



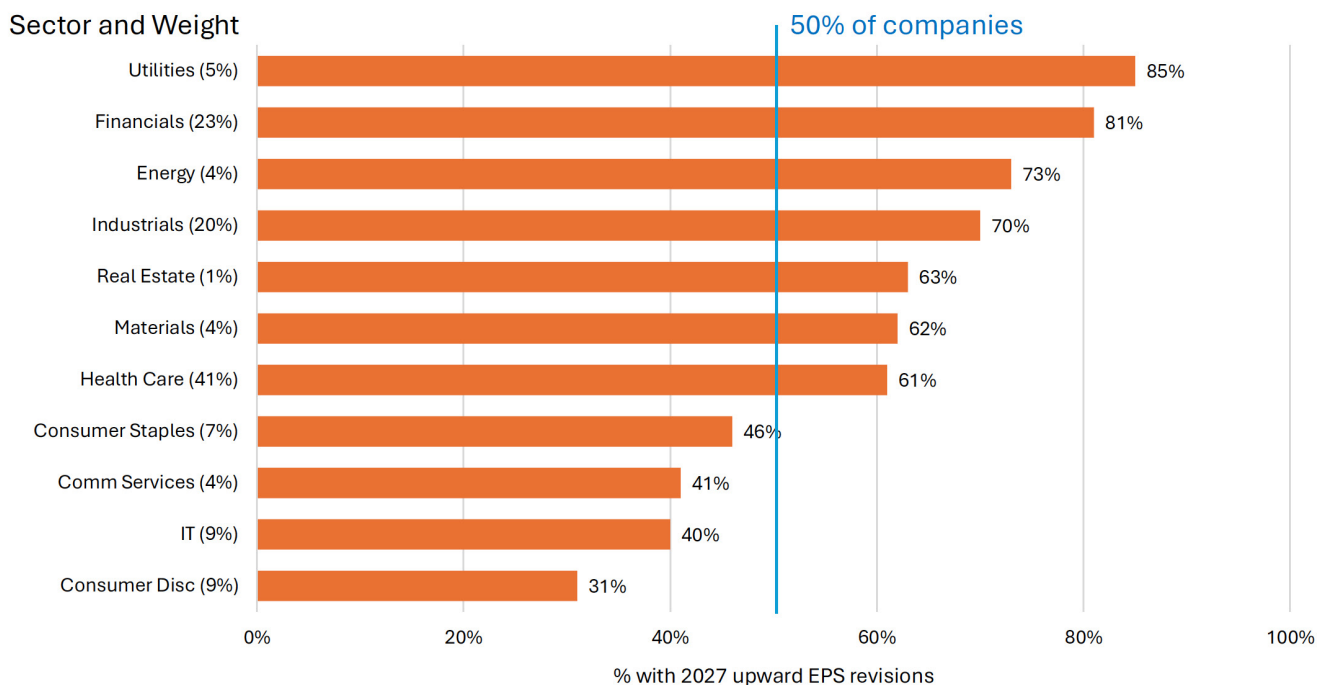
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Europe: Better Beneath the Surface

- ▶ **Within developed markets Europe has been the laggard, likely due to fears over rising energy costs and interest rates,** while fiscal challenges and geopolitical risks remain meaningful headwinds. Yet looking beneath the macro headlines, the outlook for European companies is proving more resilient than the economic narrative might suggest.
- ▶ **Europe's stock market is not simply a reflection of the European economy as** many of its largest companies compete and generate revenues globally. As a result, weaker household activity or higher borrowing costs do not necessarily translate directly into weaker index earnings.
- ▶ **Higher rates can also have a more nuanced impact on the market than on the economy.** Banks and insurers, which have considerably larger weights in Europe than in the U.S., can benefit from a higher-rate environment. At the same time, increased fiscal spending on defense, infrastructure and other capital investment can support Industrials and Financials even as higher rates pressure consumers and other interest-sensitive areas.
- ▶ **The economic backdrop has also been more resilient than feared.** Eurozone growth has improved, with manufacturing activity strengthening across several countries. S&P Global's August PMI data showed eurozone manufacturing growth accelerating to its strongest pace since early 2022, with Germany among the notable improvements.
- ▶ **Most importantly, earnings have not cracked.** Bloomberg notes that European earnings estimates have been revised higher for twenty consecutive weeks, the strongest momentum in roughly five years. Our analysis tells a similar story beneath the index: about 63% of companies with reported estimates have seen 2027 EPS estimates revised higher over the past three months, led by Financials, Industrials and Health Care.
- ▶ **Takeaway: Europe's risks are well known.** What may be less appreciated is that those risks have yet to derail the earnings outlook. For investors focused only the macro headlines, the improvement beneath the surface may be easy to miss.

Earnings Revisions Tell a More Constructive Story



Source: Bloomberg. Data based on MSCI Europe ex-UK index. EPS revisions over the last 3 months through September 17, 2026.



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