



INTERNATIONAL EQUITIES

Guess who's beating the Magnificent 7?

Samir Parekh

September 11, 2025

If you were hunting for a group of stocks to dethrone the Magnificent Seven ("Mag Seven"), there's a good chance European banks weren't at the top of your list. But looking at returns over the past 12 months and on a year-to-date basis, that's exactly what happened.

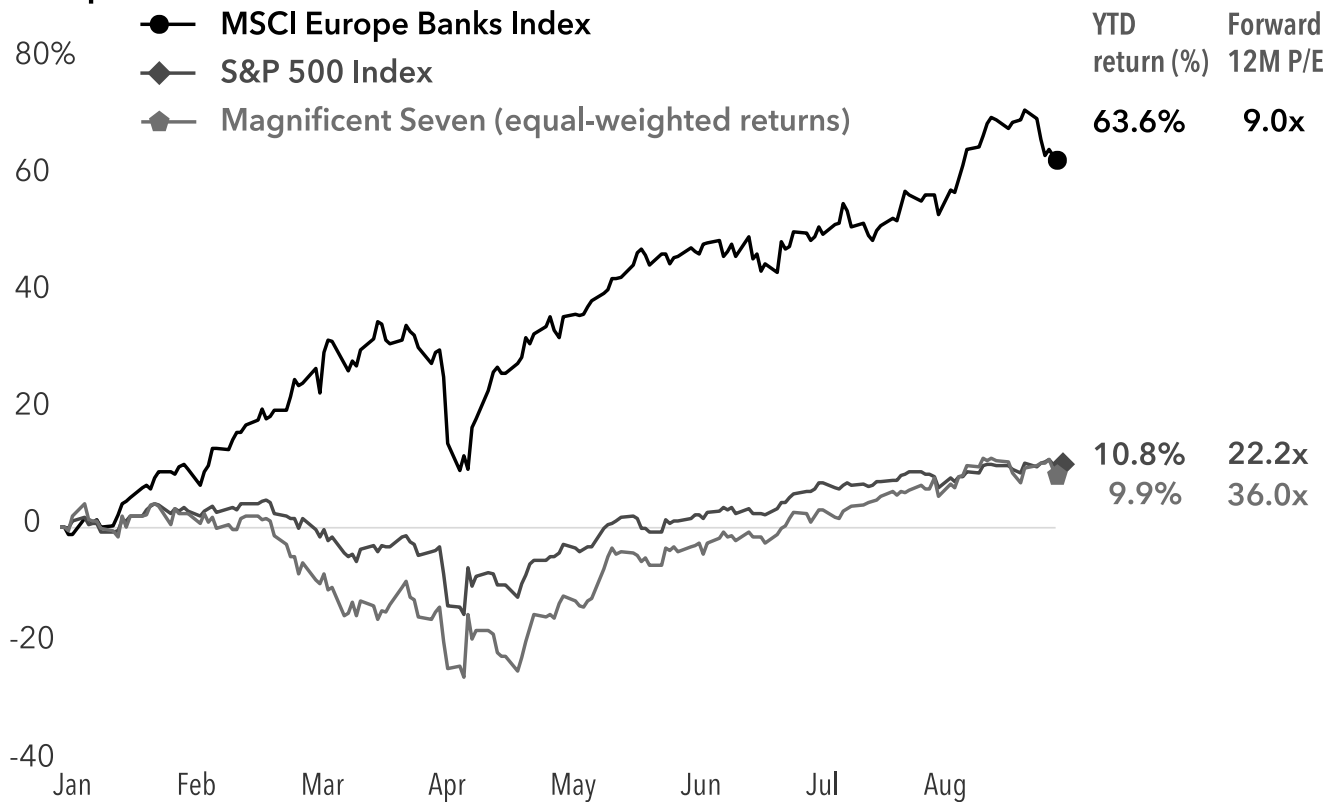
European banks have had a stellar run, significantly outpacing the Mag Seven group of U.S. technology leaders and the S&P 500 Index. The MSCI Europe Banks Index has returned 63.6% through August, on track for its best calendar year since 1997. By comparison, the Mag Seven returned 9.9%.

Admittedly, this is a short period, but it's a good reminder of the benefits of a broadly diversified portfolio. Even the most maligned sectors can rebound, and they often do at times when beloved areas of the market are pulling back, helping to smooth out overall returns.

Feedback



European bank stocks have dominated in 2025



Sources: Capital Group, FactSet, RIMES. P/E = price-to-earnings. Return figures are based on total returns in USD. Data from January 1, 2025, through August 29, 2025. The forward price-to-earnings ratio (P/E) is computed by dividing the stock price by the consensus forward 12-month earnings estimates. Forward P/E ratio for the Mag Seven is the market-cap weighted average as of August 29, 2025.

Feedback

As a portfolio manager on some of Capital Group's international strategies, I recognized the opportunity in 2022, when I believed interest rates in Europe would increase due to the potential for persistent inflation in the wake of the COVID-19 pandemic, the reshoring of manufacturing activity in many countries and Russia's invasion of Ukraine.

At that time, many European banks were out of favor. They traded 30% to 60% below book value – a massive discount to large U.S. banks. Higher interest rates can be beneficial to banks because they lead to higher net interest income – a significant revenue stream for banks and a key indicator of their financial health.

The rise of European banks comes amid a broader [rally for international stocks](#), helped by large-scale German stimulus, a weakened U.S. dollar and concerns about the outsized positions held by certain U.S. technology stocks in global market indices.



Here are five reasons European banks are back in favor, and why I believe they continue to look attractive.

1. A normal interest rate environment

Banks have endured eight years of negative interest rates from the European Central Bank (ECB). The policy changed in July 2022, and it's helped boost net interest income. Rates rose to 4% before the ECB began to loosen monetary policy this year. But I think this rate-cutting cycle is near an end. Current rates are at 2%. The yield curve is steeper (which is favorable for banks) and forward rate expectations have also stabilized. As I said, my view is that inflation will be persistent. Typically, central banks keep rates higher to blunt inflation.

2. Regulatory burdens have eased

Banks amassed significant capital reserves in the wake of the sovereign debt crisis, and regulators have lowered certain threshold requirements. One outcome has been growing dividend payouts. For example, Italian bank UniCredit increased its annual dividend to \$2.40 a share in 2024, up from 12 cents in 2020. Also, Spanish bank BBVA's current annualized dividend of \$0.74 is up 1.4% from last year.



U.S. vs. international equities: Is the tide turning?

Thursday, September 25 | 11 AM PT/2 PM ET

SAVE YOUR SEAT →

3. Loan growth is picking up

We are starting to see signs of loan growth, something virtually unheard of since the 2010 European sovereign debt crisis that triggered financial bailouts for several countries. As German stimulus is unleashed moving into 2026, I would anticipate loan growth to accelerate across Europe, particularly in Germany. I also don't anticipate loan losses will be an issue.

4. Tariff risks are low

In contrast to the automotive sector, many European banks are domestically focused, conducting their operations primarily at the country level. They are not trading physical goods from one country to another.

5. Valuations are reasonable

Despite the rally, European banks trade at reasonable valuations given what is expected to be a reacceleration of economic growth across Europe. Earnings estimates for 2025 and 2026 have also increased.

Valuations are also not demanding compared to their U.S. counterparts on a price-to-book and price-to-earnings basis. For example, as of September 9, Deutsche Bank was trading at 0.9 times book value and Banco Santander at 1.2 times, versus 2.4 times for J.P. Morgan and 1.4 for Bank of America.

The importance of a globally diversified portfolio

The remarkable run of European banks is a good reminder to consider a globally diversified portfolio and maintain a long-term perspective. As the equity market continues to broaden, we may find that even the most unlikely suspects can add value.

[Read important disclosures](#)

***Samir Parekh** is an equity portfolio manager and a global research coordinator with 23 years of investment industry experience (as of 12/31/2024). He holds a post-graduate diploma in business administration (equivalent to an MBA) from the Indian Institute of Management, Ahmedabad, and a bachelor's degree from Sydenham College, Bombay University. He also holds the Chartered Financial Analyst® designation.*

Past results are not predictive of results in future periods.

The Magnificent Seven stocks consist of Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA and Tesla.

The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

MSCI Europe Banks Index is composed of large- and mid-cap stocks across Developed Markets countries in Europe. All securities in the index are classified in the Banks industry group (within the financials sector) according to the Global Industry Classification Standards (GICS®).

S&P 500 Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collective "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)



The S&P 500 Index is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by Capital Group. Copyright © 2025 S&P Dow Jones Indices LLC, a division of S&P Global, and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part is prohibited without written permission of S&P Dow Jones Indices LLC.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the [mutual fund prospectuses and summary prospectuses](#), which can be obtained from a financial professional and should be read carefully before investing.

Statements attributed to an individual represent the opinions of that individual as of the date published and do not necessarily reflect the opinions of Capital Group or its affiliates. This information is intended to highlight issues and should not be considered advice, an endorsement or a recommendation.

All Capital Group trademarks mentioned are owned by The Capital Group Companies, Inc., an affiliated company or fund. All other company and product names mentioned are the property of their respective companies.

Use of this website is intended for U.S. residents only. Use of this website and materials is also subject to approval by your home office.

Capital Client Group, Inc.

This content, developed by Capital Group, home of American Funds, should not be used as a primary basis for investment decisions and is not intended to serve as impartial investment or fiduciary advice.

Feedback

