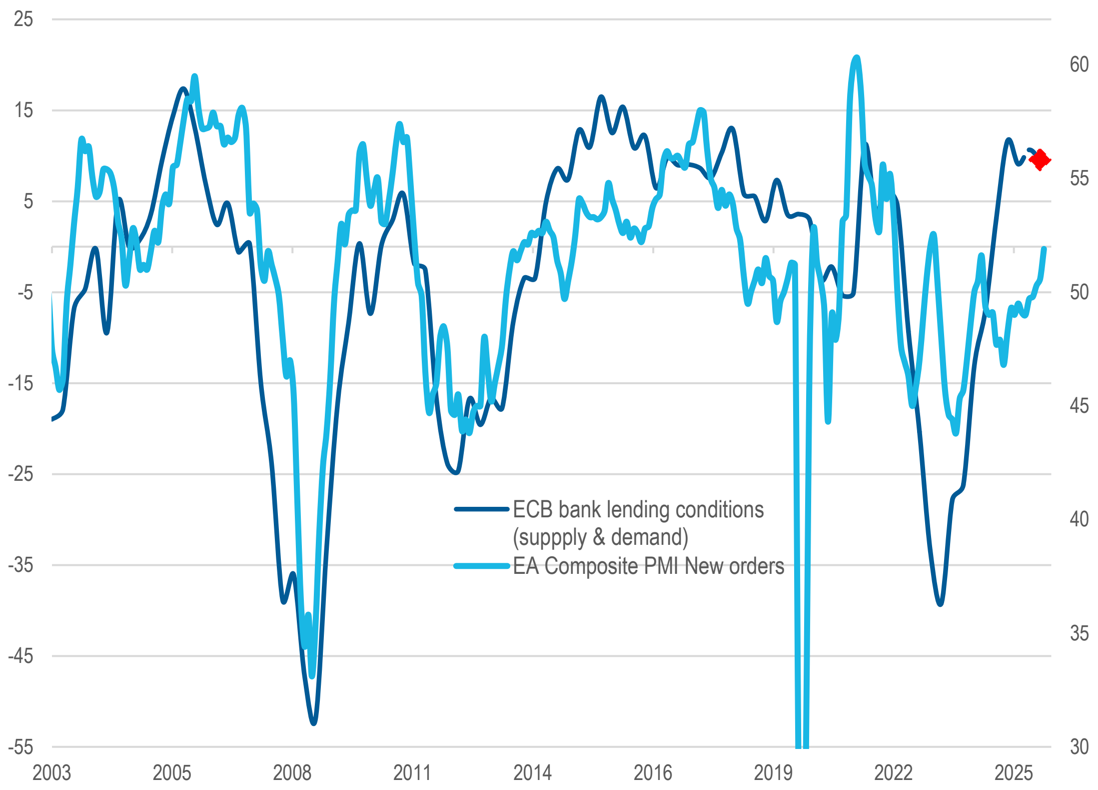
More inflation & higher rates	Fiscal spending and onshoring in combination with shifting demographics -> higher inflation -> tighter monetary policy -> higher interest rates
Increased political intervention	Increased focus on national security and resilience, will lead to targeted intervention (incentives and regulation) creating winners and losers
Valuation will matter again	If money is no longer free investors will no longer buy growth and long duration assets at any price
International exposure is no longer a clear positive	For most of the last decade international exposure was a clear positive, this will be much less clear going forward. This benefits the periphery and domestic sectors.
New leaders will emerge	After 2000 and 2008 we are likely to see the next change in leadership within the equity market. Passive investments tends to favor past winners

.... meeting a domestic recovery

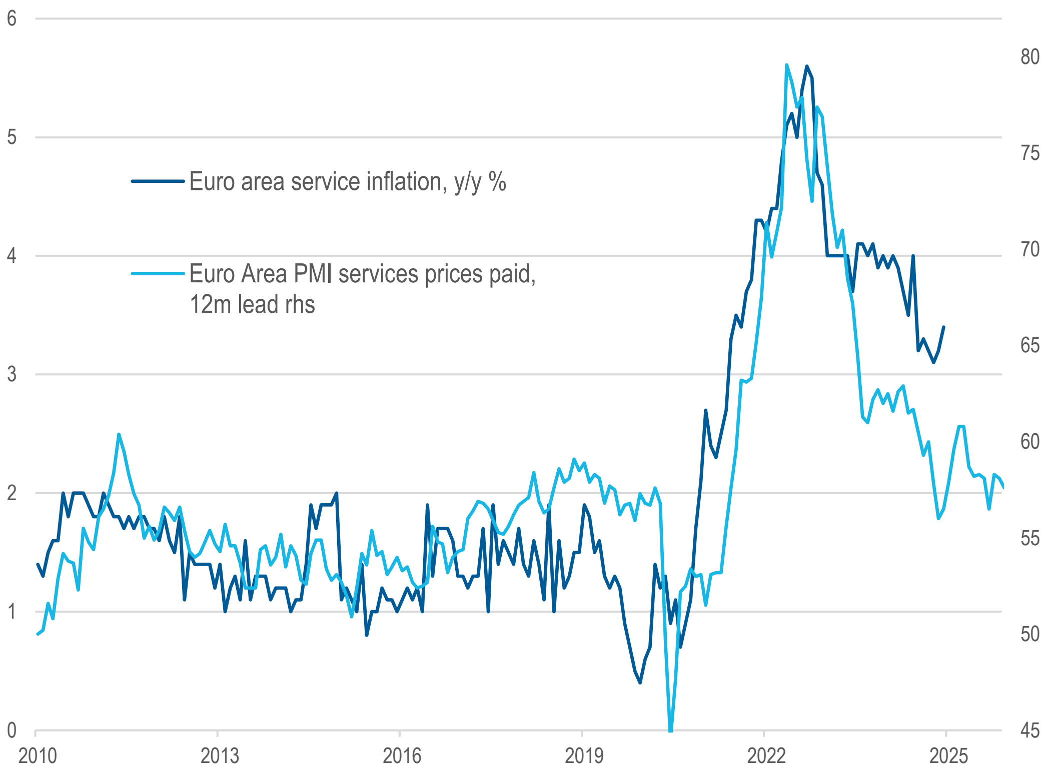
Growth backdrop improving: 1. European monetary conditions have improved:

Lending conditions have eased as inflation is slowing

Lending conditions have improved...



... and inflation pressure has eased



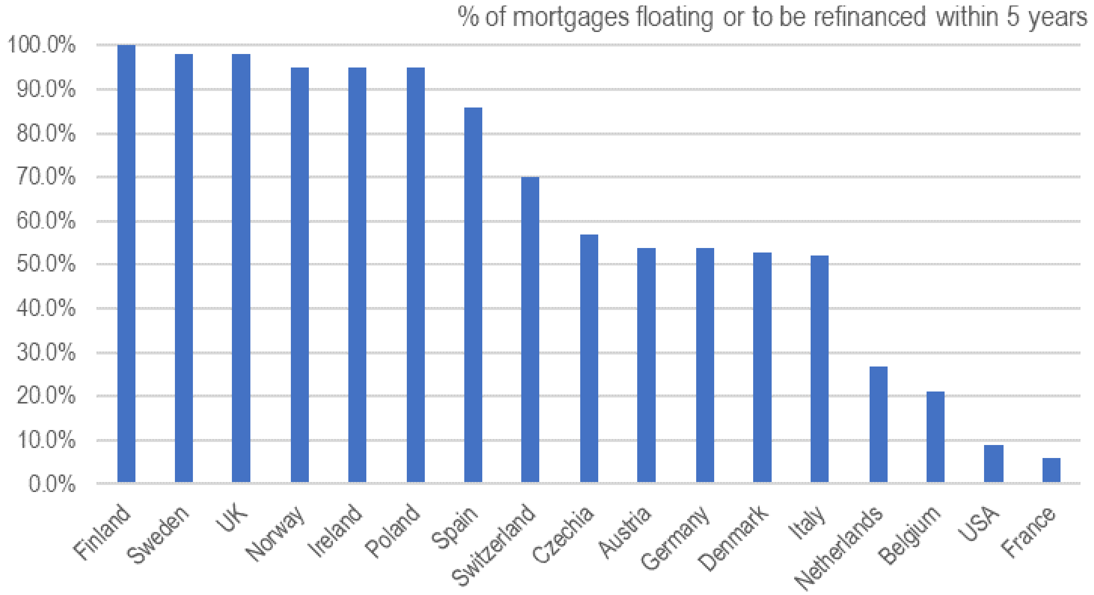
Source: DataStream, Haver, as of October 31 2025

.... meeting a domestic recovery

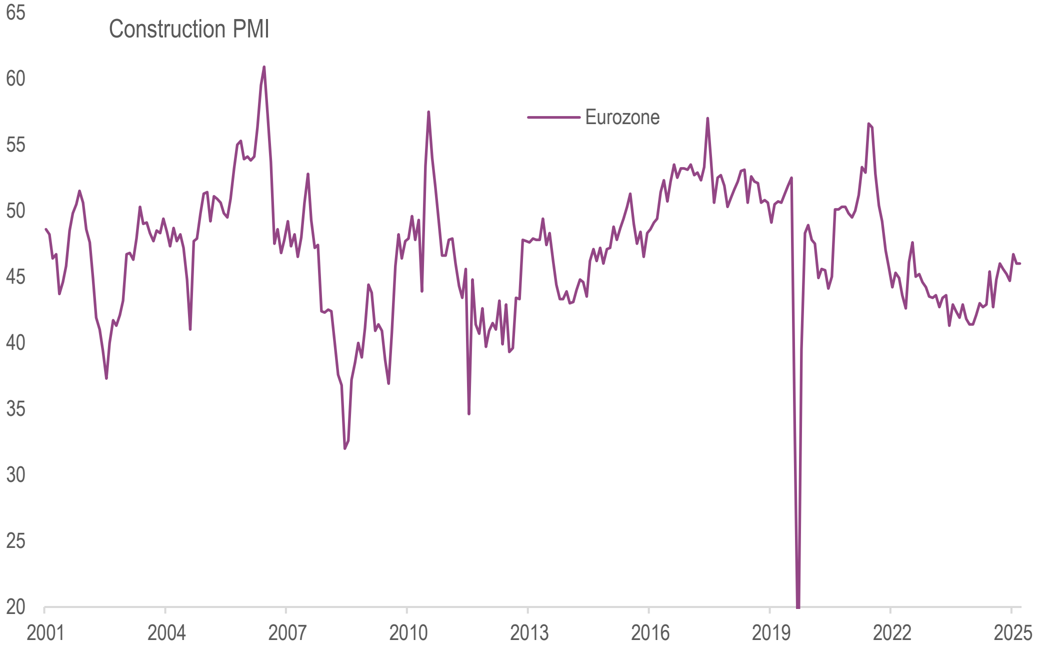
Europe's economy is geared towards lower rates, and the most rate sensitive parts of the economy are recovering.

2. Fiscal policy is supportive across most countries

Europe has a lot of floating rate debt



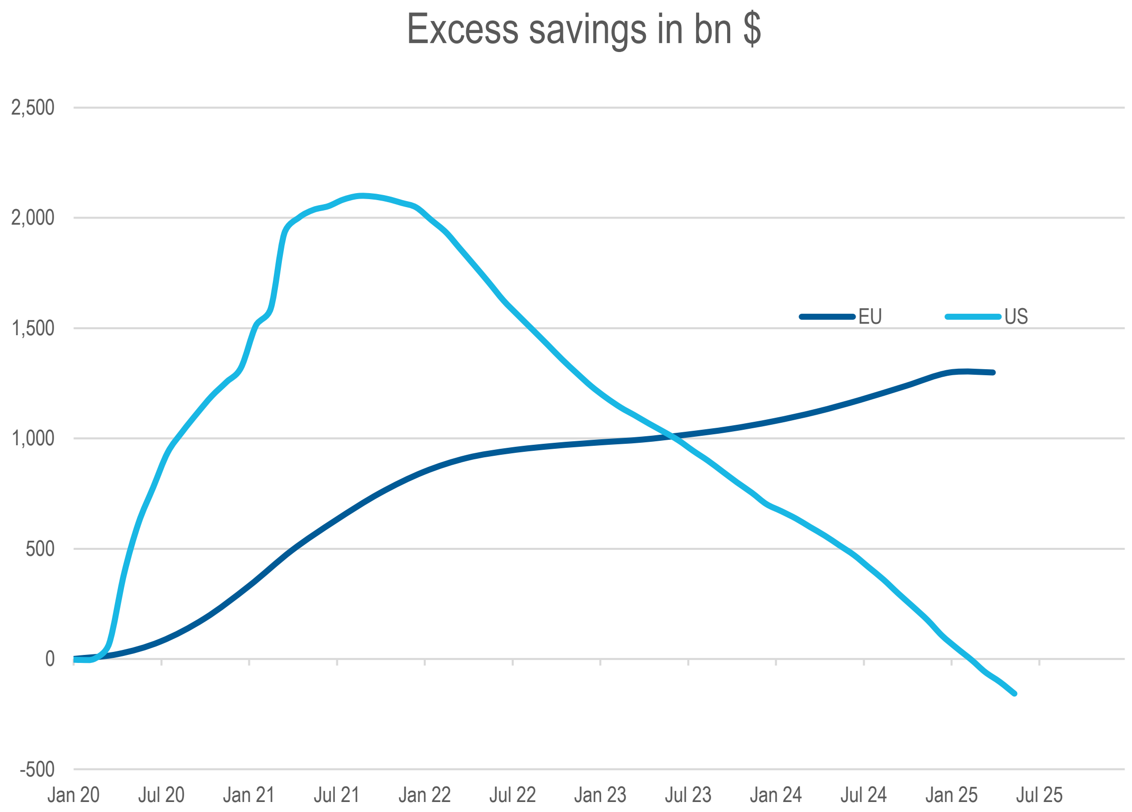
Construction is starting to recover

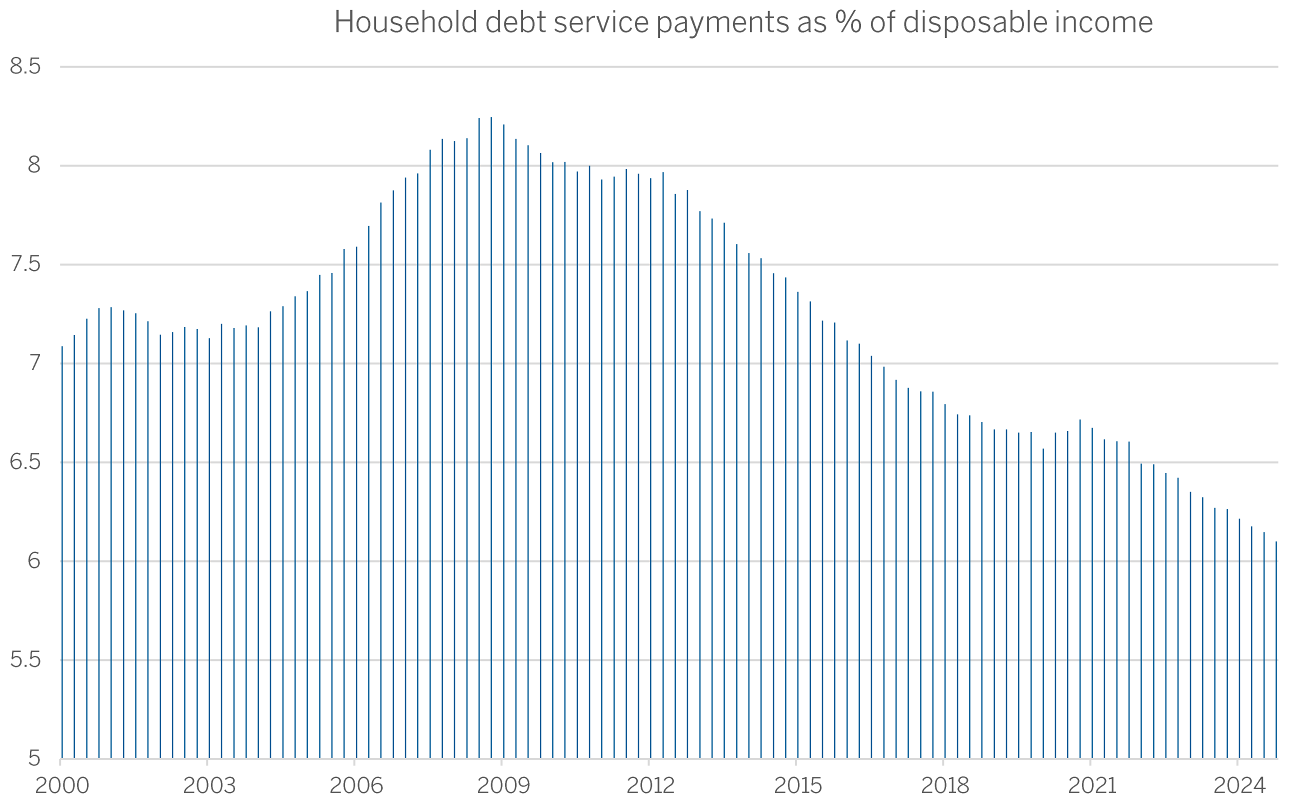


Source: Autonomous, DataStreamas of October 31 2025

.... meeting a domestic recovery

3. The European consumer is in a strong place: The savings ratio is still 2.5% above pre -Covid periods, resulting in sizeable access savings. Consumer balance sheets are the strongest they have been in decades....

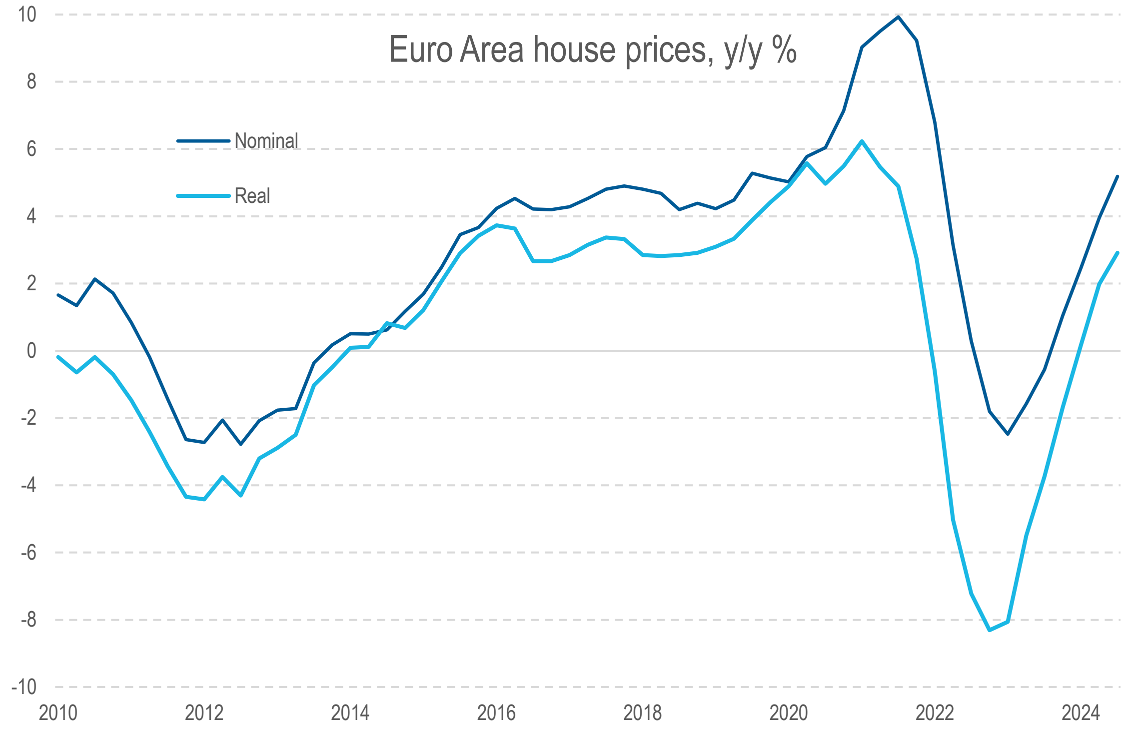




Source: DataStream, Bloomberg, World Bank, as of August 31 2025

.... meeting a domestic recovery

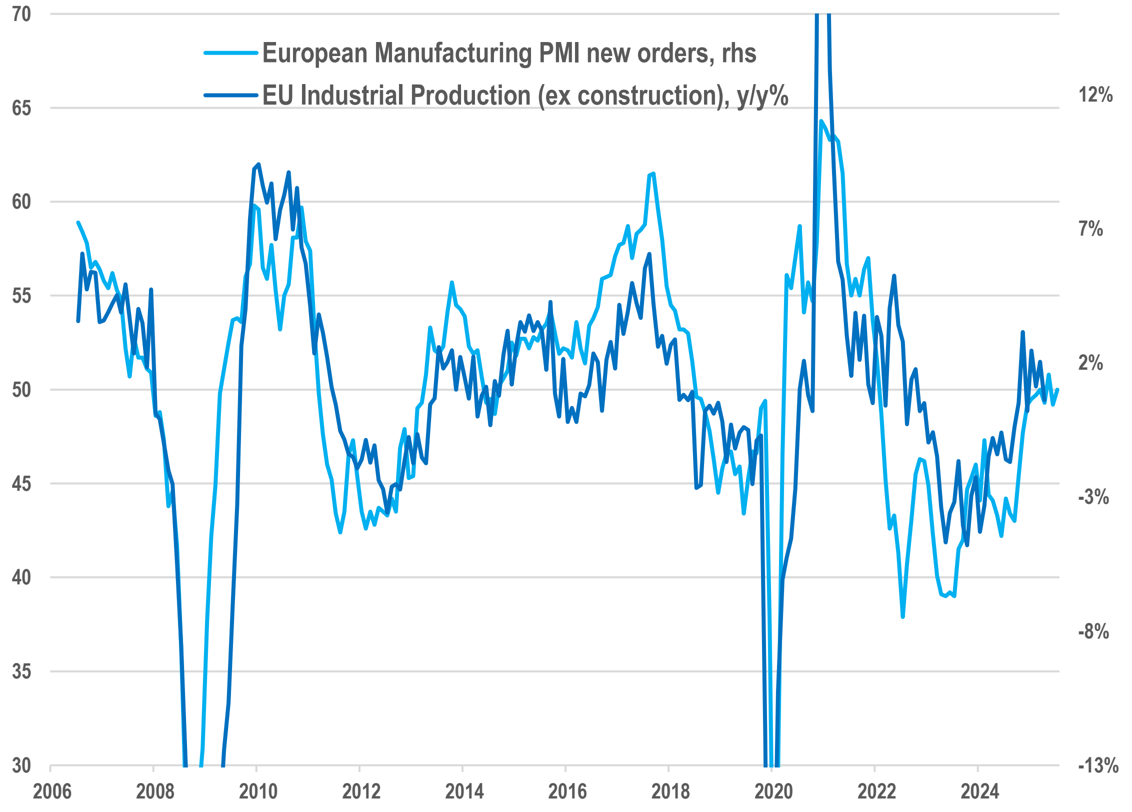
Real wage growth is running at c.2%, while house prices have started to recover

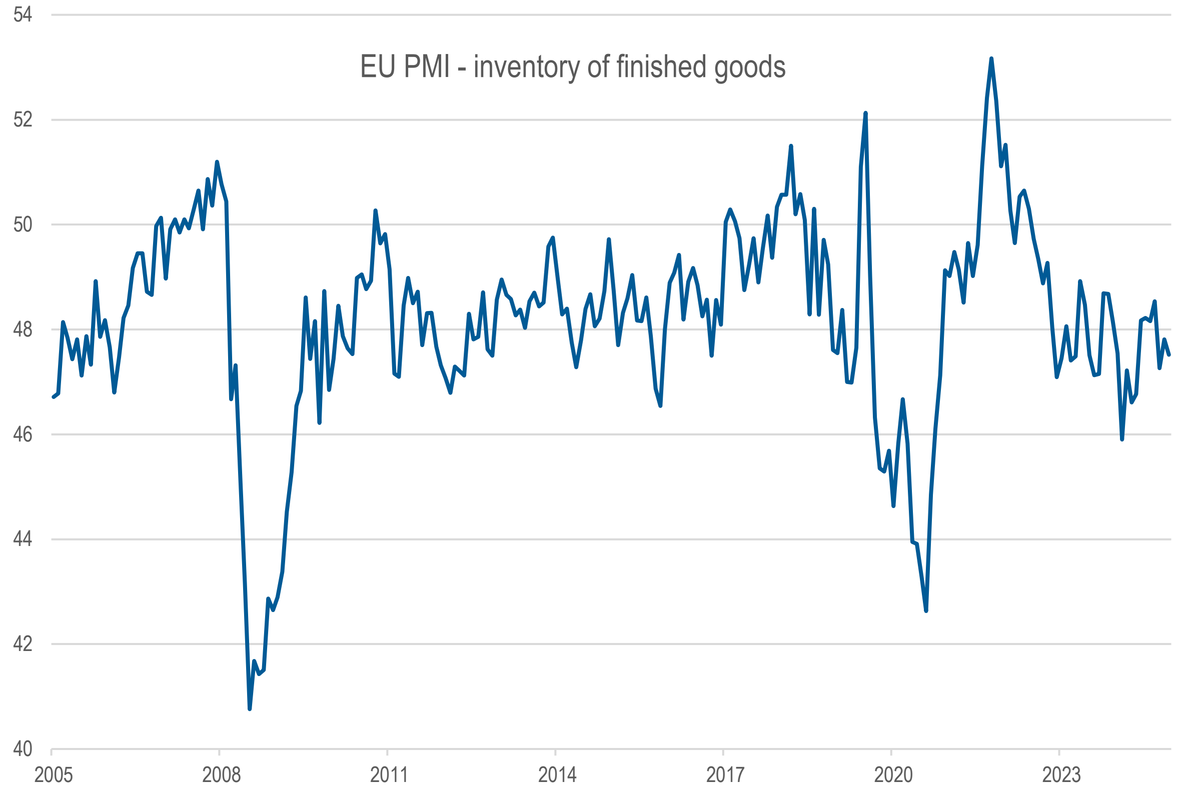


Source: DataStream, , as of August 31 2025

.... meeting a domestic recovery

4. Manufacturing finally shows signs of a recovery: Activity is picking up as inventories seem to be stabilizing... This is from very low levels and data likely to be volatile for a while

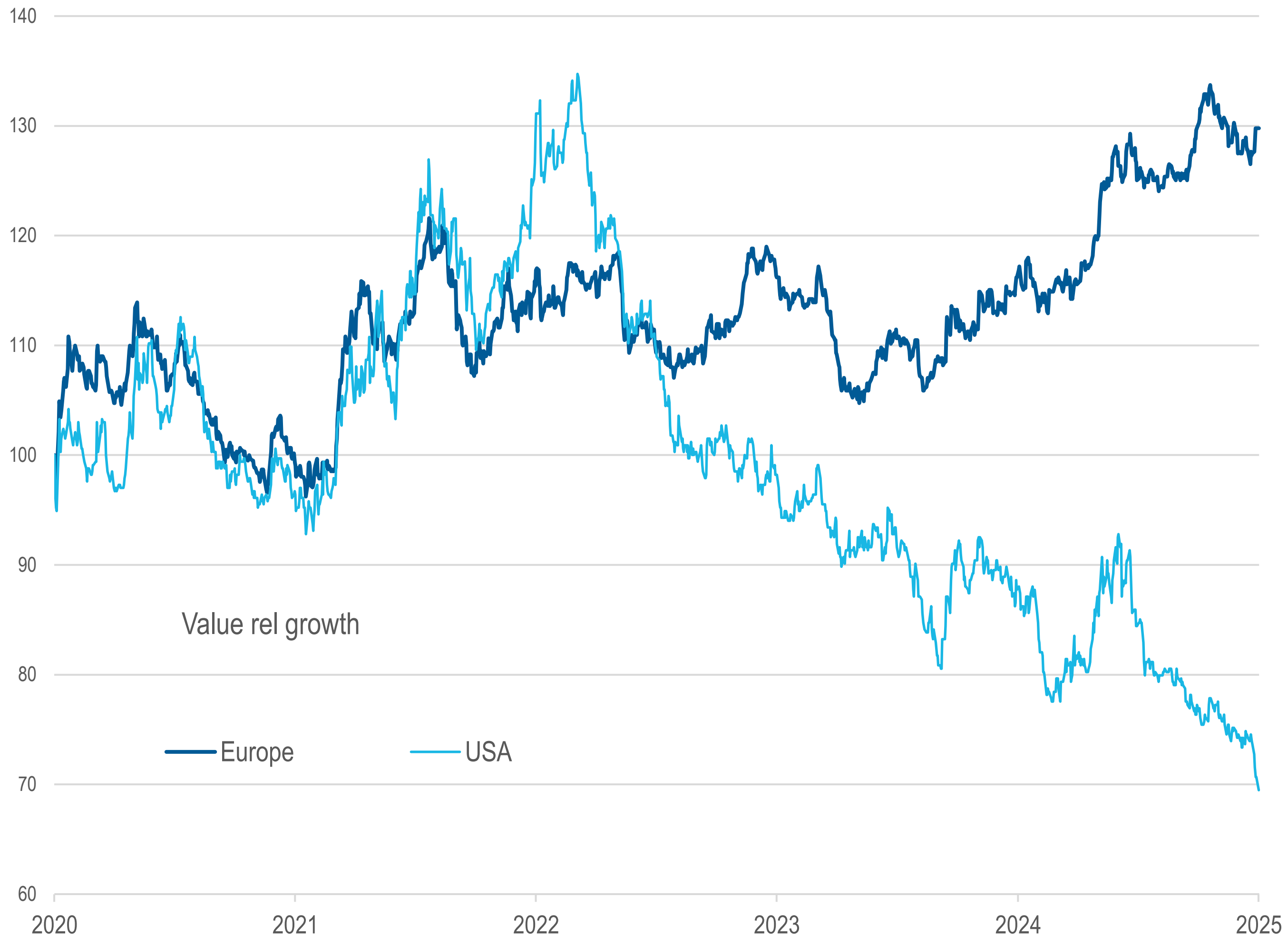




Source: DataStream, Bloomberg, as of November 2 2025

How to invest? A few ideas...

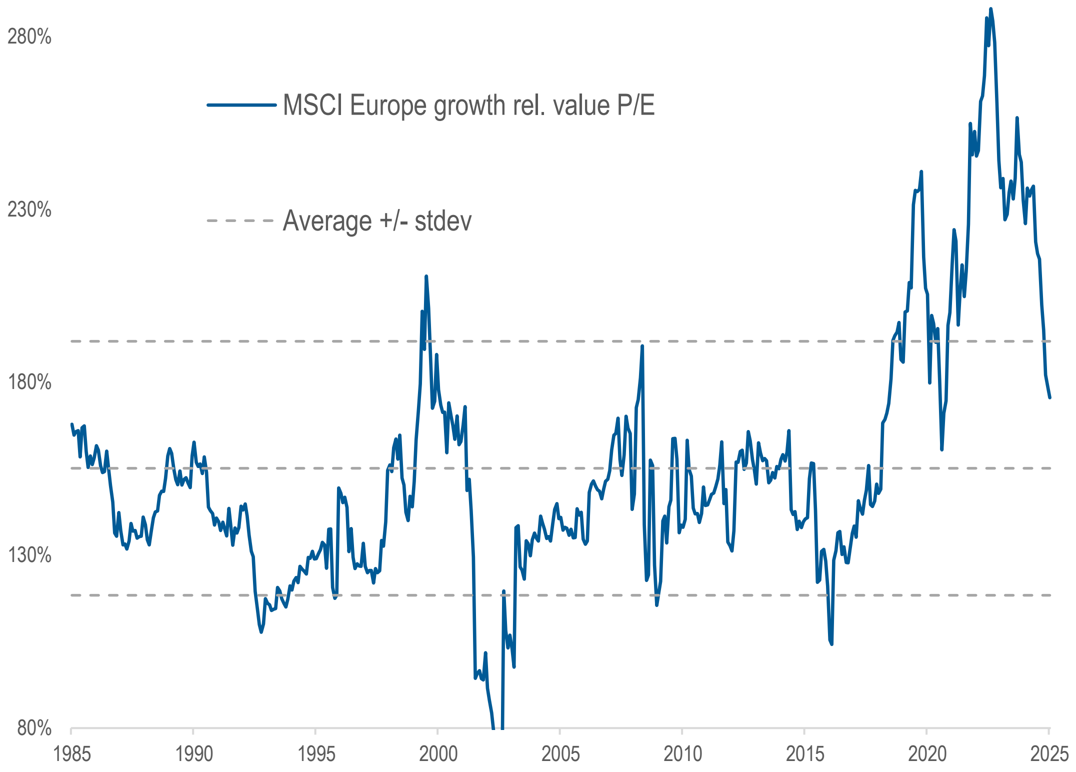
European value: Domestic value is the big winner of the new European regime and geared towards domestic demand. This is different to the US where growth continues to dominate.

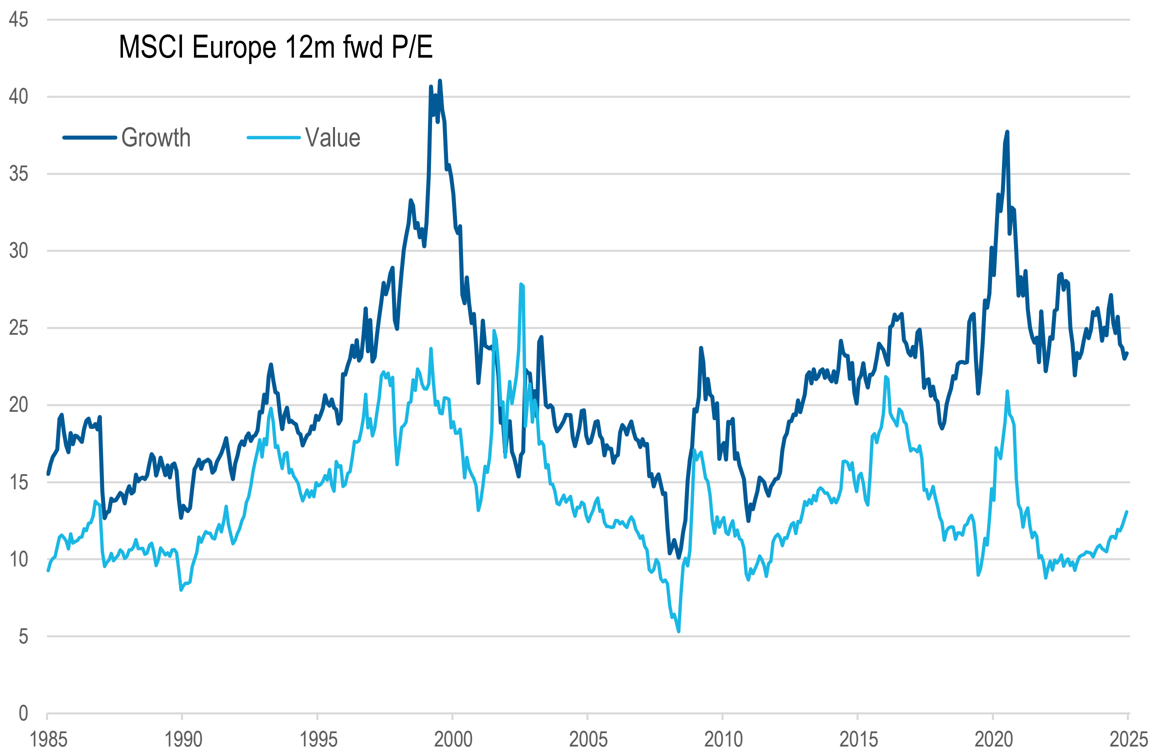


Source: DataStream as of November 2 2025

How to invest? A few ideas...

European value continues to look extremely cheap....

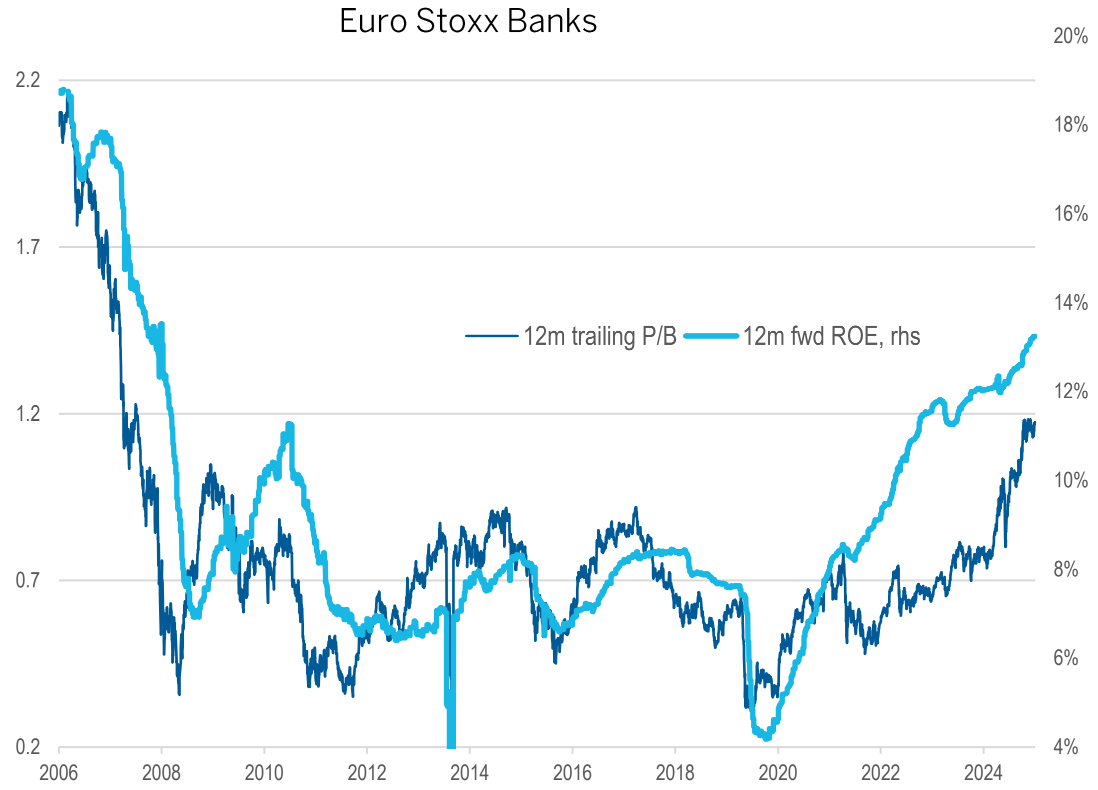


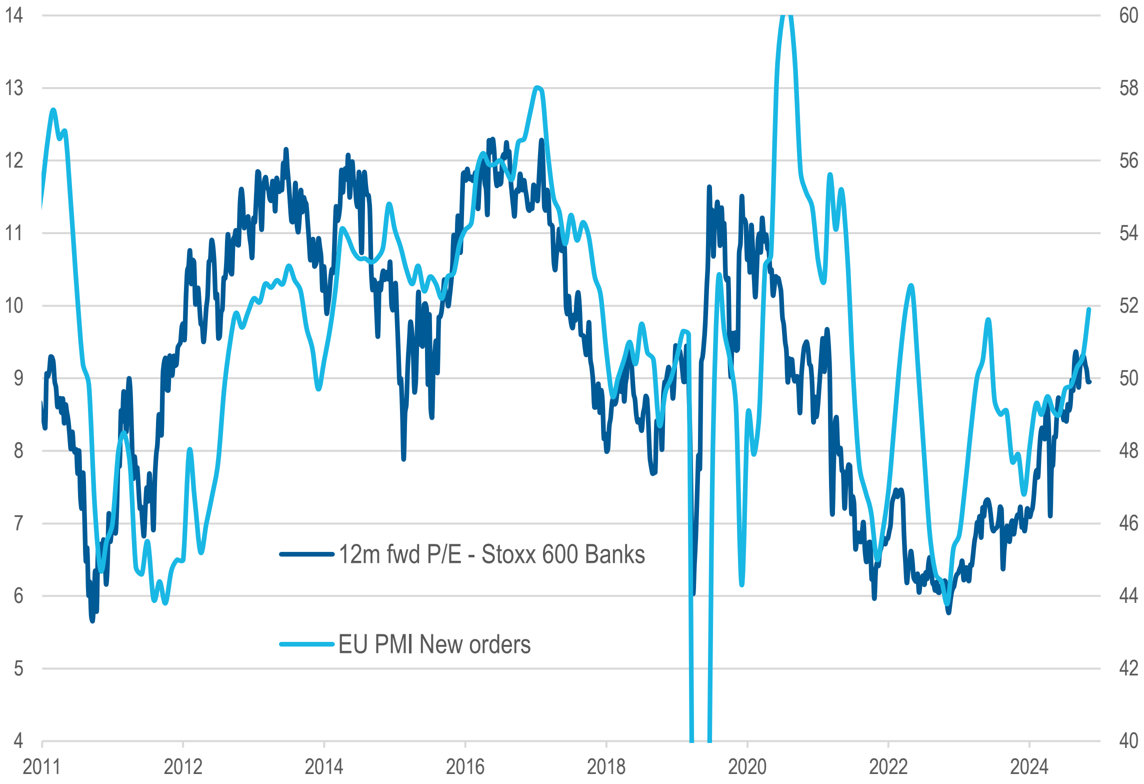


Source: DataStream as of November 2 2025

How to invest? A few ideas…

European banks: European banks benefit from the structural and cyclical drivers…

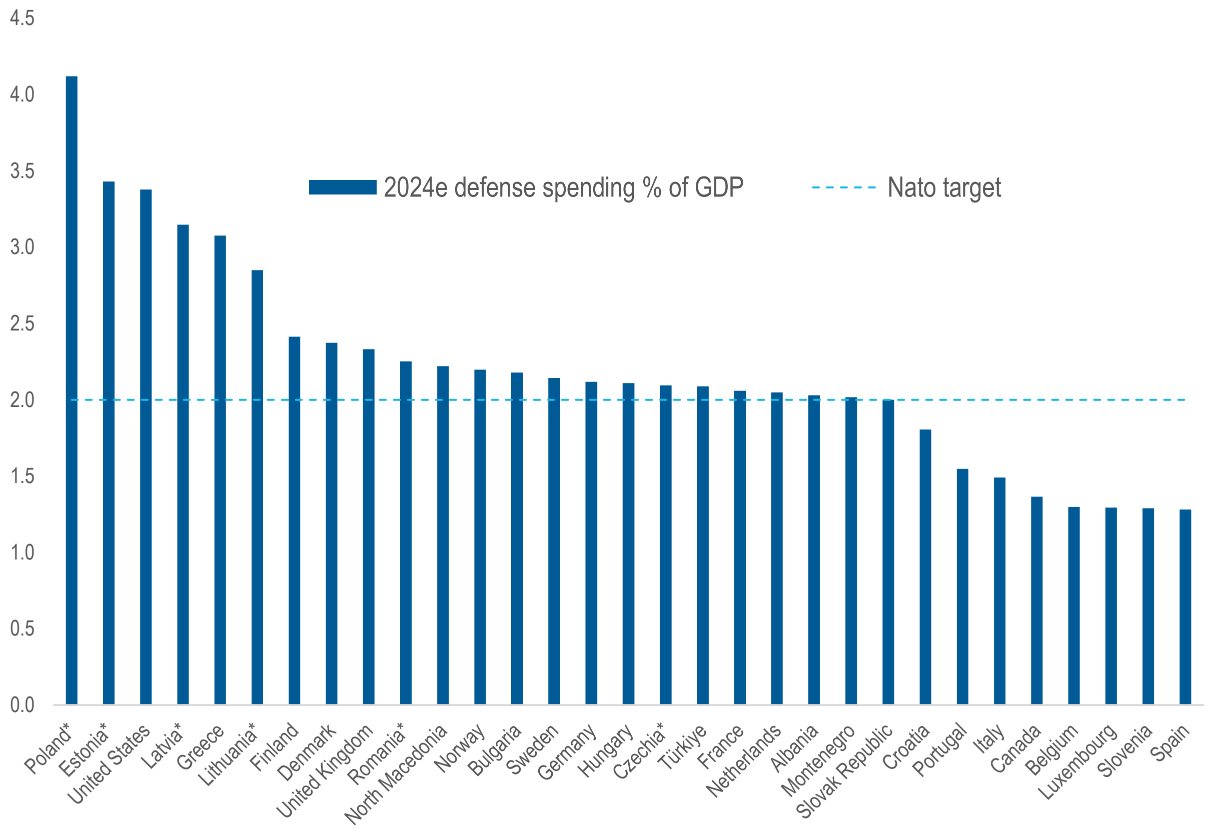


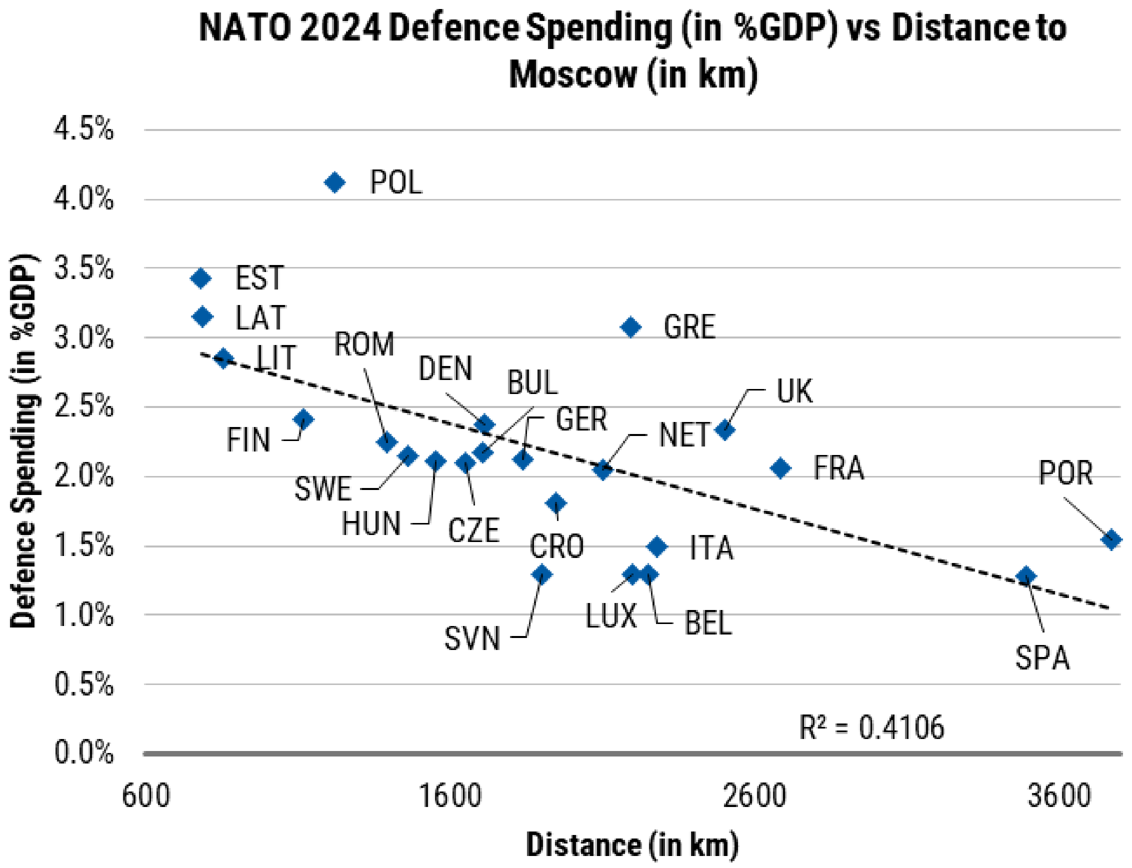


Source: DataStream, Bloomberg, as of November 2 2025

How to invest? A few ideas...

European Defence: Defence spending likely to rise further; so far Russia is the biggest driver, but could domestic growth concerns help as well (depending on how you classify defence spending)?





Source: Nato, Morgan Stanley

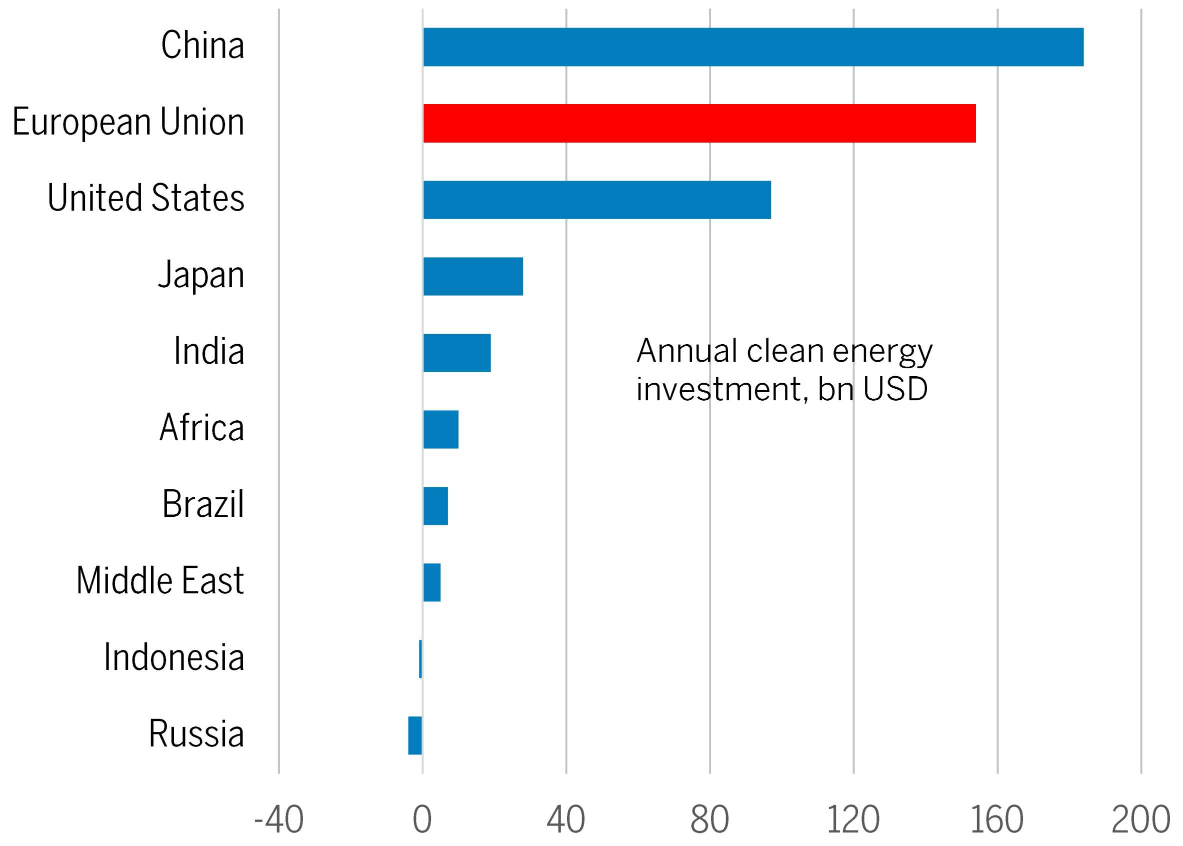
How to invest? A few ideas...

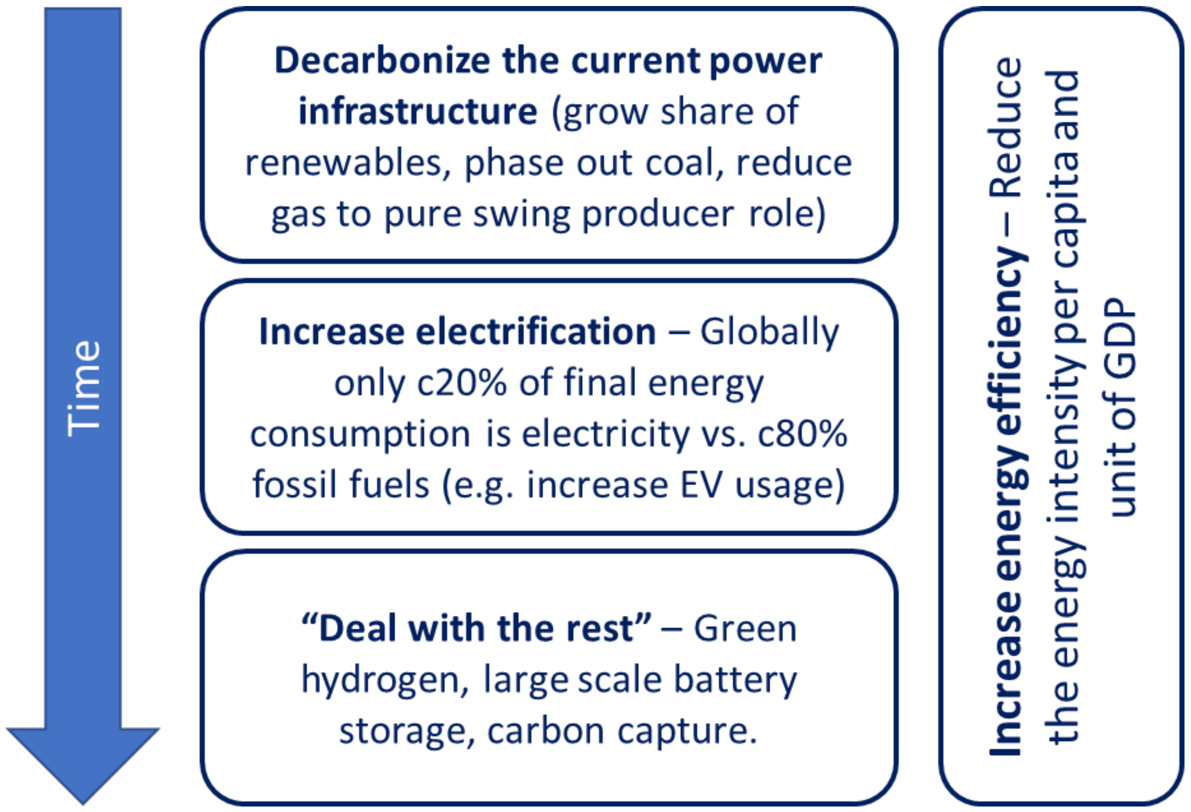
European SMID Caps: European SMID caps have significantly more domestic exposure than large caps and look cheap...

Source: DataStream, as of November 2 2025

How to invest? A few ideas…

Winners of the energy transition– Companies exposed to policy priorities with high barriers of entry such as the grid operators





Source: World Bank

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