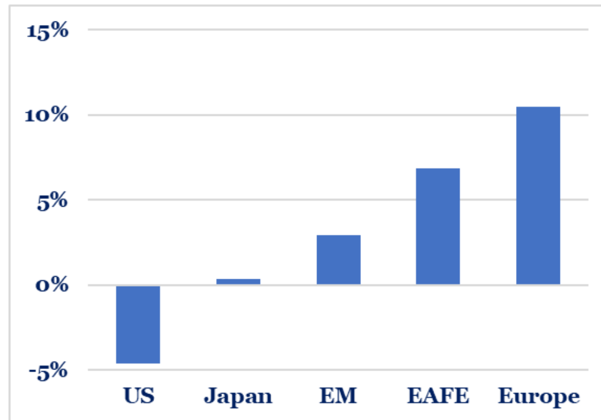
Haven Global Partners, LLC
Investment Insights: March 2025

Is This the Beginning of a MEGA Trend?

After more than a decade of dominance, the US equity market has had a softer start this year. International equities are up in the first quarter while US equities have lagged (Exhibit 1). Meanwhile, European equity markets as defined by the MSCI developed markets European index, have been pulling ahead with countries like Germany and Spain rising by more than 15%, thus placing these markets among the best performers year-to-date in 2025.

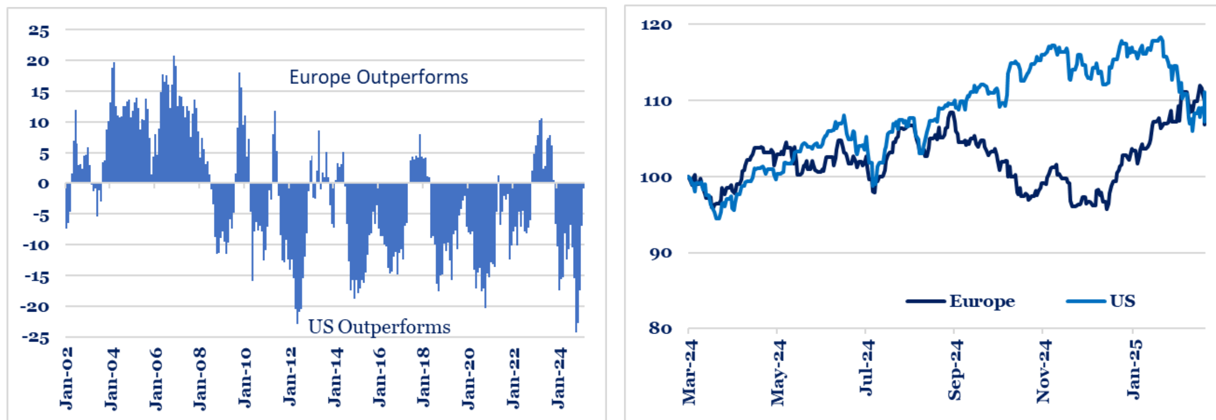
Exhibit 1. Global Equities: Year-to-date Performance (US Dollar)



Sources: Bloomberg, MSCI

The marked divergence in performance thus far this year has resulted in European markets catching up with the US on a rolling one-year basis (Exhibit 2, right chart). This begs the question of whether European equities can continue to outperform. There have been several short bouts of US underperformance over the last decade, but one has to go back to the period between the bursting of the TMT bubble in 2000 and the Global Financial Crisis in 2008-09, to find an extended period of European outperformance (Exhibit 2, left chart). We are inclined to believe that European outperformance can be sustained this time around, and that we might just be at the beginning of a longer-term reversal which will result in European markets maintaining their lead over the US for some time.

Exhibit 2. Rolling 12-month Return: Europe vs. US

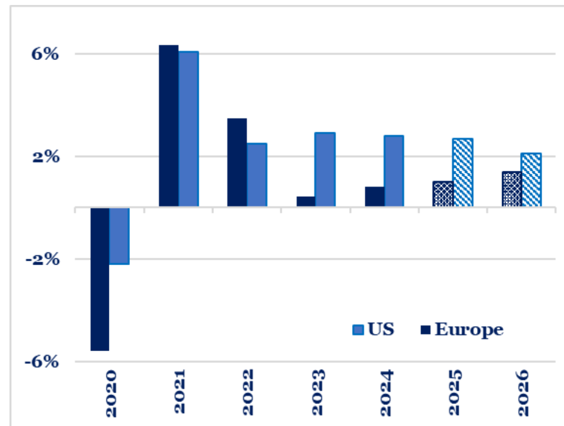


Sources: Bloomberg, MSCI

There are several factors which lead us to this conclusion. First, the gap in economic growth between the US and Europe is expected to narrow as a trade war and tariff-based uncertainties will likely dampen growth in the US. The International Monetary Fund is projecting global growth to be at 3.3% in both 2025 and 2026, below the historical (2000-19) average of 3.7%. However, the growth in advanced economies is expected to improve from 1.7% in 2024 to 1.9% in 2025 while Emerging markets and Developing economies are expected to remain stable at 4.2%.

Within the advanced economies, US growth is projected to slow to 2.7% in 2025 from 2.8% in 2024 and to then fall even lower to 2.1% in 2026 (Exhibit 3). By contrast, growth in Europe is expected to pick up from 0.8% in 2024 to 1% in 2025 and then to further accelerate to 1.4% in 2026. Using more recent data, the Federal Reserve Bank of Atlanta forecasts a sharp deterioration in first quarter growth with their GDPNow Index recently trending between -1.8% to -2.8%!

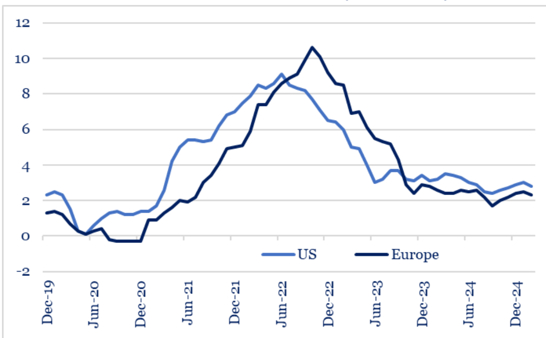
Exhibit 3. Annual GDP Growth



Sources: World Bank. Bloomberg, IMF (projected growth rates for 2025 & 2026)

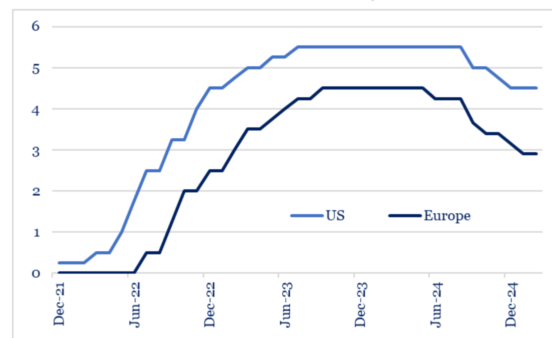
Second, Europe has experienced a faster decline in its inflation rate with the most recent reading at 2.3% while the inflation rate in the US has been sticky in the range of 2.8%-3% (Exhibit 4). This is likely to worsen with higher tariffs, although there is debate as to whether the effects will be transitory or more permanent. Accordingly, the Federal Reserve has maintained its federal funds rate at 4.5% while the European Central Bank has cut its marginal lending rate to 2.9% (Exhibit 5). Thus, monetary policy remains more accommodating in Europe versus the US.

Exhibit 4. Inflation Rate (year on year)



Sources: Bloomberg, Federal Reserve Bank, ECB

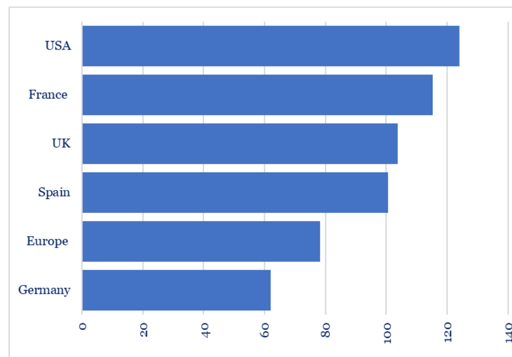
Exhibit 5. Benchmark Policy Rate



Sources: Bloomberg, Federal Reserve Bank, ECB

Third, there is less room for fiscal stimulus in the United States given that the government debt to GDP ratio has ballooned beyond 120% (Exhibit 6). As of the end of March, the US national debt stood at $36.22 trillion while GDP was $29.72 trillion in 2024. Furthermore, the Department of Government Efficiency has an ambitious goal of cutting government spending by $1 trillion, which we think could be another headwind to US growth.

Exhibit 6. Government Debt (% of GDP)



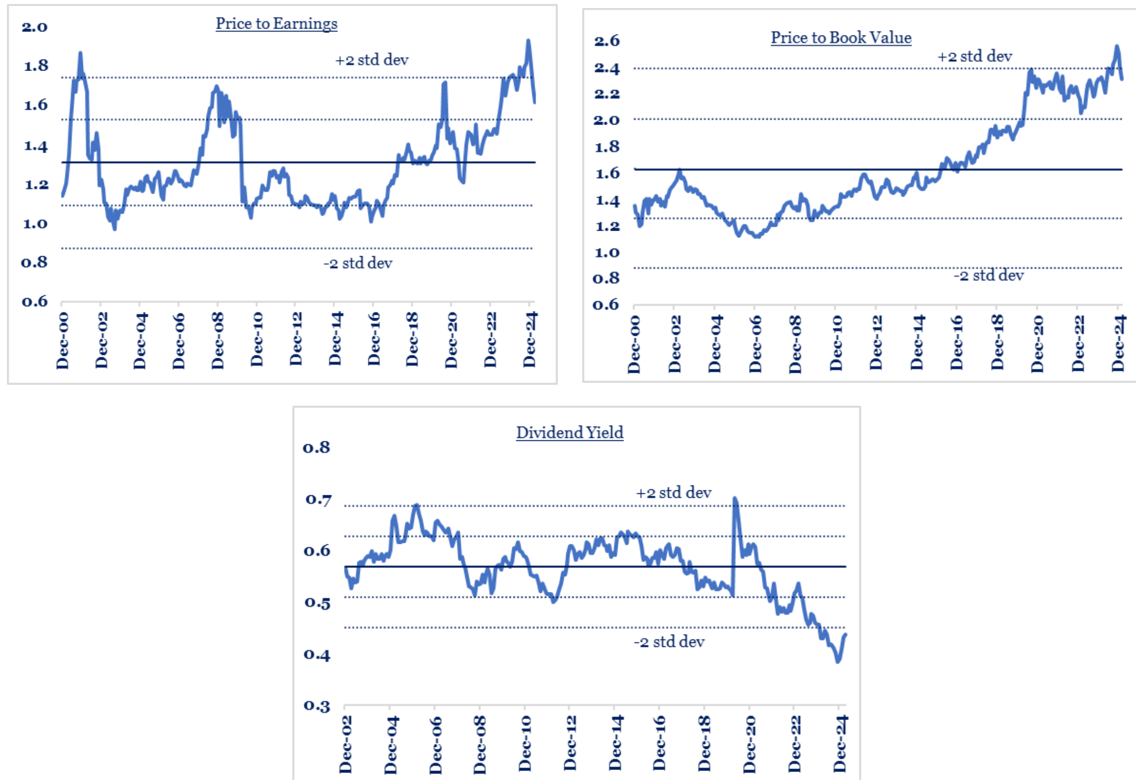
Source: International Monetary Fund

As presented in Exhibit 6, government debt is much lower in Europe by comparison. While France and the UK have slightly higher levels of debt, Germany's debt level is only 60% of GDP. Thus, after years of self-imposed austerity measures, for the first time in more

than a decade there is room for Europe to loosen the purse strings on fiscal spending. And a "whatever it takes" approach to fiscal spending from Germany along with significant increases in defense spending are important catalysts that should continue to support European growth.

Lastly, European equities are trading at attractive valuation multiples compared with those in the US. The valuation charts in Exhibit 8 represent values for the US relative to Europe based on historical MSCI data. These charts also depict average multiples over the last 25 years, along with bands for one and two standard deviations above and below the average.

Exhibit 7. Historical Valuations: US relative to Europe



Sources: MSCI, Bloomberg

As presented in the top charts in Exhibit 7, US equities are trading at almost two standard deviations above European equities on both price to earnings and price to book multiples. Similarly, the dividend yield on European equities is more than two standard deviations above US dividends on a historical basis.

In summary, given the fiscal stimulus in the form of infrastructure spending as well as a sense of urgency for increased defense spending in Europe along with expansionary monetary policy and extremely attractive valuations, we believe that the current backdrop is conducive for European equities to continue to outperform, thus making it an attractive asset class.