Flash Economics

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In which sectors should you invest in European equities in 2025?

As is customary, we break down the European stock market indices into 11 sectors (telecommunications, consumer discretionary, consumer staples, energy, finance, healthcare, industry, technology, basic materials, real estate and utilities).

Looking at recent trends in the stock market indices corresponding to these 11 sectors, we see:

- a good stock market performance since 2011 for consumer discretionary, healthcare, technology, industry and basic materials;
- a poor stock market performance since 2011 for telecommunications, consumer staples, energy, finance, real estate and utilities.

We are considering the outlook for European equities in 2025, and are slightly pessimistic about:

- consumer discretionary (difficulties in the clothing sector);
- consumer staples (rising savings rate depressing consumption);
- energy (falling oil prices);
- industrials (competitiveness issues vs the United States and China, difficulties in the automotive sector);
- materials (with difficulties in the construction sector);
- utilities (given the costs of the energy transition).

We can be more optimistic for:

- telecommunications services;
- financials (given the rise in long-term interest rates);
- healthcare (with the large number of drugs still to be developed, despite the political difficulties in the United States, and with an ageing population);
- technology (owing to the development of artificial intelligence).

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Recent trends in sectoral stock market indices in Europe

Charts 1A/B/C/D/E show the performance of the overall index (Euro Stoxx) and the 11 sector indices.

Chart 1A
Euro zone: Stock market indices (01.01.2011 = 100)

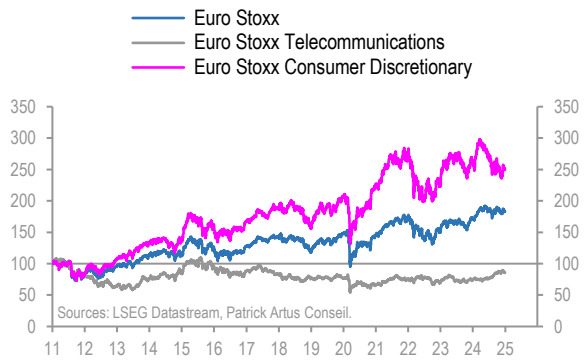


Chart 1B
Euro zone: Stock market indices (01.01.2011 = 100)

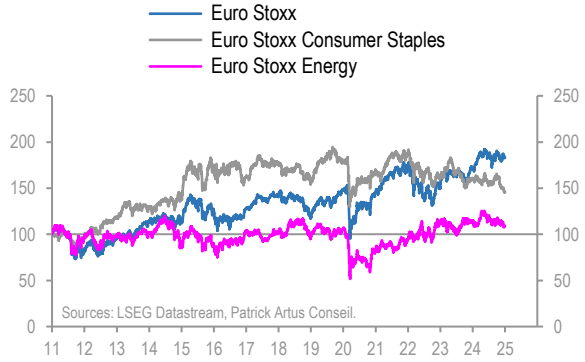


Chart 1C
Euro zone: Stock market indices (01.01.2011 = 100)

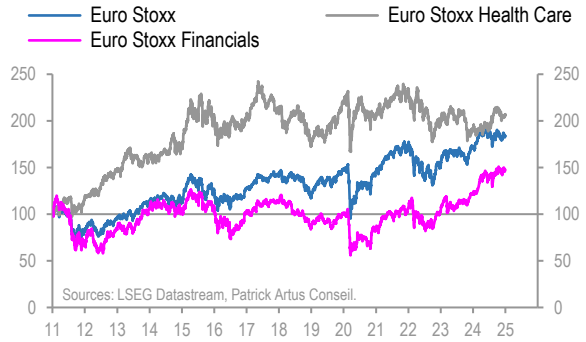


Chart 1D
Euro zone: Stock market indices (01.01.2011 = 100)

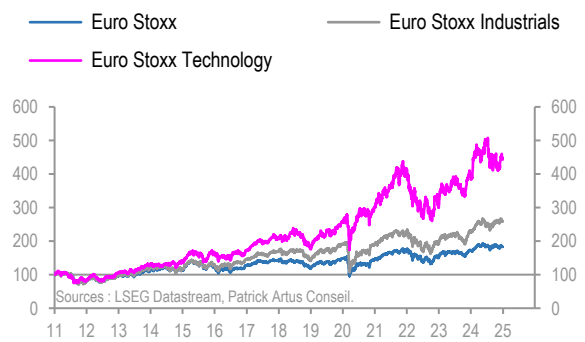
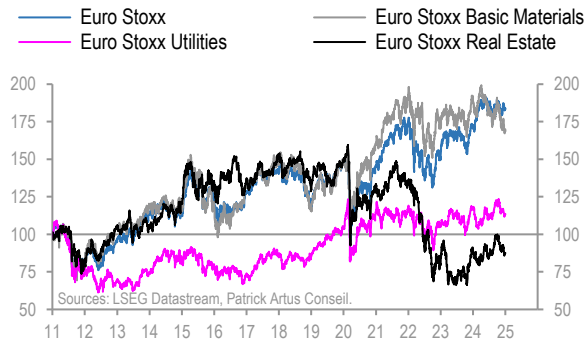


Chart 1E
Euro zone: Stock market indices (01.01.2011 = 100)



We can see :

- that the following sector indices have outperformed the overall index since 2011:
  - consumer discretionary;
  - healthcare;
  - technology;
  - industrials;
  - basic materials.
- that the following sector indices have underperformed the overall index since 2011:
  - telecommunications;

- consumer staples;
- energy;
- financials;
- utilities;
- real estate.

What is the outlook for the various sectors in 2025?

1. We believe that **given business sectors will struggle in 2025**.

They are the following sectors:

- **consumer discretionary** and **consumer staples**, particularly because of the difficulties in the automotive sector (**Chart 2**) and the rise in the household savings rate, which is depressing consumption (**Chart 3**);

Chart 2
Euro zone: Production in manufacture of motor vehicles, trailers and semi-trailers (2011.T1 = 100)

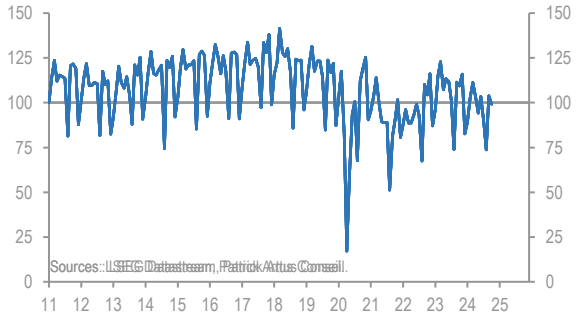
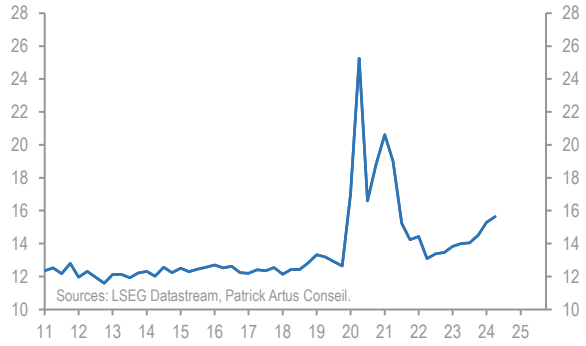


Chart 3
Euro zone: Gross household savings rate (as % of gross disposable income)



- **energy, with the fall in oil prices** (**Chart 4**);

Chart 4
Oil price (Brent, EUR/bbl)



- **industrials**, where the issue of competitiveness relative to the USA and China is causing a decline in production volumes (**Chart 5A**) and in the prices of industrial products (**Chart 5B**). The exceptions are aeronautics (with the development of air transport) and military equipment (following the increase in defense budgets);

Chart 5A
Euro zone: Manufacturing production (2011.M1 = 100)

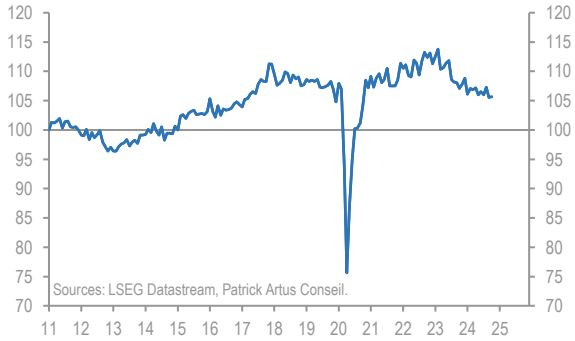
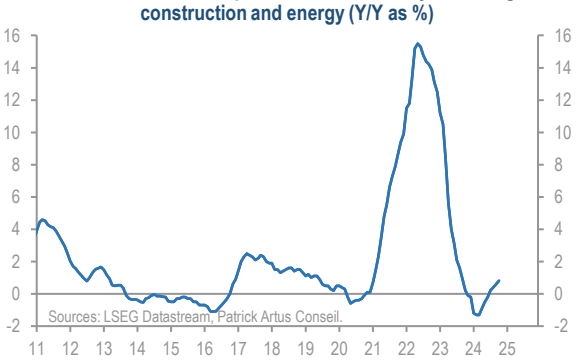
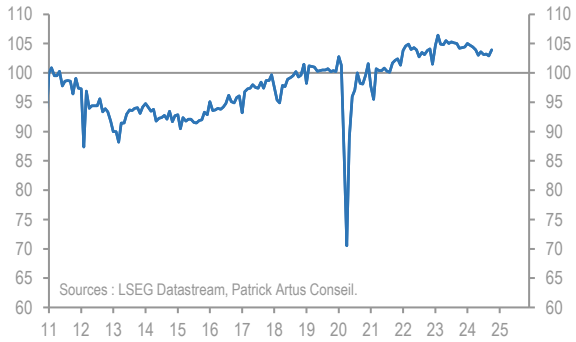


Chart 5B
Euro zone: Producer price index for industry excluding construction and energy (Y/Y as %)



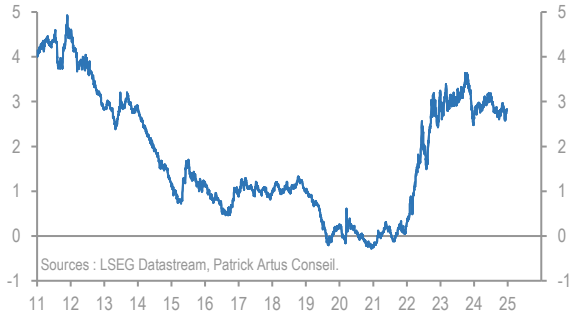
- **materials**, with difficulties in construction (**Chart 6**);

Chart 6
Euro zone: Production in construction (2011.Q1 = 100)



- **real estate**, with the **renewed rise in long-term interest rates** (**Chart 7**), owing to the correlation between European and American rates, and the return of inflation in the United States prompted by the policies advocated by Donald Trump (tariffs, halting immigration);

Chart 7
Euro zone:Interest rate on 10-year government bonds (as %)



- **utilities**, given the very high costs of the energy transition.

2. On the contrary, we believe that **other business sectors will enjoy a good stock market performance in 2025**.

They are the following sectors:

- **telecommunications services**, following the development of telephone services, websites and artificial intelligence;
- **financials**, given the rise in long-term interest rates (**Chart 7**);
- **healthcare**, with an ageing population and new, highly profitable drugs;

- information technology, owing to the development of artificial intelligence.

Moreover, these four sectors experienced a good stock market performance in 2024 (Charts 1A/B/C/D).

Summary: a stock picking approach, and not an overall indexed investment in Europe

The outlook for overall stock market indices in Europe is unfavourable: weak growth, rising long-term interest rates, particularly given the increase in long-term interest rates in the United States linked to the anticipation of the implementation of Donald Trump's programme. Equity investors should therefore focus on a few sectors. We suggest they select telecommunications services, financials, healthcare and technology and, at a finer sectoral level, consider aerospace and military equipment.

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