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An opportunity for Germany

Market Comment, January / February 2026

The past year was marked not only by the very strong rally in US technology stocks, but also by the generally unexpected strength of Eurozone equities, particularly in Germany. This development is primarily linked to increased hope in the market that Germany's economy, which initially stabilised in 2025 relative to previous years, will continue its improvement and record a more pronounced upswing in the future, i.e. in 2026 and 2027. This would benefit the Eurozone as a whole as well as Switzerland. The package of measures adopted by the German government in 2025 indeed offers an opportunity for Germany to achieve stronger economic growth that has not been seen for many years. However, the financial markets have already priced in much of this optimism, as shown by the stronger euro against the US dollar and the aforementioned performance of Eurozone equities last year, especially in Germany. As they say, the devil is often in the detail. This means that everything now depends on the precise implementation of the fiscal stimulus programme so that corporate earnings can also clearly benefit. The question of whether further reform steps will follow will likewise be key.

After many years of clear underperformance compared to US equities, Eurozone stocks, and especially those from Germany, finally managed to make up some ground in relative terms during 2025. This was triggered by the plans announced by the Merz government in the first quarter of 2025 to loosen the debt brake and boost the economy through infrastructure investments and defence spending. Together with the higher military spending also planned by other European Union states, this fiscal stimulus represents a clear opportunity for Germany in terms of stronger growth.

The German government is planning new spending to improve infrastructure totalling EUR 500 billion over a period of 12 years and has amended the constitutional debt brake to create room for significantly higher military expenditure. The latter could increase from 2% to around 3.5% of gross domestic product within five years. Combined with investments in improved infrastructure, the economic stimulus for Germany in 2026 could amount to approximately 0.5% to 0.8% of gross domestic product.

These stimulus plans also appear appropriate, as Germany is known to be structurally more dependent on global trade than other countries. This also makes the German economy more vulnerable to tariff increases or manufacturing disruptions than other economies. In addition, China has transformed itself from being a popular export destination, especially for German car production, into a less popular direct competitor that is gaining market share, with this being particularly true for electric cars.

> "The massive infrastructure and defence spending represents a clear source of economic stimulus."
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> Gérard Piasko, Chief Economist

However, three further factors must be considered. Firstly, alongside the welcome fiscal stimulus through infrastructure and military spending, Germany also needs deregulation in terms of government requirements to make it easier for companies to conduct their business activities. A reduction in the general tax burden for companies would fit the bill here, along the lines of the tax reforms implemented by the US government in 2017 and 2025. Secondly, it is also urgently necessary to improve the general level of education. While OECD studies indicate that education levels improved in the period between 2000 and 2015, they have deteriorated sharply once more since 2015, probably also in connection with misplaced priorities during Chancellor Merkel's term of office. Thirdly, Germany, like the European Union in general, needs a stronger focus on investment in future-oriented technologies. Compared with the US, which is planning annual investments of USD 400 to 500 billion in artificial intelligence to significantly improve economic productivity, the EUR 150 to 200 billion referenced by Germany and France appears too little. There is a danger of simply losing touch with the frontrunners when it comes to new technologies, namely the US and China. Incidentally, a reduction in energy prices, which are far too high in Germany and the EU relative to the US, especially when it comes to electricity, would also help in addressing the technology gap. Overall, this means that further reforms will probably be necessary to stimulate the economy and corporate profits over a longer period.

How Germany takes advantage of this current opportunity will, of course, also depend on how the implementation of the fiscal reforms decided upon thus far looks in detail. This will show whether the financial markets' hopes regarding the Eurozone and Germany are justified and whether they can be further strengthened.

Gérard Piasko

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