



# MAGA → MEGA

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Maximilian Uleer  
Carolyn Raab  
Francesca Mazzali

Deutsche Bank Research Institute



# Overview: Are 15 years of European underperformance coming to an end?

For most of the past 15 years, the default position of investors was being overweight US and underweight European equities. In November of last year, “US exceptionalism” and negative sentiment on European equities led to a peak valuation difference. We saw that as a buying opportunity, called it MEGA and turned overweight. After a record outperformance of European equities, we closed our preference for Europe. But something has changed. We expect US equities to continue to do well, but the relative attractiveness of the rest of the world looks increasingly good.

In this presentation we will take a deeper look at below themes and explore their implications for relative valuations.

- **US dominance (slide 2-4):** US equities have outperformed most other regions, including Europe, for most of the past 15 years. By now, US equities account for 67% in global equity indices, while the US economy makes up only 15% of global GDP. A part of this can be explained by rising sales of US companies outside of the USA. Europe’s equity share however has halved and currently stands at 12% while the region accounts for 14% of global GDP. This trend was accompanied by strong US economic growth, a strengthening in the USD from almost 1.5 EUR/USD to almost parity, a stable political environment and extreme growth of US mega caps but also with by extreme fiscal expansion. However, this trend seems to have changed this year. European equities have outperformed US equities, especially in USD terms. While this still seems unthinkable, we might be moving back to a regime where US and European equity market performance moves in lockstep.
- **Valuation (slides 5-7):** Up until 2015, the valuation difference between US equities (S&P 500) and European equities (STOXX 600) averaged 1.8 P/E points. Stronger economic growth, a stable political environment and the extraordinary growth of a handful of US companies have led to a widening in the difference to 9 P/E points at the end of last year. Excluding the seven biggest companies, the S&P still trades at a 6-point premium to the STOXX 600.
- **Concentration (slides 8-11):** The concentration in index weights, but also in earnings growth and contribution to returns has risen. The 7 biggest companies have contributed 60% to earnings growth in the S&P 500 since 2021. Excluding the biggest 7 companies in the S&P 500 would have roughly halved the annual index return (15%) over the past 5 years and would have led to an underperformance versus the STOXX 600 (s. 10). The higher concentration has changed the S&P 500’s risk profile. Maximum drawdowns have been more pronounced in US equities than in European equities in recent years.
- **Economic growth (slides 12-15):** US economic growth is likely to continue to outpace European growth. However, much of US economic growth was accompanied by a widening fiscal deficit and rising public debt levels. Both have surpassed European levels. At the same time, Germany has recently changed its fiscal policy and creates hopes for a relative recovery in European growth. A recovery in global manufacturing activity would provide an additional boost to Europe’s economy. Recent sentiment indicators support that view.
- **Political uncertainty (slide 16):** Europe’s political fragmentation creates a structural disadvantage over the US. However, recent events in the US significantly increased the political uncertainty also in the US while fostering more collaboration among the European Union.
- **Flows (slides 17-18):** The first quarter saw a sharp acceleration of ETF flows into European equities. After a record outperformance, inflows have come back down but remain higher than they used to be. It is early days, but we expect Europe to have become more attractive for investors.



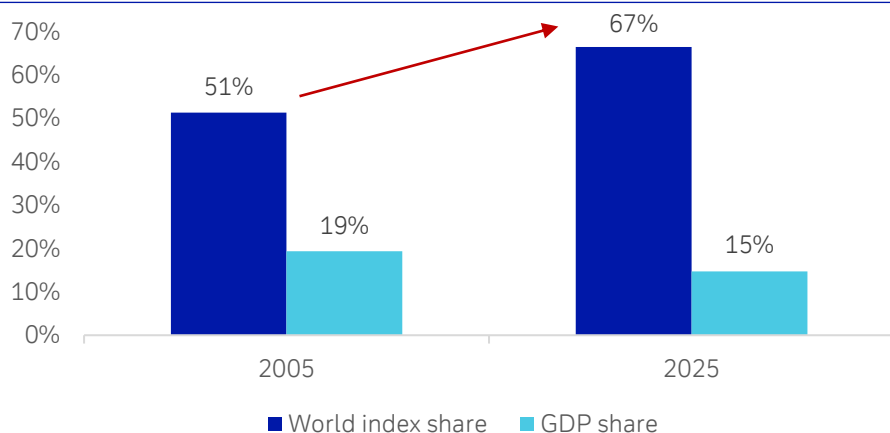
# US Dominance – at extreme levels

US equities are dominating global indices.

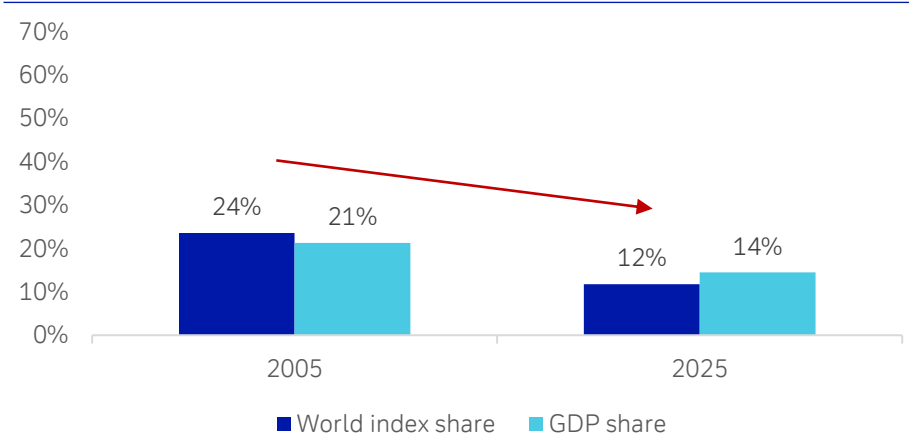
## Key takeaways

- **US equities have the highest depth and liquidity, high innovativeness and some US companies are global technological leaders.** However, compared to its economy, the weight of US equities in global equities has reached extreme levels (Bloomberg World index).
- While the US only accounted for 19% of world GDP in 2005, its equity market already accounted for over half of the Bloomberg World index, which is very similar to the more prominent MSCI All Countries World index. The high US index weight compared to its GDP share got more extreme over the past 20 years, with the **US share increasing to 67% currently while its GDP share decreased to 15%**. A part of this can be explained by rising sales of US companies outside of the USA.
- **Looking at Europe, its index weight in the World index has decreased by more than its GDP share over the past decades.** While Europe's global share of GDP decreased from 21% to 14%, its equity share has halved and currently stands at 12%.
- Emerging markets such as China and India have significantly increased their GDP shares over the past decades, however, their equity shares increased under proportionally, as equity share was crowded out by the massive expansion of the US equity market.

## US stocks have a higher index weight...



## ...than EU stocks compared to GDP share



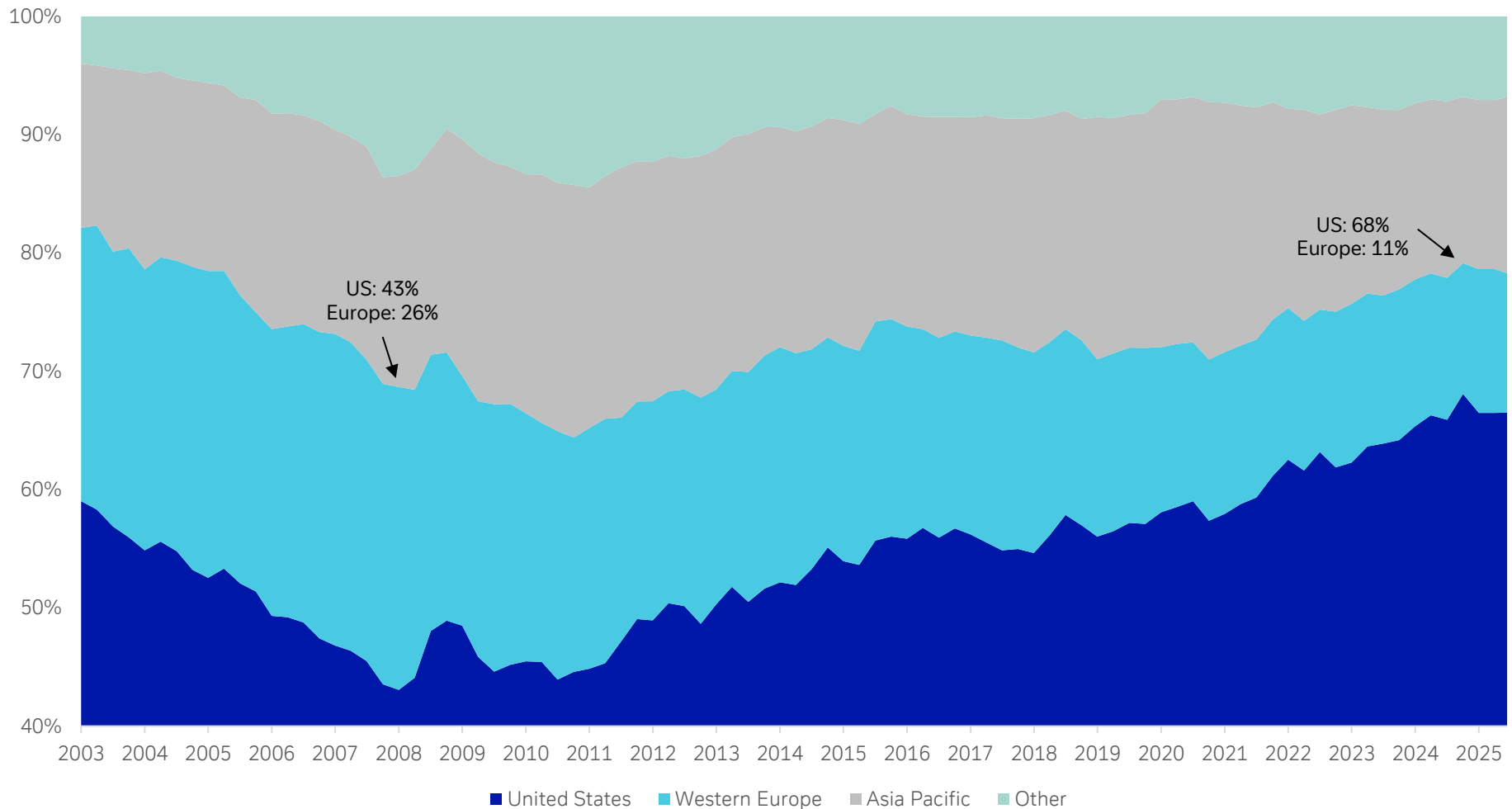
Note: World index share based on Bloomberg World index. Source: IMF, Bloomberg Finance LP, Deutsche Bank Research 09/11/2025



# US Dominance... grew over time, while Europe's importance has shrunk



## Regional weights in Bloomberg World Index



Note: Western Europe defined as Eurozone, UK, Switzerland, Sweden, Norway, Denmark, Jersey. Source: Bloomberg Finance LP, Deutsche Bank Research 09/11/2025

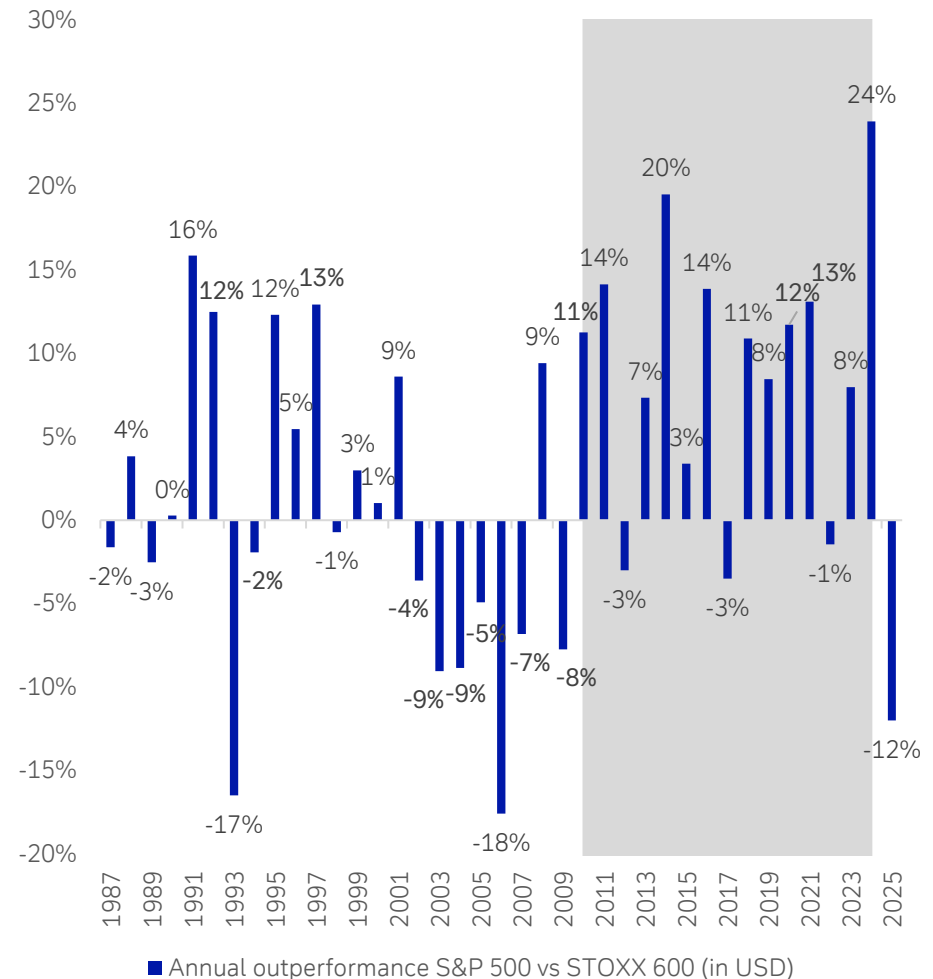
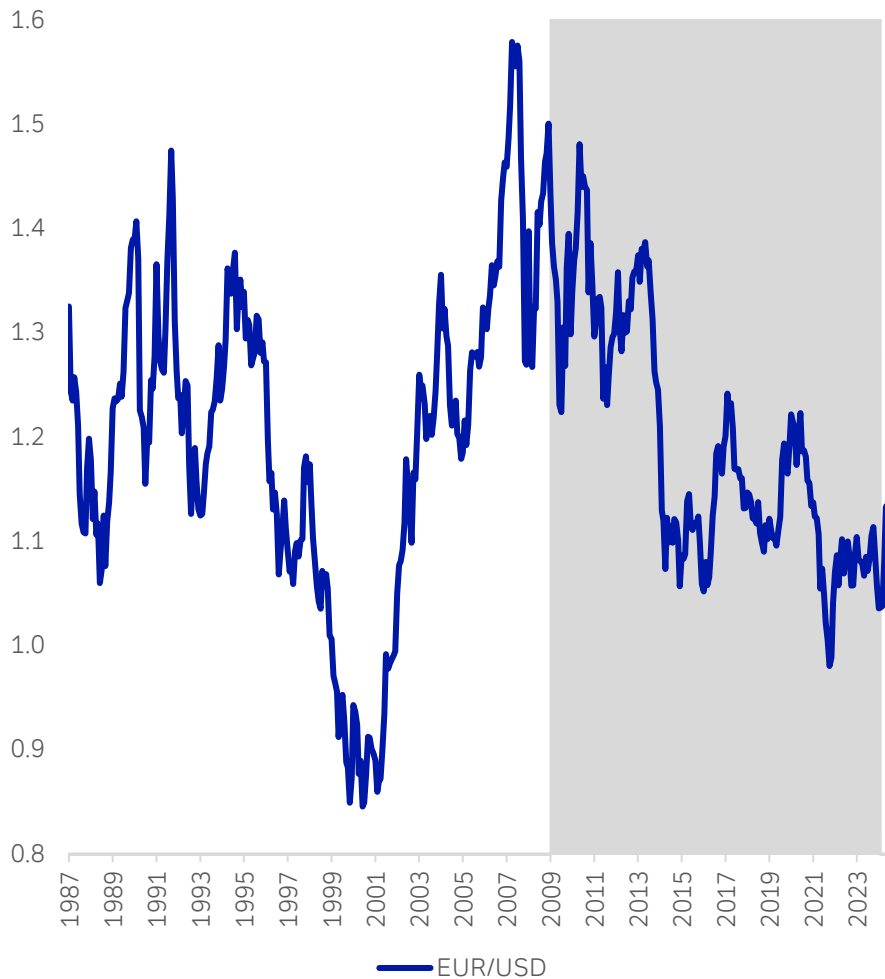


# US Dominance... from 2010 to 2024?

In USD, the S&P 500 had its worst year relative to the STOXX 600 since 2006. Our FX strategists expect the US Dollar to continue to weaken versus the Euro.

Since 2010, the USD strengthend...

...supporting the S&P outperformance



Note: Right chart is price return, 2025 is year-to-date. Source: Bloomberg Finance LP, Deutsche Bank Research 09/12/2025

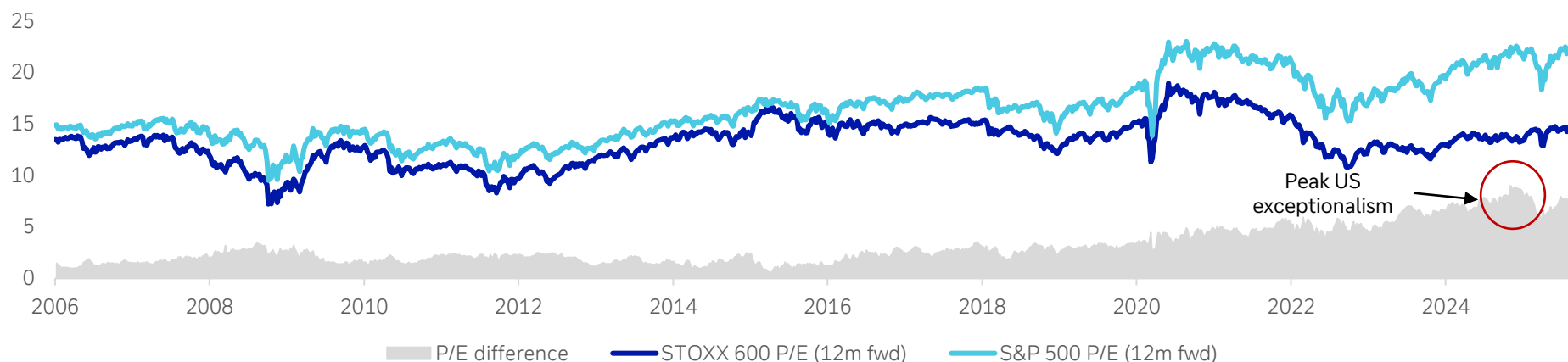
# Valuation Gap: widened from 1.2x 10y ago to a peak of 9x late last year.



## Key takeaways

- The US has been trading at a premium over European equities for a long time. But what was an average valuation gap below 2 P/E points from 2006 to 2016 has widened into a premium of 7.9 P/E points (12m forward) as of today. The valuation gap had peaked at 9x in November 2024, shortly after the US elections and tightened since. Higher valuations of the biggest 7 companies explain one part of the gap. Higher political stability, stronger economic growth, and better liquidity in the US have led to the valuation difference widen across sectors. The gap widened further as global manufacturing was stuck in a long and deep recession.
- **Political stability has changed in both regions, economic growth in Europe will be helped by German spending and European manufacturing PMIs have turned above 50 for the first time in 3 years. Is a P/E premium across sectors still warranted?**
- To compare the valuation gap while accounting for index concentration, we identified the top 7 companies in both regions, meaning the 7 companies with the highest index weight, reflecting free-float market capitalization. In the STOXX 600, these 7 companies currently are: ASML, SAP, Novartis, AstraZeneca, Nestle, Roche and HSBC. If we exclude these 7 companies from the STOXX 600, the index P/E (12m fwd) declines by only 0.6x from 14.6x to 14.0x.
- Meanwhile, concentration in the S&P 500 is much higher. Currently, the top 7 companies in the S&P 500 are: Nvidia, Microsoft, Apple, Google, Amazon, Meta and Broadcom. Excluding the top 7 companies decreases the index P/E by a total of 2.5 P/E points, reflecting much higher concentration. Excluding the top 7 companies in both indices brings the valuation gap to 5.8x. Although this is slightly lower than the 7.9 points difference including the top 7, the valuation gap excluding the heavyweights is still substantial.

## Regional P/E difference (12m fwd)

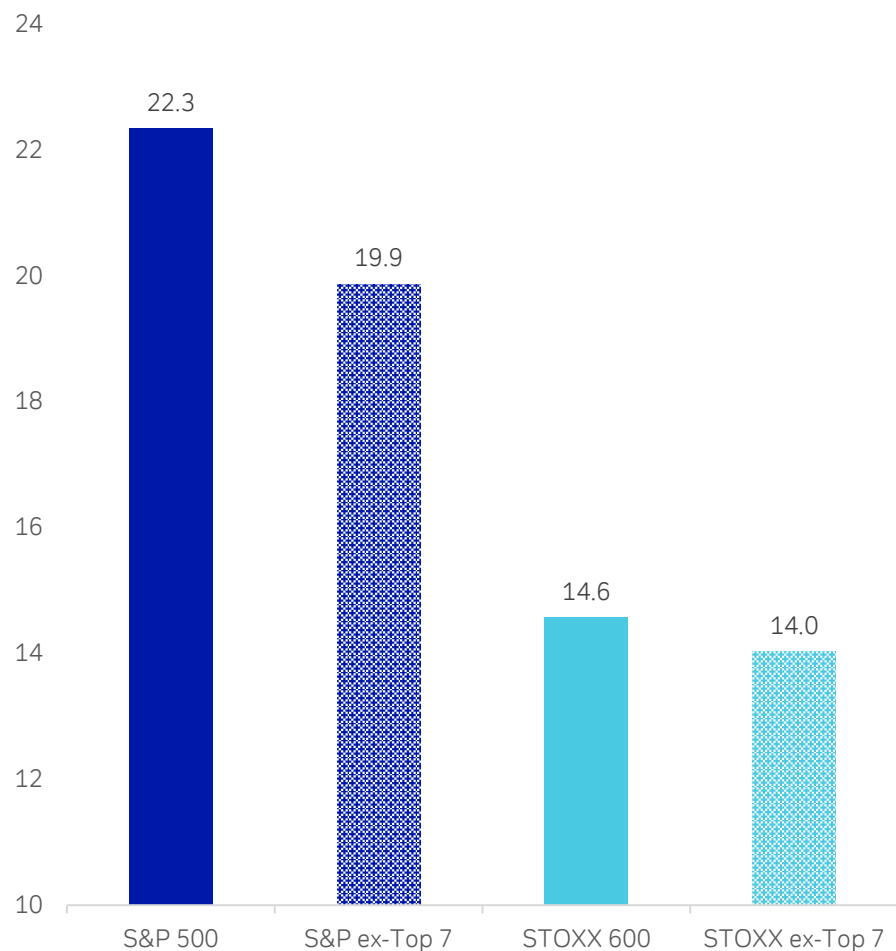


Source: Bloomberg Finance LP, Deutsche Bank Research 09/12/2025

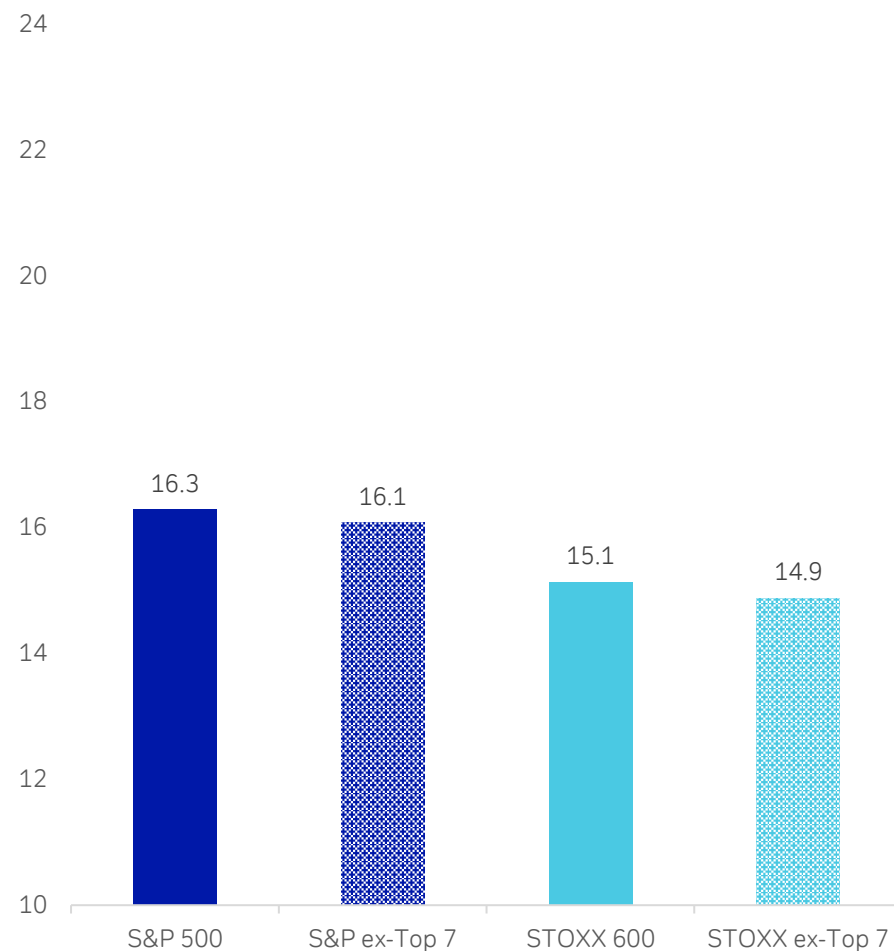
# Valuation Gap: remains extreme even if top 7 are excluded.



## Current valuation (12m fwd)



## Valuation 10y ago (12m fwd)



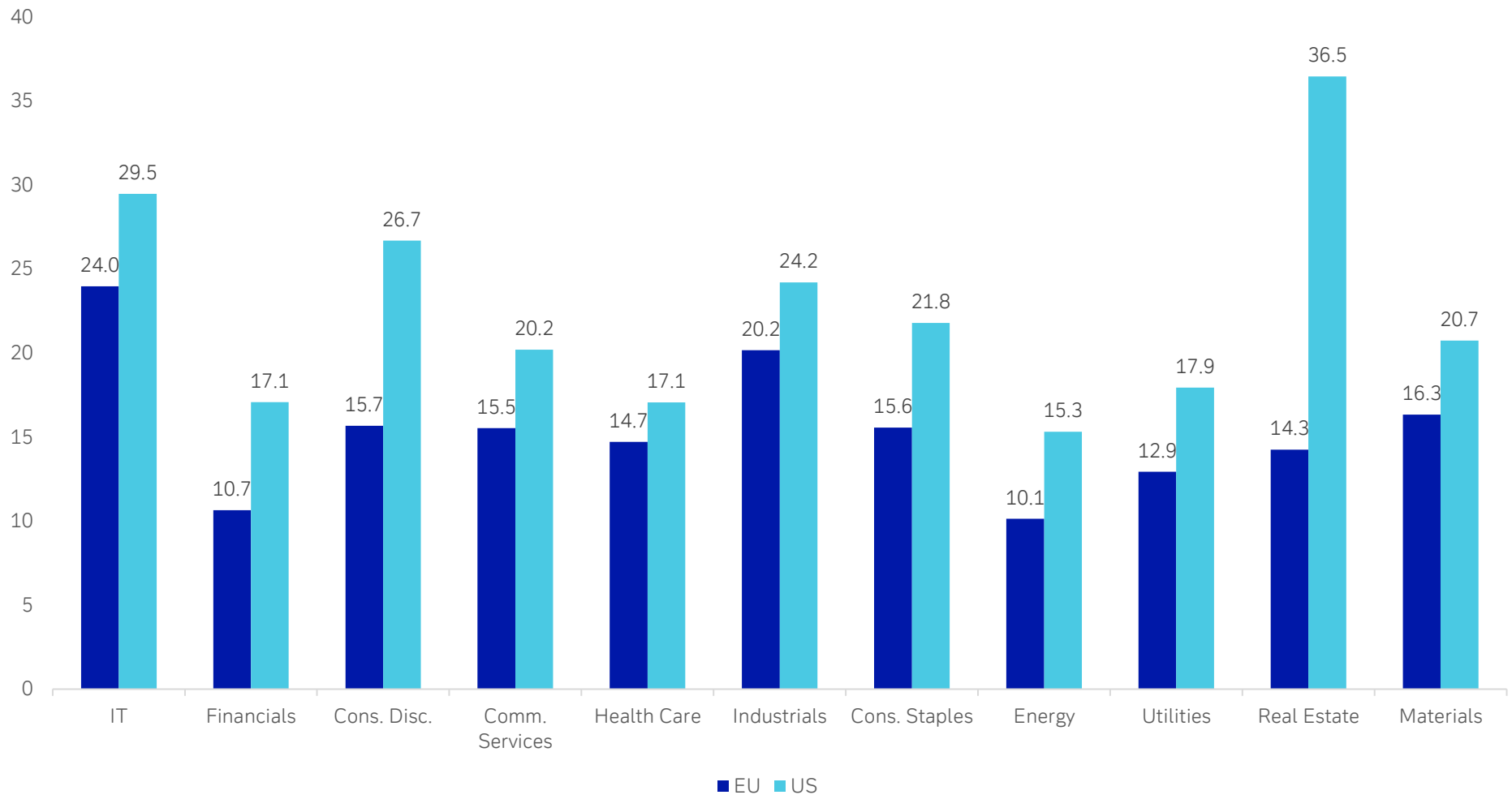
\*10y ago as 12/31/2015. S&P and STOXX 600 (10y ago) based on an ETF. Top 7 companies by index weight. Source: Bloomberg Finance LP, Deutsche Bank Research 09/09/2025



## Valuation Gap: applies across sectors

A few companies stand out, especially in the major sectors. But the valuation premium for US versus European equities applies across sectors.

### Current sector P/E (12m fwd), sorted by size of US sectors



Reference indices: S&P 500 and STOXX 600. Source: Bloomberg Finance LP, Deutsche Bank Research 09/12/2025

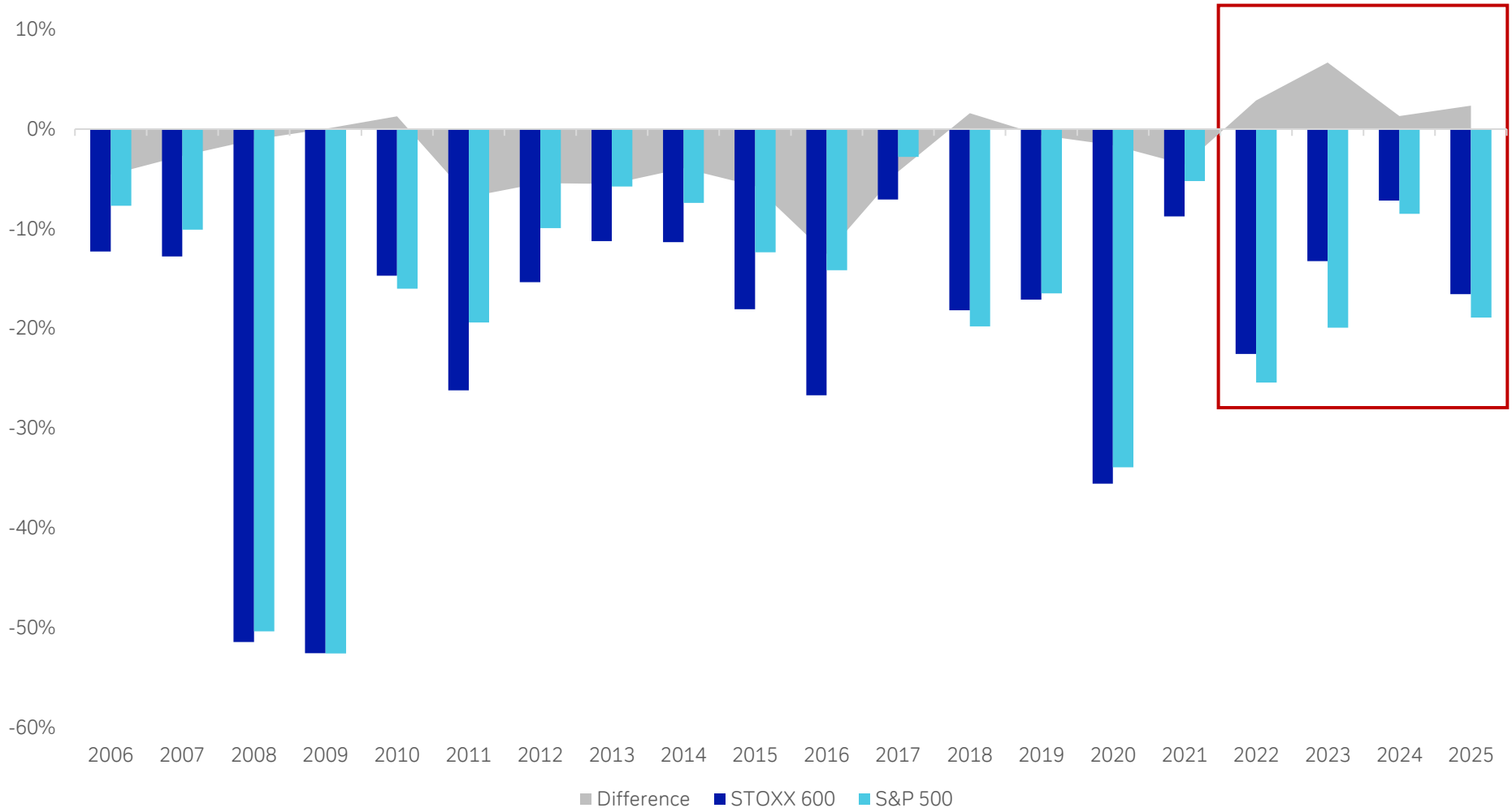




## Concentration: leads to sharper sell-offs

On average, over the past 20 years, the yearly MDD was 2 percentage points worse in the STOXX 600 than in the S&P 500. With rising concentration in the S&P over the past few years, the STOXX 600 fared better.

### Maximum drawdown (annual, local currency)



Source: Bloomberg Finance LP, Deutsche Bank Research 09/10/2025



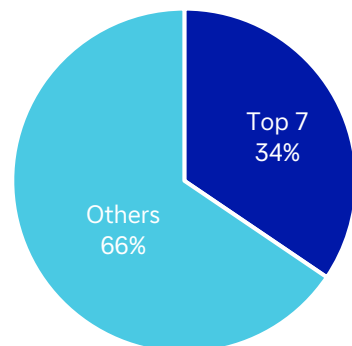
# Concentration: in index weights

The S&P 500 is far more concentrated than the STOXX 600. The 7 largest corporates in the S&P make up more than 1/3 of the index weight vs only 13% in the STOXX.

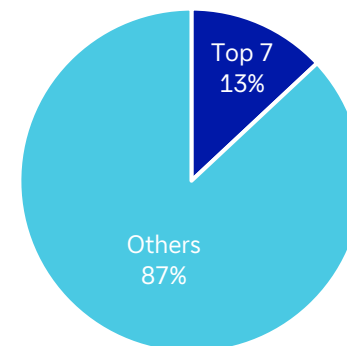
## Key takeaways

- **Concentration in the S&P 500 has risen to extreme levels.** Its largest 7 index members make up more than 1/3 of the index weight. Nvidia alone accounts for almost 8% of the index weight, followed by Microsoft (7%), Apple (6%), Alphabet and Amazon (both 4%) as well as Meta and Broadcom (both 3%). Meanwhile, in the STOXX 600, no company accounts for more than 2% of the total index weight. The top 7 corporates, ASML, SAP, AstraZeneca, Novartis, Nestle, Roche and HSBC, each have a weight of roughly 2% in the index.
- Higher concentration in the S&P 500 has been a theme for some time already but has amplified over the past years. In 2021, the top 7 companies accounted for 24% of the index – 10 percentage points less than today. At the same time, the weight of the top 7 companies in the STOXX 600 has been relatively constant at around 13-14% over the past 5 years.
- **Excluding the top 7 companies, the average annual return of the S&P 500 over the past 5 years was only 7% instead of 15%.** Notably, even though the STOXX 600 underperformed the S&P 500 on average (+11% per year), excluding the top 7 companies, the STOXX 600 would have returned 9% per year, outperforming the S&P 493. [See slide 10.](#)
- **Concentration risk in the S&P 500 is also notable in terms of earnings. Over 60% of earnings growth in the S&P 500 was generated by the 7 largest companies since 2021. The earnings share of the top 7 companies has surged since 2022 and now amounts to 26%.** 10 years ago, the top 7 companies accounted for only 14% of aggregate index earnings. Once more, the earnings share of the top companies has remained fairly stable in the STOXX and fluctuates around 10%. [See slide 11.](#)

## S&P 500 index weights



## STOXX 600 index weights



Source: Bloomberg Finance LP, Deutsche Bank Research 09/02/2025

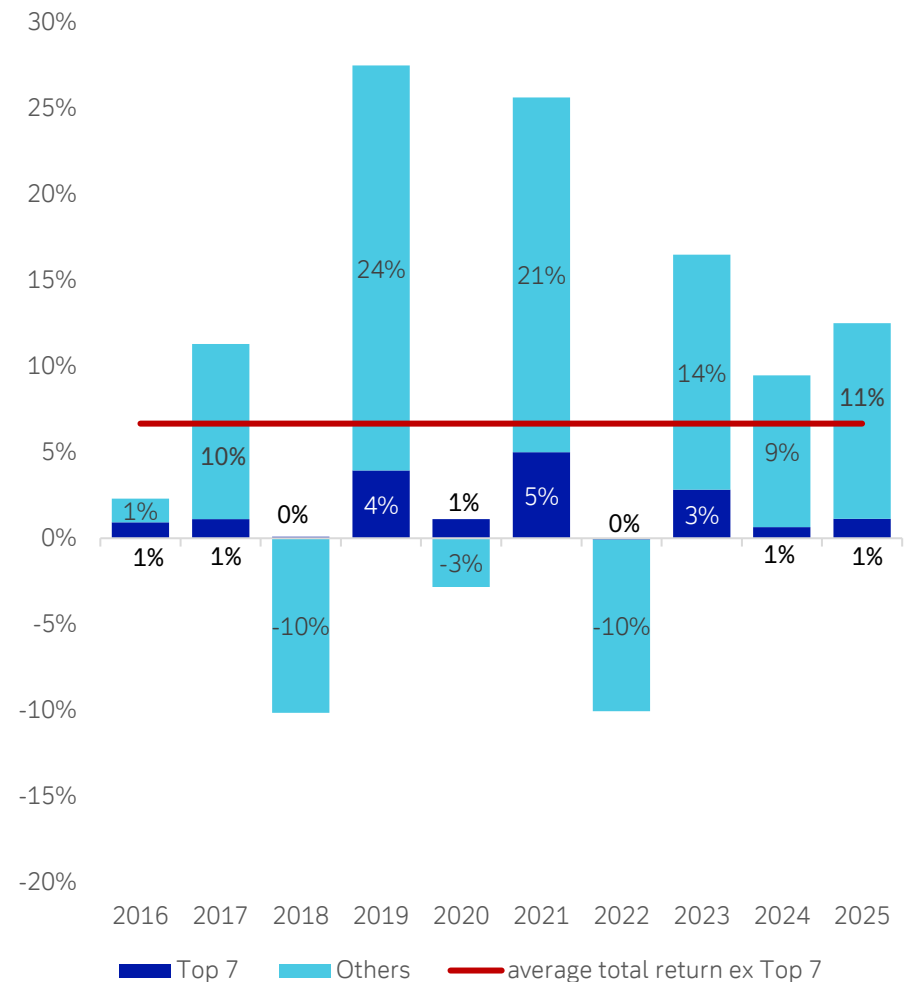
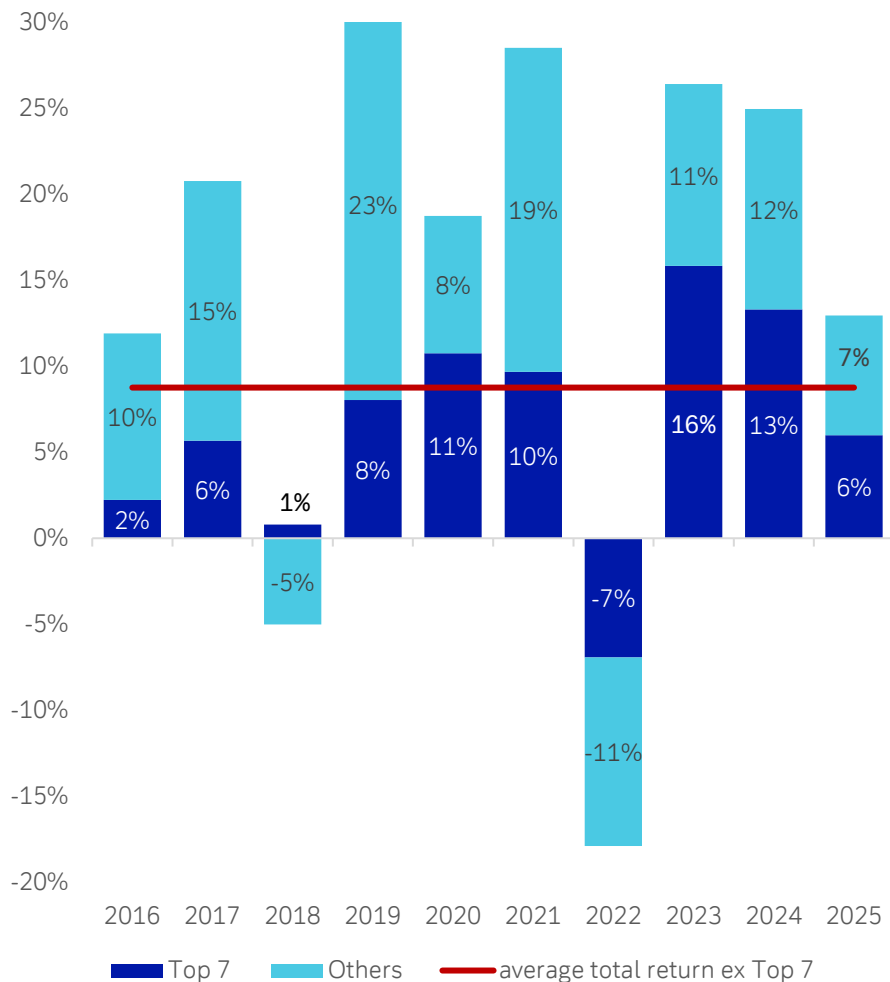


## Concentration: in performance

On average over the past 5 years, the S&P returned 15% per year vs 11% in the STOXX 600. Without the top 7 companies, the S&P would have delivered an average return of 7% vs 9% for the STOXX ex top 7.

### S&P 500 – total return contributions

### STOXX 600 – total return contributions



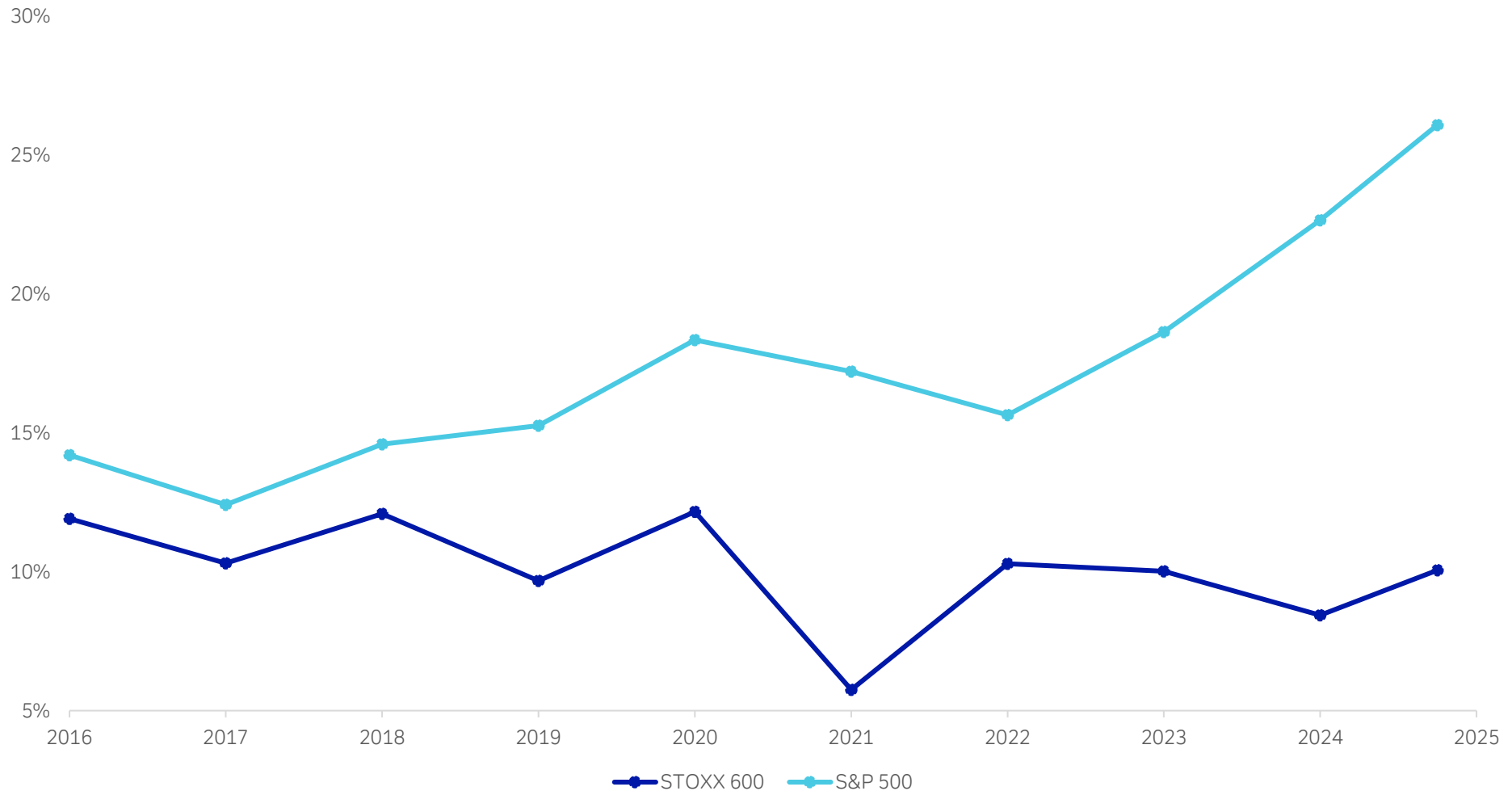
Source: Bloomberg Finance LP, Deutsche Bank Research 09/12/2025



## Concentration: in earnings

The top 7 US companies contributed 61% to earnings growth since 2021. In the STOXX 600, the top 7 only accounted for 35% of profit growth over the same period.\*

### Top 7 companies: share of aggregate index earnings



\*based on current index members and current Top 7. Source: Bloomberg Finance LP, Deutsche Bank Research 09/12/2025



# Economics: GDP Growth & Fiscal Potential

Increasing concerns on US fiscal sustainability coinciding with the historic fiscal expansion in Germany should support a relative recovery in European growth going forward.

## Economic Growth:

- The European macro environment remains supportive. Economic surprises across the Eurozone are encouraging and PMIs continue their recovery, with the Composite index reaching 51 in August, especially supported by a recovery in the manufacturing space. The Eurozone manufacturing PMI crossed 50 in August for the first time in more than 3 years. European equities have substantially suffered from manufacturing weakness.
- Meanwhile, the US economy looks more resilient to the effects of the trade war than initially feared. The US manufacturing PMI climbed to 53 in August, strongly beating estimates. That said, the US labour market has shown some signs of weakness recently, fuelling concerns about a slowing economy. This has led to increasing bets on Fed rate cuts, while the ECB looks like it has reached the end of its cutting cycle. Nevertheless, financial conditions remain easier in the Eurozone as the 200 bps of rate cuts delivered by the ECB (vs only 100 bps by the Fed so far) slowly start feeding into the real economy.
- Despite easier financial conditions, European GDP growth is still expected to trail US growth in 2025 and over the upcoming years. Germany is the outlier: on the back of the fiscal stimulus, our economists expect the German economy to grow by 2% in 2026, a touch higher than the US (DBe: 1.8%). Faster German growth could add about 75bps to Eurozone GDP in 2025-2027 via both direct and indirect channels such as trade and confidence, in our view ([see here](#)).

## Fiscal Potential:

- In the US, the “Triple B” tax bill has been passed by Congress in early July. Between other measures, the tax bill extends the 2017 tax cuts implemented during Trump’s first term and includes a debt ceiling increase of USD 5tr. Our economists forecast the Triple B to lead to a further deterioration in the deficit to almost 7% of GDP by 2027, and the debt-to-GDP ratio to tick up to 111% by 2028.
  - In Europe, Germany has announced a historic fiscal package consisting of roughly EUR 800 bn spending on defence and infrastructure by 2029, which implies a fiscal impulse of almost 20% of annual GDP. While a higher fiscal deficit (4% by 2027) and a higher debt-to-GDP ratio (66% by 2027) are expected, those figures are still low when compared to most other countries. Outside of Germany, however, fiscal tensions are emerging in other European countries: fiscal tensions in France have re-emerged and the new Prime Minister will have to pass a budget through a heavily split parliament, while the country urgently needs to bring down its debt levels, being under scrutiny of the EC’s Excessive Deficit Procedure.
  - In the UK, the upcoming annual Autumn budget on November 26 will be another fiscal test for the country. As things stand, the Chancellor is expected to face a fiscal hole of roughly [GBP 25bn](#) according to DB estimates, to be filled via a combination of tax hikes, spending cuts and extension of the fiscal drag, between the other measures. However, market concerns around the fiscal trajectory, leading to a sell-off in Gilts, only increase the gap the Chancellor has to close.
- While the US economy has outpaced European growth for most of the past decades, the change in the German fiscal stance and emerging signs of a slow but steady **recovery in the manufacturing space could be a tipping point, leading Europe back to higher growth rates over the coming years**. While we still expect US growth to remain strong and potentially outperforming Europe, the gap between the two regions could start to tighten.
- Over the past decades, US growth was largely driven by a strong fiscal expansion. With rising deficit levels after the passing of the Triple B, US fiscal sustainability has increasingly become a concern among investors this year, culminating in higher US rates and a weakening USD which has lost some of its safe-haven appeal. On the other hand, the historic **fiscal expansion in Germany will likely lead to positive spill-over effects to the rest of the Eurozone**, outweighing slower growth stemming from political uncertainty.

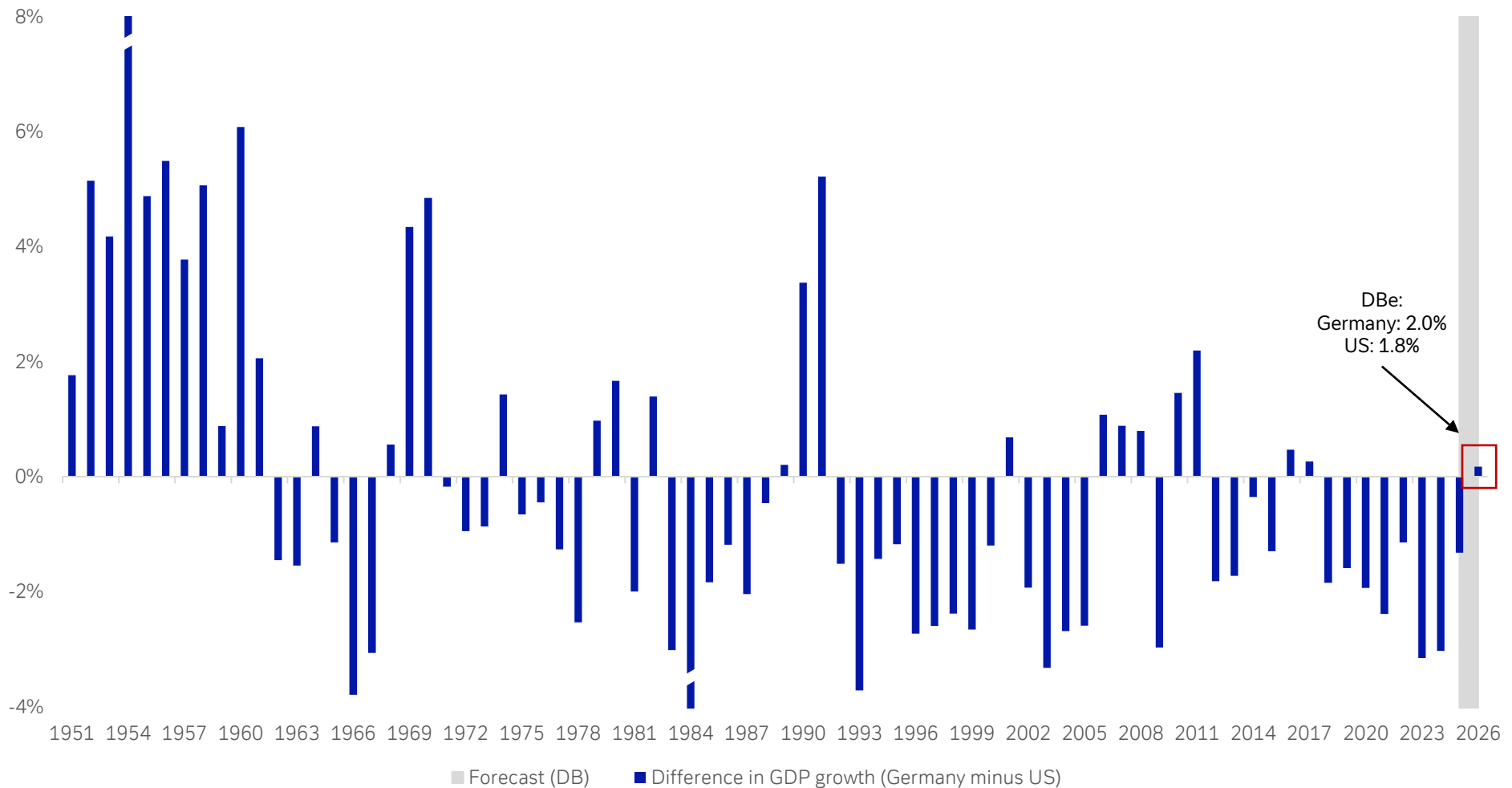


# Economic Growth



GDP growth in the US remains much higher than in Europe. However, the German growth recovery (DBe: 2% growth in 2026), should spill over to the rest of the EU.

## Difference in real GDP growth: Germany vs US



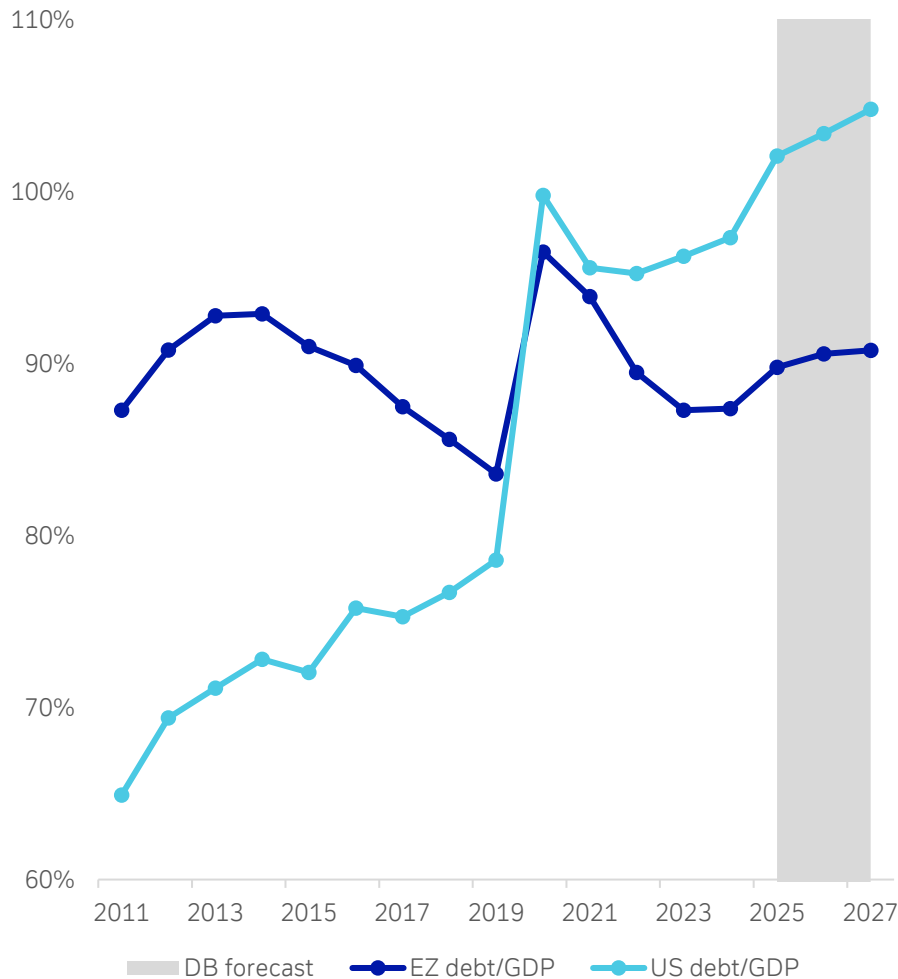
Source: Deutsche Bundesbank, Deutsche Bank Research 09/09/2025



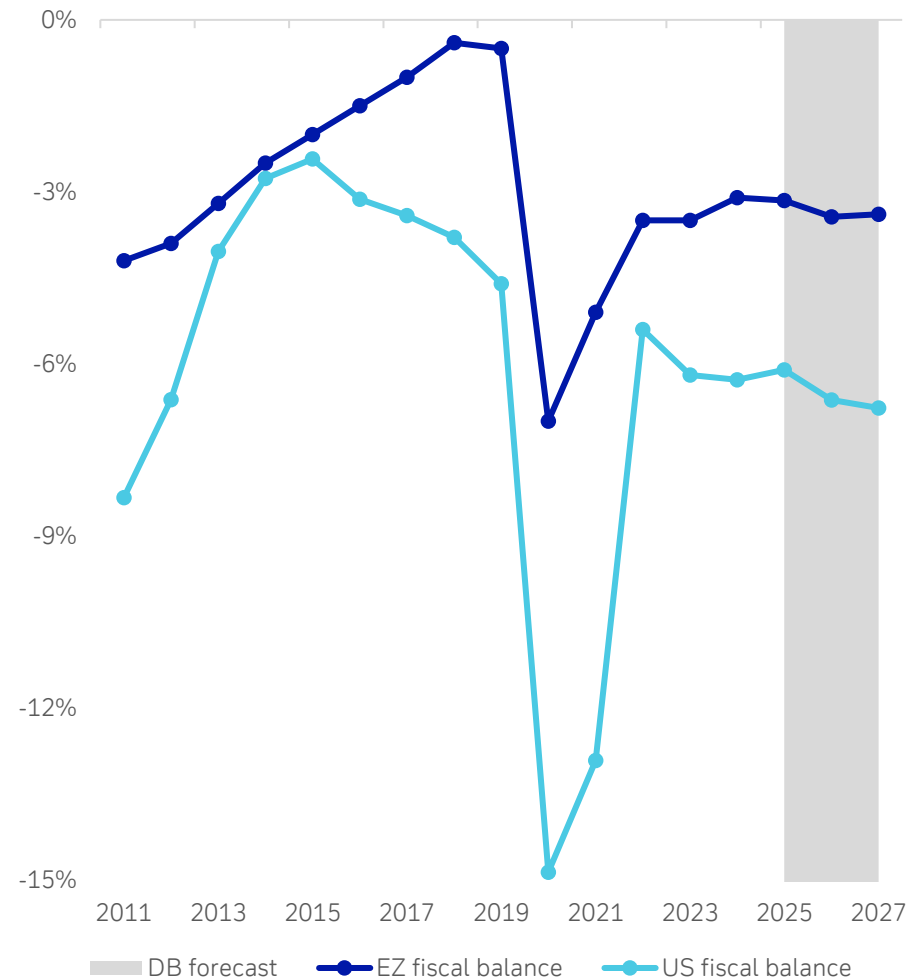
## Fiscal Risks – look increasingly similar

Despite the German fiscal expansion, debt ratios are expected to worsen more in the US than in the Eurozone.

### Debt-to-GDP: Eurozone vs US



### Fiscal balance (% GDP): Eurozone vs US

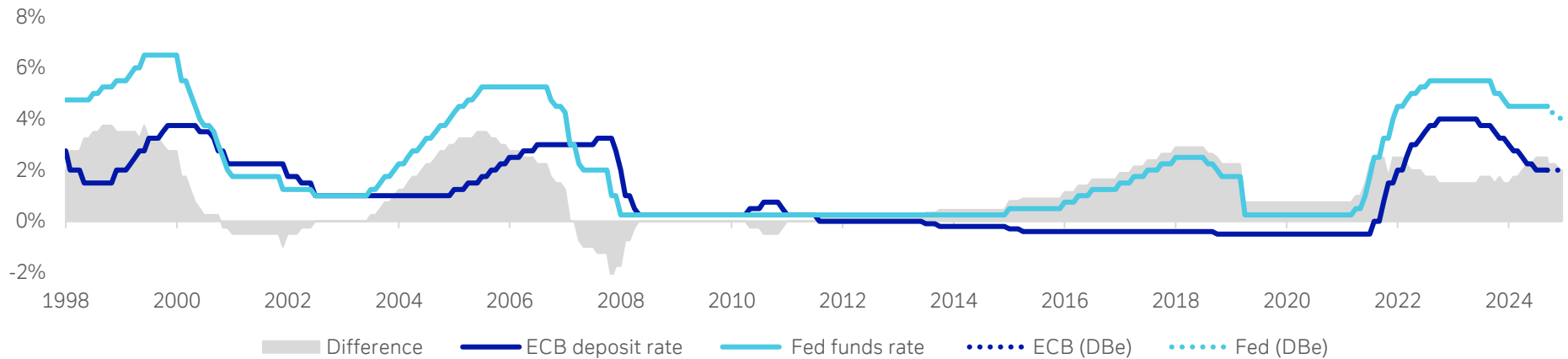


Source: Deutsche Bank Research 09/09/2025

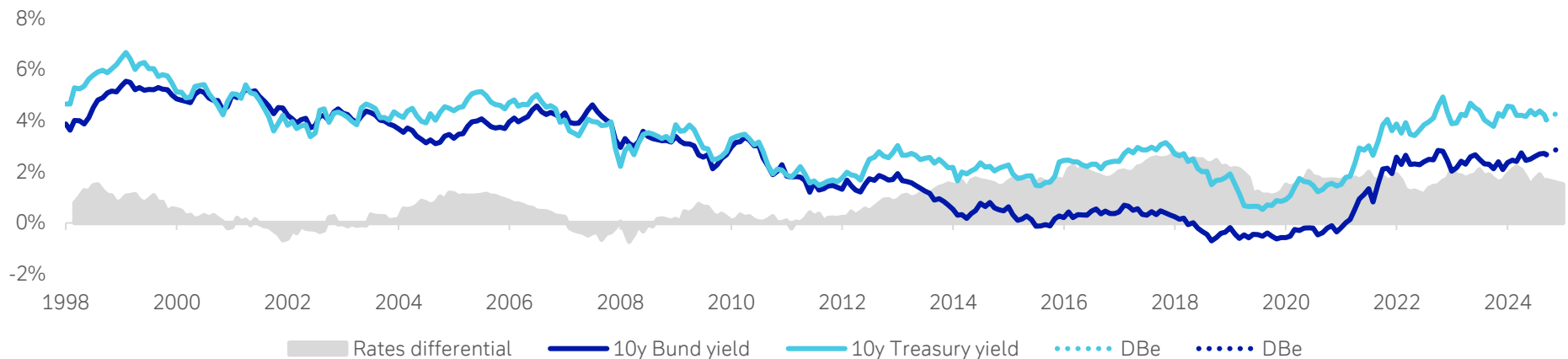


Monetary policy remains less restrictive in the EU vs US.

Rates differential to shrink as Fed expected to cut while ECB on hold



We expect both Bund and UST yields to remain on elevated levels



Source: Bloomberg Finance LP, Deutsche Bank Research 09/12/2025

# Political Risk - still high in Europe, but rising in the US.



## Outperformance of S&P 500 vs STOXX 600 vs political events



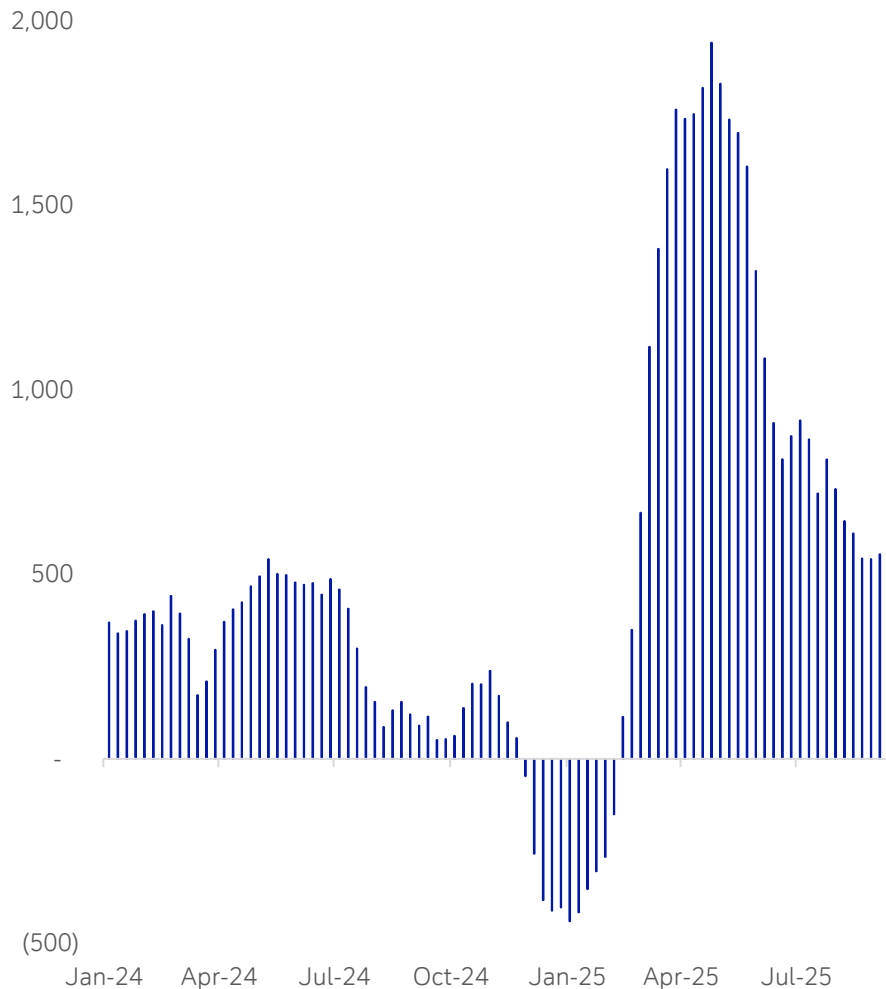
Source: Bloomberg Finance LP, Deutsche Bank Research 09/12/2025



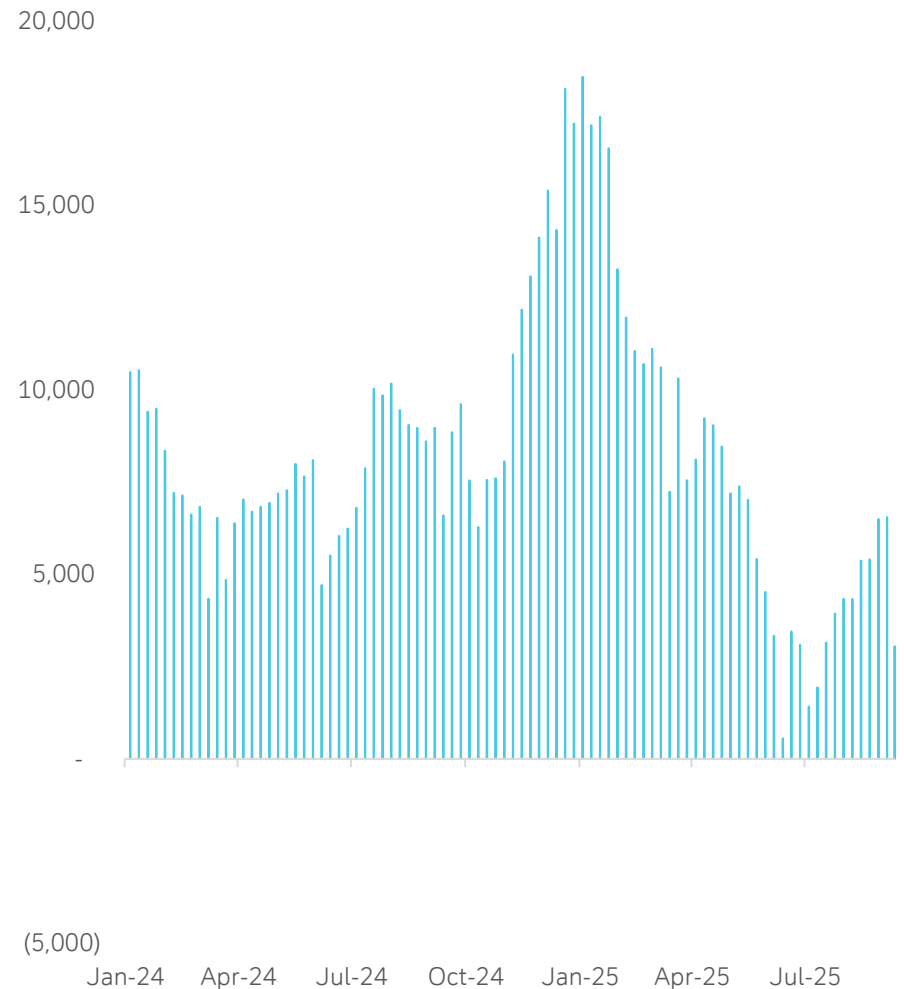
## Flows – US dominates, but less than it did

European-focused ETFs continue to see robust inflows above historical levels. Flows into US-focused ETFs have recovered, but on lower relative levels.

### Europe



### USA



Note: Aggregate fund flow, 12w moving average, based on 50 largest ETFs for the region, in mn USD. Source: Bloomberg Finance LP, Deutsche Bank Research 09/11/2025

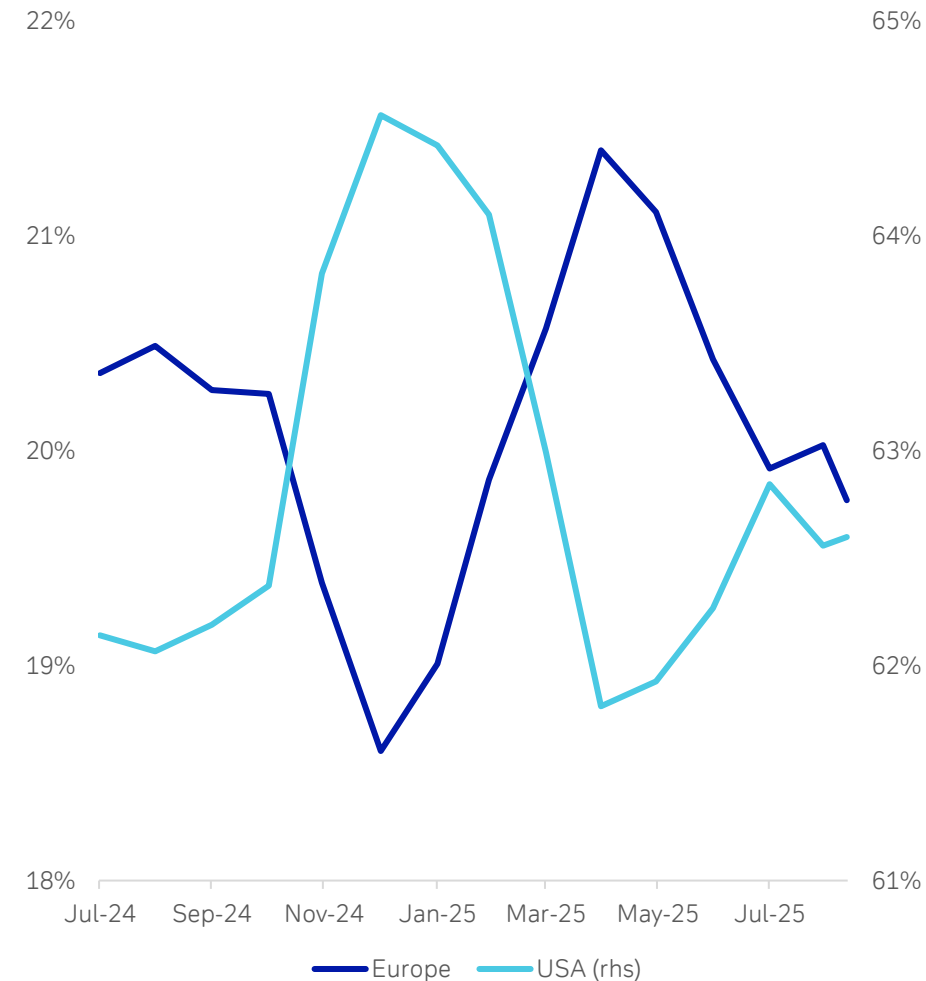




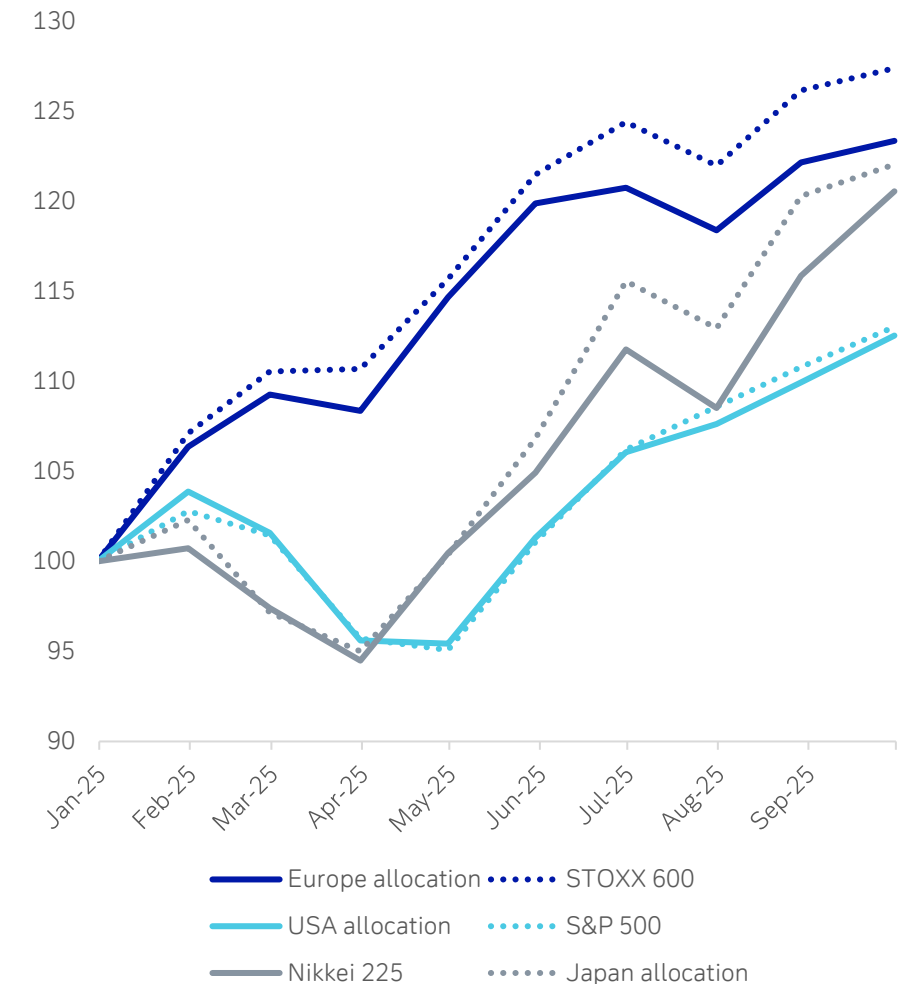
## Flows - Equity Allocation

Allocations to Europe have increased in global equity funds this year, however, this mainly reflects positive equity performance.

### Allocation of global active equity funds\*



### Equity performance (USD) & allocation



\*Holdings of 30 of the largest active global equity funds with combined AuM of roughly USD 800 bn. Source: Bloomberg Finance LP, Deutsche Bank Research 09/12/2025



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