



**CIO Insights**

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# **Crisis Breeds Opportunities**

*A Tactical Guide to Europe*

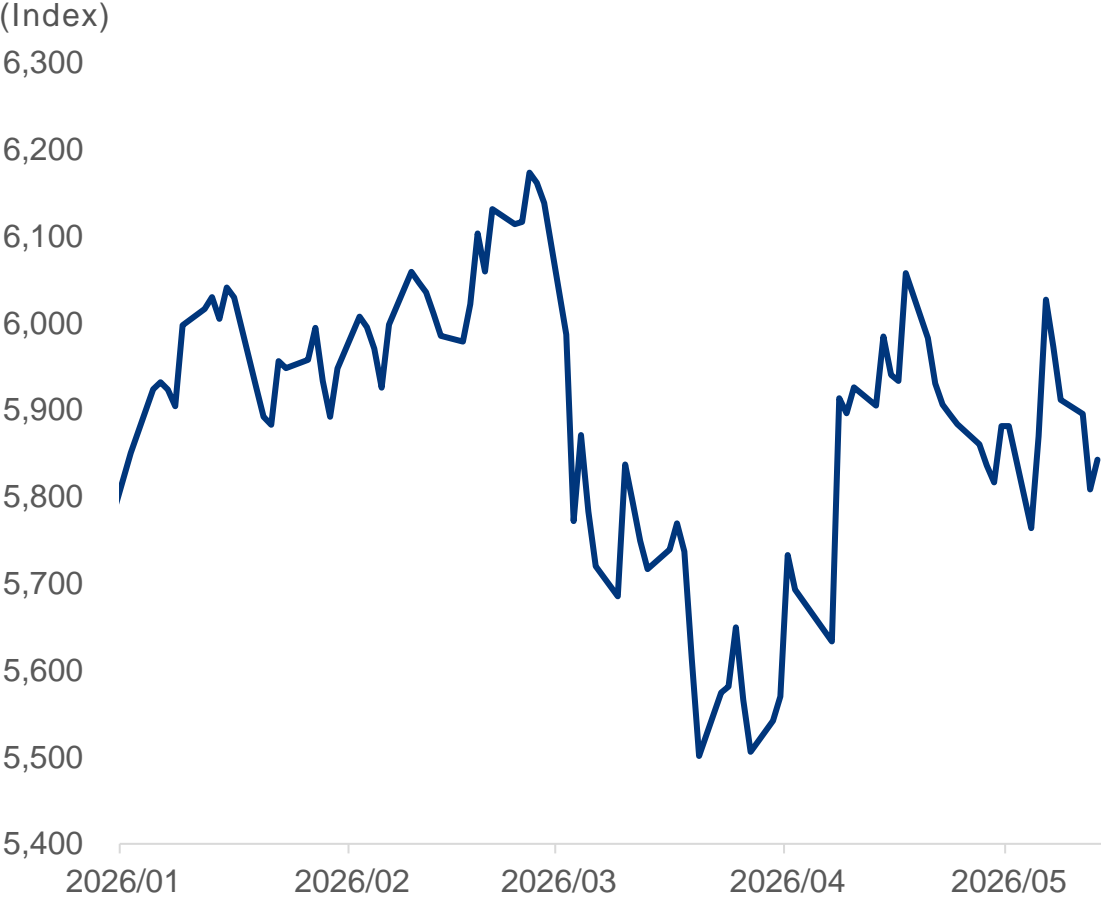
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# Europe Underperformed Since the War in Iran

## Should We Completely Ignore Europe?

### EURO STOXX 50 Index



### EUR/USD



Source: Bloomberg, KGI

# The Multi-Front Challenge

## Crisis Breeds Opportunities

### ■ US-Europe Friction

US-Europe Friction: Relations have hit a post-war low. The US "Greenland Purchase" rhetoric and the subsequent 25% tariff threats have signaled a shift from an alliance to a transactional, and at times hostile, competition. The distrust between NATO and the US is mounting. The EU has made a decision to postpone any NATO summits as long as Trump remains the President of the US.

### ■ The Iran Energy Crisis

The ongoing war in Iran has paralyzed the Strait of Hormuz. With ~12 million barrels of oil and significant LNG shipments blocked daily, Europe faces a "Second Energy Shock," spiking industrial costs. The rising inflation expectation push the possibility of interest rate hike to move higher – potentially hurting the infancy of the economic recovery in some economies.

### ■ The Russian Hybrid Threat

The NATO cannot rely on the US as an ally to deter the Russian anymore. While large-scale conventional war is stalled, Russia has pivoted to "Sub-threshold Warfare"—targeting subsea cables, GPS signals, and EU power grids to destabilize the investment climate. The added defense budget in Europe is adding burden to the already weak fiscal situation.

# Strategic Autonomy – The 2026 Pivot to Sovereignty

## Financial Independence: The Savings & Investments Union (SIU)

### ■ The Transition

The EU has evolved the "Capital Markets Union" (CMU) into the more aggressive Savings & Investments Union (SIU) as of March 2025.

### ■ The €33 Trillion Prize

The goal is to unlock Europe's massive household wealth – 40% of which sits in low-yield bank deposits – and redirect it into high-growth EU sectors (Defense, AI, Green Energy). As compared to the US, only 13% of household wealth is held in bank deposit.

### ■ Investment Implication

By standardizing insolvency and tax laws via the European Innovation Act, the EU is reducing the "Home Bias," making cross-border venture capital easier and reducing reliance on the US Dollar for growth funding.

# Strategic Autonomy – The 2026 Pivot to Sovereignty

## Industrial Resilience: Defense & Tech Sovereignty

- **Unified Defense Procurement**  
Shifting from 27 fragmented markets to a "Fleet-Based" approach.
- **Strategic Incentives**  
The EDIRPA (Procurement Act) and the ASAP 2.0 (Act in Support of Ammunition Production) are channeling €1.5bn+ specifically into home-grown leaders like Saab (Sweden), Rheinmetall (Germany), and Dassault (France).
- **Sovereign AI Ecosystems**  
Building a decentralized "Compute Backbone" of localized, edge data centers to ensure "Digital Sovereignty" – keeping industrial and government data under EU legal jurisdiction.
- **Regulatory Edge**  
Leveraging the EU AI Act not just for safety, but as a standard-setter to attract "Privacy-First" global investment.

# Strategic Autonomy – The 2026 Pivot to Sovereignty

## Energy Security: The SMR & Hydrogen Roadmap

- **Small Modular Reactors (SMRs)**

Following the March 2026 Strategy, the EU is fast-tracking the first fleet of European SMRs. These are factory-built, transportable nuclear units designed to provide stable power for high-demand "AI Valleys."

- **Hydrogen Independence**

Accelerating the rollout of green hydrogen to decouple industrial manufacturing (Steel, Chemicals) from the volatile Middle Eastern energy corridor.

- **The "SMR Valley" Concept**

New industrial zones where SMRs provide co-located, carbon-free heat and power for local industry, ensuring 24/7 uptime regardless of geopolitical shocks.

# European Countries at a Glance

**UK: Avoid Gilt Focus on Banks. Germany: Avoid Auto Exporters Focus on Defense**

## UK

### Challenges

Gilt yields are at 28-year highs (near 5.8%) as markets question fiscal discipline. Public debt is nearing 100% of GDP, and the tax-to-GDP ratio is at a post-war high (38%).

### Opportunities

The UK remains a global leader in Green Finance and Life Sciences. A potential "stabilization" play exists if the government can commit to long-term infrastructure over short-term spending.

## Germany

### Challenges

The 2025 "Debt Brake" reform allowed for more spending, but growth remains sluggish (~1.0%). US tariffs on autos are a direct hit to the core export engine.

### Opportunities

The newly created €500bn Infrastructure & Climate Fund (SFIC) is a massive catalyst for construction, renewable energy, and defense technology investments within Germany.

# European Countries at a Glance

## France: Avoid Auto Focus on AI/Tech and Energy.

### France

#### Challenges

A massive financing requirement of €305.7bn for 2026 and a deficit of €124.4bn. Debt service costs have ballooned to nearly €60bn.

#### Opportunities

France is the leader in the European AI movement and possesses the most stable energy price ceiling in the EU due to its nuclear dominance. It is the "defensive" play among the big three economies.

### Italy

#### Challenges

Chronic high public debt and a shrinking workforce due to demographics.

#### Opportunities

GDP is holding steady (~0.8%) driven by NRRP (National Recovery Plan) projects. Italy has shown surprising resilience in high-end manufacturing and is becoming a southern hub for Mediterranean energy transit.

# European Countries at a Glance

**Spain: Focus on Energy. The Netherlands: Focus on Tech**

## Spain

### Challenges

Structural housing shortages and productivity bottlenecks in certain regions.

### Opportunities

Expected to grow at 2.4% in 2026, outperforming the EU average. Its de-leveraged private sector and status as a Green Hydrogen hub make it a top destination for FDI.

## The Netherlands

### Challenges

Severe labor shortages and "Grid Congestion" (electricity limits) are halting industrial expansion.

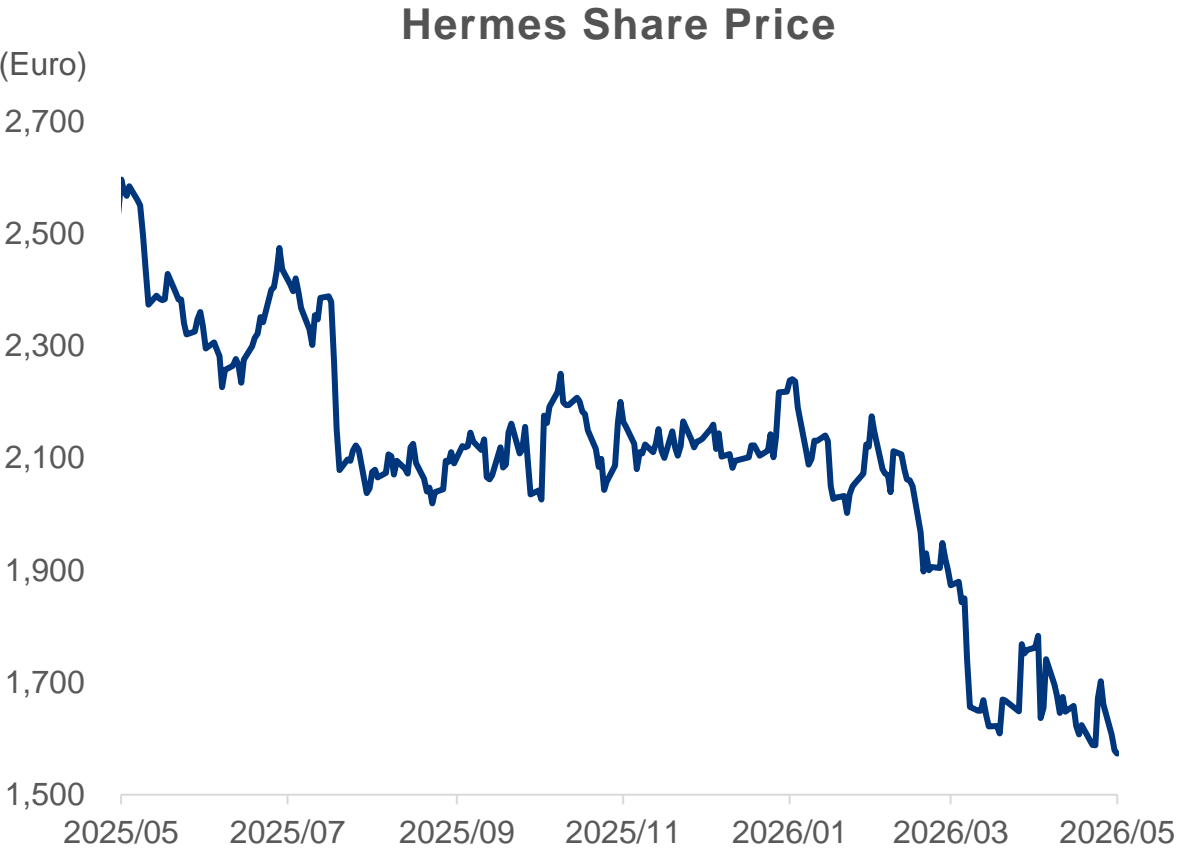
### Opportunities

High-tech leadership (ASML/Semiconductors) remains a moat. The government is pivoting to a "Defense & Housing" economy, with public debt still relatively low at 48% of GDP.

# European Luxury Is a Casualty of the War in Iran

## China, Which Accounts the Major Chunk of Their Revenue, Is Recovering on Track

LVMH and Hermes are trading at 19% and 30% discount to their 5-year average valuation respectively. The two luxury names are ideal candidates for a possibility reopening of the Middle East.



Source: Bloomberg, KGI



# Investment Strategies

## Buy Defense Tech, Energy And AI/Tech

### What to Invest?

- EU Defense Tech: Firms benefiting from the €1bn EU Defense Fund, e.g. Rheinmetall AG (RHM:GR), Saab AB (SAAB-B:SS), Thales SA (HO:FP), Dassault Aviation (AM:FP).
- Spanish Energy: Infrastructure linked to the green transition, e.g. Iberdrola (IBE:SM), Enagás (ENG:SM), Moeve (Formerly Cepsa).
- French AI & Tech: Companies within the "Sovereign AI" ecosystem, e.g. OVHcloud (OVH:FP), Schneider Electric (SU:FP)

### What to Avoid?

- UK Gilts: Until fiscal credibility is restored and yields stabilize.
- German Auto Exports: Highly vulnerable to US-China-EU tariff triangles, e.g. Volkswagen AG (VOW3:GR) & BMW (BMW:GR)
- Energy-Intensive SMEs: Any firm without a 2026-ready energy hedging strategy.

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