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“Chickens come home to roost”: Westminster Asset Management Investment Strategist Peter has another look at Europe and as expected it looks like the optimism at the beginning of the year was another false dawn. While all is not well in America, Peter believes investors might have to look east for outperformance going forward.



Earlier this year, Europe surprised everyone. Equities broke out of their holding pattern, outpaced Wall Street, and investors briefly talked of a European renaissance. In February, I warned that this would prove to be a false dawn (“Turning the screws on Europe” and “No pain, no gain”). Six months on, events in Europe are unfolding much as expected: its outperformance has stalled, bond yields are edging higher, and politics are once again at the forefront.

US Equities versus EMU, USD Terms



Source: Bloomberg, Westminster Asset Management

France sits at the eye of the storm. Prime Minister Bayrou is pressing ahead with his €44 billion austerity plan and has called a confidence vote for September 8th. Polls show Marine Le Pen’s Rassemblement National leading comfortably at 35%, Macron’s Ensemble slumping to around 18%, and the left-wing Popular Front holding a strong 21%. The risk is clear: policy paralysis meets fragile investor confidence.

Germany offers little reassurance. The Chancellor has admitted that the welfare state is unaffordable in its current form, while the AfD now polls neck-and-neck with the mainstream parties. The political centre is hollowing out, as Europe faces pressing fiscal and demographic challenges.

America has its vulnerabilities, most notably, its reliance on big tech, but with Trump doubling down on supply-side reforms, deregulation, and tariffs, the contrast with Europe could not be starker. Yes, the dollar is expensive and multiples on Wall Street are high, but since when has valuation been an effective timing tool? The undervalued euro has arguably been the glue that has held the Eurozone together since the debt crisis and seen in that light, its recent strength is a cause for concern rather than celebration.

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Trump is exporting as many of America's problems as he can. In the case of Europe, he is making a bad situation considerably worse and talk of a European renaissance is fanciful. However, that does not mean that American exceptionalism as we knew it is returning. America may be a better proposition than Europe, but it looks to be relinquishing its role as global leader to Asia, which will be the subject of my next note.

Peter Lucas – August 2025