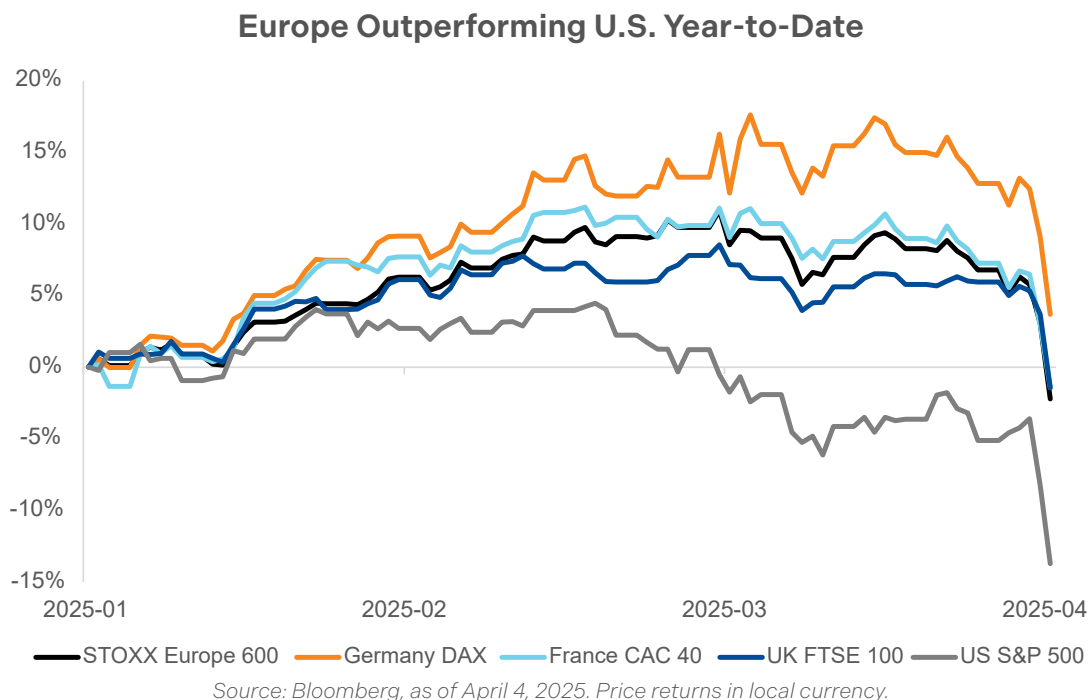


Funds in focus: [Brompton European Dividend Growth ETF \(EDGF\)](#)

After a prolonged period of “U.S. exceptionalism”, European equity markets started the year with robust outperformance relative to the U.S. As of April 4, 2025, the STOXX 600 Index is down 2.2% year-to-date led by Germany’s DAX Index, which is up 3.7%. The S&P 500 Index is down 13.7% over the same period. Continued monetary easing, improved earnings momentum and Germany’s unprecedented fiscal packages are behind the recent revival in European equities. Conversely, the U.S. market volatility surged on the back of tariff fears and the unwinding of the big tech trade, resulting in underperformance. While challenges remain, we see several factors that should keep boosting sentiment towards European stocks.



Germany's Bold Spending Plan Sparks European Market Rally

One of the major drivers behind Europe’s recent outperformance is the momentous defense and infrastructure spending plan proposed by the new German government. This package, approved by both houses of parliament, allows defense spending above 1% of GDP to be exempted from the debt brake and offers greater borrowing flexibility at both federal and state levels¹. Morgan Stanley research estimates that defense spending could range between €720 billion and €985 billion depending on the speed of ramp-up and defense budget as a percentage of GDP¹. Additionally, the plan includes a clearly stated €500 billion for infrastructure spending over 12 years. In any case, the total spending envelope is much larger than the market expected. In response, Germany’s DAX Index has outperformed, bolstered particularly by aerospace & defense stocks. We believe this fiscal pivot marks a dramatic turn for Germany, a country traditionally focused on maintaining fiscal austerity. The move could become a game changer for not only Germany but also the broader European economy in the next 5 years and beyond, potentially boosting economic activities, capital expenditures, and regaining investor confidence in the continent.

Scenarios for Potential Size of Germany’s Additional Defense Spending Through 2035

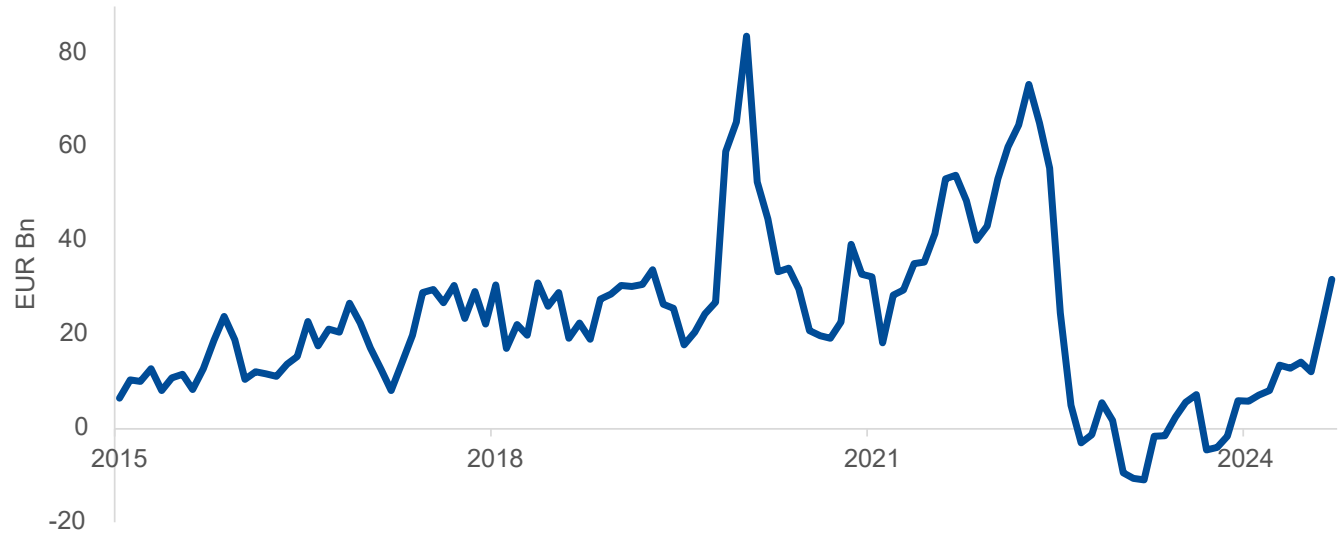
		Spending target (% GDP)	
		3%	3.50%
Speed of ramp up	5 years	825bn	985bn
	10 years	720bn	745bn

Source: Morgan Stanley Research, March 5, 2025. In cumulative nominal euros.

ECB's Rate Cuts and Regulatory Delays Boost European Banking Sector

Monetary policy in the Euro Area has also become more favourable. The European Central Bank (ECB) has reduced the policy rate from 4.5% to 2.65% in less than 12 months², while inflation has cooled and stabilized at 2.3% as of February³. This has significantly encouraged credit growth. Bank lending to households and non-financial corporations shows promising signs of acceleration after recovery from a contraction in 2023, as shown in the chart below. Furthermore, there is growing advocacy for relaxing European bank capital rules. The European Commission has postponed the implementation of the Fundamental Review of the Trading Book (FRTB) to 2026 and may delay it even further⁴. With regulatory headwinds delayed, the European lenders are expected to see less pressure on capital requirements and a positive impact on earnings. These should continue to serve as tailwinds for the European banking sector and broader business growth in Europe.

Euro Area Bank Loans to Households & Non-Financial Business

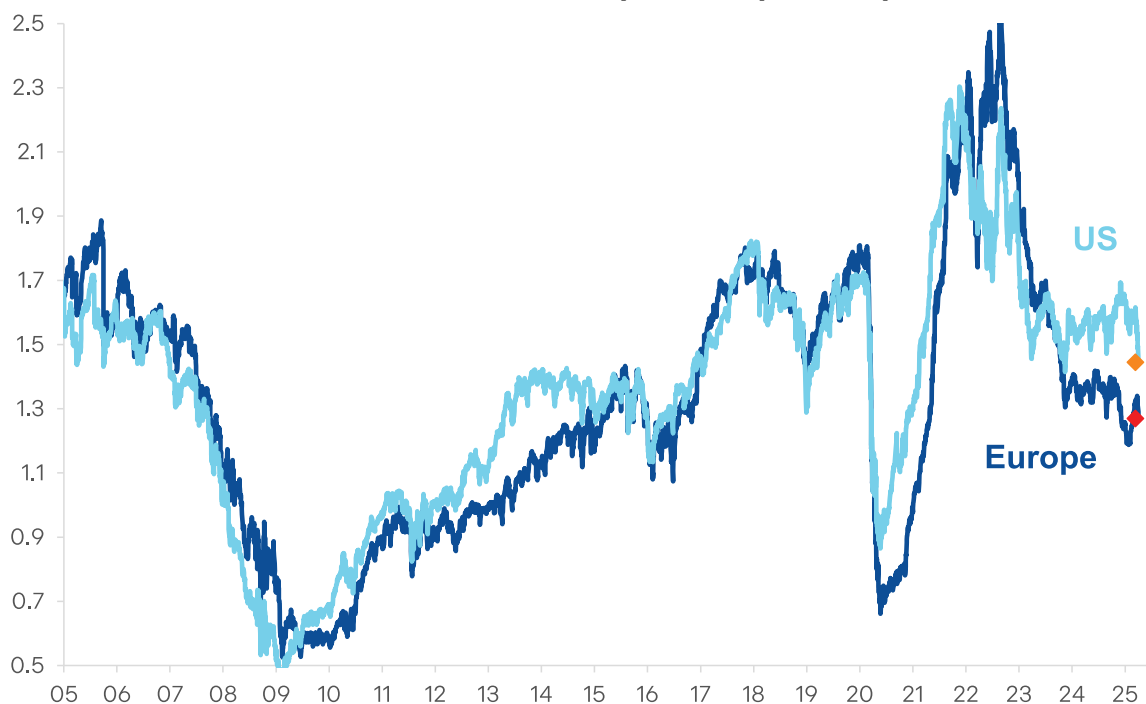


Source: ECB, as of January 31, 2025. Shown as 3-month moving average, seasonally adjusted.

Valuation Discounts Enhance Risk-Reward Profile for European Equities

Apart from fiscal and monetary optimism, valuations also support a better risk-reward profile for European equities. For the past decade, the valuation discount between Europe and U.S. equities has deepened on the back of robust U.S. earnings growth post the Great Financial Crisis. And the main driver behind this is the strong profitability of the U.S. Technology sector amidst an ultra-low-interest rate environment. However, recent developments suggest that earnings growth for U.S. mega-cap tech companies could moderate, potentially dragging index performance due to the sector’s dominant weight. The divergence in price/earnings-to-growth (PEG) ratios between the U.S. and Europe since 2024, as shown in the chart below, indicates that Europe looks particularly cheap even after recent multiple expansion. While extreme valuations alone are seldom the primary cause of significant market price shifts, they can magnify the speed of price moves when fundamentals shift⁵.

The PEG Ratio Between U.S. and Europe Has Opened up in Recent Years



Source: Goldman Sachs, March 13, 2025.

Allocating to European Equities Can Help Mitigate Concentration Risk

The bottom line is investors should construct a geographically and sector diversified portfolio to improve risk-adjusted returns, as concentration risks arise. But there is still a long way to go — overall investor holdings are still very concentrated in U.S. equities. For example, the U.S. accounts for almost 66% of the MSCI All Country World Index, and the U.S. equity market performance is largely governed by a few mega-cap tech stocks.

Granted, European equities remain highly sensitive to global growth trends, which are not immune to a weakening of economic growth. An escalation of the trade war between the U.S. and Europe would inevitably overshadow the growth outlook for both. Moreover, President Trump campaigned on his prowess as a dealmaker to negotiate a peace deal between Russia and Ukraine. What's happening in Europe shows that the continent has become more pragmatic with less red tape. With the growing need for diversification, we recommend investors increase their exposure to European equities.

Brompton's Approach

Brompton European Dividend Growth ETF (EDGF) invests in actively managed portfolio of large cap European dividend growth companies. These companies tend to be leaders in their respective segments. Their strong market positions allow them to remain resilient in times of uncertainty and their operational scale drives strong economics. EDGF offers attractive monthly distributions and employs an active covered call writing program to generate additional income and reduce overall portfolio volatility.

¹Morgan Stanley Research “Whatever It Takes, German Edition”, March 5, 2025

²European Central Bank, as of March 27, 2025.

³Eurostat, February 2025.

⁴Bloomberg News <https://www.bloomberg.com/news/articles/2025-02-28/european-union-poised-to-ask-banks-about-delaying-capital-rules>

⁵Goldman Sachs Portfolio Strategy Research “Magnificent Diversification”, March 13, 2025

This report is for information purposes only and does not constitute an offer to sell or a solicitation to buy the securities referred to herein. The opinions contained in this report are solely those of Brompton Funds Limited (“BFL”) and are subject to change without notice. BFL makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, BFL assumes no responsibility for any losses or damages, whether direct or indirect which arise from the use of this information. BFL is under no obligation to update the information contained herein. The information should not be regarded as a substitute for the exercise of your own judgment. Please read the prospectus before investing.

Commissions, trailing commissions, management fees and expenses all may be associated with exchange-traded fund investments. Please read the prospectus before investing. Exchange-traded funds are not guaranteed, their values change frequently and past performance may not be repeated.

Information contained in this document was published at a specific point in time. Upon publication, it is believed to be accurate and reliable, however, we cannot guarantee that it is complete or current at all times. Certain statements contained in this document constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information may relate to matters disclosed in this document and to other matters identified in public filings relating to the fund, to the future outlook of the fund and anticipated events or results and may include statements regarding the future financial performance of the fund. In some cases, forward-looking information can be identified by terms such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “estimate”, “predict”, “potential”, “continue” or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information. Investors should not place undue reliance on forward-looking statements. These forward looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.

BROMPTON
FUNDS

VALUE
INTEGRITY
PERFORMANCE
THE FOUNDATION FOR EXCELLENCE

Investor Relations
PHONE 416.642.6000
TOLL FREE 1.866.642.6001
FAX 416.642.6001
info@bromptongroup.com
www.bromptongroup.com

Address
Bay Wellington Tower,
Brookfield Place
181 Bay Street
Suite 2930, Box 793
Toronto, Ontario M5J 2T3