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The mighty, the muscle, the misunderstood – Europe’s dividend defence for winter

Winter is coming, and Europe is not retreating, it’s rearming. Amid rising geopolitical tensions, monetary uncertainty, and diverging fiscal paths, Europe offers not just shelter but substance. While US tech continues to dominate headlines, a quieter but powerful investment story is unfolding in Europe, especially for dividend-focused investors.

Europe’s total estimated shareholder yield, combining dividends and buybacks, remains robust at 4.5%–5.0%¹ for major

indices like the STOXX 600 and MSCI UK. This provides not only downside protection but also a compelling foundation for active strategies. With S&P 500 dividend yields near historic lows, Europe offers a more balanced mix of income and valuation upside. Despite recent gains, Europe still trades at around 14x–15x P/E,² attractive compared to the US, underscoring that value remains firmly in play.

What’s driving European equity momentum today is not just macro stabilization, but a shift in market leadership. Three forces are powering this transformation, each with its own dynamic, but together forming the backbone of Europe’s dividend story.



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The mighty – European financials

European banks have staged one of the most remarkable comebacks in recent years. Once seen as symbols of crisis, they now set the standard for total returns, even outperforming the Magnificent Seven since July 2024. This comeback is Europe’s answer to the global tech hype. While headlines celebrate AI-driven innovation from the tech elite, European banks have quietly rewarded investors with exceptional returns in 2025, powered by solid profits, record dividends, substantial share buybacks, and robust stress test results. Even the collapse of Credit Suisse in 2023 seemed more like a late echo of past weaknesses, underscoring the progress of the rest of the industry. Europe’s financial

institutions are no longer a reminder of the past, they have become a beacon of stability and income. Unlike many US regional banks, which continue to face turmoil due to lighter regulation and recent failures such as Santa Anna National Bank in summer 2025, European banks benefit from a robust regulatory framework. Higher capital buffers, stronger liquidity ratios, and rigorous stress testing have ensured resilience and stability across the board.

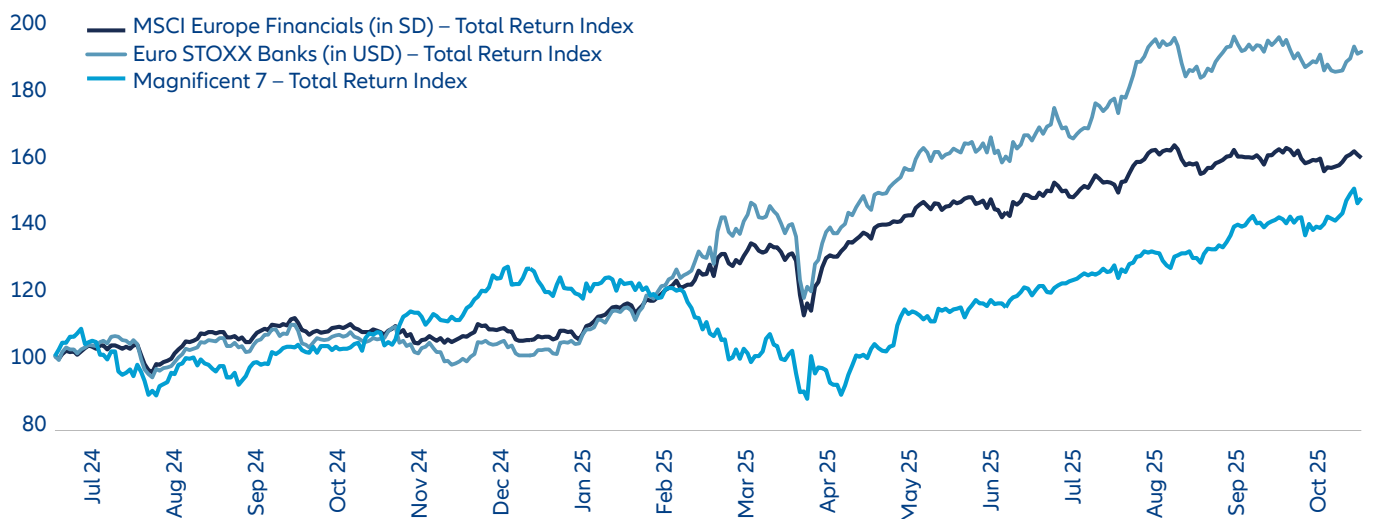
Banks such as Intesa Sanpaolo and Nordea Bank serve as examples. These institutions stand out, not only for their resilient earnings but also for their shareholder returns, supported by disciplined capital allocation. Intesa Sanpaolo has maintained a 70% payout ratio under its current business plan, while Nordea Bank

has grown its dividend by nearly 19% over the past five years, reflecting consistent capital generation and financial stability.³ These examples illustrate that, more broadly, the EU banking sector currently presents a range of similarly attractive investment opportunities for income-oriented investors.

How Europe’s banks quietly took the lead

With interest rates already eased, credit demand is expected to rise further as EU-wide stimulus packages are now entering rollout phase and begin to support investment and infrastructure financing. A steepening yield curve and strong deposit growth are expected to further support net interest income. Rising long-term sovereign yields, driven by

MSCI Europe Financials (in USD) TR Index & Euro STOXX Banks (in USD) versus Magnificent 7 – TR Index (indexed: 1. Juli 2024 =100)



Source: AllianzGI/ LSEG Datastream 31 October 2025. The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management’s current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. We assume no obligation to update any forward-looking statement. For illustrative purposes only (no reference to any real strategy, portfolio or product data). Past performance does not predict future returns.

government commitments to defence and infrastructure, are making deposit-funded investments more attractive, reinforcing the strategic relevance of Europe's banks. These are no longer just defensive plays, they are strategic dividend engines with pan-European relevance.

The muscle – European industrials

Europe's industrial sector is undergoing a renaissance. Reindustrialization, automation, and infrastructure investment are driving a structural recovery. Manufacturing PMIs have returned to expansion territory, and EPS growth is projected to exceed 12.5% by 2026.⁴ Companies are benefiting from lean inventories, fiscal stimulus, and margin improvement. Once considered cyclical, industrials are now central to Europe's economic renewal and increasingly attractive for dividend-oriented strategies. Companies such as Volvo Group and DHL exemplify the sector's income strength and strategic relevance for dividend investors.

The misunderstood – European energy

Often overlooked, sometimes misunderstood, but increasingly impossible to ignore: the European energy sector. Europe's energy sector is at a turning point. For years it was seen as a defensive area, but that perception no longer reflects reality.

Energy in Europe has become a strategic growth sector. The shift from fossil fuels to renewable energy and low carbon solutions is not only supported by regulation it is accelerated by massive investment programs. Germany is driving momentum through the Climate and Transformation Fund, France is reinforcing this with bilateral initiatives, and EU-wide programmes such as the Clean Industrial Deal State Aid Framework are together creating a strong foundation for transformation.

Importantly, these initiatives are no longer just plans on paper, they are already in the implementation phase, and European companies are benefiting directly. For example, Siemens Energy is building four converter stations for the Danish-German offshore wind project "Bornholm Energy Island" (project volume: >€1 billion),⁵ which will turn Bornholm into a key energy hub for offshore wind power from the Baltic Sea, a project financed under the EU's Connecting Europe Facility and aligned with REPowerEU objectives to accelerate cross-border renewable infrastructure. Similarly, the European Investment Bank has granted Iberdrola a €500 million green loan for the Windanker offshore wind farm in the Baltic Sea.⁶

This dynamic makes the sector resilient even in an environment of geopolitical uncertainty and volatile commodity prices. Forecasts from JP Morgan which project Brent prices

between 66 US dollars in 2025 and a potential spike to 120 US dollars in case of severe disruptions underline the risks.⁷ Yet European energy companies are broadly diversified. Upstream, downstream, and rapidly expanding low carbon segments provide a stable base to absorb fluctuations.

This transformation is reflected in corporate strategies. Companies such as TotalEnergies and Equinor are leading the way. TotalEnergies is building a global platform for renewable energy and investing heavily in technologies like carbon capture and hydrogen. Equinor is leveraging its offshore expertise to scale wind projects and advance solutions such as blue hydrogen and Carbon Capture and Storage.

Valuation adds another layer of appeal. European energy companies continue to trade at attractive discounts while delivering high payouts. Energy is therefore no longer just a hedge against volatility it is a growth story with strategic depth and strong dividend potential.

For dividend investors the message is clear. Europe offers not only stability but structured opportunities. The combination of high payout sector transformation and political support makes the continent an increasingly compelling target for income strategies. Winter is approaching and Europe's dividend engine is ready to deliver.

Footnotes:

- 1 The estimate of the total shareholder yield is based on the Goldman Sachs report *Income Generation: Seeking Steady Streams in Unstable Times (Q1 2025)*. The report indicates a buyback yield of approximately 1.9% for European large caps. Since share buybacks do not provide an immediate cash return—unlike dividends—but instead contribute to shareholder value over time through a reduced share count, an adjustment factor of 40% is applied. This results in an effective buyback yield of about 0.76% (1.9% × 40%). Combined with the STOXX 600 dividend yield of 4.19% reported in the April 2025 STOXX fact sheet, this implies an estimated total shareholder yield of roughly 4.95%.
- 2 Datastream as of 31 October 2025.
- 3 Company data, as of October 2025.
- 4 Bloomberg, August 2025.
- 5 European Investment Bank (EIB) press release, November 3, 2025.
- 6 European Commission, 4 September 2025.
- 7 JP Morgan, May 2025

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