Navy Capital

PRIVATE WEALTH · RESEARCH DESK

SPECIAL REPORT · EUROPE & ITS SOVEREIGN CAPITAL

Old World, *New Money*

Europe examined end to end: a $20-trillion-plus economy rediscovering its ambition, the world's largest sovereign wealth fund and the continent's quiet pension superpowers, Germany's trillion-euro pivot, the Nordic and Dutch champions punching far above their weight — and Navy Capital's investment prospectus for the European decade ahead.

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ABOUT THIS REPORT

The continent that *compounds*

For a decade the investment world's verdict on Europe was a shrug: a museum economy — rich, regulated, and slowly losing the future to America's software and China's factories. Then 2025 happened. European equity markets beat Wall Street across the board; Germany tore up its constitutional debt brake to unleash a **€500bn** infrastructure fund and a defence budget heading past €150bn; Norway's sovereign fund earned **$247bn in a single year** and crossed $2.2 trillion; and the continent's defence, banking and technology champions re-rated as if a different continent had been trading all along. The museum, it turns out, had a foundry in the basement.

This report is Navy Capital's full-length examination of that turn — and of the deeper machine beneath it. Europe remains the world's largest single market (~450 million consumers, roughly a fifth of global GDP), its deepest pool of institutional savings (sovereign funds and pension giants approaching **$5 trillion** combined), and home to more global-champion mid-sized economies per square mile than anywhere on earth: Denmark's pharmaceutical superpower, the Netherlands' monopoly on the machines that make advanced chips, Finland's reborn technology sector. We profile the sovereign capital, the big engines, the quiet champions, and the growth frontier — and close with a practical prospectus for investing in the European decade.

HOW TO READ THIS REPORT

Part I measures the continent — its post-war arc and its present numbers. Part II maps Europe's sovereign capital: Norway's $2.2tn fund, the state funds of France, Ireland, Italy and Finland, and the pension superpowers of the Netherlands, Denmark and Scandinavia. Part III profiles the big engines — Germany and France in depth, Britain more briefly. Part IV celebrates the quiet champions: Denmark, the Netherlands, Finland and the Nordic model. Part V surveys the growth frontier and the four great investment themes. Part VI delivers the prospectus: the Draghi reform agenda, how to position, the outlook to 2035, and the risk register. Appendices carry the data.

CONTENTS

Inside this *edition*

FROM THE RESEARCH DESK

A letter to our *readers*

Dear reader,

Every investment generation inherits a consensus, and ours inherited this one: America innovates, Asia manufactures, Europe regulates. Like most consensus it was profitable to believe — until, quite suddenly, it wasn't. In 2025 the DAX returned 23% and touched 25,000; the Stoxx 600 set records on the back of banks and defence; Rheinmetall gained 150% in a year; and the world's largest sovereign wealth fund, run from Oslo with Lutheran restraint, quietly earned more in twelve months than most nations produce. The cheapest developed market in the world had begun to answer its critics.

We are not romantics about the continent. Europe's structural problems are real and this report names them plainly: an ageing population, energy costs America does not pay, a capital market still fragmented into 27 pieces, and a reform agenda — Mario Draghi's €800bn-a-year prescription — of which barely a tenth has been implemented. France carries a 5% deficit into political gridlock; Germany's revival must survive its own bureaucracy. The 2026 energy shock has already tested the recovery's nerve.

But the case for Europe was never that it is perfect; it is that it is *priced* as if it will never improve, while quietly owning assets the future cannot do without: the machines that make every advanced semiconductor, the medicines reshaping global health, half the world's luxury economy, the deepest pool of patient institutional capital on earth — and now, at last, the political will to spend. We wrote this study, the sixth in our wealth series, for investors weighing that asymmetry. Data first, candour throughout, conclusions stated plainly.

With regards,

The Navy Capital Research Desk

Companion volumes — on Gulf sovereign wealth, the Gulf economy, Dubai real estate, private aviation and the superyacht economy — are available in the Research Library at navycapital.info.

EXECUTIVE SUMMARY

Ten findings from the *old continent*

$2.2tn	+23%	€500bn	~€17tn
NORWAY'S GPFG — WORLD'S LARGEST SWF	DAX 2025 — EUROPE BEAT WALL STREET	GERMANY'S INFRASTRUCTURE FUND	EU GDP — WORLD'S LARGEST SINGLE MARKET

1. 2025 was Europe's re-rating year. The DAX (+23%, best since 2019), CAC, FTSE MIB and Stoxx 600 all beat the S&P 500 and Nasdaq — driven by banks (Commerzbank +126%, Deutsche Bank +84%), defence (Rheinmetall ~+150%) and a fiscal regime change no one priced.

2. Norway's fund is a category of one. The GPFG returned 15.1% in 2025 — $247bn, its best absolute year ever — to reach ~$2.2tn: 1.5% of every listed company on earth, owned on behalf of 5.5 million Norwegians. It is Europe's financial superpower and the world's benchmark for transparent sovereign wealth.

3. Europe's sovereign capital is bigger than its SWF list suggests. Beyond Norway sit the state investors — France's Bpifrance (€32bn equity) and Lac1, Italy's CDP Equity, Ireland's ISIF (€9.5bn), Finland's Solidium, Germany's KENFO — and the true giants: pension funds. ABP (Netherlands, ~€530bn), ATP (Denmark), Sweden's AP funds and Finland's Keva (€74bn) make the continent's patient-capital pool second to none.

4. Germany changed the game. The 2025 debt-brake reform unlocked a €500bn/12-year infrastructure and climate fund and effectively uncapped defence spending — from €62bn (2025) toward €152bn by 2029. It is the largest European fiscal pivot since reunification, and its supply chains run through the entire continent.

5. The quiet champions punch absurdly above their weight. Denmark (5.9m people) grew 2.6% in 2025 on Novo Nordisk's pharmaceutical empire plus Maersk, Vestas and Lego. The Netherlands owns ASML — Europe's most valuable tech company (~€360bn), monopolist of the EUV lithography machines every advanced chip requires. Finland counts 15 unicorns, Nokia's AI-driven revival, and Europe's highest per-capita defence-tech investment.

6. The growth is in the south and east. Spain (+2.4% 2026e) and Poland (+3.4–3.5%, EU-funds-powered) are Europe's growth engines; the CEE convergence trade — productivity catch-up plus EU transfers — remains the continent's most reliable compounder.

7. Four themes define the investable decade: defence (European budgets toward ~€970bn/yr by 2030; defence-tech VC quadrupled since 2019), energy transition (France's six new EPR2 reactors, grid build-out), technology sovereignty (semiconductors, AI infrastructure), and financial normalisation (banks re-rated as rates stay positive).

8. The Draghi agenda is the swing factor. The 2024 report demanded €750–800bn a year of additional investment and a genuine capital-markets union; a year on, ~11% of recommendations are implemented. Every additional tenth implemented is upside the market has not priced.

9. The risks are named, not hidden: demographics, energy dependence (re-exposed by the 2026 shock and ECB tightening to fight 3% inflation), French fiscal drift (deficit ~5.1%, debt toward 120% of GDP), and the eternal risk that Brussels regulates faster than Europe builds.

10. The asymmetry favours the patient. Europe trades at a persistent ~35% valuation discount to the US with world-class assets, reforming governments, and $5tn of home-team institutional capital newly directed inward. The continent does not need to become America to reward investors; it needs only to become slightly more like itself at its best. That, at these prices, is the trade.

I

PART I · CHAPTERS 1–2

The *continent*

Eighty years from rubble to riches — and the numbers behind the world's most underestimated economy.

From ruins to *riches*

1.1 · The five ages of modern Europe

Reconstruction (1945–1973). From the Marshall Plan through the *Wirtschaftswunder* and *les Trente Glorieuses*, Western Europe compounded at rates modern emerging markets would envy — rebuilding industry, inventing the welfare state, and binding old enemies into the Coal and Steel Community that became the EU. By 1970 the six founding economies had tripled real output.

Integration (1973–1999). Two oil shocks and "Eurosclerosis" slowed the machine, but the project deepened: the single market (1993) created the world's largest free-trade zone, enlargement absorbed Iberia, and Maastricht set the path to a shared currency. Europe traded some dynamism for the stability that would define its brand.

The euro era (1999–2008). The single currency launched with eleven members and a decade of convergence: peripheral borrowing costs collapsed toward German levels, credit boomed from Dublin to Athens, and the EU's eastward expansion in 2004 added ten nations and the greatest convergence engine in economic history.

The lost decade-and-a-half (2008–2022). The global financial crisis, the euro crisis ("whatever it takes", 2012), austerity, negative interest rates, Brexit and the pandemic. Europe fell decisively behind the US in technology and productivity; the transatlantic GDP-per-capita gap widened year after year; and cheap Russian gas, the industrial model's quiet subsidy, ended abruptly in 2022.

The reawakening (2022–). Crisis, as ever, is Europe's engine of reform. NextGenerationEU pooled debt for the first time; the energy system rewired away from Russia in eighteen months; the Draghi report (2024) named the competitiveness emergency; and Germany's 2025 fiscal pivot — followed by a continent-wide defence build-out — marked the largest change in Europe's economic policy stance in a generation. The 2025 market re-rating was the first dividend.

1957	1999	2012	2025
TREATY OF ROME — THE PROJECT BEGINS	THE EURO LAUNCHES	"WHATEVER IT TAKES"	THE FISCAL PIVOT — AND THE RE-RATING

1.2 · The divergence, measured — Europe versus America

The gap the Draghi report weaponised deserves honest numbers:

MEASURE	THE GAP	THE CAUSE
GDP per capita	EU ~30% below US (PPP-adjusted gap smaller but real)	Two-thirds is hours worked & demographics; one-third productivity
Productivity growth	US roughly double EU pace since 2010	Tech diffusion; scale; capital-market depth
Technology giants	US mega-caps > entire European market cap	No EU-wide market for scaling; startups exit to America
Energy costs	EU industrial power/gas 2–4x US levels	The structural post-2022 handicap
R&D intensity	EU ~2.2% of GDP vs US ~3.5%	Draghi's €200bn/yr target addresses this line
Venture capital	US VC ~4–5x European volumes	Pension money exported instead (Ch.5)

Two honest counterpoints keep the ledger fair. **Life quality is a European export surplus:** on longevity, safety, leisure, inequality and healthcare access, the EU leads the US decisively — Europeans have partly chosen their gap, converting productivity into time rather than consumption. **And the gap is the trade:** an investor buys Europe precisely because the shortfall is priced as permanent. America's advantages — unified capital markets, cheap energy, tech scale — are all policy-addressable on Europe's side; each is now the object of a named program (SIU, grids and nuclear, Chips Act and 28th regime). Closing half the gap is not required; closing a tenth of it, from a 35% discount, carries the decade.

The market in *numbers*

ECONOMY	GDP (NOMINAL, ~2025–26)	GROWTH 2026E	SIGNATURE STRENGTH
Germany	~$4.7tn — Europe's #1	Recovering	Industry, engineering; the new fiscal engine
United Kingdom	~$3.6tn	~1%	Finance, services, science
France	~$3.3tn	0.8%	Luxury, aerospace, nuclear
Italy	~$2.4tn	0.6%	Manufacturing craft, export machine
Spain	~$1.8tn	2.4% — big-economy leader	Services, renewables, demography via migration
Netherlands	~$1.3tn	1.1–1.3%	ASML, trade gateway, agri-tech
Poland	~$1tn	3.4–3.5% — EU's fastest large economy	The convergence champion
Denmark · Finland · Nordics	~$0.4tn each scale	DK 2.2–2.6%	Pharma, tech, defence innovation
EU total	~€17tn (~$20tn+ with UK/CH/NO)	EA: 0.8% '26 → 1.5% '28	World's largest single market, ~450m consumers

IMF/European Commission/ECB (June 2026 projections); figures rounded. Euro-area 2026 growth reflects the 2026 energy shock; ECB projects recovery to 1.2% (2027) and 1.5% (2028), with inflation 3.0% → 2.0% over the same horizon.

2.1 · What the numbers mean

Three readings. **Scale is intact:** Europe broadly defined remains a fifth of world output, the largest trading bloc, and the issuer of the world's #2 reserve currency — a base no allocation can responsibly ignore. **Growth is rotating, not absent:** the German-Italian industrial core stagnated while Spain, Poland and the Nordics grew at 2–3.5%; the 2025 fiscal pivot is designed precisely to restart the core. **The gap is the opportunity:** Europe's productivity shortfall against the US — the Draghi report's central exhibit — is a measure of upside as much as failure; the continent that closes even part of it from these valuations re-rates twice, on earnings and on multiple.

2.2 · The 2025 re-rating: the year Europe beat Wall Street

For the first time in a decade the performance tables inverted: Italy's FTSE MIB, Germany's DAX, France's CAC and the Stoxx 600 all outran the S&P 500 and Nasdaq in 2025. The composition of the rally tells the story of the new Europe:

DRIVER	2025 EVIDENCE	READING
Defence re-armament	Rheinmetall ~+150% — DAX's top stock	NATO 3.5% targets; order books measured in decades
Banking normalisation	Commerzbank +126% · Deutsche Bank +84%	Positive rates + no recession = a repaired sector
The index itself	DAX +23% (best since 2019); 25,000 crossed early 2026	Records across Stoxx 600, MIB, CAC
The fiscal signal	Germany's €500bn fund + defence exemption	The policy regime change markets waited 15 years for
Flows	Global reallocation from record US concentration	Europe as the diversification trade of the decade

The valuation backdrop remains the argument: even after 2025, European equities trade at a ~30–35% forward-multiple discount to the US — near record wides — despite comparable dividend-plus-buyback yields and improving earnings revisions. Bulls read 2025 as the first leg of a multi-year mean reversion; sceptics note Europe has faked such dawns before, and that 2026's energy shock and ECB tightening (rates raised 25bp in June 2026 with inflation at 3%) promptly tested the thesis. Our view sits with the evidence: regime changes in fiscal policy — 2025's true event — historically outlast the commodity shocks that interrupt them.

+23%	25,000	~35%	#1
DAX 2025 — BEAT THE S&P	DAX RECORD, EARLY 2026	EUROPE'S VALUATION DISCOUNT TO US	2025'S BEST REGION: EUROPE

2.3 · The demography ledger

Europe's hardest constraint is arithmetic: a median age near 45, fertility ~1.5, and a working-age population already shrinking in the core. The honest ledger:

- **The burden:** old-age dependency ratios head from ~1:3 toward ~1:2 by 2050; pension and health costs claim rising GDP shares; labour scarcity already gates German industry and Dutch expansion (ASML's 20,000 new jobs compete for the same engineers as everyone else).
- **The offsets that work:** Spain's migration-powered model added workers at scale and leads big-economy growth; Poland absorbed millions of Ukrainians into a tight labour market; participation gains (later retirement, female participation in the south, Nordic-style childcare) offer a decade of headroom before the pure arithmetic binds.
- **The automation dividend:** scarce labour is the strongest possible business case for the robotics, AI-deployment and process-software Europe both builds (Siemens, SAP, ABB) and needs — demographics as forced modernisation.
- **The savings paradox:** ageing societies save more — the very €35tn pool Part II maps. Europe's demographic autumn is simultaneously its capital abundance; the SIU is, at bottom, a plan to make grandparents fund grandchildren's companies rather than Treasuries abroad.

Our framing for investors: demographics set Europe's *speed limit*, not its direction. They cap trend growth near 1.5%, reward the champions who sell to the world's younger markets, favour healthcare and automation structurally — and make the productivity agenda existential, which is precisely why we expect it to continue advancing.

~45	1:2	€35tn	#1
EU MEDIAN AGE	DEPENDENCY RATIO BY 2050	THE SAVINGS THE AUTUMN BUILT	STRUCTURAL WINNER: AUTOMATION

II

PART II · CHAPTERS 3–5

The sovereign *capital*

The world's largest wealth fund, the state investors of the continent — and the pension giants that are Europe's real sovereign money.

The $2.2 trillion *Norwegian*

Begin with the extraordinary fact: the largest single owner of listed equities on earth is not American, Chinese or Gulf-Arab. It is the Government Pension Fund Global of Norway — population 5.5 million — holding roughly **1.5% of every listed company in the world** on behalf of a nation that decided, in 1990, that its oil belonged to the future as much as the present.

METRIC	POSITION (2025–26)
Assets	~NOK 21.3tn ≈ $2.2 trillion — world's largest SWF
2025 return	+15.1% — $247bn, the best absolute year in fund history
Allocation	~71% global equities · 27% fixed income · ~2% unlisted real estate & renewables
2025 drivers	Technology & AI, banking rally — the fund owns the world, so it earned the world's year
Q1 2026	−1.9% — first quarterly loss in four, on the 2026 shock
Per citizen	~$400,000 for every Norwegian
Fiscal rule	Only the expected real return (~3%) may be spent — the principal is untouchable

Norges Bank Investment Management; Ministry of Finance. NOK figures converted at prevailing rates; rounded.

3.1 · Why the model matters

The GPFG is the anti-Gulf model our sovereign wealth study contrasted: no trophy assets, no development mandate, no discretion — just a transparent index-plus machine investing entirely *outside* its own economy, governed by a published fiscal rule and answerable to parliament in an annual report any citizen can read. Its ethics council excludes companies publicly; its voting records are searchable; its CEO explains results on YouTube. The result is the world's most trusted institutional investor — and the standing proof that resource wealth, honestly governed, can become permanent national capital rather than a political prize. For investors, its disclosures double as the world's best free map of global equity ownership; where Oslo tilts, allocators study.

3.2 · Anatomy of the machine

Origins: the first krone was transferred in 1996, six years after the enabling law; the insight — championed across party lines — was that Norway's continental-shelf oil and gas was a one-time inheritance whose conversion into foreign financial assets would spare the krone Dutch disease and spare future budgets the commodity cycle. Petroleum revenues flow in; only the fund's expected real return flows out.

Management: Norges Bank Investment Management (NBIM) runs the fund with ~700 staff — astonishingly lean for $2.2tn — at single-digit basis-point costs, via near-index equity management with measured active tilts, securities lending, and a slowly growing unlisted book (prime real estate from Regent Street to Fifth Avenue; offshore-wind stakes as the renewables mandate builds). Benchmarks are set by the Finance Ministry; deviations are tightly budgeted.

Scale in context: the 2025 gain alone — $247bn — exceeds the entire GDP of most European states, and roughly equals three Irelands of ISIF-scale sovereign funds earned in a single year. The fund's equity book makes it a top-ten shareholder in thousands of companies; its exclusion decisions (coal thresholds, weapons categories, conduct cases) move ESG practice globally because no listed CFO wishes to explain losing the world's most respected shareholder.

The test ahead is political as much as financial: a fund at ~4x mainland GDP makes the 3% spending rule worth ~12% of GDP annually — a dependence Oslo debates with characteristic seriousness — while 71% equity exposure guarantees that bad years (Q1 2026's −1.9% was a reminder) will one day arrive at full scale. The governance designed in the 1990s was built precisely for that day.

> *"Norway solved the hardest problem in public finance — how to make a windfall permanent — with the least glamorous tools in the book: an index fund, a spending rule, and the humility to follow both for thirty years."*

3.3 · What Oslo owns — and what it refuses

The portfolio reads like the world economy's index, because it is one: ~9,000 companies across 60+ markets, with the largest positions simply the world's largest — the US tech mega-caps (the fund's 2025 driver), followed by the European blue chips where its ownership shares run far higher (commonly 2–5% of Nestlé, ASML, Novo, LVMH-class names, making NBIM among the first phone calls in any European governance debate). Fixed income is ~27%, dominated by government bonds; the small unlisted book holds trophy real estate (Regent Street, Times Square, Champs-Élysées stakes) and a growing offshore-wind portfolio — Norway's oil money financing the energy that replaces oil.

The refusals matter as much: the Ethics Council's public exclusion list — tobacco entirely, nuclear-weapons makers, coal above thresholds, plus conduct-based cases from environmental damage to labour abuses — functions as global capitalism's most-watched blacklist. Exclusion by Oslo is a headline in any boardroom; readmission is studied like a rating upgrade. Alongside voting records published before AGMs and position-level annual disclosure, the fund has made *transparency itself* a return stream: trust lowers its costs, steadies its politics, and lets a 5.5m-person nation lecture the world's CFOs with a straight face.

The European angle completes Part II's map: the GPFG deliberately invests nothing at home, but is structurally overweight its own continent relative to market weights — roughly a quarter of the fund in European assets. The continent's re-rating thesis thus enjoys a $500bn+ silent partner: when Europe performs, Norway compounds, and the Nordic savings machine deepens further.

~9,000	~25%	100%	Public
COMPANIES OWNED WORLDWIDE	OF THE FUND IN EUROPEAN ASSETS	INVESTED OUTSIDE NORWAY	EVERY HOLDING, VOTE & EXCLUSION

The continental *investors*

Below Norway's colossus, Europe's sovereign capital takes a distinctive form: not oil savings but *strategic development funds* — state investors with a double bottom line of commercial return plus national mission.

FUND / INSTITUTION	NATION	SCALE	MANDATE
Bpifrance + Lac1	France	€32bn equity AUM (group far larger)	Development bank, export agency & sovereign fund in one; Lac1 anchors listed champions (e.g. Veolia, 2025)
CDP / CDP Equity	Italy	Group balance sheet ~€500bn-class; Equity arm multi-€bn	Italy's Caisse: strategic stakes, infrastructure, national champions
ISIF	Ireland	€9.5bn (+ new Future Ireland Fund building toward €100bn)	"Double bottom line": returns + Irish development — climate, housing, indigenous business; €2.9bn gains since inception
Solidium	Finland	~€7–9bn listed portfolio	Anchor shareholder in Finnish champions — Nokia (3%+ stake bought 2018), Stora Enso, Metso…
KENFO	Germany	~€25bn-class	Nuclear-decommissioning endowment — Germany's de facto SWF, and a disclosure leader
Invest-NL	Netherlands	€1.7bn+ committed capital	Impact/deep-tech development investor
COFIDES / SEPI · PFR	Spain · Poland	Multi-€bn each	State holding & development platforms for the growth frontier

IFSWF, Global SWF, fund disclosures 2024–26. Balance-sheet definitions vary across institutions; figures indicative and rounded.

4.1 · The European model, defined

Three traits distinguish this capital from its Gulf cousins. **It invests inward:** where Norway and Abu Dhabi export savings, Bpifrance, CDP and ISIF exist to deepen their own economies — patient equity for scale-ups, anchoring strategic listings, funding the housing and grid gaps private capital underprices. **It scores highest on governance:** Global SWF rates Europe's funds at 74% on governance-sustainability-resilience — the world's best — with ISIF, KENFO and the GPFG setting the disclosure benchmark. **It is converging on strategy:** across mandates, the same three targets recur — renewables, digital infrastructure and semiconductors — the financial expression of EU strategic autonomy. Europe's state funds are small beside Norway's; their influence on where the continent's next decade is built is not.

4.2 · Case studies in the double bottom line

Bpifrance — the everything-bank. No institution in Europe compresses more roles into one balance sheet: venture investor (a limited partner in most French VC funds), direct shareholder in thousands of SMEs, export-credit agency, innovation-grant machine, and — through **Lac1** — a sovereign anchor for listed champions, taking long-term stakes to shelter strategic boards from short-term raiders, as Veolia's 2025 welcome demonstrated. French capitalism's distinctive feature — the state as patient co-investor rather than mere regulator — runs through it.

ISIF — the transformation fund. Ireland converted its post-crisis National Pensions Reserve into a development fund with discipline: every euro must earn commercially *and* advance Irish capacity — offshore wind, battery storage, housing platforms, indigenous food and tech businesses. With corporate-tax windfalls now flowing, Dublin is scaling the model into the **Future Ireland Fund**, targeting ~€100bn by the 2030s: Europe's newest true sovereign fund, built from surplus rather than oil.

Solidium — the anchor of Helsinki. Finland's answer to the question every small open economy faces — who defends national champions in global markets? — is an €8bn-class listed portfolio holding meaningful stakes in Nokia, Stora Enso, Konecranes and peers: not to manage them, but to guarantee that a committed domestic owner sits on the register when activists, acquirers or crises arrive. Its 2018 Nokia purchase looked defensive; after Nokia's Nvidia partnership and AI-infrastructure revival drove the stock to 16-year highs in 2026, it looks like the cheapest strategic insurance Finland ever bought.

KENFO — the accidental sovereign fund. Created to fund nuclear decommissioning, Germany's €25bn endowment quietly became the country's institutional-investment standard-setter — and the template for the larger question Berlin now debates: whether the €500bn era should finally give Europe's largest economy a true sovereign investment vehicle.

74%	€100bn	16-yr	3
EUROPE'S SWF GOVERNANCE SCORE — WORLD #1	IRELAND'S FUTURE FUND AMBITION	NOKIA HIGH VINDICATING SOLIDIUM	SHARED TARGETS: RENEWABLES, DIGITAL, CHIPS

4.3 · The development-bank layer: Europe's other trillion

Above the sovereign funds sits a uniquely European institution class — the state promotional banks — whose combined balance sheets dwarf the SWF directory:

INSTITUTION	NATION	SCALE	FRANCHISE
EIB Group	EU	€100bn financing signed in 2025 alone	The world's largest multilateral lender; climate bank; now defence-enabled via InvestEU
KfW	Germany	~€560bn balance sheet	Reconstruction bank turned green-transition financier; the €500bn era's natural conduit
Caisse des Dépôts	France	~€1tn-class group	The French state's balance sheet — housing, infrastructure, Bpifrance's parent
CDP	Italy	~€500bn-class	Postal-savings-funded; Italy's infrastructure & champions
BGK · ICO · et al.	Poland · Spain…	Multi-€100bn tier	The convergence trade's financiers

Institution disclosures 2025–26; balance-sheet definitions differ; rounded.

The layer matters to the prospectus for a practical reason: **this is who de-risks private deals.** European infrastructure, energy and now defence-tech transactions routinely close with EIB/KfW/CDC anchoring the capital stack at patient pricing — the InvestEU model (€26bn EU guarantee mobilising a targeted €372bn) formalises it. For private investors the signal is worth following mechanically: where the promotional banks commit first-loss or anchor tranches — grids, hydrogen, chips, dual-use tech — subsequent private returns have historically enjoyed both subsidy and pipeline. Watch their annual reports the way commodity traders watch pipeline schedules; they are the load-bearing wall of every theme in Chapter 13.

Europe's real sovereign *money*

Ask where Europe's true sovereign capital sits and the answer is not in its SWF directory — it is in the retirement systems of the north. The continent's pension giants collectively steward well over $2 trillion beyond Norway's fund, making northern Europe, per capita, the most heavily capitalised savings bloc on earth:

INSTITUTION	NATION	ASSETS	MODEL
ABP (managed by APG)	Netherlands	~€530bn	Civil-service DB giant; Europe's largest fund; now an anchor of the EU Scaleup Europe Fund
PFZW, PMT & Dutch peers	Netherlands	Dutch system ~€1.5tn+ total	~200% of GDP — the world's deepest funded system
ATP	Denmark	~€100bn-class	Guaranteed-pension hedging core (~80% bonds) + leveraged return portfolio
AP1–AP7	Sweden	~€250bn+ combined	Buffer funds for state pensions; AP7's high-equity default serves 3–4m Swedes
Keva + VER	Finland	Keva €74bn (2025, +5.8%)	Local-government pensions + state buffer fund
PensionDanmark, PKA, Industriens…	Denmark	Multi-€10bn each	Labour-market funds; world leaders in infrastructure & wind stakes

IPE Top 1000 (2025: top-10 assets +6% y/y), fund reports 2025–26. Rounded.

5.1 · Why this pool now matters doubly

For decades these institutions exported their savings — funding American tech and global infrastructure while Europe's own scale-ups begged in Silicon Valley. The policy revolution of the mid-2020s is the deliberate turn *homeward*: ABP anchoring the EU's new Scaleup Europe Fund, Danish funds building North Sea wind, Swedish buffer capital in Nordic infrastructure, and the Savings and Investments Union explicitly designed to channel the continent's €35tn of household savings toward its own equity and venture markets. If even a few percentage points of this pool redirects, the Draghi investment gap closes from within — the quietest and most powerful bull case for European assets in this report.

5.2 · Case study: how the Dutch pension machine works

The Netherlands runs the world's deepest funded pension system — assets near **200% of GDP** — and its mechanics repay study because they are the SIU's blueprint scaled down. **Structure:** quasi-mandatory sectoral funds (civil servants in ABP, healthcare in PFZW, metalworkers in PMT…) collect wage-linked contributions and pool them in professional managers — APG (ABP's manager, now refocusing exclusively on ABP) and PGGM being asset managers of global rank. **Investment:** genuinely long-horizon — global equities, multi-decade infrastructure, private credit — because liabilities stretch to the 2080s; Dutch funds anchor wind farms, toll roads and, increasingly, European venture (ABP's Scaleup Europe Fund commitment is policy made flesh). **Reform:** the 2023–2028 transition from collective DB promises to defined-contribution personal pots — the largest pension reform ever attempted, moving €1.5tn — trades paper guarantees for transparency, and briefly makes Dutch funds the world's most scrutinised allocators (the 2026 military-pension transfer to ABP, worth 0.7% of GDP, is one visible ripple).

Why it matters beyond Holland: the Dutch (with the Danes and Swedes) prove the answer to Europe's capital-markets lament already exists inside the EU — citizens can hold world-class diversified retirement capital, at scale, through institutions patient enough to fund thirty-year assets. Draghi's capital-markets pillar is, in caricature, "make the rest of Europe Dutch." Every step in that direction — auto-enrolment schemes in Germany, pan-European pension products, pension capital in venture — is the Chapter 5 thesis compounding.

~200%	€1.5tn	2080s	Blueprint
DUTCH PENSION ASSETS / GDP	SYSTEM MOVING TO NEW DC RULES	LIABILITY HORIZON = PATIENCE	FOR THE EU'S SAVINGS UNION

5.3 · The third pool: foundations & dynastic holdings

Europe's capital map has a layer America barely knows: **industrial foundations and family holding companies** that own the continent's champions outright and manage endowments of sovereign scale.

HOLDER	NATION	CONTROLS / HOLDS	NOTE
Novo Holdings / Novo Nordisk Foundation	Denmark	Control of Novo Nordisk; ~$100bn+ endowment	The world's largest charitable foundation — pharma profits recycled into Danish science
Investor AB (Wallenberg)	Sweden	ABB, Atlas Copco, Ericsson, SEB, SAAB stakes…	Five generations; the Nordic model's private wing
Maersk, Carlsberg, Lego foundations	Denmark	Their namesakes	Foundation ownership = takeover-proof patience
Arnault, Hermès & Pinault vehicles	France	LVMH, Hermès, Kering	Luxury's dynastic locks
Porsche/Piëch, Quandt, Merck…	Germany	VW, BMW, Merck	The Mittelstand model at DAX scale
Exor (Agnelli)	Italy/NL	Ferrari, Stellantis, Philips stake	Turin's holding gone global

The layer explains structural facts investors often misread. European champions resist hostile takeovers and quarterly capitalism because their anchor owners can — Novo could fund a decade of failed trials, Wallenberg companies plan in generations. It concentrates governance in reputations rather than proxy fights. And it means European "family money" is not idle wealth but the continent's third great patient-capital pool alongside pensions and state funds — one that co-invests, seeds national venture ecosystems (Novo Holdings is the Nordics' largest life-science VC), and shares the sovereign investors' defining trait: time horizons measured in decades. When all three pools point the same direction — as they now do, homeward — the flow is the story.

III

PART III · CHAPTERS 6–8

The *engines*

Germany's trillion-euro pivot, France's state-powered champions — and Britain, the offshore anchor.

CHAPTER 6 · GERMANY

The trillion-euro *pivot*

Nothing in European economics matters more than what Berlin decided in March 2025. After two decades of fiscal orthodoxy — the constitutional "debt brake" that starved even German bridges of investment — parliament voted the largest fiscal regime change since reunification:

INSTRUMENT	SCALE	DETAIL
Infrastructure & climate special fund	€500bn / 12 years	€300bn federal infrastructure wing · €100bn to the states · €100bn earmarked for climate neutrality
Target areas	7 domains	Transport, energy grids, digitalisation, hospitals, education, R&D, civil protection
Defence exemption	Effectively uncapped	Spending above 1% of GDP excluded from the debt brake entirely
Defence trajectory	€62bn (2025) → €152bn+ (2029)	More than doubling; NATO's 3.5% core target reached before 2030
Market verdict	DAX +23% (2025), 25,000 crossed	Rheinmetall ~+150%; banks re-rated on growth revival

Bundesfinanzministerium; Bundestag March 2025; Clean Energy Wire; market data 2025–26.

6.1 · From sick man to spender

The pivot answers a real emergency: Germany's model — energy-intensive manufacturing exported to China, defended by cheap Russian gas and American security — broke on all three hinges at once, delivering two years of stagnation and an industrial confidence crisis from Wolfsburg to Ludwigshafen. The response now flowing is Keynes with German characteristics: railways, grids and hospitals rebuilt on a 12-year schedule; a defence industry (Rheinmetall, Hensoldt, Renk, TKMS, Diehl) scaling from peacetime boutique to continental arsenal; and procurement chains that pull suppliers from Sweden to Slovakia. Execution risk is real — Germany's planning bureaucracy can strangle its own money — but the direction is unambiguous, funded, and constitutionally locked. For investors the read-through is simple: after fifteen years in which Europe's largest economy was a drag on continental demand, it has become the stimulus — and every European industrial, grid, rail and defence supplier is on the receiving end.

6.2 · The industrial deep bench

The panic about German industry obscures what remains beneath the headlines — the deepest industrial bench in the Western world:

- **The listed champions:** SAP (Europe's most valuable company, riding enterprise AI), Siemens (electrification and automation — the picks-and-shovels of the energy transition), Airbus's German wing, Allianz and Munich Re (global insurance's quiet duopoly of quality), Deutsche Telekom (T-Mobile US's parent).
- **The Mittelstand:** ~1,500 "hidden champions" — family-owned world leaders in niches from laser optics (Trumpf) to sensors (Sick) — the export machine's real engine and the model every industrial-policy paper in Washington and Beijing tries to copy.
- **The transition test:** autos. VW, Mercedes and BMW face the Chinese EV challenge with margin pressure and full order books at once; the sector's restructuring — plants repurposed, software insourced — is the decade's defining industrial drama and a live test of whether the German method (patient engineering, social partnership) survives contact with Shenzhen's speed.
- **The defence complex:** Rheinmetall's ascent from €5bn to €70bn+ market value in four years is the visible tip; beneath sit ammunition plants tripling capacity, Leopard lines sold out to 2030, and a policy pipeline (drone defence, air defence, naval renewal) that makes defence Germany's fastest-growing industry since the 1950s.

The strategic question Berlin now debates openly is the one this report's Part II implies: whether to crown the pivot with a German sovereign wealth fund — converting a slice of the €500bn era into permanent national capital on the Norwegian model. KENFO provides the governance template; the politics, as ever in fiscal Germany, provide the drama.

€500bn	€152bn	~1,500	+150%
12-YEAR SPECIAL FUND	DEFENCE BUDGET BY 2029	HIDDEN-CHAMPION WORLD LEADERS	RHEINMETALL 2025 — THE ERA'S EMBLEM

6.3 · The execution question — can Germany spend it?

The bull case's honest weak point is not money but throughput. Germany's planning system — layered federal approvals, environmental litigation, a hollowed-out public engineering corps — historically turns a bridge into a decade. The pivot's success therefore hinges on parallel reforms now underway: planning-acceleration laws (the LNG-terminal precedent — built in ten months under emergency rules — is the template being generalised), procurement thresholds raised, and defence purchasing routed through fast-track structures. Early evidence is mixed and worth monitoring without prejudice: defence contracts are flowing at unprecedented pace (the Bundeswehr's order pipeline is the fund's proven fast lane), while civilian infrastructure disbursement started slowly against the €500bn schedule.

Three markers decide the trade. *Disbursement rate*: the special fund must move €40bn+ annually to matter macroeconomically; watch the finance ministry's implementation reports, not the announcements. *Energy cost path:* German industrial electricity must trend toward pre-crisis competitiveness via grid build-out and the planned price reliefs, or chemicals and metals keep migrating. *The auto transition:* whether VW-class restructuring lands as managed change or rupture sets the social politics of the whole era. Our base case remains constructive — Germany's institutional record, once pointed at a goal, is the best in Europe (reunification absorbed an entire country; the 2022 energy rewiring beat every forecast) — but we size the position to the markers, not the mythology.

10 mo	€40bn+	2–4x	1990
LNG TERMINALS — THE SPEED TEMPLATE	ANNUAL DEPLOYMENT NEEDED	US ENERGY-COST GAP TO CLOSE	PRECEDENT: REUNIFICATION ABSORBED

Nuclear, luxury & the *state*

France is Europe's paradox economy: chronically ungovernable in its budgets, world-beating in its champions. The EU's second economy (~$3.3tn) enters 2026 with growth of just 0.8%, a deficit stuck near **5.1% of GDP**, debt climbing toward **120%** by 2027, and a political system that toppled a government by no-confidence vote (Barnier, December 2024) for trying to fix it. And yet:

FRANCHISE	ASSETS	POSITION
Luxury	LVMH, Hermès, Kering, L'Oréal	Half the world's luxury economy; Europe's most valuable sector
Aerospace & defence	Airbus, Safran, Dassault, Thales	The continent's aviation champion + Rafale's export decade
Nuclear	EDF; 70%+ of electricity	Highest nuclear share of any major economy; €52bn committed to six new EPR2 reactors from 2026
State capital	Bpifrance, Lac1, Caisse des Dépôts	The investing state — Chapter 4's model at full scale
Tourism & agriculture	90m+ visitors; EU's #1 farm producer	The eternal cash flows

European Commission forecasts; OECD Outlook 2026; Élysée nuclear program announcements.

7.1 · The investor's read

Treat France as two exposures wearing one flag. **The sovereign** is Europe's fiscal problem child: deficits resistant to every government, a bond market beginning to price the fact (OAT spreads over Bunds at post-crisis wides during each political crisis), and reform capacity hostage to a fragmented Assembly. **The corporate sector** is largely immune to the sovereign: luxury earns globally in dollars from Asian and American wallets; Airbus's backlog is measured in decades; the nuclear build-out is energy security made investable, giving French industry structurally cheaper, cleaner baseload than gas-dependent neighbours — the quiet advantage of the 2026 energy shock. Our framework: own the champions, watch the OATs, and treat every Paris political convulsion that discounts the former for the sins of the latter as what it has reliably been — a buying opportunity.

7.2 · The luxury empire: France's trillion-euro export

No European industry better illustrates champions-versus-sovereign than luxury. France (with Italian and Swiss allies) controls roughly **two-thirds of the global personal-luxury market** — a ~€400bn industry whose customers are overwhelmingly Asian and American, whose margins (LVMH ~25%+ operating, Hermès famously higher) rival software, and whose moats — century-old brands, artisan supply chains that cannot be replicated, distribution fortresses — are the deepest in consumer capitalism. LVMH built Europe's most valuable company on the model; Hermès turned scarcity itself into a compounding machine (waiting lists as balance-sheet assets); L'Oréal industrialised beauty science.

The cycle and the case: 2024–25 delivered luxury's first real slowdown in a decade — the Chinese consumer's retrenchment, aspirational buyers priced out — compressing the sector's multiples from euphoria to mere quality. We treat it as the entry the previous five years never offered: the structural drivers (Asian wealth creation resuming, the Gulf's spending build-out our earlier reports map, pricing power proven through every inflation) are intact, ownership is dynastically locked (Ch.5.3), and the sector remains Europe's cleanest claim on global wealth growth without technology risk. Within a European allocation, luxury plays the role American investors assign to mega-cap tech: the quality-growth core you buy on its rare bad years.

~2/3	~€400bn	25%+	2025
GLOBAL LUXURY CONTROLLED FROM EUROPE	PERSONAL-LUXURY MARKET	LVMH-CLASS OPERATING MARGINS	THE ENTRY YEAR THE BULL DECADE NEVER GAVE

> *"America sells the future and charges for growth; France sells the past and charges for permanence. Only one of those inventories never becomes obsolete."*

The offshore *anchor*

Britain (~$3.6tn) sits deliberately lighter in this report — outside the EU project whose renewal is our subject, yet too large and too connected to omit. Three facts frame the modern UK economy. **First, services superpower:** London remains Europe's undisputed financial capital — the continent's deepest capital markets, its legal system of choice, its fintech and asset-management hub — and Britain's universities and science base (AI research, life sciences via AstraZeneca and Oxford-Cambridge) rank second only to America's. **Second, the growth malaise:** post-Brexit trade friction, chronic under-investment and a productivity plateau hold trend growth near 1%, with living standards stagnant since the financial crisis — the cautionary tale every Draghi-report footnote cites. **Third, quiet convergence:** the 2020s' security emergency has pulled London and Brussels steadily back together — defence pacts, energy interconnection, youth-mobility and standards re-alignment — making the UK, in practice, an associate member of Europe's rearmament and energy build-out with the FTSE's defence (BAE, Rolls-Royce) and banking names full participants in the continental re-rating.

For portfolios, the UK offers Europe's themes in a cheaper wrapper: the FTSE 100 trades at a discount even to discounted Europe, pays the developed world's highest dividend yield, and earns three-quarters of its revenue abroad. What it lacks is the fiscal catalyst Germany just supplied — which is precisely why it ranks third among this report's engines, and why our continental allocation runs through Frankfurt, Paris and Amsterdam first.

~$3.6tn	#1	~1%	75%
EUROPE'S #2 ECONOMY	LONDON — EUROPE'S FINANCIAL CAPITAL	TREND GROWTH — THE MALAISE	FTSE 100 REVENUE EARNED ABROAD

IV

PART IV · CHAPTERS 9–11

The quiet *champions*

Denmark, the Netherlands, Finland and the Nordic model — small nations, world-beating franchises.

The pharmaceutical *superpower*

Five-point-nine million people; a $600bn economy; and, for a remarkable stretch of the 2020s, the fastest-growing advanced economy in Europe. Denmark's secret is a corporate roster no nation its size has ever matched:

CHAMPION	FRANCHISE	POSITION
Novo Nordisk	GLP-1 / obesity & diabetes	~DKK 1.4tn market value; quarterly sales >DKK 70bn ($11bn); the drug story of the decade
Maersk	Container shipping & logistics	The world's bellwether of trade
Vestas · Ørsted	Wind turbines · offshore wind	Global #1 turbine maker; offshore-wind pioneer
DSV · Carlsberg · Lego	Logistics · brewing · play	Quiet global top-3s, family- and foundation-owned
ATP, PFA, PensionDanmark…	Pension capital	The savings machine behind it all (Ch.5)

CNBC, Columbia Economic Review, national statistics 2025–26.

9.1 · The Novo economy — miracle and concentration

The GLP-1 revolution made Denmark the developed world's most vivid case study in single-company economics. Novo's Wegovy/Ozempic boom drove GDP upgrades from 1.4% to **2.6% for 2025** — the year's fastest major-European growth — swelled the tax base, and turned the company's quarterly reports into national leading indicators. The reverse also holds: when US competition from Eli Lilly bit in mid-2025, Copenhagen cut its national forecast within weeks. Economists now track "Denmark ex-Novo" as a separate series — growth is solid but ordinary without it. The lesson for investors is dual: the upside of championship economics (Denmark's pension wealth, currency strength and fiscal surpluses all compound on pharma's success), and its fragility — a small nation's fortunes riding one molecule's market share. Denmark's response is characteristically sensible: harvest the windfall (surpluses banked, R&D deepened), keep the rest of the bench — shipping, wind, logistics, brewing — world-class, and let the foundations (Novo Holdings' ~$100bn-plus endowment is itself one of Europe's great pools of capital) recycle pharma profits into the next generation of Danish science.

9.2 · Beyond Novo: the Danish bench and the foundation model

The bench is real. Strip Novo out and Denmark still fields: *Maersk* — the global trade bellwether whose fleet decisions (green-methanol vessels ordered at scale) set shipping's decarbonisation pace; *Vestas* — the world's #1 wind-turbine maker, and Ørsted, the company that transformed from state oil-and-gas into the offshore-wind pioneer; *DSV* — quietly one of the world's largest freight forwarders by acquisition mastery; plus Carlsberg, Coloplast (medtech's margin champion), Genmab, and Lego — the world's most valuable toy company, private and foundation-held. Danish pension funds (Ch.5) then recycle national savings into the same transition assets Danish industry builds — the tightest savings-to-industry loop in Europe.

The foundation model is the quiet institutional technology. Denmark's giants are overwhelmingly controlled by charitable industrial foundations (Novo Nordisk Foundation, A.P. Møller Foundation, Lego's KIRKBI, Carlsberg Foundation) — a structure that locks control against takeover, channels dividends into research and society, and enforces generational patience. Critics call it entrenchment; the scoreboard calls it the developed world's best per-capita corporate roster. It is also fiscal policy by other means: the Novo Nordisk Foundation alone grants billions annually into Danish science, seeding the next champions from the last one's profits — a private-sector sovereign wealth cycle no ministry designed and none could.

#1	5	DKK bn	2.6%
VESTAS — WORLD WIND-TURBINE LEADER	GLOBAL TOP-3 FRANCHISES, 5.9M PEOPLE	FOUNDATION GRANTS INTO SCIENCE YEARLY	2025 GROWTH — EUROPE'S FASTEST MAJOR

The machine that makes the *future*

The Dutch economy (~$1.3tn, 18 million people) holds the single most strategic industrial asset in Europe: **ASML** of Veldhoven — the only company on earth that can build the extreme-ultraviolet lithography machines without which no advanced semiconductor can be manufactured. Every leading-edge chip in every AI datacentre, iPhone and F-35 passes, at birth, through a Dutch machine.

METRIC	POSITION
ASML market value	~€360bn — Europe's most valuable technology company
EUV position	Global monopoly; ~€7.7bn quarterly sales, €2.3bn quarterly profit (Q2 2025)
Eindhoven expansion	New campus from 2027 — ~20,000 jobs, workforce roughly doubling
The ecosystem	Brainport Eindhoven: NXP, ASMI, Besi, VDL — Europe's chip cluster
The wider economy	Growth ~1.1–1.3%; Rotterdam (Europe's #1 port), agri-tech (world's #2 food exporter), Shell, ING, Heineken, Adyen
The savings machine	Dutch pensions ~200% of GDP — ABP €530bn (Ch.5)

Rabobank, OECD 2025–26, company disclosures.

10.1 · Geopolitics on a hundred trucks

ASML's monopoly makes The Hague a great power in the chip war it never sought: US export rules dictate which machines may ship to China, each policy round moving billions in backlog, while Washington, Brussels and Beijing court and pressure a company whose next campus decision (kept in Eindhoven, 2025, after a national "operation keep-ASML" of infrastructure and housing pledges) counts as national security policy. The deeper Dutch story is the model around it: a small open economy that pairs the continent's most valuable tech franchise with its deepest pension capital, its largest port, and an agricultural-technology sector that feeds continents from a country the size of Maryland — pragmatism, engineering and trade compounding quietly for four centuries. In our continental allocation, the Netherlands is the quality core: fewer headlines than Paris, more future per euro than anywhere in Europe.

10.2 · Brainport: anatomy of Europe's chip capital

Within an hour of Eindhoven sits the densest advanced-manufacturing cluster in Europe — worth mapping because it is the continent's clearest answer to Silicon Valley's question:

NODE	ROLE	POSITION
ASML (Veldhoven)	Lithography	EUV monopoly; High-NA next generation shipping; ~€360bn value
ASM International	Deposition equipment	Atomic-layer deposition world leader
NXP	Chip design	Automotive semiconductors' global #1-class player
Besi	Advanced packaging	Hybrid bonding leadership — AI-era assembly
VDL · Prodrive · suppliers	Precision manufacturing	The Mittelstand-style base ASML assembles from
TU Eindhoven · Holst · imec (Leuven, adjacent)	Research pipeline	The talent engine — and the binding constraint

The cluster's economics are the reverse of platform tech: hardware moats compound with every physics generation (each EUV machine embodies ~40 years of accumulated supplier co-development that no rival — not Canon, not SMEE — has replicated), customer lock-in is absolute (TSMC, Samsung and Intel plan fabs around ASML's roadmap), and the "monopoly" is earned annually in R&D that exceeds most competitors' revenue. The strategic consequence: Europe holds one of the three global chokepoints of the AI age (with US design software and Taiwanese fabrication) — and the 2025 "keep ASML" national mobilisation showed The Hague finally pricing it correctly. For investors, Brainport is the rebuttal to "Europe missed tech": it didn't miss; it specialised — in the layer where patience beats pivots, and where the moat is measured in decades of optics, not months of features.

Small nations, global *champions*

11.1 · Finland — the comeback lab

Finland's decade opened grimly — Nokia's handset collapse, a lost Russian border trade, growth near zero (0.8% risked in 2025, met with pro-investment tax cuts). Its response has made it Europe's most interesting small economy. **Nokia reinvented itself** as network infrastructure for the AI era: the October 2025 Nvidia partnership (with Nvidia taking a stake) and ~50% growth in AI/cloud revenue drove the stock to a 16-year high by May 2026 — with Solidium's patient state anchor (Ch.4) vindicated in full. **The startup engine runs hot:** 15 unicorns, ~$1.5bn of annual VC into a nation of 5.6m, and Europe's #1 per-capita defence-tech investment ($203 since 2019) — Helsinki's gaming-and-engineering talent recycled into dual-use technology on NATO's newest and longest Russian frontier. Add Fortum's nuclear-heavy clean grid, KONE, Wärtsilä and UPM, plus Keva/VER's pension ballast, and Finland models the whole Nordic thesis in miniature: crisis, adaptation, compounding.

11.2 · The Nordic model at scale

Zoom out and the five Nordics (27m people) constitute a phantom G7 economy: a **$552bn startup ecosystem** (16x in a decade — Spotify, Klarna and their descendants), three of the world's ten most innovative nations (Sweden #2, Finland #7, Denmark #9 — WIPO 2025), defence-tech enterprise value up ~500% since 2019 across 150+ startups, the world's highest trust-and-institutions scores, and — via GPFG, the AP funds, ATP and Keva — several trillion dollars of collective sovereign and pension capital. Sweden contributes the industrial-financial depth (Investor AB's sphere, SAAB's Gripen decade, Atlas Copco); Norway the energy and the fund. The model's essence, and its export lesson: small, open, egalitarian societies that absorb shocks by retraining rather than protecting, tax honestly, save institutionally, and trust their engineers. It is Europe's best argument that the continent's future need not be chosen between American dynamism and European security — the north simply built both.

$552bn	15	3 of 10	+500%
NORDIC STARTUP ECOSYSTEM VALUE	FINNISH UNICORNS	WORLD'S MOST INNOVATIVE NATIONS	DEFENCE-TECH VALUE SINCE 2019

11.3 · Sweden: the industrial-financial depth chart

Sweden merits its own page as the Nordics' scale economy — and 2025–26's cautionary nuance. **The depth:** Stockholm hosts Europe's most productive startup factory per capita (Spotify, Klarna, King and their mafia of founders-turned-angels), the Wallenberg sphere's industrial portfolio (Atlas Copco, ABB, Ericsson, SEB — Ch.5.3), world-class banks, and *SAAB* — whose Gripen fighters and GlobalEye systems made it among Europe's best defence performers as rearmament repriced the sector. The AP buffer funds and a deep retail equity culture (Sweden's ISK accounts are the SIU's citizen-level template) complete the machine.

The nuance: Sweden's macro underperformed its microstructure lately — growth cut to ~0.9% in 2025 amid a consumer squeeze and a property-debt hangover in its highly leveraged real-estate sector, while its defence-tech *startup* scene lags Finland's per-capita surge (the "Sweden falling behind" debate in Nordic tech circles). Neither dents the structural position: household balance sheets are adjusting, the property workout is progressing without systemic rupture, and NATO accession has anchored Swedish industry inside every European procurement program. We read Sweden as the Nordic value leg — the region's deepest listed market temporarily priced for its weakest cycle — with SAAB, the industrials and the banks as the recovery's natural leadership.

#2	~0.9%	5 gen	NATO
WORLD INNOVATION RANKING (WIPO)	2025 GROWTH — THE SOFT CYCLE	WALLENBERG STEWARDSHIP	ACCESSION = PROCUREMENT ANCHOR

V

PART V · CHAPTERS 12–13

The growth *frontier*

Where Europe actually grows — and the four themes that will compound through the decade.

The convergence *trade*

While the old core stagnated, Europe's periphery quietly became its engine — a reversal of the euro-crisis script worth a chapter of its own.

Spain — the big-economy leader. Growth of ~2.4% in 2026 (after leading all large developed economies through 2024–25) rests on genuinely improved foundations: a services-and-export mix beyond tourism, Europe's most successful large-scale immigration model easing demographics, EU recovery funds deployed into grids and rail, and the continent's best renewable endowment turning into an industrial pitch — cheap green power for datacentres and reindustrialisation. Banks (Santander, BBVA) and Inditex supply the listed expression; the perennial caveats are political fragmentation and youth unemployment's long tail.

Poland — the compounding machine. Thirty consecutive years of growth (the 2020 pandemic aside), ~3.4–3.5% projected for 2026 — the EU's fastest large economy — on the classic convergence recipe plus three new accelerants: the EU's Recovery and Resilience billions (public investment ~3% of GDP in 2026), the continent's most serious rearmament (defence spending ~4%+ of GDP, Europe's highest), and the westward migration of supply chains seeking skilled labour at half German cost. Warsaw's stock market and the złoty have behaved accordingly. The watch-item is fiscal: the EU's largest projected deficit funds the boom.

The wider east — Czechia, Romania, the Baltics — extends the same trade at varying quality, with the Baltics doubling as NATO's most committed spenders. **Italy**, the frontier's paradox, merits its line: 0.6% growth but a record-breaking stock market (banks again), Draghi-era reform residue, and Europe's second industrial base still compounding in its Emilian niches. The convergence trade's summary: the EU's transfer-and-single-market machine remains the most reliable prosperity engine ever constructed — and it has a decade of track left.

3.5%	2.4%	~3%	4%+
POLAND 2026E — EU'S FASTEST LARGE ECONOMY	SPAIN 2026E — BIG-ECONOMY LEADER	OF GDP: POLAND'S EU-FUNDED INVESTMENT	POLAND'S DEFENCE SPEND — EUROPE'S HIGHEST

12.2 · Italy & the Mediterranean rebound

Italy is Europe's most underestimated large market — 0.6% growth headlines concealing a decade-best equity market and a genuine repair story. **What changed:** the Draghi government's reform residue (justice, procurement, tax administration) still compounds through the NextGenerationEU program Italy is the largest recipient of (~€190bn); the banking system, the euro crisis's epicentre, emerged consolidated and profitable (UniCredit and Intesa among Europe's best performers, with UniCredit's pan-European ambitions reshaping the sector's M&A map); spreads over Bunds compressed to decade tights as fiscal management under-promised and over-delivered; and the export machine — pharmaceuticals, machinery, the Emilian motor valley, food — quietly reached record surpluses. Add Exor's Ferrari (Europe's most profitable carmaker per unit by a mile) and luxury's Italian supply chain, and the FTSE MIB's world-beating run stops looking anomalous.

The Mediterranean frame: with Spain leading big-economy growth, Greece running primary surpluses and upgrade cycles a decade after its crisis, and Portugal compounding tourism-tech-energy, the euro periphery has swapped roles with the core — the crisis states now the fiscal conservatives and growth leaders. The convergence trade of Chapter 12 thus runs both axes: eastward on transfers and industry, southward on services, energy and redemption. Italy sits at the junction: core-scale industry, periphery-style repricing, and the demographic caveat (Europe's oldest large society) that keeps position sizes honest.

~€190bn	#1	Record	Oldest
ITALY'S NGEU ALLOCATION — EU'S LARGEST	FTSE MIB AMONG 2025'S TOP MARKETS	EXPORT SURPLUSES, QUIETLY	LARGE-ECONOMY DEMOGRAPHICS — THE CAVEAT

Defence, energy, technology, *finance*

Theme 1 — Rearmament (the decade's anchor). European defence budgets are heading toward **~€970bn a year by 2030**; Germany alone from €62bn to €152bn+. The supply side is structurally short: order books at Rheinmetall, SAAB, Leonardo, Thales and BAE stretch years, ammunition and air-defence capacity is being tripled, and a venture layer has formed beneath the primes — defence-tech VC at $1.5bn in 2025 (4x since 2019), the EIF's InvestEU Defence Equity Facility (€175m seeding >€500m) committing across France, Germany, the Netherlands and Poland. Rearmament is unpopular, debt-funded, and — precisely for those reasons — the most politically durable capex program in Europe.

Theme 2 — Energy security & transition. The 2022 gas shock and its 2026 echo taught the same lesson twice: Europe's energy must be home-made. The build-out is continental in scale — France's six EPR2 reactors (€52bn) leading a nuclear renaissance, the North Sea's wind build, Iberian solar, and above all *grids*: the unglamorous hundreds of billions in transmission, interconnection and storage that every scenario requires. Utilities, grid-equipment makers (Siemens Energy, Schneider, ABB, Prysmian) and infrastructure funds own the theme.

Theme 3 — Technology sovereignty. Europe will not out-build American hyperscalers; it doesn't need to. Its play is the chokepoints and the deployment layer: ASML's monopoly and the Brainport cluster, Nokia/Ericsson's AI-era networks, SAP's enterprise install base, a deep-tech venture scene (quantum, photonics, space) that InvestEU and national funds now co-fund, and the EU's belated but real push — Chips Act, AI gigafactories, the Scaleup Europe Fund with ABP aboard — to keep its science onshore.

Theme 4 — Financial normalisation. A decade of negative rates nearly euthanised European banking; its end resurrected the sector 2023–25 (Commerzbank +126%, Deutsche +84% in 2025 alone) and the Savings & Investments Union now aims the continent's €35tn of savings at its own capital markets. Banks, exchanges, and asset gatherers are the levered play on Europe believing in itself — which is, compressed to one line, this report's thesis.

13.2 · The rearmament value chain, mapped

LAYER	NAMES	EXPOSURE
Land systems & ammunition	Rheinmetall, KNDS, BAE, Nammo	The shortage epicentre — shells, vehicles, air defence; capacity tripling
Air & missile	Dassault (Rafale), SAAB (Gripen), Airbus D&S, MBDA, Leonardo	Export decade + European fighter programs (FCAS/GCAP politics permitting)
Electronics & sensors	Thales, Hensoldt, Leonardo, Indra	The margin layer — radar, EW, C4I in every platform
Naval	TKMS, Fincantieri, Naval Group, Damen	Submarine and frigate renewals, decade backlogs
New space & drones	Kongsberg, OHB, startups (Helsing, Quantum Systems, ICEYE)	Where the VC quadrupling (Ch.13) concentrates
Dual-use & components	Optics, propulsion, batteries, secure comms Mittelstand	The pick-and-shovel tier procurement reform unlocks

Three portfolio observations. **Backlog quality is exceptional:** multi-year government order books at fixed-plus terms make the primes' earnings visibility rival utilities' — the 2025 re-rating priced the growth, not yet the durability. **The venture layer is the asymmetric bet:** Europe's Andurils are being founded now, with Helsing's AI-defence valuation and Finland's per-capita surge the early evidence; the EIF facility and national funds have made the sector fundable at last. **The politics are the moat:** every procurement euro carries domestic-content gravity, making European names structurally advantaged in European budgets regardless of American alternatives — an industrial-policy tailwind investors rarely get stated this plainly.

VI

PART VI · CHAPTERS 14–16

The *prospectus*

The Draghi agenda, how to position, the outlook to 2035 — and the risks, named plainly.

Europe's €800bn *question*

In September 2024, the man who saved the euro delivered its sequel: a 400-page diagnosis of European competitiveness that Brussels commissioned and could not ignore. The Draghi report's arithmetic was brutal — Europe must invest an additional **€750–800bn a year (4–5% of EU GDP)**, a mobilisation with no peacetime precedent, or accept "slow agony": permanent technological dependence and eroding prosperity.

PILLAR	PRESCRIPTION	STATUS (AS OF LATE 2025)
Innovation gap	R&I spending toward €200bn/yr; a "28th regime" of single EU-wide company rules for startups	Compass adopted; 28th regime drafted
Capital markets union	Unify 27 fragmented markets; mobilise €35tn of savings	Savings & Investments Union components presented Dec 2025
Energy costs	Decouple power prices from gas; grid build-out	Partial; re-tested by the 2026 shock
Defence & procurement	Joint procurement, industrial scale	The one pillar moving at full speed
Overall implementation	—	~11% of recommendations enacted at the one-year review (Sept 2025)

European Commission; Draghi one-year review conference (von der Leyen & Draghi, Sept 2025); Contextual Solutions tracking.

14.1 · Reading the reform trade

Eleven percent sounds like failure; investors should read it as optionality. The agenda's hardest pieces — treaty-adjacent capital-market unification, common borrowing — were never going to move in a year, while the pieces crisis actually forces (defence, energy, German fiscal policy) are moving faster than Draghi asked. Europe reforms the way it always has: nothing, nothing, nothing, everything — Maastricht, "whatever it takes", NextGenerationEU and the 2025 pivot each arrived exactly when consensus said they couldn't. The prospectus consequence: none of the €800bn upside is in European multiples at a 35% discount. Each pillar that moves — an SIU that redirects even 2% of household savings, a 28th regime that keeps the next ASML from incorporating in Delaware — is unpriced convexity. The reform trade requires no heroic assumption; it requires only that a continent under existential pressure continues doing what it does under existential pressure.

Investing the European *decade*

Navy Capital's framework for expressing the thesis, by conviction and horizon:

SLEEVE	EXPRESSION	ROLE
The core	Broad European equity (Stoxx 600 / MSCI Europe class exposures)	The discount itself: ~35% cheaper than US markets with improving earnings; currency diversification from record dollar concentration
The champions	ASML & Brainport; luxury (LVMH, Hermès); SAP; Novo & European pharma; Airbus/Safran	Global franchises domiciled in Europe — world growth at European prices
The fiscal beneficiaries	Defence primes & suppliers; grids & electrification; rail & construction; German industrials	The €500bn + €970bn/yr spending streams, still early
The normalisers	Banks & exchanges (DB, Commerzbank, Santander, UniCredit class)	Positive-rate compounding + SIU optionality; highest beta to the thesis
The convergence sleeve	Spain, Poland & CEE exposures	Europe's actual growth; EU-transfer tailwind to 2030
Private & real assets	Infrastructure (grids, renewables, marinas-to-ports), European PE/VC incl. defence-tech	Where sovereign co-investors (Ch.4–5) crowd in beside you

Sizing counsel: the average global portfolio remains near record underweight Europe against its ~20% share of world output — our baseline correction is toward neutral, funded from US mega-cap concentration, staged across 2026's shock-driven weakness. **What would change our mind:** reform fully stalling (SIU shelved, German deployment strangled), an energy crisis extending past 2027, or French fiscal stress migrating from OAT spreads into the banking system. Absent those, weakness is accumulation. *As ever: this is a framework, not personal advice; consult your adviser on suitability.*

15.2 · Three model expressions

SLEEVE	CONSERVATIVE "THE OWNER"	BALANCED "THE ALLOCATOR"	GROWTH "THE BELIEVER"
Broad European equity core	40%	35%	25%
Global champions (ASML, luxury, pharma, SAP)	20%	20%	20%
Fiscal beneficiaries (defence, grids, industrials)	10%	15%	20%
Financial normalisers (banks, exchanges)	5%	10%	15%
Convergence (Spain, Poland, CEE, Italy)	5%	10%	10%
European IG credit & govvies	20%	5%	—
Private markets (infra, PE/VC, defence-tech)	—	5%	10%

Illustrative frameworks for a portfolio's *European allocation*, not whole-portfolio advice; instruments, taxes and suitability vary by investor — consult your adviser.

Implementation notes from the desk. *Stage entries:* 2026's shock volatility is the friend of the twelve-month accumulator and the enemy of the lump-sum hero. *Mind the currency:* unhedged euro exposure is part of the diversification thesis for dollar-based investors; hedge only what you cannot sleep through. *Use the home team:* where available, co-investment vehicles alongside the promotional banks and pension platforms (Ch.4–5) carry the era's best risk-sharing. *Rebalance on the markers, not the news:* the Draghi score, German disbursement, SIU milestones and OAT spreads are the four dials; headlines are weather.

Outlook to *2035* — and the risk register

Five calls for the decade

— **Growth reaccelerates from 2027.** ECB projections (0.8% '26 → 1.2% '27 → 1.5% '28) understate the German multiplier as €500bn actually deploys; we expect euro-area growth sustainably above 1.5% by 2028 — modest by Asian standards, transformative for European earnings.

— **The savings turn homeward.** SIU mechanics plus pension-fund initiative (ABP's Scaleup anchor as precedent) redirect a meaningful slice of €35tn inward; European IPO and venture markets are structurally deeper by 2030.

— **Defence becomes a permanent industry,** not a cycle: ~€970bn/yr by 2030 institutionalised via joint procurement, with a listed and venture ecosystem to match — Europe's aerospace decade, on land.

— **The champions widen their moats:** ASML through the AI build-out, pharma through the obesity decade, luxury through Asia's next wealth generation — with a German SWF debate, an Irish €100bn fund, and GPFG at $3tn by decade's end reshaping the sovereign-capital map.

— **The discount narrows but never closes:** we underwrite re-rating from ~35% toward ~20%, not parity — Europe's reward profile is compounding-plus-yield-plus-multiple, not a moonshot.

The risk register

1 · Energy: the 2026 shock shows the wound unhealed; a prolonged crisis re-runs 2022 with less fiscal room. **2 · France:** deficit ~5.1%, debt to ~120%, politics gridlocked — Europe's most plausible sovereign-stress candidate. **3 · Demographics:** the continent ages faster than it automates; migration politics constrain the obvious fix. **4 · Reform fatigue:** 11% implementation could be the ceiling, not the floor. **5 · Security:** the threat driving rearmament could also, in a bad scenario, arrive; Europe's tail risks are geopolitical before they are economic. **6 · Regulatory own-goals:** the standing danger that Brussels regulates AI, capital and industry faster than Europe builds them.

> *"Europe is the only major market priced for decline while investing for revival. One of those two views will prove wrong — and the whole prospectus rests on which."*

The questions clients ask the desk

Hasn't "Europe is cheap" been wrong for a decade?

Yes — because cheapness was the whole thesis. It isn't anymore: 2025 added the two missing ingredients, a fiscal regime change in the core and an earnings cycle (banks, defence, industrials) that no longer requires multiple expansion to pay. Valuation is now the margin of safety, not the argument.

Why so much attention on pension funds and state investors?

Because they are the transmission mechanism. Europe's problem was never a lack of savings — it has €35tn of them — but their export. Watch ABP, ATP, the AP funds and the SIU: the decade's quiet variable is what fraction of that pool turns homeward.

Is Germany's pivot real or announced?

Funded and constitutionally locked — the rare European program that survives elections, because security fears are bipartisan. The honest risk is absorption speed: planning law, not money, is now Germany's binding constraint. Watch actual disbursement, not announcements.

Why underweight the UK in a Europe report?

Not for lack of quality — for lack of catalyst. Britain offers the themes cheaply but without the fiscal engine Germany just switched on; it participates in the re-rating rather than driving it. We hold it as the value sleeve, not the growth one.

What single indicator would you watch?

The Draghi implementation score. It compresses everything — reform will, capital-markets depth, energy policy — into one number. At ~11% the option is cheap; at 30% the re-rating is underway; if it stalls at 15% by 2028, temper the thesis to the champions-and-convergence sleeves alone.

~35%	€35tn	11%	2027
THE DISCOUNT = MARGIN OF SAFETY	THE SAVINGS POOL IN PLAY	DRAGHI SCORE — THE ONE NUMBER TO WATCH	OUR REACCELERATION YEAR

APPENDIX A · MASTER DATA TABLE

Europe at a glance, 2025–26

INDICATOR	VALUE	NOTE
EU GDP	~€17tn (~$20tn+ incl. UK/CH/NO)	~450m consumers; world's largest single market
Euro-area growth path	0.8% '26 → 1.2% '27 → 1.5% '28	ECB June 2026; 2026 dented by energy shock
Inflation / policy	3.0% '26 → 2.0% '28; ECB hiked 25bp June '26	Shock-driven; disinflation path intact
GPFG (Norway)	~$2.2tn; +15.1% / $247bn in 2025	71% equities; ~1.5% of world's listed companies
Pension giants	ABP ~€530bn · Keva €74bn · AP funds €250bn+	Dutch system ~200% of GDP
State funds	Bpifrance €32bn eq. · ISIF €9.5bn · KENFO ~€25bn	Governance score 74% — world's best
Germany's pivot	€500bn/12yr fund; defence €62bn→€152bn+ by '29	Debt brake reformed March 2025
2025 markets	DAX +23%; Rheinmetall ~+150%; Commerzbank +126%	Europe beat S&P 500 & Nasdaq
Growth leaders '26e	Poland 3.4–3.5% · Spain 2.4% · Denmark 2.2–2.6% ('25)	Italy 0.6%; France 0.8%
Defence trajectory	Europe toward ~€970bn/yr by 2030	Defence-tech VC $1.5bn '25 (4x since '19)
Draghi agenda	€750–800bn/yr asked; ~11% implemented	SIU components presented Dec 2025
Valuation	Europe ~30–35% forward P/E discount to US	Near record wides

Appendix B · Glossary

GPFG / NBIM	Norway's Government Pension Fund Global; Norges Bank Investment Management, its operator.
SWF vs pension fund	Sovereign wealth = state-owned investment capital; Europe's largest pools are technically pension systems with sovereign scale.
Debt brake	Germany's constitutional deficit limit (2009); reformed March 2025 for defence and the special fund.
Draghi report / Compass	2024 EU competitiveness diagnosis; the Commission's 2025 implementation roadmap.
SIU / CMU	Savings & Investments Union — successor push to the Capital Markets Union: one EU market for capital.
28th regime	Proposed EU-wide legal regime letting startups incorporate once for all 27 states.
NextGenerationEU / RRF	The EU's €800bn pandemic recovery instrument; the facility funding Poland's investment boom.
EPR2	France's next-generation reactor program — six units, €52bn, from 2026.
EUV	Extreme-ultraviolet lithography — ASML's monopoly technology for advanced chips.
Convergence trade	Investing in EU-periphery productivity catch-up powered by transfers and the single market.

Sources: NBIM, ECB & European Commission, IMF/OECD, IFSWF & Global SWF, IPE Top 1000, EIF/InvestEU, national ministries and financial press through early 2026. Figures rounded; general commentary, not investment advice. · hello@navycapital.info · navycapital.info

The Navy Capital country matrix

COUNTRY	GROWTH '26E	FISCAL HEALTH	CHAMPIONS	DESK STANCE
Germany	Recovering	Strong (pivot-funded)	SAP, Siemens, Rheinmetall, Mittelstand	Overweight — the catalyst economy
Netherlands	1.1–1.3%	Strong	ASML & Brainport, ABP capital	Overweight — the quality core
Denmark	2.2%+	Surplus	Novo, Maersk, Vestas, foundations	Overweight, concentration-aware
Poland	3.4–3.5%	Deficit-funded boom	The convergence machine itself	Overweight growth sleeve
Spain	2.4%	Improving	Banks, Inditex, renewables	Overweight growth sleeve
France	0.8%	Weak — the watch item	Luxury, Airbus, nuclear, Bpifrance	Champions yes; sovereign caution
Finland	~1% rising	Adequate	Nokia revival, defence-tech, Solidium	Overweight small-cap innovation
Sweden	~1% cyclical	Strong	Wallenberg sphere, SAAB, startups	Accumulate the value leg
Italy	0.6%	Better than feared	Banks, Ferrari/Exor, export machine	Selective — banks & exporters
UK	~1%	Constrained	Finance, BAE/Rolls, science	Value sleeve; no catalyst premium
Norway · Switzerland	Steady	Fortress	GPFG; Nestlé/Roche/Novartis complex	The ballast holdings

Desk synthesis of Chapters 2–15; forecasts European Commission/ECB/OECD 2025–26. Stances describe relative emphasis within a European allocation, not personal recommendations.

> *"Buy the continent the way its own patient money does: champions first, catalysts second, convergence third — and let the discount do the compounding."*

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