Allianz Global Investors

AUGUST 2026

Europe is finally executing

For much of the past decade, investors have been told that Europe had potential. The continent offered attractive valuations, world-class companies and ambitious policy initiatives. Yet potential alone rarely drives equity returns.

What matters is execution. Today, the narrative is changing. Across Europe, investment is moving from policy ambition into physical infrastructure. In the Baltic Sea, the Fehmarnbelt Tunnel project illustrates this shift toward massive, tangible reality. Backed by EU funding through the Connecting Europe Facility, workers are actively casting and submerging the first of 89 massive concrete tunnel elements to form the world's longest immersed tunnel between Denmark and Germany.[1] In the UK, Eastern Green Link 1[2] provides a similar example of infrastructure moving from planning into implementation. Permanent onshore works are under way on a 2 GW subsea electricity link designed to transport renewable power from Scotland to England, with major cable and converter-station contracts already awarded. Like most large-scale infrastructure projects, both initiatives face cost, permitting and delivery challenges. Yet they also illustrate an important shift. Europe's energy transition and cross-border connectivity are increasingly moving from targets and announcements into contracts, construction activity and critical infrastructure assets that can support electrification, energy security and long-term industrial competitiveness.

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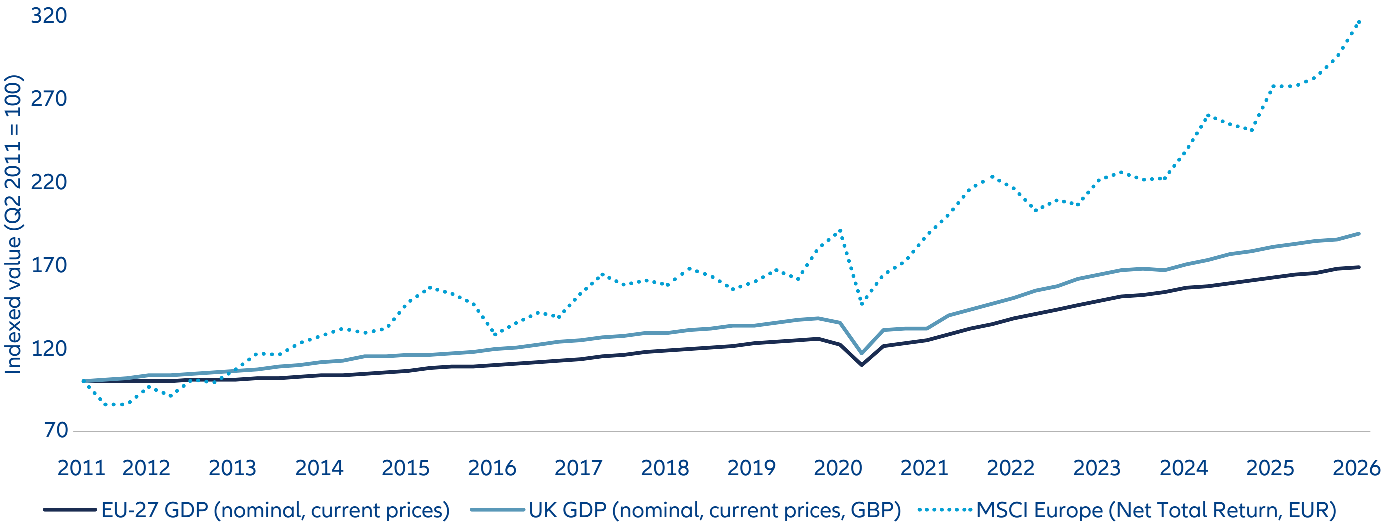
Exhibit 1: The market is starting to reflect what the economy has not yet fully recognised



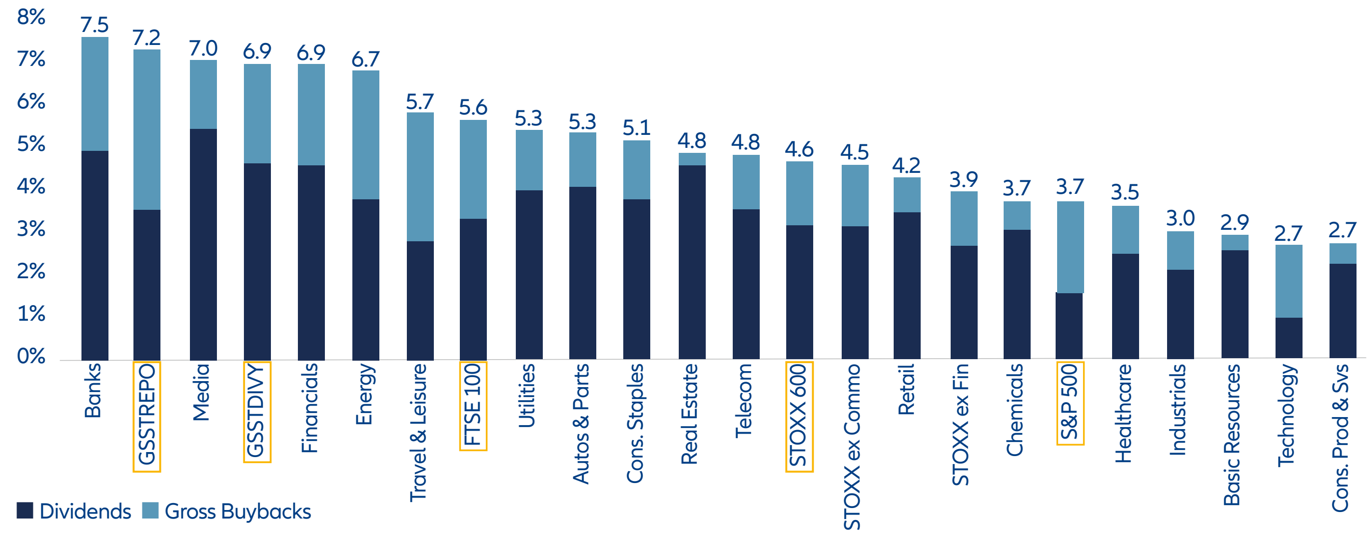
Source: LSEG Datastream (MSCI, ONS); Eurostat, as of July 29, 2026. MSCI Europe Net Total Return Index, nominal gross domestic product (current prices, seasonally and calendar-adjusted) for the EU-27 and the United Kingdom, quarterly, normalized to 100 as of Q2 2011. EU/UK GDP data available through Q1 2026 (Q2 2026 is expected to be released in mid-August 2026); most recent quarters may be subject to revision. Past performance is not a reliable indicator of future returns.

Previous discussions around European equities often focused on valuations, dividend resilience or sector opportunities. Those factors remain important. However, the more relevant question today may be different. What happens when Europe starts delivering on the investments it has already committed to? Financial markets often recognise structural change long before it becomes fully visible in economic data.

Over time, European nominal GDP has continued to grow steadily, reflecting the expansion of the real economy. Equity markets, however, have compounded at a meaningfully faster pace. The relationship illustrates an important principle of long-term investing. Successful companies do not merely participate in economic growth, they amplify it through productivity gains, innovation, pricing power and capital discipline. For investors, the stock market has historically captured far more value than economic activity alone.

Today, this observation is becoming increasingly relevant. Across Europe, investment programmes are moving from announcement to implementation. Infrastructure projects are being funded, electricity grids are being modernised, industrial policy is becoming more coordinated and capital is increasingly being directed towards strategic areas of the economy. Europe is no longer defined solely by future potential. Increasingly, the focus is shifting from what Europe could become to what Europe is already delivering. European economies have remained resilient despite continued tensions in the Middle East, while corporate earnings have surprised positively in recent quarters. Companies in the STOXX Europe 600 reported earnings growth of around 22.4%,[3] the strongest increase since late 2022. At the same time, Eurozone growth expectations for the year have been revised upwards from 0.5% to 0.8%[4] after economic activity proved stronger than anticipated. While regional differences remain, with countries such as Spain continuing to outperform and Germany recovering more gradually, these developments suggest that the benefits of higher investment and stronger policy coordination may already be starting to filter through to the broader economy.

Exhibit 2: Companies in the STOXX 600 return c.5% of their market capitalisation annually through dividends and buybacks



LTM Total Shareholder Yield (%) – European sectors

Source: Datastream, FactSet, Goldman Sachs Global Investment Research, 24 June 2026

Europe's new shareholder era

While Europe's investment story increasingly attracts attention, an equally important development is taking place at the corporate level. European companies are returning substantial amounts of capital to investors through a combination of dividends and share buybacks. Across the STOXX Europe 600, shareholder distributions amount to roughly 5% of market capitalisation per year, highlighting the scale of cash returned to shareholders. European banks stand out as particularly significant contributors to overall shareholder yield.

This is an important distinction. Investors are not only participating in Europe's investment cycle through future earnings growth. They are also receiving a meaningful share of today's cash flows. In a market environment where growth expectations can change rapidly, shareholder distributions provide a tangible component of return that is less dependent on future forecasts and more closely linked to realised corporate profitability.

Getting paid for execution

The appeal of European dividend investing today is therefore not simply about income. It is about participating in a region that is increasingly moving from aspiration to implementation while receiving a meaningful share of corporate cash flows in the process. **Dividend investing is often associated with defensive investing. Today, it may equally be viewed as a way to participate in Europe's execution story.** As investment plans become projects, projects become orders and orders become earnings, dividends provide a direct link between economic progress and shareholder returns. Importantly, dividends are not based on future potential alone. They are typically funded by profits and cash flows generated today. While equity valuations often reflect expectations about what companies might achieve in the future, dividends represent a tangible share of value already created and returned to shareholders.

Investors do not need Europe to become the fastest-growing region in the world. They simply need Europe to continue executing. If the past years were about potential, the next ones may increasingly be about delivery. And for dividend investors, that delivery may come with a cash payment attached.

[1] European Commission, "21-EU-TG-Fehmarnbelt Tunnel Project Fact Sheet", EU Funding & Tenders Portal, 3 May 2026.

[2] Eastern Green Link 1, "Permanent works begin for EGL1 in Scotland and England", 30 January 2026.

3 Reuters, (European corporate profits set to grow at the fastest rate since 2022. Aggregated quarterly data for the STOXX 600), as of 7 August 2026.

[4] Bloomberg Analyst Survey (2026): Consensus macroeconomic forecaster panel, cited via Business Post Economy: "Euro zone growth forecasts upgraded following Q2 GDP outperformance", August 2026.

August 2026 LDS-260171

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