

Market commentary of December 4, 2025

«Europe is on track for a cyclical rebound»

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Europe's economy has the wind at its back as it enters the new year. Macroeconomic indicators are showing signs of stabilizing, PMI readings have passed their trough, and the ECB is on a more accommodative path. On top of all that, government spending has become a force of its own: Germany has launched a EUR 500 bn infrastructure investment initiative and is committed to increasing its defense spending to 3.5% of GDP. At EU-wide level, another EUR 800 bn has been earmarked for modernization and security programs such as the Defense Readiness 2030 Roadmap.

Meanwhile economists are forecasting a sharp upturn in economic activity. According to JP Morgan, Europe's economy could be expanding at around 1% already by mid-year 2026 and at an even faster clip of 2% by the end of 2026.

This situation is particularly relevant for European small and mid cap companies. About 60% of their sales are generated within Europe, in contrast to large caps, which are more globally oriented. The past few years have been quite a challenge for small and mid sized companies: Energy price shocks and a manufacturing recession, not to mention capital outflows of EUR 11.5 bn since 2021 all weighed heavily on the valuation of these stocks. Momentum is starting to shift in their favor though. Investment capital is flowing back into European small and mid caps for the first time in years.

At the same time, the EU is changing its strategic game plan. There is greater political will to create pan-European business champions. In the past, most M&As were confined to the national level – in the telecommunications, energy, banking or utility sectors, for example. Looking ahead, cross-border consolidation is likely to increase as Europe acknowledges the need for larger, more powerful corporate structures in order to hold its own in global competition with the US and China. The media and manufacturing sectors are ripe for consolidation, among others.

Europe is thus on the cusp of a prolonged period marked by the convergence of an economic upturn, fiscal expansion and structural market integration.

Undervalued, robust and well-positioned for Europe's emerging growth drivers

While many investors continue to focus their attention on Europe's well-known blue chips, valuation and market constellations have emerged within the small and mid cap space that are seldom seen. In relative terms, European small cap valuations are now lower than they've ever been since 2008: Their average forward P/E of 13.6x is less than the ratio for large caps (15.1x) and well below that of US small caps (19.6x). The relative valuation of small vs large caps is at a historic low of almost 0.8x.

That said, the fundamental picture for small caps has improved. Small and mid caps in Europe are carrying much less debt today than the typical large cap stock and their current debt levels are in line with the average historical data, while profitability has clearly increased.

Electrification is a structural driver that will sustain growth for decades to come. Electricity consumption in the US and Europe is projected to nearly double over the next 25 years, driven by electric vehicles,

industrial electrification, reshoring trends, digitalization, and the surge in electricity demand from AI infrastructure and data centers. At the same time, around 25 000 kilometers of electricity transmission projects are awaiting approval in Europe and the Continent needs 33% more high-voltage power lines by 2030. There are many small and mid cap specialists that offer key technologies for this sweeping transformation – Nordex in wind power, for example, or Nexans in cable systems and network solutions and Metso for enhancing resource efficiency, to name but a few.

Bellevue Entrepreneur Europe Small – stellar track record

The small and mid cap segment is still structurally inefficient, despite its allure. This universe numbers around 2500 companies, compared to a mere 300 or so in the large cap universe. It is also more diverse in terms of sectors and small caps are typically followed by far fewer analysts, which makes this universe particularly attractive for active stock pickers, especially those who specialize in fundamental bottom-up research.

This combination of a time-tested investment concept and market structure delivers tangible advantages that are clearly reflected in the long-term performance of the Bellevue Entrepreneur Europe Small Fund: It has consistently ranked in the top quartile of its category since its launch in 2011 and across multiple observation periods too. Over the past three years, the fund has delivered a positive return of 58% compared to a gain of 41% for the MSCI Europe ex UK Small Cap Index. The fund's outperformance can be traced to focused, fundamental stock-picking by international sector specialists with years of experience as well as a diversified mix of investment styles with a clear preference for value and quality. The Bellevue Entrepreneur Europe Small Fund stands for targeted investments in owner-managed companies distinguished by a strong entrepreneurial spirit and a long-term mindset, a solid balance sheet and strong innovation skills.

Visit our [website](#) for more information.

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