



EUROPEAN EQUITY INSIGHTS

BEYOND THE MAGNIFICENT

Why the next growth cycle belongs to European small caps.



Hywel Franklin

Head of European Equities

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For the better part of a decade, global equity investing has been defined by a singular, record-breaking trade: US large-cap technology. The narrative was simple and, for a long time, indisputable. If you wanted growth, you looked to Silicon Valley. If you wanted safety, you looked to the trillion-dollar balance sheets of the Magnificent 7. This concentration has been so effective that it has reshaped the definition of a growth stock, leading many to believe that innovation is something that can only be achieved on the top rung of the S&P 500.

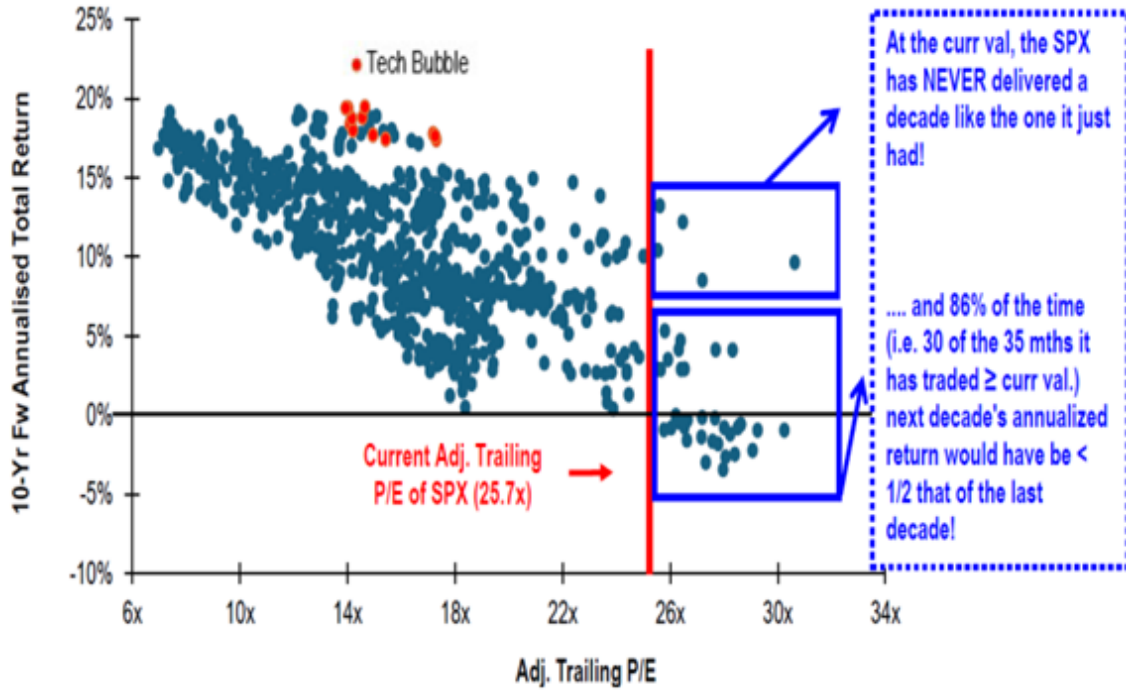
But markets rarely move in a straight line forever. As valuations for US tech giants reach levels that leave little room for error, history suggests the “easy money” has been made. The most compelling opportunities are no longer found in the crowded centre of the market. Instead, we believe they are hiding in the overlooked corners of Europe’s small-cap universe. For the discerning investor, this isn’t just a value play or a contrarian bet; it is a recognition that the global growth story is beginning to broaden.

The prevailing myth about European equities is that they are a legacy trade – a collection of banks, utilities, and old-world industrials destined for stagnation. This perception is a fundamental misreading of the ecosystem. While Europe’s large-cap indices may lean toward the traditional, its small and mid-cap segments are the engines of the continent’s innovation. These are the ‘Niche Champions’ – highly specialised, agile companies that dominate



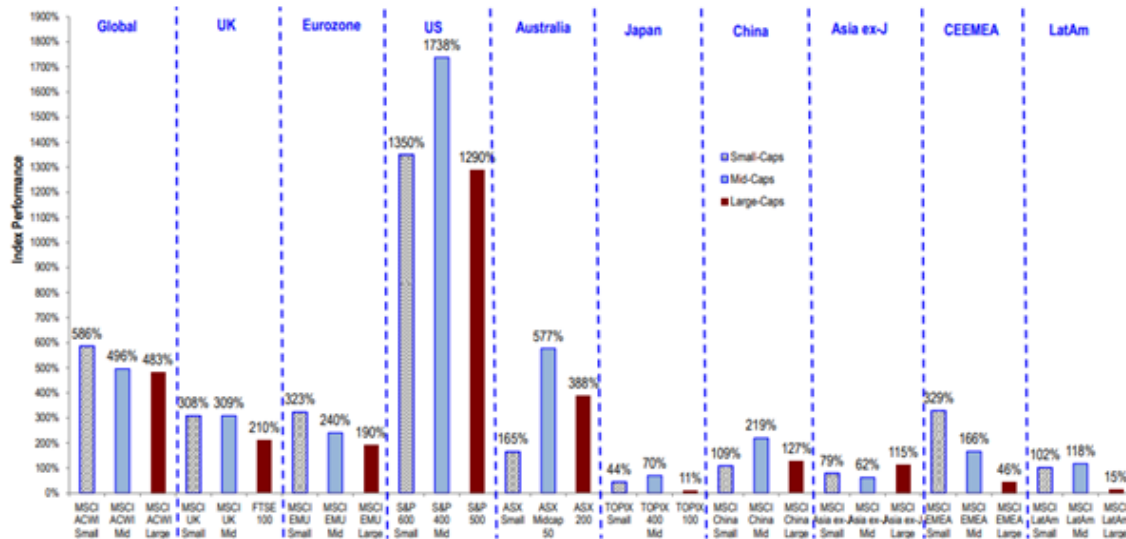
niche global markets. From high-precision industrial automation to cutting-edge medical diagnostics, these businesses often command a dominant market share of their respective global niches while remaining virtually unknown to the average retail investor.

S&P 500 FW 10-yr returns vs trailing PE valuations



Source: Bloomberg Finance, FactSet, Datastream, J.P. Morgan, 30 September 2025.

Small vs. mid vs. large-cap indices by region – from inception of the newest index to current



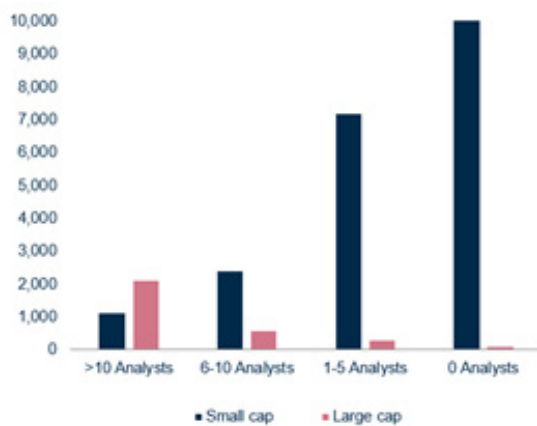
Source: Bloomberg Finance, FactSet, Datastream, J.P. Morgan, 30 September 2025.



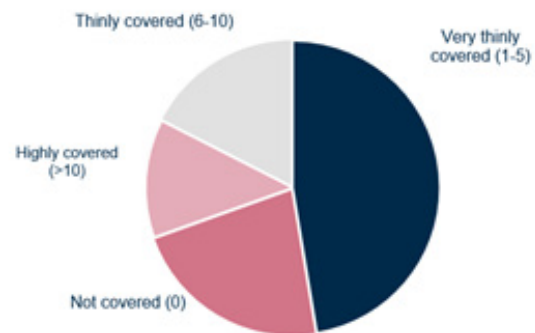
The strength of these companies lies in their unique operational scale. Unlike a trillion-dollar behemoth that requires a seismic shift in the global macro environment to move the needle, a USD500 million specialised manufacturer can significantly grow its earnings simply by capturing a single new territory or launching a breakthrough product. This agility allows them to act as a pure play on the European economic recovery. As they often operate with relatively domestic footprints and streamlined supply chains, they remain largely insulated from the headline geopolitical volatility and trade tensions that frequently buffet the global mega-caps. By operating below the radar, they offer a growth profile that is both high-conviction and remarkably resilient.

If the fundamental case for these businesses is so strong, one must ask why they remain so undervalued. The answer lies in a profound information vacuum. Over the last decade, research resources have increasingly concentrated on the largest companies, leaving thousands of smaller businesses with little to no analyst coverage. While a global tech giant might be scrutinised by 40 or 50 analysts, a European niche leader can have fewer than three. This is a structural inefficiency that active investors can exploit. In a market where every whisper about a US tech giant is instantly priced in, the lack of scrutiny in European small caps allows company fundamentals to diverge significantly from their share prices. This information gap doesn't just represent a lack of noise; it represents a reservoir of alpha for those willing to do the legwork.

Global equities by coverage (average)



European smaller companies by coverage



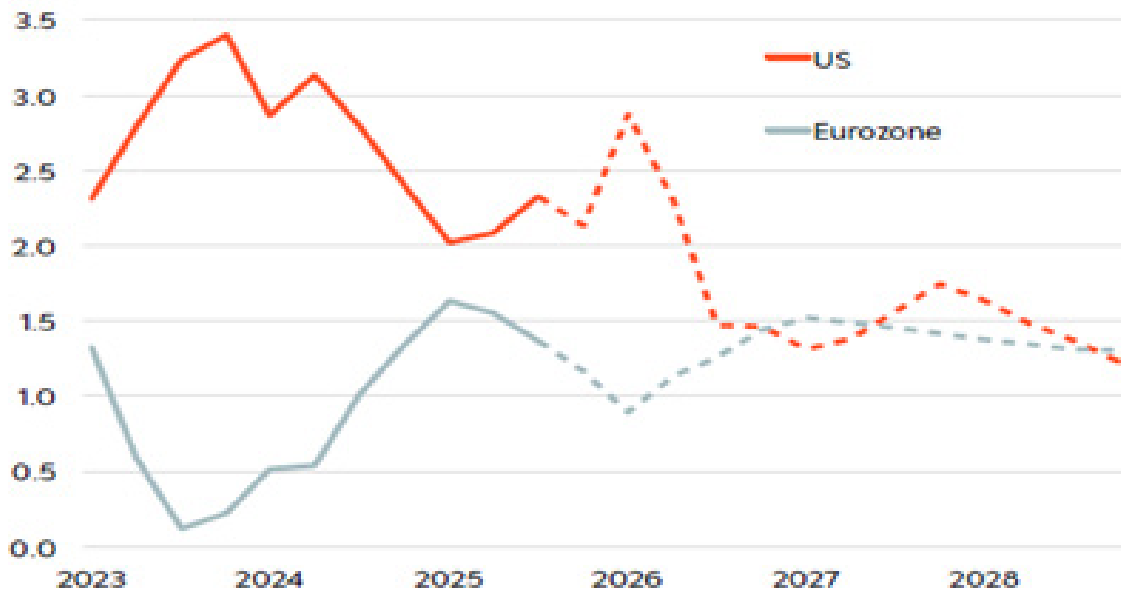
Source: Bloomberg Finance L.P., Datastream, FactSet and J.P. Morgan, 31 December 2025.

The timing for a reassessment of this segment has rarely been more auspicious. Historically, European small caps have performed like a coiled spring, particularly after periods of prolonged underperformance. We are currently emerging from one of the most extreme stretches of small-cap neglect in modern history, driven by a perfect storm of rising interest rates, energy uncertainty and a flight to the perceived safety of US liquidity. But the macroeconomic tide is turning.



As the growth gap between the US and Europe begins to narrow – with real GDP growth expectations projected to converge by 2027 – the case for geographic diversification intensifies. We are seeing early signs of a regime change, where the market is beginning to penalise over-concentrated, high-valuation trades and reward companies with durable margins and attractive entry points. Small caps, which are typically more sensitive to local economic improvements, are often the first to lead the charge in a recovery phase.

Narrowing transatlantic gap: real GDP growth (%YoY)



Source: Berenberg, Eikon, December 2025, Grilli et al. 1991, YouGov/The Economist, 31 December 2025.

Investing in this space, however, requires a surgeon's precision rather than a broad-brush approach. The European small-cap universe is vast and varied; the disparity between a high-quality global leader and a struggling local business can be wide. Success in this segment is predicated on a selective approach that prioritises balance sheet strength and sustainable competitive advantages.

Ultimately, the investment landscape is moving away from a decade of 'growth at any price' toward a period where the price you pay for growth matters immensely. After years of being overshadowed by the gravitational pull of US mega-caps, Europe's smaller companies are standing in a unique position: they offer the innovation of a growth stock with the valuation of a value play. For those looking beyond the headline-grabbing names of the S&P 500, rediscovering this broader opportunity set may be the most significant investment theme of the coming years. The map of global growth is larger than many realise; it is time to look at the parts that have been left off the charts.



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