

Market commentary of June 05, 2025

## «European small and mid caps chewing up granolas for breakfast»

**European equities have been attracting more attention, also from international investors. Given the growing uncertainty at the global level, continental European stocks offer diversification advantages and attractive valuations. Birgitte Olsen, Head of Entrepreneur Investments and Portfolio Manager at Bellevue Asset Management, explains why European small and mid caps are such a compelling investment proposition – and why Bellevue's stock selection process has been so successful.**

### **European renaissance – positive capital flows and tailwinds**

European equities are staging a remarkable comeback in the face of growing geopolitical tension and trade conflicts. After three years of clearly negative capital flows, investors are now returning to the European market: As of the end of April 2025, European equities showed a net inflow of more than EUR 20 bn.

Valuations are attractive: The MSCI Europe is trading on a forward P/E of approx. 13x compared to a multiple of 21x for the S&P 500 – which corresponds to a discount of nearly 40%. European equities also offer a higher dividend yield of just over 3.5%.

As for public spending, Europe – Germany in particular – has embarked on a new chapter. Europe is boosting its defense spending after 30 years of structural underinvestment. In view of the sudden shift in security dynamics, NATO's target of spending 2% of GDP on defense is woefully inadequate. A higher target of 3.5% to 4% is conceivable. Public spending on infrastructure and digitalization is also being increased. These developments lay a solid foundation for economic growth.

The general environment for companies and investors is also improving: The ECB has flagged more interest rate cuts as inflation continues to trend lower thanks to declining energy prices and moderate wage pressure.

European indexes have a strong home bias due to their sectoral composition – less tech, more manufacturing and financials – and this makes them less vulnerable to tariff-related uncertainty.

### **Small and mid caps – underweighted, undervalued and outperforming**

Europe's small and mid cap stocks are even more appealing than the broader European market. In recent years investors showed a clear preference for European heavyweights, the so-called GRANOLAS, over small and mid cap stocks, which pushed the latter's valuations to levels last seen during the height of the financial crisis in 2008.

There are several reasons why investors could change their minds now. What is true for European equities in general is even more true for SMID stocks. The latter are often hidden champions with strong local roots that are less dependent on complex supply chains that span the globe. European small and mid caps are characterized by clearly focused business models, high levels of innovation and a strong commitment to quality – characteristics that are particularly attractive in today's era of increasing volatility and deglobalization.

Continental European small and mid caps as measured by the MSCI Europe Small ex UK index have returned 12.7% from January 1 to the end of May, compared to 10.1% for Stoxx in 600, 7.8% for the Stoxx 50 and -7.9% for the S&P 500 (where almost half of the underperformance can be traced to the weak USD).

### **Bellevue Entrepreneur Europe Small – agile investor with an entrepreneurial spirit**

The Bellevue Entrepreneur Europe Small Fund invests specifically in owner-managed companies that have an entrepreneurial and long-term mindset, a solid balance sheet and a strong record of innovation.

The fund's management team has a distinctive investment approach, agnostic in style and guided by fundamentals. Both growth and value stocks can be found in the fund's portfolio. This enhances diversification and enables the fund to generate more consistent returns across different market phases and interest rate cycles. Every investment candidate is meticulously analyzed, from its business strategy and cash flows to its valuation metrics, and in meetings with company executives, with the ultimate aim of building a robust and diversified high-conviction portfolio.

The results speak for themselves: Since the beginning of the year (through May 30, 2025), the fund has returned 13.8%, clearly outperforming the total market. The fund also ranks among the top-performing funds in its peer group over 3, 5 and 10 years. An experienced management team with a deep understanding of SMID stocks ensures that investment opportunities in this often overlooked and underestimated market segment are identified at an early stage and exploited.

### **Conclusion**

Europe's small and mid caps are catching up performance-wise. Attractive valuations, structural competitive advantages and growing economic tailwinds make the SMID asset class a promising add-on to professional investors' portfolios. The Bellevue Entrepreneur Europe Small Fund, with its solid investment portfolio and strong performance track record, is ideal for capturing this potential.

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

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### **Bellevue – Excellence in Specialty Investments**

Bellevue is a specialized asset manager listed on the SIX Swiss Exchange with core competencies covering healthcare strategies, entrepreneur strategies, alternative and traditional investment strategies. Established in 1993, Bellevue, a House of Investment Ideas staffed by 90 professionals, generates attractive investment returns and creates value added for clients and shareholders alike. Bellevue managed CHF 5.8 bn in assets as of December 31, 2024.

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