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INVESTMENTS

# Repricing Fortress Europe in the Age of the Defence Supercycle

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MARKETING COMMUNICATION FOR PROFESSIONAL INVESTORS IN IT, FR, AU, DE, ES, PT, LU  
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Anis LAHLOU

Portfolio Manager and CIO European Equities at Aperture Investors, part of Generali Investments

*We are in the early stages of a structural revaluation in European equities, says Anis Lahlou – Portfolio Manager and CIO European Equities at Aperture Investors, part of Generali Investments – driven by a repricing in sectors that were long ignored: defence, energy infrastructure, telecoms, and even banking.*

- *There's an ongoing debate around the rotation from US to European equities. So far, it's more narrative than reality. Yet, the European market has quietly outperformed year-to-date. Meanwhile, the S&P has rebounded sharply since Liberation Day but remains behind Europe overall.*
- *Our view is that Europe's equity markets aren't just bouncing – they're evolving. Defence, infrastructure, energy, and digital sovereignty are no longer peripheral themes, but are central to a new European equity story.*
- *The incoming trillion-euro European stimulus will hit the real economy towards the end of 2025 and into 2026. This may offer some good opportunities to reposition away from a US-centric exposure and toward the repricing of Europe.*

## EUROPE IS UNDERGOING A STRUCTURAL REVALUATION, NOT JUST A RALLY

2025 has been a powerful reminder that markets often pivot when least expected. Despite headline-grabbing volatility – from sudden tariff shocks to renewed geopolitical tensions – equities have remained remarkably resilient, with Europe leading global returns in both local and dollar terms.

This resilience in European equities with hindsight was not accidental. It reflects, in our opinion, a deeper shift underway: the emergence of Europe not merely as a value trade, but as a strategic allocation grounded in fiscal ambition, sectoral repricing, and policy clarity.

In fact, we believe we are at the early stages of a structural revaluation of European assets. Sovereignty in sectors like defence, infrastructure, energy, and digital are no longer peripheral themes – they are central to a new European equity story.

Interestingly, in our view the only real inflows we've seen into European equities have been passive, largely targeted at banks. They've essentially become an asset class in their own right. Investors waited for performance before committing, and once they saw results, they moved. I believe broader European equities are on the verge of a similar trajectory.

Against this backdrop, our disciplined focus on fundamental research and active positioning has allowed us to successfully navigate macro swings while leaning into multi-year secular trends.

## FROM FORGOTTEN SECTORS TO STRATEGIC ASSETS

This structural revaluation is being driven by repricing in sectors that were long ignored: defence, energy infrastructure, telecoms, and even banking. What they share is not a common theme, but a common catalyst – Europe's pursuit of strategic autonomy and industrial reinvention.

This moment offers a textbook case of behavioural finance – our core investment philosophy. For over 20 years, European markets have underperformed. That history has built a muscle memory of pessimism. Investors instinctively overweight the negative and discount any sign of change. But the situation is evolving.

A clear precedent is the rerating of European banks. Once trading on 1.5–2x earnings, some of the region's most unloved names now trade closer to 9x, buoyed by rising interest rates, repaired balance sheets, and generous capital returns. That transformation wasn't driven by just sentiment but by tangible transformation within the sector following the GFC and Eurozone crisis.

## DEFENCE SPENDING ACTS AS FISCAL STIMULUS

The incoming trillion-euro European stimulus – unprecedented in scale – hasn't yet hit the real economy. That will come towards the end of 2025 and into 2026. Already, areas exposed to this stimulus, like defence, have delivered strong returns. And it's important to recognise how this kind of spending works. Defence is fiscal easing by another name. It doesn't just fund tanks, it stimulates entire industrial ecosystems: electronics, engineering, materials. It helps struggling sectors like autos too, with underutilised factories repurposed for defence manufacturing.

This is not just about traditional defence either. Today's defence spending fuels innovation: drone tech, aerospace, low-orbit satellites, dual-use AI. Europe is investing across the board, and that includes the private sector and startups. These shifts are structural and broad-based.

Europe still trades at very low valuations. Meanwhile, the ECB is easing, and a recovery will become more tangible as the stimulus is deployed. Compared to the US where political volatility, elevated valuations, and a narrow margin for error dominate, the case for Europe is growing. Yes, the Fed will cut eventually, and politics may influence the timeline, but the starting point is very different.

Just like with the banks, reratings don't happen in a straight line. UniCredit had a strong run, then moved sideways for a while in the second half of 2023, before continuing upward. The same could unfold at the regional level: moments of pause followed by renewed momentum.

## STOCK STORIES: WHERE STRUCTURAL THEMES MEET FUNDAMENTALS

Several holdings in the Fund demonstrate how these strategic shifts are playing out at the company level.

One of our positions, a leading German supplier of transmission systems for tanks and naval platforms, has seen record order intake on the back



of multi-year defence spending plans. Management has committed to scaling production capacity, funded through internal cash flow, signalling confidence in long-term demand and underscoring Europe's rearmament cycle as a durable investment theme.

Another key contributor in Q2 was a European energy infrastructure leader whose shares rallied after a strong earnings pre-announcement and guidance upgrades. With exposure to grid electrification, gas turbine demand, and industrial decarbonisation, the company is emerging as a cornerstone of Europe's energy transition and sovereignty agenda.

In the precious metals space, a UK-listed miner delivered strong returns, benefiting from a combination of rising gold and silver prices and a strategic divestment that unlocked hidden value. With the dollar under pressure, the stock also served as a portfolio hedge – particularly useful given our exposure to USD earners in technology and semiconductors.

Elsewhere in the portfolio, a European power semiconductor specialist remains a long-term conviction holding. While not a standout in Q2, it is well positioned to benefit from both cyclical recovery in autos and industrials, and secular growth in AI infrastructure, having recently been qualified for use in next-generation data centres.

We also see opportunity in Europe's industrial backbone. A large building materials group in the portfolio trades on a high free cash flow yield and has successfully managed pricing and volume through the cycle. Its investment in carbon capture technology further supports its ability to command a pricing premium in green infrastructure markets.

Finally, in telecoms – a sector long overlooked – we see signs of structural change. One of our holdings, a major incumbent in a core EU market, has benefited from a more constructive regulatory stance, improved pricing dynamics, and increased relevance to sovereign digital infrastructure efforts. It's a classic case of representativeness bias: a fundamentally improving sector still priced as if nothing has changed.

## A PURE STOCK PICKER'S MARKET

Brinson attribution analysis indicates that the Fund's performance in the first half of the year was driven by stock selection. In fact, we gave up a small amount on Asset Allocation. This reflects our conviction in fundamental research and our belief that we are entering a phase where alpha will be found in specifics, rather than in style. The era of buying the Magnificent Seven and calling it a day is over.

## NAVIGATING VOLATILITY WITH FLEXIBLE POSITIONING

In managing risk, we adjust concentration dynamically. During the volatility around April's 'Liberation Day' tariff shock, we cut our top 10 positions from around 50% of the portfolio to 35%, broadening our holdings from 40 to around 50 names. That flexibility is part of how we seek to preserve convexity while leaning into long-term structural change.

## A TURNING POINT FOR EUROPE

In short, Europe's equity markets aren't just bouncing – they're evolving. European equities are repricing, not because they are cheap, but because their role in the global investment landscape is being reconsidered. For investors with capital to deploy, the second half of 2025 may offer some good opportunities to reposition away from a US-centric exposure and toward the repricing of Europe – in the age of the defence supercycle and beyond.

## APERTURE INVESTORS SICAV EUROPEAN INNOVATION **[factsheet]**



<b>Fund manager</b>	Anis Lahlou
<b>AUM</b>	685€ M (end of June '25)
<b>Inception date</b>	17 Dec 2019
<b>Benchmark</b>	MSCI Europe Net Total Return EUR Index
<b>Currency</b>	EUR
<b>Domicile</b>	Luxembourg
<b>Investment manager</b>	Aperture Investors UK, LTD
<b>Management company</b>	Generali Investments Luxembourg S.A.
<b>Risk level SSRI</b>	4/7
<b>SFDR</b>	Article 8

### IMPORTANT INFORMATION

Objective: the Sub-Fund's objective is to generate superior long-term risk adjusted returns in excess of the MSCI Europe Net Total Return EUR Index by investing in a portfolio exposed essentially to European equities and equity-related instruments. The Investment Manager will actively manage the Fund through a bottom-up selection to generate returns on both long and short leg investments. Non-exhaustive list of risks: Market risk, Equity risk, Interest rate risk, Credit risk, Emerging Markets risks, Sustainable finance risks, Derivatives risks. All the costs and risks are detailed in the Prospectus and Key Information Document (KID), that are available at: [www.generali-investments.lu](http://www.generali-investments.lu)

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