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Outperforming Wall Street: Why European Stocks Are Surging

As the Trump administration enters its early months, the initial gold rush that captivated the markets is beginning to crystallize into a tangible reality. While the first days of his presidency sparked optimism, the global landscape has proven to be far more complex, and Trump's new approach now appears to be taking its toll on Wall Street.

The Euronext Equity conducted a research on the impact of US presidential elections on Euronext Global Equity Market (GEM, a pan-european MTF were also US stock can be traded in euros), pointing out the sudden increase on Wednesday 6th November (day after the presidential election) in traded volumes of US stocks listed on GEM, reaching €160 million of average traded value, an increase of over 270% as of October 2024. The weight of US stocks in value traded of GEM'S total turnover had a peak on 18th November 2024 of 95% (from an average of 80%), showing the stronger preference of investors for US stocks and leading the general sentiment towards optimism, at least in the following days after the elections. The same happened after the 2020 US presidential elections.

Especially hi-tech companies and cryptos had the major expansion, leading the US indexes S&P500 (GSPC), DAW (DJI) and Nasdaq Composite (IXIC) on top of the hill and continuing towards that direction, until tariffs announcements came out and concerns about inflation arose, leading the US indexes at the end of Friday 21st February in red territory at Wall Street.

But let's analyze the situation in global markets. First and foremost as the United States are threatening to impose tariffs on its major trading partners, China is consolidating its position as the world's biggest manufacturing and technological innovation hub by increasing trade with the Global South. Currently, China's trade surplus with the rest of the world is almost USD$1 trillion dollars. Its share of global exports was 14% in 2023, compared to 8.5% for the U.S. However, given the current circumstances, the dynamic could shift as a result of the ongoing trade war initiated by US President Donald Trump. As of right now duties on China went into effect in early February, and China retaliated. Beijing on Friday reportedly vowed to use all necessary countermeasures to the additional 10% tariffs on Chinese imports planned to be imposed in March. Consequently, after reneging on plans earlier this month, the President has once again threatened to impose 25% across-the-board tariffs on US neighbors Canada and Mexico. A new deadline for their imposition is set for March 4. However, there appears to have been a shift toward a trade conflict with Europe as well, as during the first Cabinet meeting of the new administration, the US president announced that he would impose tariffs of 25%, reasoning being about the presumed USD$300 billion trade deficit with the EU, a figure blown out of proportion compared with data from the European Commission, which shows a surplus on this side of the Atlantic of about EUR 48 billion.

In this complex dynamic of events, European stocks have staged their best performance in a decade against Wall Street in the first months of 2025. By the beginning of March they have notched a tenth straight week of gains despite tariff threats, political volatility and economic stagnation. In January, the pan-European STOXX 600 index notched its best outperformance against the S&P 500 for that month in the past decade, rising by 6.3% versus 2.7%. That momentum has continued into February, with the STOXX 600′s 3.3% monthly gain as of mid February coming in well above the S&P 500′s 1.25%.

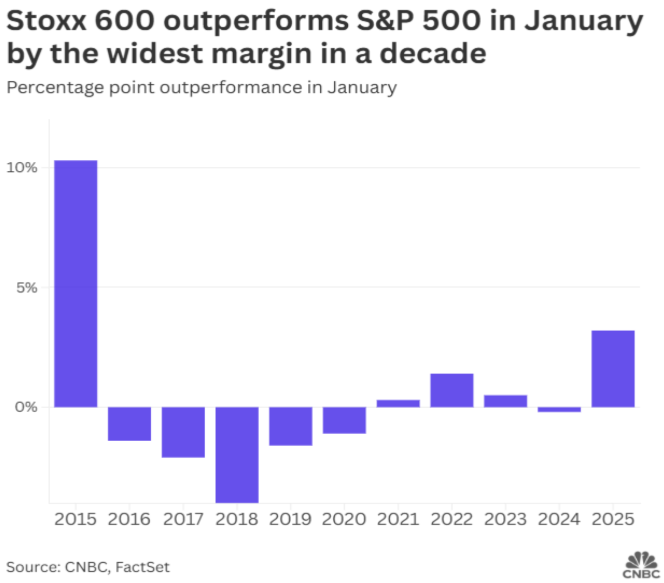

Figure 1

More specifically Piazza Affari gained 0.08%, closing at 38,655 basis points, marking an overall month of strong performance with the FTSE MIB posting a 6% increase. In contrast, other major European markets showed little overall movement. The Frankfurt Stock Exchange (DAX index) experienced a slight uptick of 0.11%. Similarly, the Paris stock market (CAC 40 index) declined by 0.14%, showing a minor loss, while Paris itself recorded a modest overall loss of 0.17% for the day. In contrast, Wall Street has faced more headwinds. The major U.S. indices have experienced relatively weaker results. For instance, the S&P 500 posted a slight loss of around 1% for the month, and the Dow Jones Industrial Average ended lower by approximately 0.5%. Even the tech-heavy Nasdaq, which typically leads the charge during market rallies, ended the month with a decrease of around 2%.

Figure 2

What's next?

We need to look at the big picture. The Euro Stoxx 50 performance was favored by the temporary delayed tariff announcement (with respect to China, Canada and Mexico). In fact, as soon as President Trump threatened looming tariffs on the EU, strategists appear to view the STOXX50E rally (that began in mid-January) to cool down; but we can observe that the overall returns from one year ago to 28th February 2025 are positive and increasing (S&P500 gained +16.35%; DJI +13.08%; IXIC +17.65% and STOXX50E +11.24%).

Figure 3: One-year performance of S&P500, DAW, Nasdaq Composite and Euro Stoxx 50 (STOXX50E)

So, on one side we have concerns about a probable “incoming trade war”, but on the other side we have stock markets to keep rising, despite losses registered by US indices.
"There is an inherent paradox between this very high level of uncertainty we have on a number of metrics and the fact stock markets seem to be still doing well." said Frederik Ducrozet, Head of Macroeconomic Research at Pictet Wealth Management.

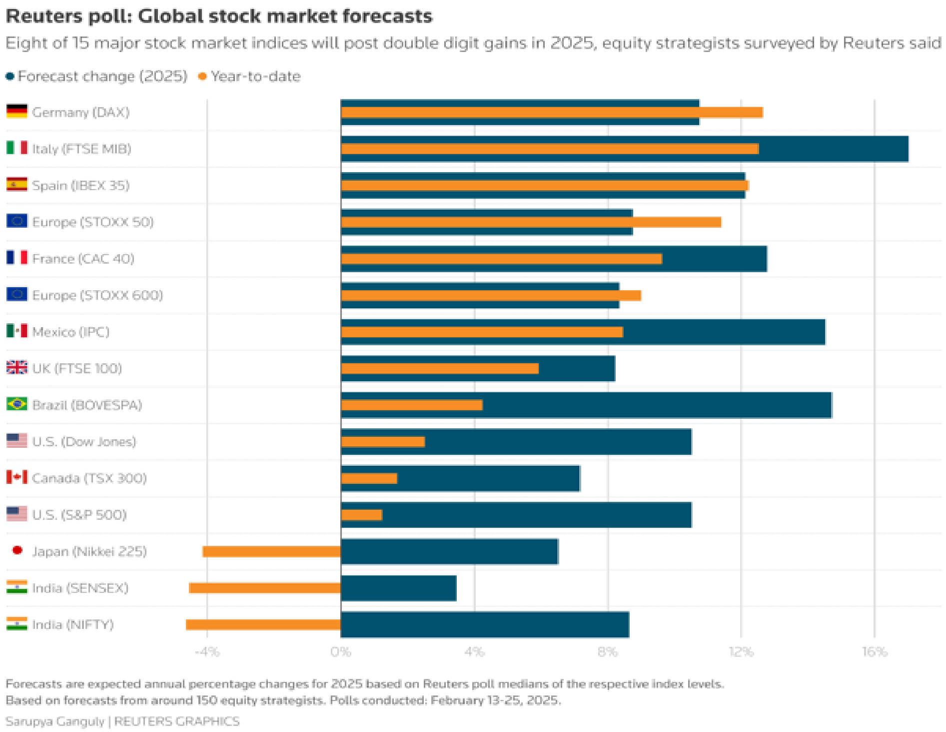

Figure 4

Tariffs are not priced yet, but catastrophic reactions haven’t taken place, leaving stock markets almost unbothered, at least the European ones. So, what about future expectations? According to a poll conducted by Reuters, in the short period, stock indices may be more affected by tariffs introduction and, especially in the US, this will cause a slowing-down economic growth, but for the 2025 future expectations seem to be positive, with current earnings eventually being corrected by the future ones, sign of the resilience of global economy (proven to be quite solid after major events of the past 6/5 years such as Covid, FED’s tightening monetary policy, Ukranian and Middle-East wars).