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European sovereignty as opportunity

The political landscape across Europe, and the world, is currently undergoing perhaps the most profound changes since the end of the Cold War. The Covid pandemic, war in Ukraine, and now abrupt changes to the global system of trade and the reassessment of old alliances – most notably with the US – have led to a new reality where European states, both individually and collectively, will have to realign their priorities and strike an increasingly independent tone on the global political and economic stages.

These changes – already underway, and set to quicken over the coming years – can be viewed in terms of a growing European sovereignty, driven by the need to achieve greater independence and autonomy across a range of strategic sectors.

Changes accelerating

While historians will likely site the roots of the changing world order – and Europe's place in it – some decades prior, it was the Covid-19 pandemic that marked a profound shift in reconsidering the dominate narrative of unabating globalization. Corporates and governments were forced to quickly reconsider supply chains as these became disrupted or broken, and re-regionalizing or near-shoring became the orders of the day. Strategic autonomy's rise to the top of the political and economic agendas was then accelerated by Russia's full-scale invasion of Ukraine. This not only provided an immediate trade shock – largely around energy supply – but also raised an unprecedented existential threat to many countries of the European Union. The expansion of NATO and commitments to rearm and greatly boost defence budgets quickly followed.

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The start of Donald Trump's second term has accelerated these trends in several ways. First, disengagement from the Ukraine war, and from Europe more broadly, has further spurred European defence spending, including the EU's "Preparation 2030" programme and a myriad of similar initiatives being taken at the national level. Second, while the final tariff landscape seems impossible to predict, Trump's so-called "Liberation Day" led many sectors in Europe to quickly reconsider their strategic outlooks and future growth drivers. Indeed, for many in both the business and political spheres, this period saw European sovereignty become the imperative policy issue of our time.

Sectoral tailwinds

The economic landscape in Europe has already changed significantly since the start of the year. Uncertainty, volatility, and an increasingly pessimistic outlook in the US have seen investors flocking into European equities with local markets significantly outperforming their counterparts across the Atlantic. Alongside this external driver, the stimulus of a new German government with a pledge to drive much-needed investment through greater borrowing – as well as commitments across the EU to increase spending on defence and supporting strategic industries – are also contributing to more bullish sentiment in European markets, where equities still trade at a structural discount compared to their US peers.

While these recent developments are, from a European perspective, certainly welcome, the course that the continent is set to take over the coming years will have a more lasting and profound effect on the European equities landscape. While the most visible and newsworthy effect of growing European sovereignty is currently the wide-ranging commitments to rearmament that we are seeing from many countries, the idea of sovereignty also extends to a range of strategic sectors, and comes alongside other significant megatrends such as digital transformation and energy transition.

Key beneficiaries will come in a range of areas – some less obvious than others. Alongside, and driven by, defence, technological reindustrialization will see opportunities in aerospace, infrastructure, and cybersecurity, favouring those able to best leverage best able to leverage rapid developments in artificial intelligence and tech more broadly. The energy transition and the desire for energy autonomy will drive investment in green tech, especially in the areas of sustainable mobility, energy efficiency, and developing the circular economy.

However, we are also likely to see several other areas benefit. For instance, the biotechnology and human and animal health sectors will all see tailwinds from the restructuring of supply chains and the move towards European independence and autonomy. And all of these trends will drive innovation and growth across finance and insurance, to facilitate capital flow and the financial independence of European businesses.

Market opportunities

From an investment perspective, the secular trend of European sovereignty presents multi-sectoral opportunities over the medium- to long-term. Key here are what we call technological catalysts – firms not limited to the traditional tech or IT sectors, but that are involved in all aspects of digital transition, cybersecurity and defence, and the green transition. Indeed, in this respect it is key to identify those corporates that will become future European champions, offering global leadership and excellence in areas key to other extant trends. European sovereignty will thus certainly rely on the current market leaders stepping up, but also on today's small and midcaps that are set to support the continent's transition over the years and decades to come.

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