Flash Economics

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How can the underperformance of European equity markets be explained?

Since the beginning of 2010, European equity markets have diverged sharply from US equity markets. From January 2010 to now , the S&P 500 has grown by a factor of 6.5 and the Nasdaq Composite by 11.2, whilst the Euro Stoxx 50 has only grown by a factor of 2.1.

We have identified six explanations for the underperformance of European equity markets relative to US equity markets:

- The weight of the technology sector;
- Economic growth;
- Income distribution;
- The structure of savings;
- Share buybacks;
- The objectives of the US administration and central bank.

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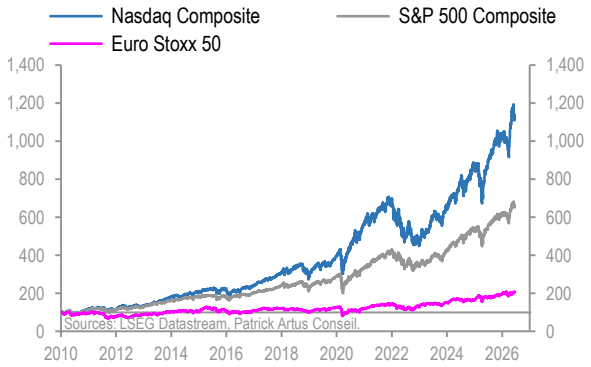
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Decoupling of European equity markets from US equity markets

A comparison of stock market index performance in Europe and the United States (Chart 1) clearly shows the decoupling since 2010 of the European (euro zone) equity market from the US equity market.

Chart 1
Stock market indices (01.01.2010 = 100)



We discuss below **six probable explanations for this underperformance of European equities** relative to US equities.

Weight of the technology sector

The technology sector accounts for a significantly larger share of the US economy (**Chart 2**) and, to an even greater extent, of US stock market capitalisation (**Charts 3A/B**), than of the European economy or European stock market capitalisation.

Chart 2
Gross value added of the ICT sector
(as % of GDP)

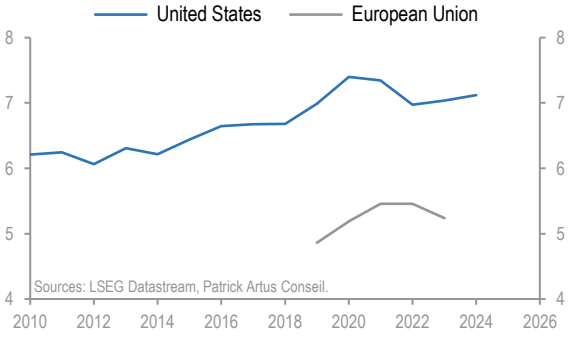


Chart 3A
Market capitalization of the information and communication technology sectors
(% of total market capitalisation)

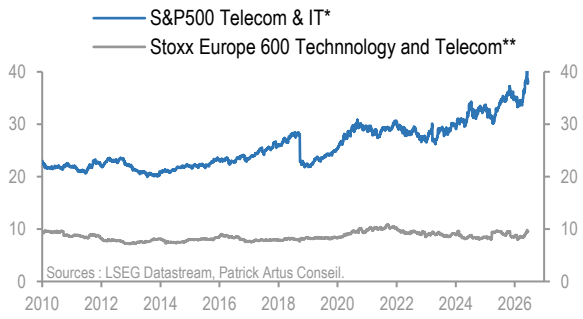
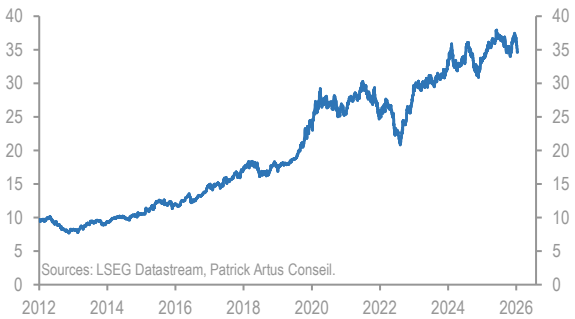


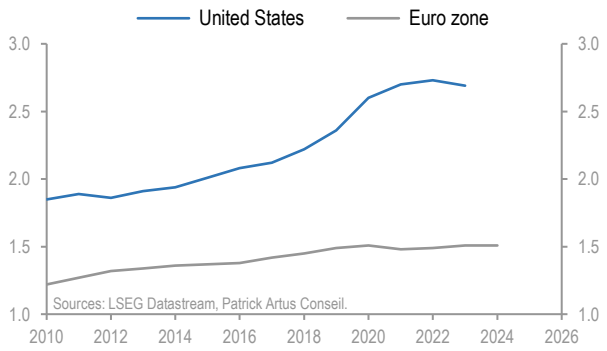
Chart 3B
The Magnificent Seven: market capitalisation
(as % of S&P 500 market capitalisation)



* As % of the S&P 500 Composite market capitalization
**As % of the Stoxx Europe 600 market capitalisation

The **reasons behind the faster development of the technology sector** in the United States are well established: ease of financing for new technologies, supported by the presence of pension funds and a substantial venture capital industry; close ties between university research and corporate research; and the level of corporate research and development expenditure (**Chart 4**).

Chart 4
Corporate R&D spending (as % of nominal GDP)



Recently, it is primarily the shares of semiconductor and memory chip producers that have driven US equities higher.

Economic growth

Since 2010 the US economy has grown considerably faster than the euro zone economy (**Chart 5**), reflecting both labour productivity growth (**Chart 6**) and demographic trends (**Chart 7**).

Chart 5
Real GDP (100 = 2010.Q1)

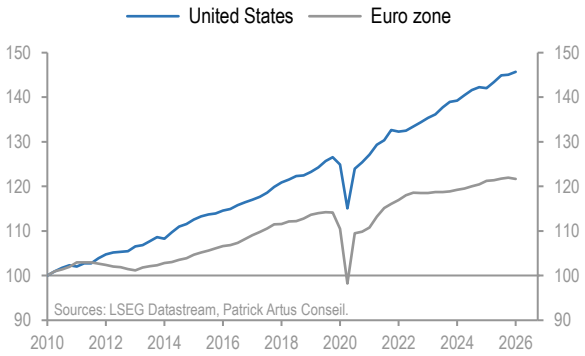


Chart 6
Productivity per head (2010.Q1 = 100)

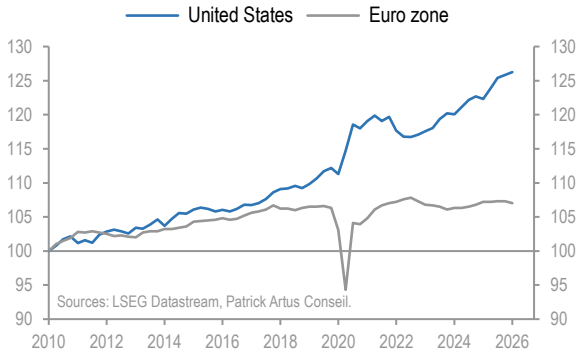
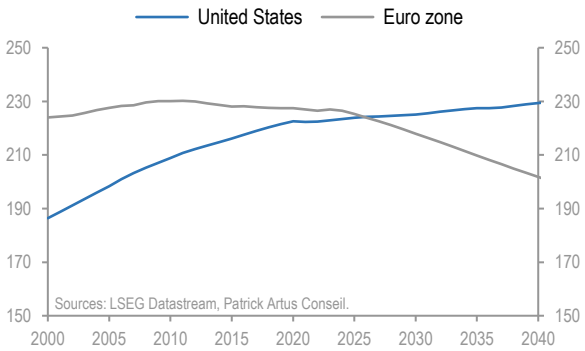


Chart 7
Population aged 15 to 64 (million people)



Faster growth attracts capital towards equities, thereby driving a more rapid rise in stock market indices.

Income distribution

Income distribution is far more favourable to corporations (shareholders) **and far less favourable to employees** in the United States than in the euro zone (**Charts 8A/B**).

Chart 8A
United States : Real compensation per hour and productivity per hour (business sector, 2010.Q1 = 100)

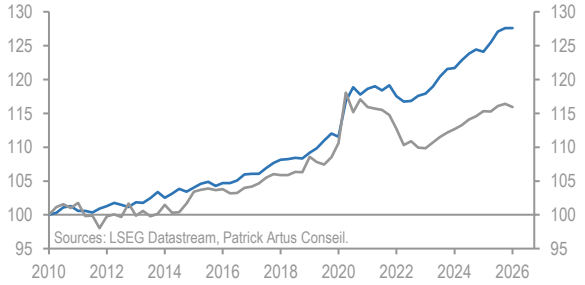
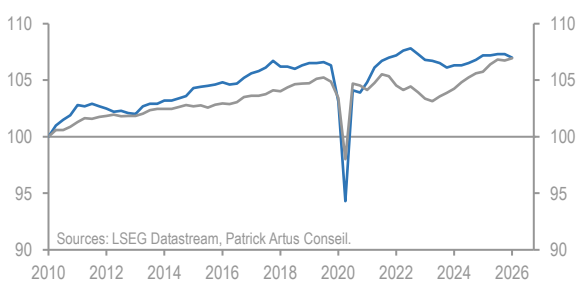


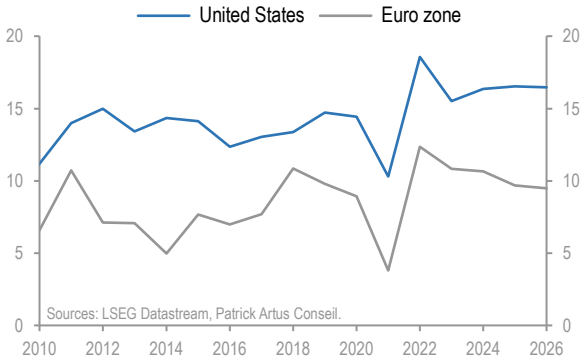
Chart 8B
Euro zone: Real compensation and productivity per head (2010.Q1 = 100)



* Deflated by GDP deflator

This results in a **corporate profitability that is significantly higher in the United States than in the euro zone** (**Chart 9**), which justifies a higher equity valuation in the United States and also attracts capital towards the US equity market.

Chart 9
RoE



Savings structure

US pension funds held assets of $29,800 billion in the fourth quarter of 2025, of which $15,800 billion was invested in equities or equity funds. These funds are predominantly **Defined Contribution** funds, as Defined Contribution schemes count 93.4 million participants, compared with 11.1 million for Defined Benefit schemes. Defined Contribution fund managers are able to take on the risk of investing in equities, which gives rise to a **continuous flow of capital into the US equity market**. In the euro zone, pension fund assets stand at €3,200 billion, barely more than one tenth of the US total. In addition, US households hold 15% of their financial wealth in equities. Finally, the venture capital industry is considerably more developed in the United States than in the euro zone, enabling high-growth companies to access financing. In 2025, venture capital funds raised only $25 billion in Europe (including Switzerland and the United Kingdom), compared with $66 billion in the United States — a figure nonetheless well below the $240 billion raised in 2022 and the over $100 billion raised in 2023 and 2024.

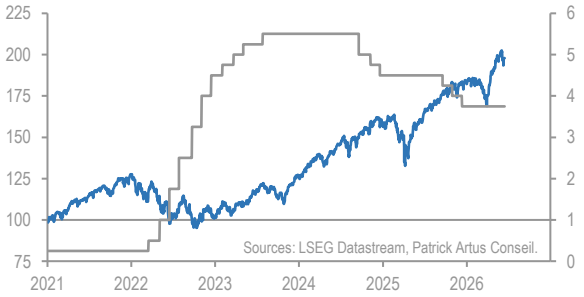
Share buybacks

Share buybacks boost earnings per share and are therefore, even if the effect is not mechanical, conducive to rising equity indices. Yet, **share buybacks are substantially larger in the United States than in Europe**. They amounted to $942 billion in 2024 and $1,200 billion in 2025 in the United States, compared with €190 billion in 2024 and €182 billion in 2025 in Europe (including the United Kingdom and Switzerland).

The objectives of the US administration and central bank

The US administration and the Federal Reserve likely cannot accept a sharp decline in equity markets, given the negative impact such a decline would have on household consumption and the wealth of current and future retirees. Investors are known to factor into their assessment of the US market this "put" provided by the US authorities (this behaviour on the part of the administration and the Federal Reserve is equivalent to providing investors in equities with a guaranteed-price put option). In practice, it is not clear that this behaviour is genuinely present, since in 2022 the Federal Reserve raised interest rates even as equity indices fell (**Chart 10**); however, the mere fact that this behaviour is anticipated supports equity prices in the United States.

Chart 10
United States : Federal funds rate and S&P 500 index



In the euro zone, the ECB has a strict inflation mandate and does not incorporate equity market conditions into its policy deliberations.

Summary: multiple explanations for the underperformance of European equities relative to US equities

The underperformance of European equities relative to US equities can be explained by:

- The greater dynamism of the US economy (high weight of the technology sector and strong growth);
- Structural characteristics of the United States and Europe (high weight of pension funds and venture capital in the United States and low weight in the euro zone, income distribution significantly more favourable to corporates and less favourable to employees in the United States than in Europe);
- Financial priorities(the importance of share buybacks in the United States, the expectation that the Federal Reserve will not tolerate a decline in the US equity market).

It is essentially on the first type of explanation that Europe could base its policies: supporting productivity (through higher research and development spending) and an industrial policy centred on developing the technology sector. Changing the structure of savings, income distribution, or financial behaviours would be considerably more difficult.

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