Flash Economics

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Are investors right to turn to Europe at the expense of the United States?

It is understandable why investors might be tempted to turn to Europe at the expense of the United States:

- Legitimate concerns about the short- and long-term effects of the Trump administration's policies on the U.S. economy (tariffs, restrictions on immigration, cuts to federal research and university budgets, very high public deficits, etc..);
- Hope for the implementation of economic policies that could boost the European economy, particularly with Friedrich Merz becoming Chancellor in Germany, or with the prospect of establishing a Capital Markets Union.

However, optimism about Europe is likely overstated. Europe remains hindered by:

- Insufficient spending on Research and Development and on technological investment, leading to stagnant productivity;
- Lack of coordination in industrial policies;
- Weak skill levels in the workforce;
- Declining quality of education systems;
- High energy prices;
- An aging population;
- Low levels of savings invested in risky assets, such as venture capital;
- Fragmentation of capital markets.

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Investors have turned to Europe at the expense of the United States.

When looking at the **performance of stock markets** since the beginning of 2025 (**Chart 1**) or the **evolution of the exchange rate between the U.S. Dollar and the Euro** (**Chart 2**), it is clear that investors have recently shifted their focus toward Europe at the expense of the United States.

Chart 1
Stock market indices (01.01.2024 = 100)



Chart 2
Euro/dollar exchange rate (EUR 1 = USD...)



This improvement in the relative perception of Europe compared to the United States can be explained by:

- Legitimate concern over **the high level of unpreparedness** and the erratic nature of economic policies being implemented in the United States (tariffs, restrictions on immigration, cuts to federal budgets for public research agencies and universities, etc..);
- Concern over **the trajectory of public deficits and public debt** in the United States. The Congressional Budget Office now projects a widening public deficit from 2025—where it is expected to reach 6.9% of GDP—to 2055—where it could rise to 7.3% of GDP—and an increase in the federal public debt ratio from 100% of GDP in 2025 to 156% in 2055;
- **Hope that Europe's economic policies will evolve in a way that makes the European economy more dynamic**, in reaction to the policies implemented in the United States: easing of fiscal rules in Germany and across the European Union, progress on the Capital Markets Union, increased military spending, funding for Artificial Intelligence… Some have referred to this as a "European moment."

But the optimism about Europe is highly overstated.

Europe remains hindered by **numerous structural problems which, if not resolved, will continue to condemn it to sluggish growth**. These include in particular:

- **Insufficient spending on Research and Development** (**Chart 3**) and investment in new technologies (**Chart 4**);

Chart 3
Total R&D spending (as % of nominal GDP)

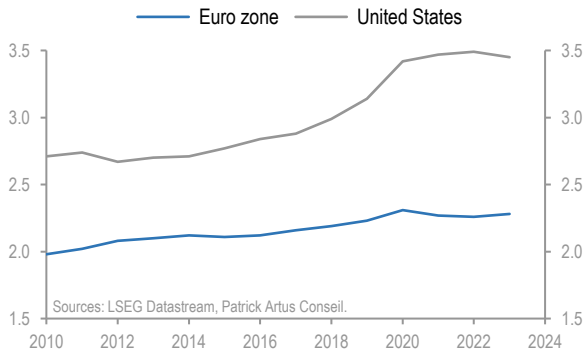
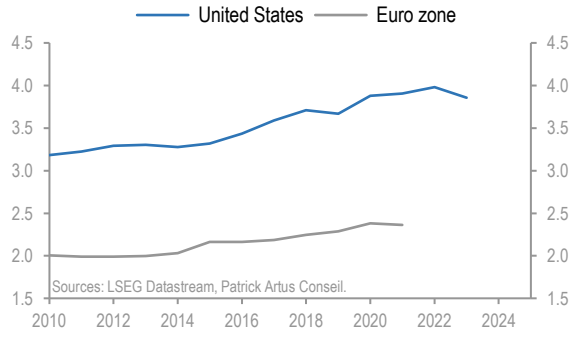


Chart 4
ICT investment including software
(in value terms, as % of nominal GDP)



- **The low skill levels of the workforce** in major countries outside of Germany (**Table 1**) and the poor quality of education systems (**Table 2**);

Table 1: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)

Country	2016	2023
Japan	292	285
Sweden	279	281
Canada	269	267
Germany	271	267
England (UK)	267	266
France	258	253
Spain	249	246
Italy	249	240

*In 2016, average score in numeracy and literacy
Source: OECD

Table 2: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

Country	2012	2015	2018	2022
Japan	540	529	520	533
Canada	522	523	517	506
United Kingdom	502	500	503	494
Sweden	482	496	503	487
Germany	515	508	500	482
France	500	496	494	478
Spain	490	491	482	477
Italy	490	485	477	477

Source: OECD

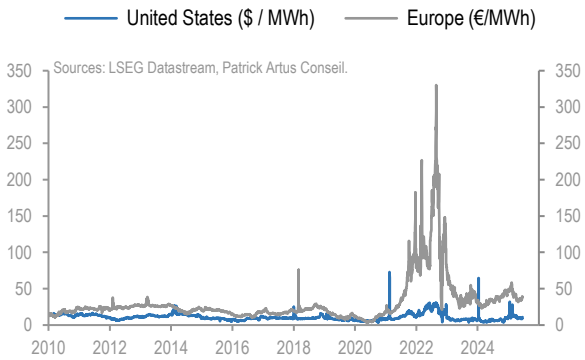
- As a result, **stagnant productivity** (**Chart 5**);

Chart 5
Productivity per head (2010.Q1 = 100)



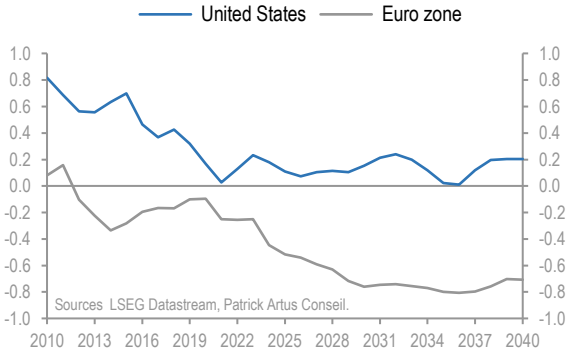
- **The lack of coordination in industrial policies**, leading to a scattered approach to financing reindustrialization;
- **The very high energy prices** since 2022 (**Chart 6**);

Chart 6
Natural gas price



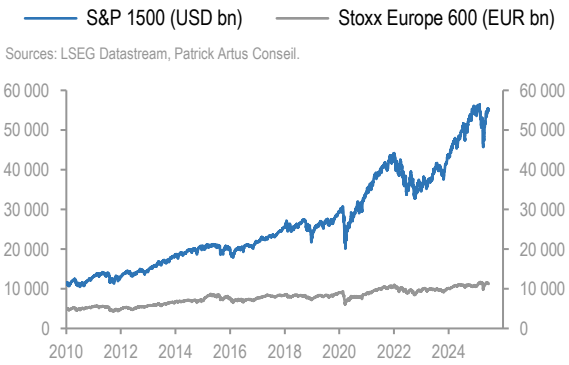
- Demographic aging (Chart 7).

Chart 7
Population aged 15 to 64 (Y/Y as %)



- The low amount of savings invested in risky assets, such as listed equities (Chart 8) or venture capital (venture capital fundraising reached €22 billion in the European Union in 2024, compared to $250 billion in the United States).

Chart 8
Market capitalisation



- The fragmentation of capital markets (small size of debt issued by the EU, lack of unified regulation, etc..).

Summary: Europe retains multiple disadvantages compared to the United States.

Although the negative effects of the policies pursued by the Trump administration (tariffs, immigration restrictions, sharp cuts in federal funding for research and universities, tax cuts not offset by increased revenues, etc..) are cause for concern, it must be acknowledged that the United States maintains a clear superiority over Europe in terms of corporate R&D spending and technological investment, energy prices, the structure of savings (with large pension funds and a sizable venture capital industry), and the integration of goods, services, and capital markets.

The United States' attractiveness to researchers has declined, and the deterioration of public finances is legitimately worrisome. Nevertheless, it seems to us that the United States remains more attractive than Europe for investment due to the numerous unresolved structural problems in Europe.

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