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Gear shift for European equity markets

What will it take to make Europe a leader?

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AFME

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

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Europe's equity markets[1] are in a moment of opportunity

In recent years, European markets have struggled to keep pace with the rate of growth in other regions, with persistent underperformance affecting growth, innovation, and overall financial stability. Relative to the United States, despite a broadly comparable economic size (US Real GDP stood at €18.97 trillion in 2024, while Europe's Real GDP was €18.79 trillion), the US retains its lead in equity market activity. In 2024, the US recorded 187 IPOs with a total value of €34 billion, outpacing Europe's 88 IPOs, valued at €20 billion. Beyond IPO numbers, the US has maintained a more attractive equity market overall, reflected in 52% higher return on equity (RoE) and 66% higher P/E ratios of the S&P 500 compared to the STOXX 600 in 2024.

Several key reports in both the UK and EU have analysed these gaps and proposed pathways for reform, providing a renewed impetus to deliver meaningful change.

The current focus on reform is an opportunity for Europe to shift gears. PwC Strategy&, on behalf of AFME, has conducted an in-depth analysis of European equity markets, integrating quantitative data with insights from 40 interviews involving key market participants (*see Table 1, page.14*). This diverse group included European issuers (with US or European listings), institutional investors, stock exchanges, electronic liquidity providers, retail buy-side investors, private equity firms and venture capitalists, investment banks, exchanges and index providers. They offer a comprehensive view across the equity market value chain.

The findings, together with supplementary quantitative research, highlight the critical opportunities and challenges Europe must coherently address as part of a holistic approach to improve its competitiveness and maintain its position as a global leader.

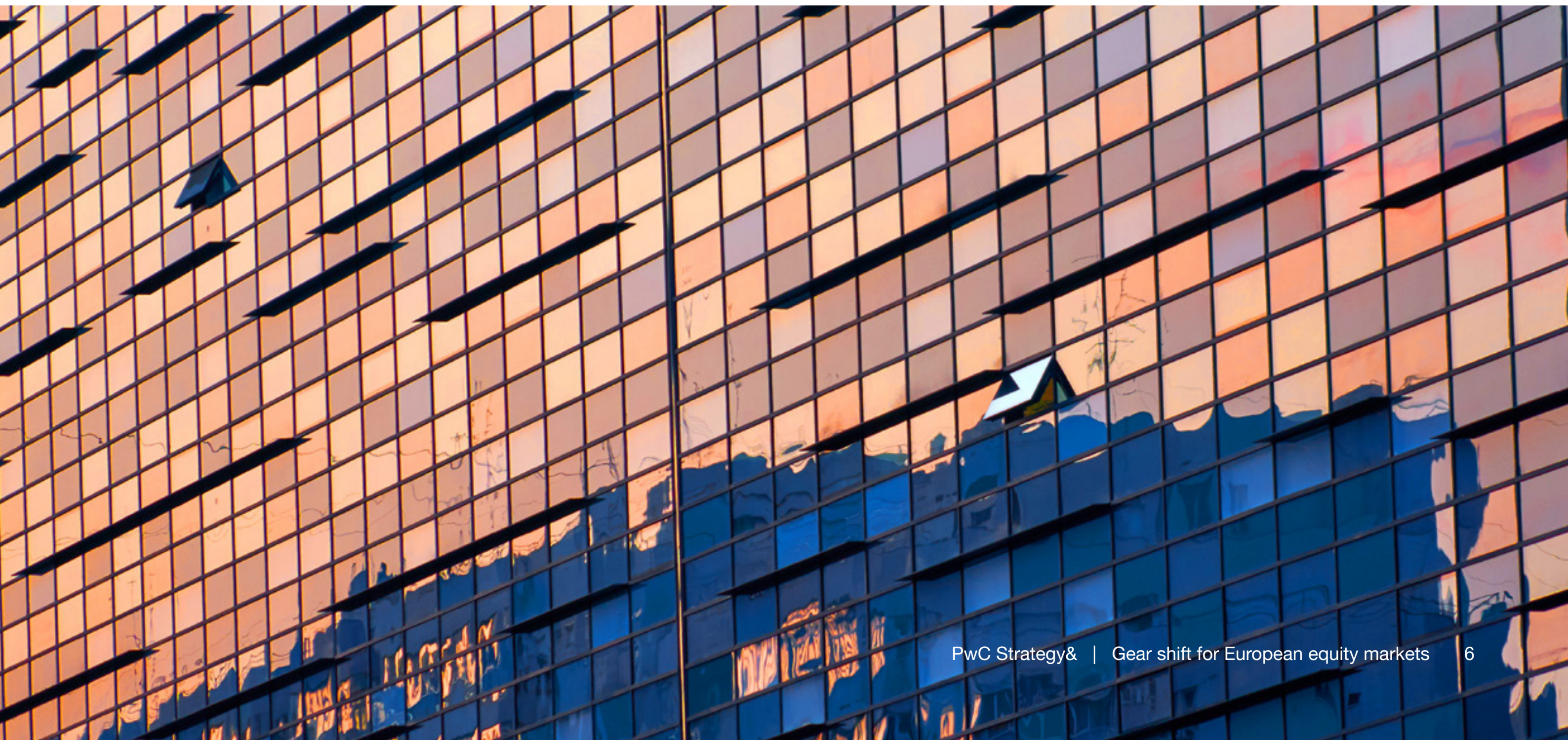
Firstly, how to increase primary market activity at a time when a significant number of European companies are choosing to list in the US (or elsewhere), and secondly, addressing challenges in understanding secondary market liquidity in European equity markets.

Our analysis has led to the development of a four-point pan-European ecosystem model, identifying the interconnected factors which impose systemic barriers to improving European equity market performance, and which must be tackled holistically in order to deliver meaningful change.

1. Significantly grow demand by increasing the available European investment pot.
The pool of capital available for investment can be grown by targeting significantly greater participation from retail and pension investors, channelling more domestic savings into national and pan-European equity markets. The comparatively small European pot of institutional pension and retail money available for equity investment currently constrains both the primary and secondary markets. This report provides quantitative analysis and the results of market participant interviews relating to various European initiatives targeted at growing the available investment pot.

The potential impact of increased retail investment on the liquidity of European equity markets is transformative. According to a pan-European stochastic model developed by AFME and PwC Strategy& – incorporating factors such as demographics, investment propensity, and contribution payments – retail investors alone could contribute an additional €190–480 billion in 2025/2026 as part of an EU-wide or individual memberstate supported pension fund, comparable to the yearly contributions of the US at €450 billion (with 160 million employees and 51% penetration). This baseline contribution would represent c. 7% of the average salary of a European citizen, as compared to current US contributions of c. 9-10% of the average US salary. Over the long term, cumulative retail contributions to pension funds in Europe could reach an impressive €4–9.5 trillion by 2044, rivalling the current size of the US market at approximately €9 trillion.

2. Address market structure frictions impacting liquidity.
Structural differences between US and European equity markets may contribute to lower levels of liquidity in secondary markets in Europe. A variety of factors were suggested by interviewees, such as the recent growth of passive-investment indexation, which favours large cap (often US) companies over smaller cap companies. On this issue, solutions discussed include establishing EU-backed liquidity enhancement funds to support less liquid regions and sectors. At the same time, EU and UK authorities should deliver on plans to improve transparency in secondary markets through the establishment of the EU and UK consolidated tapes, as well as take steps to reduce excess costs and complexities caused by a wide range of elements ranging from transaction and stamp taxes to post-trade inefficiencies.



3. Explore policy measures to help boost growth of European corporates, focusing on areas of strength.

The difference in performance between European and US equity markets is, in part, driven by structural differences in the respective economies, largely outside the control of market participants. This is illustrated in our analysis of the sectoral composition of the S&P 500, as a proxy for the US equity market, and the STOXX 600, as a proxy for Europe. US markets are much more heavily weighted to high-growth sectors such as technology and telecommunications. In order to help bridge this gap, policymakers and finance ministries should continue to explore ways to deliver growth and efficiencies of European economies, thus improving the profitability/return on equity investment of our corporations. Europe should also focus on its areas of respective strength – industries where it holds a competitive advantage – in order to help establish the region as a world-leading hub for issuers and investors in these sectors.

4. Address remaining regulatory barriers: accelerate reforms to support a growth and competitiveness mandate.

EU and UK primary and secondary equities markets are highly regulated to ensure strong market integrity, stability, and investor protection. Although in recent years, the EU and UK have both identified and implemented many regulatory changes to focus on growth (to try to attract more listings, IPOs and secondary trading, as well as to increase retail participation in their respective capital markets), more can be done to lower costs for issuers and investors, while still providing a sufficiently safe and effective market ecosystem.

KEY FINDINGS

US companies are currently more profitable

US markets have historically delivered a higher return on equity. The S&P 500, as a proxy for US market performance, consistently offers a higher return on equity (RoE) and a more consistent upward trend compared to the STOXX 600. Similarly, as an indication of investors' perceptions of a company's future earnings potential, the Price-to-Earnings (P/E) ratio of the S&P 500 has consistently exceeded that of the STOXX 600 since 2016.

However, recent events have resulted in increased investor focus on European markets, and in the first half of 2025, the performance of the STOXX 600 (+6.01%), has been higher than the S&P 500 (+5.73%).

Cross-border listings have largely been a one-way street, but valuations and performance do not always align with expectations

Since 2010, nearly 10% of new listings of European firms have been in the US. Over 200 European firms have chosen to list in the US – nearly 8x the number of US firms pursuing a listing in Europe. While the biotech sector is widely recognised for achieving higher valuations in the US, an analysis of the 18 most recent European biotech firms listed in the US reveals that only three achieved positive offer-to-date performance. Across all sectors, we found that European firms listing in the US significantly outperformed European listings when measuring offer to first close or offer to first month. However, across the full offer-to-date period, European firms listing in Europe achieved better long-term stock price growth (61% compared to 45%) – the US does not therefore constitute a 'holy grail' for European firms.

Sectoral differences are important

European companies listing in the US have consistently achieved higher average IPO valuations in the technology and telecommunications sector during the 2020–2024 period, reflecting the global dominance of the US in these high-growth industries. European markets have remained more focused on traditional industries, such as automotive and industrials, which have recently been characterised by slower growth rates and capital-intensive business models, and therefore smaller IPOs and valuations.

Improving retail participation in European equity markets can 'ignite the liquidity fire'

In the United States, approximately 39% of household financial assets are invested in shares and other equities, a stark contrast to Europe, where participation remains uneven. Countries like Estonia, Finland, and Sweden serve as promising exceptions, with retail equity investments ranging between 36% and 55%, but larger markets such as Germany and the United Kingdom lag far behind, at roughly 11%. Interviewees noted that European pension systems are significantly underinvested in domestic equities. In support of this, approximately 70% of private equity and venture capital investors noted that it is mostly the relative lack of capital within the European ecosystem that hinders companies from reaching a scale large enough to go public. They emphasised the need for a 'liquidity fire' to be ignited by greater retail investor participation to enhance the overall ecosystem and drive growth.

The root causes of this disparity are clear: lower financial literacy, a cultural aversion to risk, and insufficient incentivisation
Only 18% of EU citizens display high levels of financial literacy, significantly trailing the US. This knowledge gap, combined with a conservative investment culture, restricts broader participation. A recent study by the ECB shows that, in Europe, over 70% of respondents report being unwilling to take any financial risk, while in the US this figure is only about 40%. Yet, proven models exist. Interviewees highlighted that issuer firms in Europe often seek cost savings in relation to compliance and regulatory requirements, especially given the complexity of meeting varied requirements across different jurisdictions. Limited investor interest in European public markets and the appeal of "smart money" in private settings may also complicate matters by further driving companies to stay private.

Recent regulatory reforms have not yet moved the dial
A wide range of regulations impact primary and secondary markets in the EU and UK. These include those for listing, prospectuses/disclosure, secondary markets (including market structure, data charges and investor protection), and others. Both the UK and the EU have recently implemented new proposals intended to boost their markets, making them more efficient and attractive. These measures include the new EU Listing Act and reforms to the UK Listing Rules, as well as changes to their respective prospectus regimes and other measures that are specifically intended to increase retail investors' knowledge of, and comfort with, investing in capital markets. While these measures are intended to, and may eventually, boost efficiency and competitiveness, it may be too early to adequately gauge their impact on IPOs or market sentiment, according to interviewees. Though the UK Listing Rules were celebrated as the "biggest overhaul of the listing regime in 40 years," many market participants are not yet familiar enough with the changes or their impacts on relevant markets.

US turnover is larger than Europe
The turnover ratio (turnover divided by market capitalisation) of the S&P 500 appears to remain consistently higher than Europe, approximately double at the end of 2024 (although it is difficult to compare US and European liquidity data since the data is not measured in directly comparable ways). Although Europe benefits from stable turnover levels and relatively tight bid-ask spreads, the limited depth of available capital remains a significant constraint, particularly for companies seeking to increase their scale. In the first quarter of 2025, the European turnover ratio increased from 122% to 153%. The increase in trading activity may be viewed as a response to a series of market-relevant announcements in the US in Q1 2025, and it remains to be seen whether these elevated flows are sustained over the medium-term.

High US turnover/liquidity is driven by megacap tech stocks
The "Magnificent Seven" (M7) technology stocks represent approximately 20% of total turnover of the S&P 500, and the largest 40 companies of the S&P 500 represent over 50%. The consistently lower liquidity in the S&P 500 without the M7, as well as without the top 40 companies, underscores the outsized influence that megacap stocks have on overall market activity.

Europe's fragmented market infrastructure can create inefficiencies
The large number of financial market infrastructures (FMIs) in Europe, specifically for the provision of post-trade services, leads to inefficiencies and complicates cross-border trading and investment opportunities. Interviewees emphasised the need for greater coordination or standardisation across European CCPs (central clearing counterparty) and CSDs (central securities depository) to address these challenges. These inefficiencies create additional costs for both companies and investors.

The rise of passive investing may be contributing to the widening liquidity gap
Globally, the share of passive funds in total net assets under management (AuM) has surpassed 50%, with cumulative flows into global equity funds exceeding $70 trillion in the period from 2014 to 2024. In the Eurozone, passive ownership is still half that of the United States, but continues to grow. As passive inflows tend to overweight larger companies, institutional investors and European issuers suggest that this could be exacerbating market capitalisation concentration and undermining market efficiency.

Transaction and stamp taxes create significant costs and complexities
Many European countries impose taxes on the purchase of equities (e.g. financial transaction taxes (FTT) in France, Spain, and Italy, and stamp taxes in the UK, Ireland and Switzerland). These taxes increase transaction costs and reduce asset values, resulting in lower returns for investors. One study found that in France transaction costs more than tripled following the introduction of the FTT there. Separately, there is evidence that the abolition of UK Stamp Duty transaction taxes would have significant economic benefits. For example, a study in 2024 concluded that the abolition of UK stamp tax on shares would result in a permanent increase in GDP of between 0.2% and 0.7%, and that the lost tax revenue would be more than offset by increases in revenue from other taxes[2].

SUMMARY OF RECOMMENDATIONS

Foster further retail investor participation

1. Supercharge investment growth through pan-European or country-specific retirement fund programmes, creating c. €200–500bn of new investment.
2. Prioritise financial education and improved financial literacy.

Address market structure frictions

3. Harmonise post-trade FMIs' operational models to simplify European markets.
4. Incentivise active investment towards smaller cap stocks.
5. Prioritise delivery of the EU and UK consolidated tapes.

Adapt to Europe's strengths in the macroeconomic and corporate environment

6. Prioritise economic growth to help improve European corporates' profitability/RoE and raise share valuations.
7. Focus on European sectoral strengths: e.g. Europe as a hub for green technology.

Adopt regulation with a growth and competitiveness mandate

8. Harmonise rules for dual share class structures.
9. Improve the clarity and comprehensibility of prospectuses.
10. Enhance cross-border regulatory coordination.

1. INTRODUCTION

Setting the scene – Higher US capitalisation, profitability and price/earnings multiples

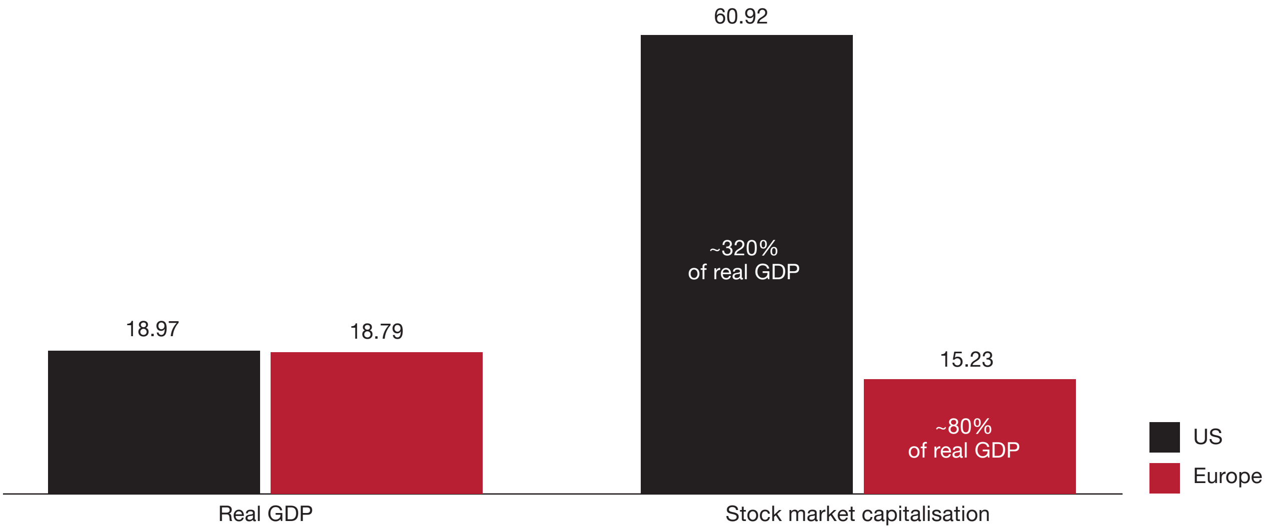
On an aggregated level, European equity markets have largely underperformed relative to the United States over the past decade, despite the two economies being comparable in terms of real GDP (US GDP 2024: €18.97 trillion, Europe GDP 2024: €18.79 trillion). In 2024, stock market capitalisation in the US was about 320% of real GDP while in Europe it was only about 80% of real GDP (*see Exhibit 1*).

In 2024, the US recorded 187 IPOs with a total value of €34 billion, outpacing Europe's 88 IPOs, valued at €20 billion. Beyond IPO numbers, the US has maintained a more attractive equity market overall, reflected in significantly higher US corporate profitability with 52% higher return on equity (RoE) and 66% higher P/E ratios for the S&P 500 compared to the STOXX 600 in 2024.

At a time of growing momentum and optimism for change, AFME and PwC Strategy& have partnered to produce this report, which identifies actionable solutions to enhance European market performance and competitiveness. This report builds on previous AFME publications, complementing them by selectively deepening the analysis in key areas. Furthermore, it positions itself as a continuation of the dialogue initiated by external reports such as Mario Draghi's "The Future of European Competitiveness," Enrico Letta's "Much More than a Market,"

EXHIBIT 1

Comparison of real GDP and equity market cap in US versus Europe[1] (2024), in € trillion



1. Europe defined as EU countries, Switzerland and UK, numbers originally in USD and transferred to €
Source: BMI, Statistics World Federation of Exchanges, PwC Strategy& analysis

and Christian Noyer's "Developing European Capital Markets to Finance the Future." By doing so, it ensures that its contributions are not a repetition of existing analyses but a complementary and focused extension of prior work.

In "The Future of European Competitiveness," Mario Draghi attributes much of the economic divergence to weakening productivity growth in the EU. He calls for a stronger focus on innovation, decarbonisation, and security; also noting that European companies are predominantly financed through debt rather than equity – the inverse of the US. Similarly, Enrico Letta's report "Much More than a Market" offers a broader analysis of the Single Market. While Letta underscores the importance of a savings and investment union, he also expands the conversation to include areas such as green investments and health resilience. Christian Noyer, former vice president of the European Central Bank (ECB), provides the most targeted view in "Developing European Capital Markets to Finance the Future", highlighting the urgency of adapting Europe's financial systems. He proposes measures such as the creation of European long-term savings products, revitalisation of the securitisation market, integrated market supervision, and addressing settlement system fragmentation.

As a follow-up from those reports, the EU Commission's recent Competitiveness Compass recognises "financing competitiveness" as one of the key horizontal enablers for competitiveness, noting the EU's lack of an efficient capital market that turns savings into investments and promising to deliver a European Savings and Investments Union in the coming period to create new savings and investment products, provide incentives for risk capital, and ensure investments flow seamlessly across the EU.

In the UK, we have seen significant political and regulatory progress on the UK capital markets reform agenda. The UK Listings Review, chaired by Lord Hill, aimed to strengthen the UK's position as a leading global financial centre, while the UK's Secondary Offerings Review has sought to clarify the circumstances and requirements for secondary issuances of securities. This work, as well as reforms to prospectus rules, has led to a disclosure-based UK listings and prospectus regime aimed at promoting more efficient and effective capital raising for issuers. We have also seen the Capital Markets Industry Taskforce report on "The Capital Markets of Tomorrow", which recognises that UK capital markets have fallen behind those in the US and proposes solutions to deliver long-term growth in the UK.

This report goes beyond empirical data analysis by engaging directly with market participants to provide a richer understanding of market and industry composition, which are of course dependent to some extent on the underlying corporate industries, including geographies. A total of 40 interviews were conducted with stakeholders representing diverse roles in the equity market ecosystem, including issuers, investors, exchanges, and other key intermediaries. By integrating insights from these interviews with robust quantitative analysis, the report delivers a holistic view of the challenges facing European equity markets and offers new perspectives on potential opportunities ahead.

Quantitative/qualitative research approach and interview methodology

To understand the factors contributing to the current performance of global equity markets and provide actionable insights, this report combines both quantitative and qualitative research. The research aims to identify structural challenges, emerging issues, and potential solutions to strengthen European capital markets.

The quantitative analysis draws on data from multiple trusted financial sources, including Bloomberg, big xyt, S&P Capital IQ, and FactSet. These datasets offer a detailed comparison of US and European equity markets across key dimensions such as performance, liquidity, and market structure. The analysis highlights structural differences, valuation trends, and investor behaviour shaping market dynamics.

The qualitative component is based on 40 semi-structured interviews conducted with a broad range of stakeholders, including issuers, investors, financial institutions, and exchanges. These interviews represent diverse perspectives from across the ecosystem, ensuring a balanced and comprehensive understanding of the challenges and opportunities in European equity markets. Interviewees included senior representatives from nine key stakeholder groups, providing in-depth insights into market dynamics and potential areas for improvement (*see Table 1, next page*).

Interviews were guided by a detailed questionnaire developed collaboratively by PwC Strategy& and AFME. The guide focused on three core areas:

- Broader opinions on the underperformance of European equity markets.
- Specific insights on structural issues such as liquidity, market structure, and investor behaviour.
- Open-ended questions to uncover emerging issues and explore potential solutions.

The interview process was designed to capture a wide range of views and to refine findings through triangulation and cross-validation. Interviewees were also given the opportunity to highlight areas they considered most critical to address. Responses were analysed to identify consensus themes, areas of divergence, and actionable recommendations for policymakers and market participants.

This combination of data-driven analysis and stakeholder interviews provides a nuanced and practical understanding of the challenges facing European equity markets, laying the groundwork for targeted interventions and reforms.

Table 1: Number of interviewees per category

Category	Number of interviewees
European issuers with US listing	3
European issuers with EU listing	3
Institutional investors and asset managers	9
Electronic liquidity providers	2
Retail buy-side investors	2
Private equity firms and venture capitalists	3
Investment banks	13
Exchanges	4
Index providers	1

Source: Interview insights, PwC Strategy& analysis

Introducing the four-factor ecosystem approach

Building on interview insights and desk research, AFME and PwC Strategy& derived a pan-European ecosystem model, identifying four interconnected factors that influence equity market performance (*see Exhibit 2*). This ecosystem approach highlights the importance of viewing the entire ecosystem holistically.

It focuses on the most fundamental systemic barriers, rather than focusing solely on technical or cosmetic regulatory changes. By doing so, this framework highlights that Europe has an opportunity to comprehensively address the key issues required to implement a gear change towards more efficient and attractive equity markets. It also serves as a basis for the recommendations that follow, made as part of this report.

Four contextual factors influence equity market performance:

1. Investor participation

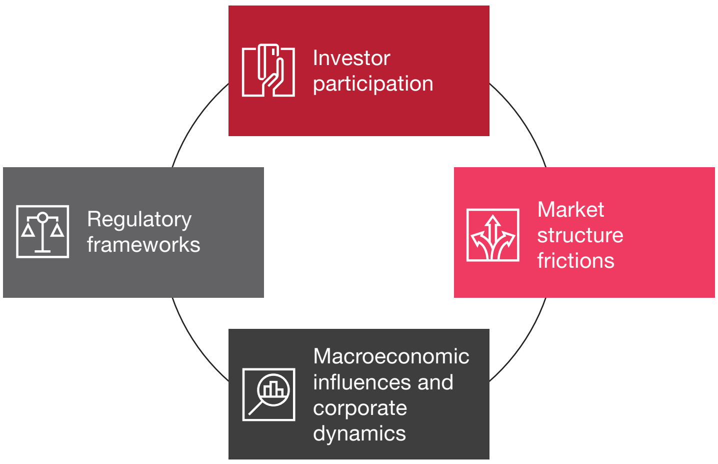
2. Market structure frictions

3. Macroeconomic influences and corporate dynamics

4. Regulatory frameworks

Based on the interviews, Europe needs to adopt an integrated system and a holistic approach to analyse and address all four factors to initiate change. At the same time, we acknowledge that the macroeconomic environment is generally outside the control of equity market participants, which is why our core recommendations focus on the other three: investor participation, market structure frictions and the regulatory environment.

EXHIBIT 2
Rationale for holistic ecosystem factors approach



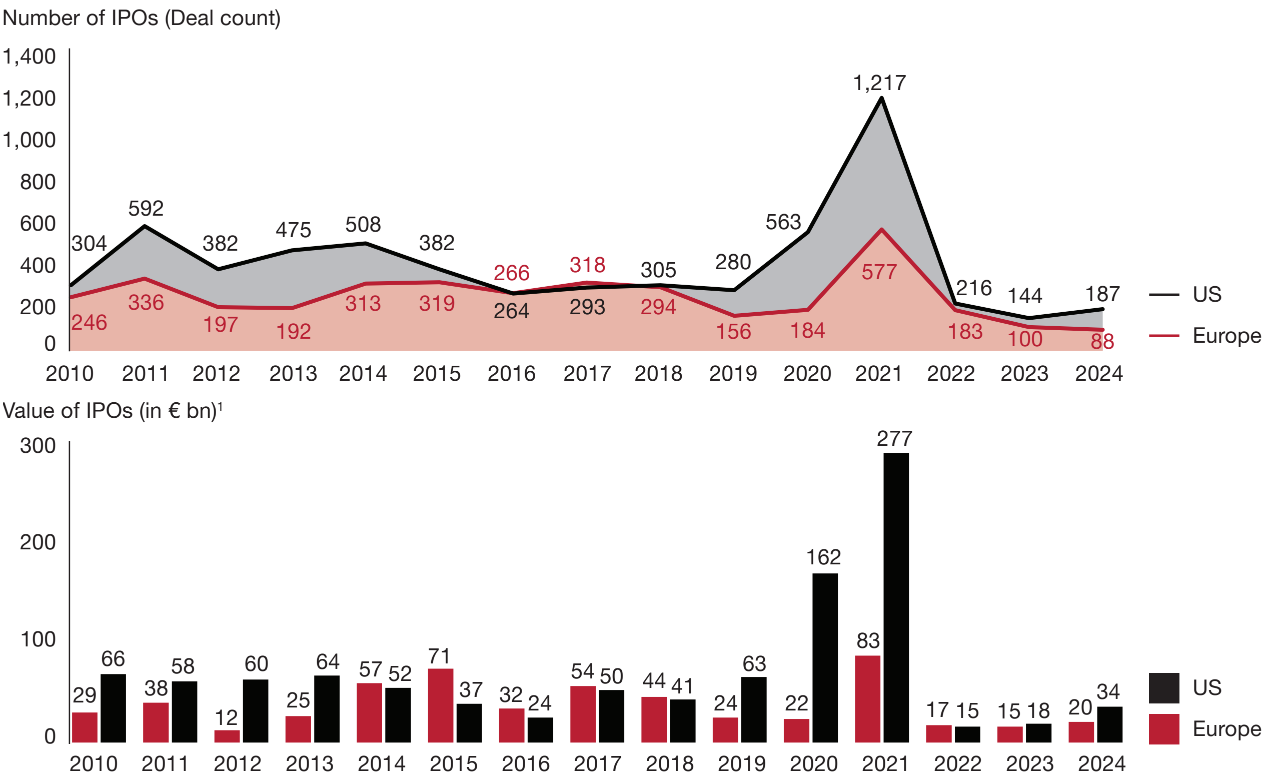
Source: AFME, PwC Strategy& analysis

2. THE CURRENT LANDSCAPE

IPO activity

The US has recently overshadowed Europe in both number and value of IPOs
Equity markets in Europe and the US substantially differ in terms of IPO performance. The US has almost consistently outpaced Europe in both the number and value of IPOs (*see Exhibit 3*). Since 2010, US companies have on average listed at higher frequencies compared to Europe. In 2021, the gap was particularly large, with more than twice as many IPOs in the US compared to Europe (1,217 versus 577). While 2021 was a record year for IPOs in both regions, activity declined globally from 2022 onwards, although the relative gap between Europe and the US has narrowed.

EXHIBIT 3
Number and value of IPOs in Europe and US (2010–2024)



1. Total capital raised from public through IPO
Source: Bloomberg, PwC Strategy& analysis

In terms of IPO value, the US has experienced larger fluctuations over the years compared to Europe, which displays higher stability but at lower volumes. In 2021, for instance, US IPO values soared to €277 billion, overshadowing Europe, which raised €83 billion.

Offer sizes are typically lower in Europe

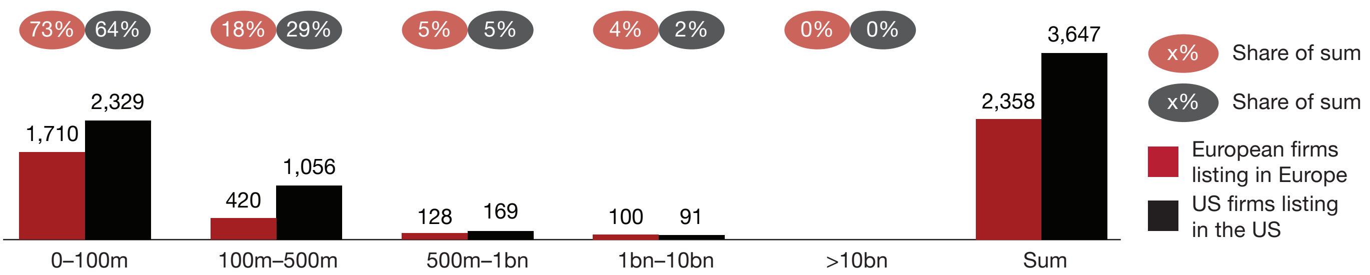
There has been a large disparity in IPO offer sizes between European and US primary equity markets. An analysis of IPO activity during two distinct periods – 2010-2019 and 2020-2024 – underscores this divergence. These periods were selected to capture the post-financial crisis recovery and the transformative impact of the COVID-19 pandemic in order to determine how economic conditions have shaped market behaviour.

Between 2010 and 2019, European companies tended to list domestically less frequently and with smaller offer sizes compared to their US counterparts (*see Exhibit 4*). Over 70% of European companies listing in Europe had offer sizes of up to €100 million. By contrast, US companies listing in their home market often pursued larger IPOs, with approximately one-third having offer sizes between €100-500 million.

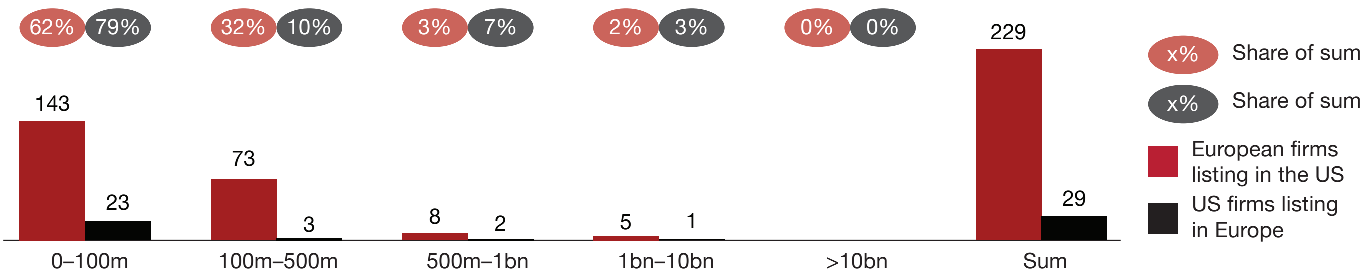
EXHIBIT 4

Comparison of number of European/US IPOs (2010–2019)

Number of IPOs of European versus US firms listing in their “home territory”, sorted by offer size



Number of IPOs of European firms listing in the US versus US firms listing in Europe, sorted by offer size



Note: Inaccuracy due to rounding may occur
Source: Bloomberg, PwC Strategy& analysis

(Larger) European firms being driven towards listing in the US

Our analysis further compared the average offer size for European and US firms listing outside of their home markets – European companies listing in the US and US companies listing in Europe. The findings reveal that European firms are significantly more inclined to list in the US than vice versa.

More than 200 European companies – nearly 10% of all European firms that chose to list between 2010 and 2019 – opted for a US listing instead of listing domestically. However, the reverse trend does not apply: during that time US firms listing in Europe were outnumbered by European companies listing in the US by a factor of nearly eight, indicating limited attractiveness of European markets for US companies.

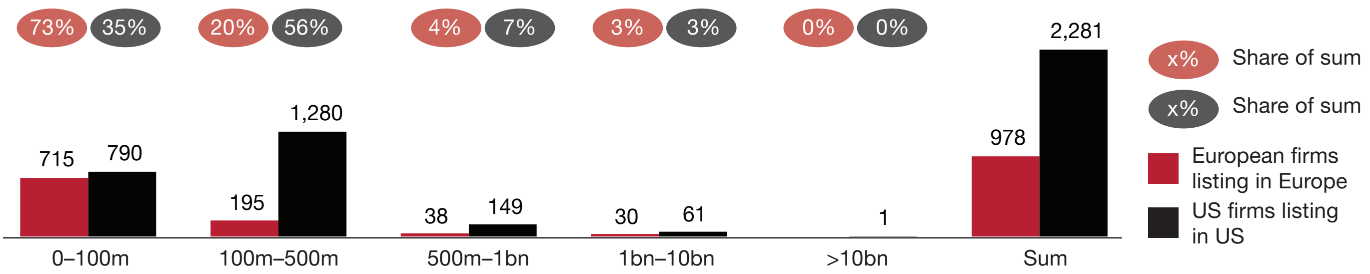
Among European firms listing in the US, a majority had offer sizes within the €0–100 million range; however, a notable proportion (38%) achieved offer sizes over €100 million. This indicates that European companies listing in the US are, on average, larger than those listing domestically in Europe.

This trend intensified during the 2020-2024 timeframe (*see Exhibit 5*). While the preference for listing in the US remained consistent for European companies, there was a significant increase in European IPOs in the €100–500 million range. This suggests a growing confidence in raising larger capital amounts in the US market compared to the previous decade.

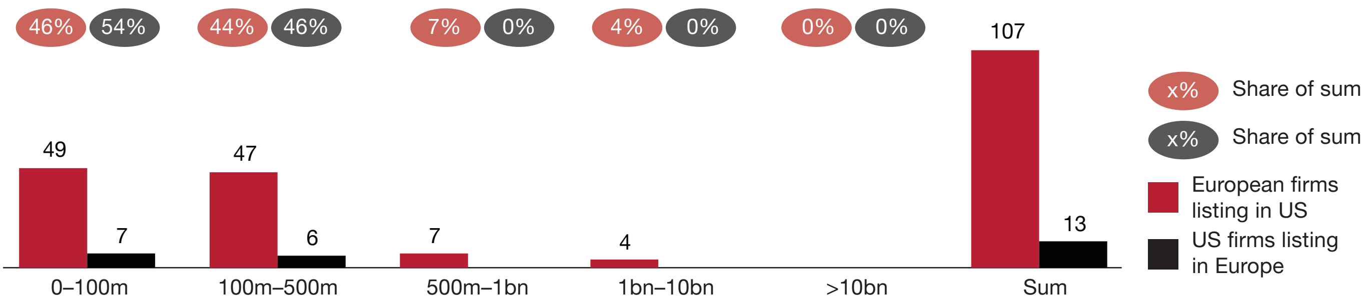
EXHIBIT 5

Comparison of number of European/US IPOs by region and offer size, in € (2020–2024)

Number of IPOs of European versus US firms listing in their "home territory", sorted by offer size, in €



Number of IPOs of European firms listing in US versus US firms listing in Europe, sorted by offer size, in €



Source: Bloomberg, PwC Strategy& analysis

Choosing where to list (or delist)

Interviewees provided insights into the reasons driving European firms' decisions to list or delist in Europe or the US (*see Table 2, next page*). They noted that European firms often choose to list in Europe to benefit from proximity to local investors, easier capital access, and alignment with company strategy or growth ambition. Additionally, some firms list in Europe for sovereign risk management (defence companies), or to take advantage of cost and compliance efficiencies. In this context, one European issuer noted that although the company listed in Europe, it still aimed for 40-50% of its investors to be from the US. Many European companies desire more US investors, but the path to achieving this is often challenging.

However, some European firms, particularly in certain sectors, decide to list in the US due to the potential for higher valuations as described in the quote at the bottom of this page.

The presence of comparable companies is another important reason for European companies choosing to list in the US. One issuer with a US listing noted that comparable issuers in the same sector were listed in the US, driving his own company to list in the US to ensure a more accurate valuation. Moreover, feedback from a number of issuers noted that stronger brand awareness in the US was also an important factor, especially for firms looking to scale significantly. Similarly, the perceived deeper and more engaged investor base was seen as a strong motivator to list in the US.

With respect to delisting decisions, firms in Europe often seek cost savings in compliance and regulatory demands, especially given the complexity of meeting varied requirements across different jurisdictions. Limited investor interest in European public markets and the appeal of "smart money" in private settings further drive companies to stay private. In the US, reasons for delisting are often linked to a domestic market focus, low US investor interest, or high compliance costs, which make remaining public less attractive.

> "I would never say the US equity market saves everything. For companies whose strategy is not at all aligned with the US, it doesn't make sense to list in the US. We see three sectors that work in the US when it comes to valuations: Biotech, Tech and in part Consumer. For Biotech, for example, there is a completely different investor base in the US compared to Europe. European investors would invest less in a biotech company whose drugs are still in an early phase, as that would be perceived to be too risky."
>
> **Managing Director, Investment Bank**

Table 2: Reasons/ requirements for European firms to list/delist in Europe/US

Reasons for European firms to list in Europe	Reasons for European firms to list in the US
• Proximity to investors • Easier capital access • Company strategy/growth ambition • Brand awareness in home country • Sovereign risk management (e.g. for defence companies) • Cost and compliance efficiency in maintenance	• Large company with market cap of € >3 billion • Strong connection/affiliation to US • Comparable companies in US • Higher valuations for some sectors • Larger capital pools • Global visibility • No remuneration limits • US PE investors

Reasons for European firms to delist in Europe	Reasons for European firms to delist in the US
• Cost savings in compliance and regulatory demands • Limited investor interest • Resource efficiency • Lack of valuation reward • "Smart" money[1] in private settings	• Domestic market focus • Low US investor interest • High compliance/reporting cost ("being public"– type costs, incl. for e.g. directors and officers insurance, shareholder information) • Image of "foreign" company

1. Investors also contributing expertise, networks and strategic support
Source: Interview insights, PwC Strategy& analysis

Ultimately, the higher regulatory complexity and fragmented investor landscape in Europe, compared to the unified regulatory environment and broader investor base in the US, constitute important factors that may explain the smaller number of IPOs in Europe. The combination of these drivers may explain why European companies either opt for smaller listings or stay private longer, whereas the US has offered an environment more conducive to larger, growth-focused IPOs.

For companies with dual listings, delisting from one market is often considered, if that listing underperforms or does not meet expectations. Many interviewees noted that firms may choose to drop a listing if the expected benefits – such as enhanced liquidity or broader investor reach – do not materialise. Maintaining dual listings comes with added costs and regulatory burdens, and if the performance is unsatisfactory, companies often opt to simplify their operations by delisting from the less effective market (which is frequently Europe). This trend further highlights the challenges companies face in achieving success in multiple listing environments, especially when cross-border regulatory complexities and limited investor engagement play a role.

Post-IPO performance

US markets deliver a consistently higher Return on Equity

A similar picture applies to post-IPO performance. US companies are frequently more profitable than their European counterparts, which then impacts price/earnings multiples. The S&P 500, as a proxy for US market performance, consistently offers higher RoE and a more consistent upward trend compared to the STOXX 600 (*see Exhibit 6*). Similarly, the Price-to-Earnings (P/E) ratio of the S&P 500 has consistently exceeded that of the STOXX 600 since 2016 (*see Exhibit 7, next page*). The notable decoupling since 2016 is primarily due to the expanded share of the largest seven US companies.

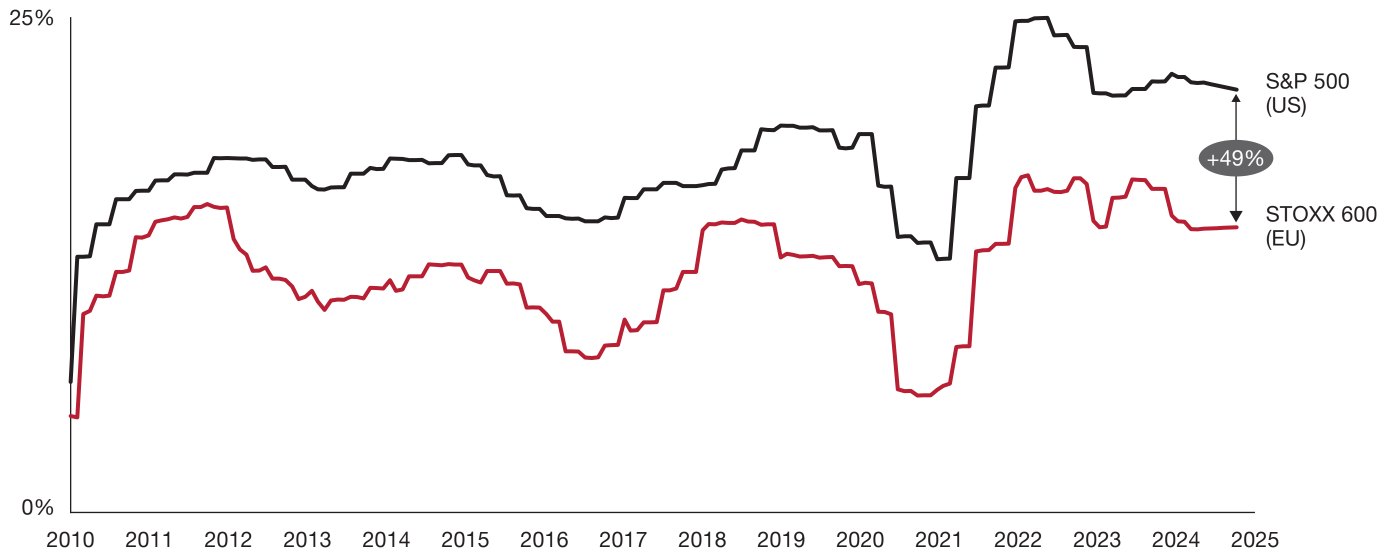
The US market delivers better immediate outcomes for European issuers and exiting shareholders, but not necessarily better long-term growth.

An analysis of the post-IPO performance of European firms who have listed since 2010 reveals that those who chose to list in the US averaged first day gains of 13%, more than double the average of European firms listing in Europe. This outperformance continues, albeit to a lesser extent, over the first month of trading – where there was a 31% uplift for US listings compared to European listings (*see Exhibit 8, next page*).

However, when measuring offer-to-date performance this trend is reversed, and European listings have achieved higher growth (61% compared to 45%). This shows that, although those deciding on where to IPO might be incentivised by an immediate, short-term gain, this will not necessarily achieve the best result for the company over a longer time horizon.

EXHIBIT 6

Comparison of Return on Equity (RoE)[1] of S&P 500 and STOXX 600 (2010–2025 YTD), in %



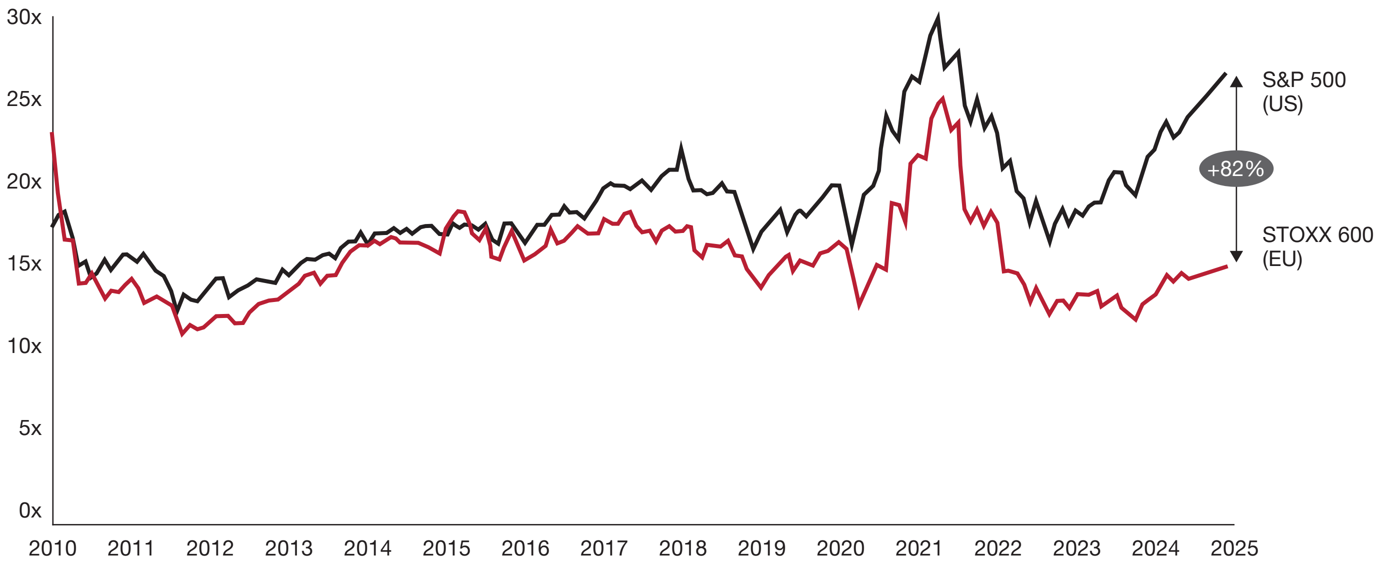
Note: Date of data query end of April 2025

1. Measure of a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested, in percentage. Calculated as: (T12 Net Income Available for Common Shareholders/Average Total Common Equity)×100

Source: Bloomberg, PwC Strategy& analysis

EXHIBIT 7

Comparison of price-to-earnings (P/E) ratio of S&P 500 versus STOXX 600 (2010–2025 YTD)

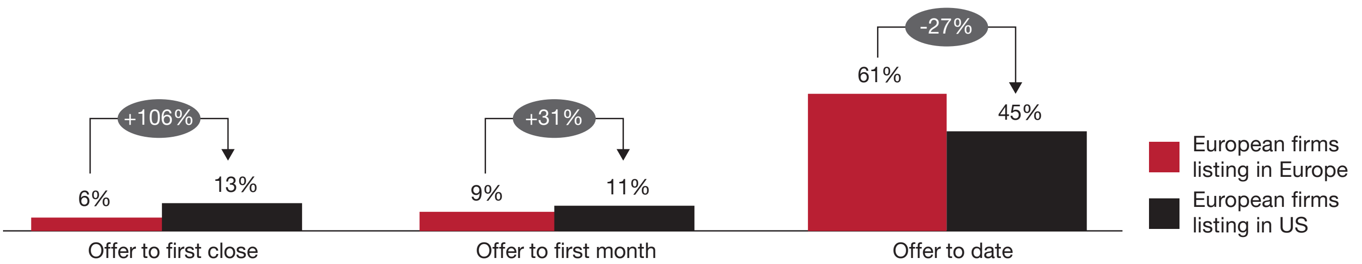


Note: Date of data query end of April 2025
Source: Bloomberg, PwC Strategy& analysis

When looking at trends within this period, European IPOs in their home markets have shown improved performance in more recent years. This may be due to favourable macroeconomic conditions following the COVID-19 pandemic, including government liquidity measures and low interest rates. These supportive policy measures appear to have bolstered investor confidence in European markets, particularly in sectors tied to recovery and long-term stability such as healthcare and consumer goods.

EXHIBIT 8

Comparison of stock performance of European IPOs in Europe and the US (2010–2024), sorted by performance measure, in %



Note: Offer to first close= %change of the first trading day's close price compared to the offer price, offer to first month = %change of the first month's close price compared to the offer price, offer to date= %change of the first trading day until date of data query (31.04.2025)
Source: Bloomberg, PwC Strategy& analysis

The US does not always constitute the holy grail for European firms

Based on these insights, there appears to be a notable disconnection between valuations and performance. The most commonly-held view amongst interviewees was that companies with the highest valuations in the US tended to be in the technology and biotech (and, in part, consumer) sectors (*see Table 3*). However, these industries are not necessarily the best performing. Although some European firms listing in the US (e.g. European biotech firms) are known to get better valuations, that does not necessarily mean that they will perform better.

Table 3: Interview opinions on sector-specific valuation gap

Subtopic	Insight	Interview support
Sector-specific valuation gap	**View 1:** Technology and biotech (and in part consumer) sectors have stronger valuations in the US and benefit from a larger, more sophisticated investor base compared to Europe.	
	View 2: Case study Irish company CRH (building materials, thus non-technology, biotech or consumer sector) demonstrates how primary US listing can affect valuations. CRH's US comparables Martin Marietta Materials or Eagle Materials trade at higher price-to-earnings (PE) ratios (20-26) compared to their European peers like Heidelberg Cement (8). CRH's shares have risen >45% since moving listing location.	Selected opinion
	View 3: In some sectors, European companies achieve higher valuations due to scarcity. When a company becomes a market leader or champion within a specific niche, it often stands alone in Europe, attracting strong demand from investors who have limited alternatives. This scarcity can drive valuations higher in Europe compared to the US, where similar companies face more competition.	Selected opinion
	View 4: European companies are often inconsistent in their strategies due to regulations which have an impact on their PE multiples. For example, Chevron and Exxon traded material PE premiums to their European listed peers BP and Shell. These fell prey to ESG demands which undermined their strategic cohesiveness.	Selected opinion

High interview support
Low interview support

Source: Interview insights, PwC Strategy& analysis

We validated this finding by analysing the offer-to-date performance of French, UK and German biotech companies that listed in the US in the last five years. Out of 18 listed companies, only three had a positive offer-to-date performance (*see Table 4*).

Table 4: Performance of French, UK and German biotech companies listing in the US (2019–2025 YTD)

Issuer	Country of origin	Year of issuance	Offer-to-date performance
Virax Biolabs Group Ltd	Britain	2020	-97%
Mainz Biomed NV	Germany	2021	-94%
Barinthus Biotherapeutics PLC	Britain	2021	-92%
ATAI Life Sciences NV	Germany	2021	-92%
CureVac NV	Germany	2020	-83%
Inventiva SACA	France	2017	-81%
Biophytis SA	France	2015	-80%
Valneva SE	France	2019	-78%
Exscientia PLC	Britain	2021	-77%
OKYO Pharma Ltd	Britain	2013	-76%
Genfit	France	2011	-71%
Innate Pharma SA	France	2011	-65%
TC Biopharm Holdings PLC	Britain	2022	-46%
Abcam PLC	Britain	2009	0%
Freeline Therapeutics Holdings PLC	Britain	2020	0%
Immunocore Holdings PLC	Britain	2021	28%
Bicycle Therapeutics PLC	Britain	2019	91%
BioNTech SE	Germany	2019	646%

Comparably low offer-to-date performance

Comparably medium offer-to-date performance

Comparably high offer-to-date performance

Note: Date of data query end of April 2025
Source: Interview insights, PwC Strategy& analysis

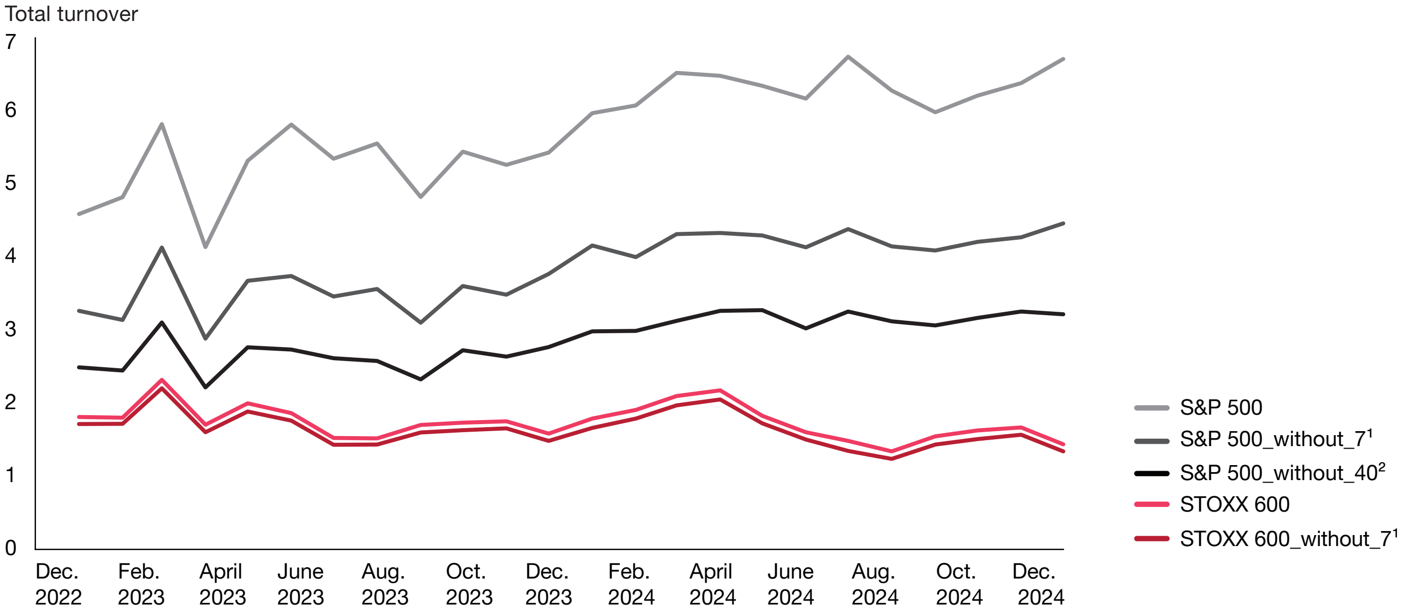
Secondary market liquidity

See Appendix 1 (Index analysis: S&P 500 versus STOXX 600) for more details.

US turnover is higher than Europe, driven by the "Magnificent Seven"
The comparison of total turnover traded in EUR across five indices – S&P 500, S&P 500 excluding the 'Magnificent 7'[3], S&P 500 ex. the top 40 companies, STOXX 600 and the STOXX 600 without the largest 7 companies – over a period from December 2022 to December 2024 highlights distinct market dynamics (*see Exhibit 9*). The consistently lower liquidity in the S&P 500 without the Magnificent 7, as well as without the top 40 companies, underscores the outsized influence that megacap stocks have on overall market activity. In fact, the Top 40 companies in the S&P 500 represent over half of total turnover.

In contrast, the STOXX 600 demonstrates lower growth of turnover levels, ranging between €2.3 trillion and €1.3 trillion throughout the same period. Even when excluding the 'Magnificent 7,' the total turnover in the S&P 500 remains significantly higher than that of the STOXX 600, underscoring the disparity in liquidity between the two markets.

EXHIBIT 9
Total turnover traded (December 2022–December 2024), in € trillion



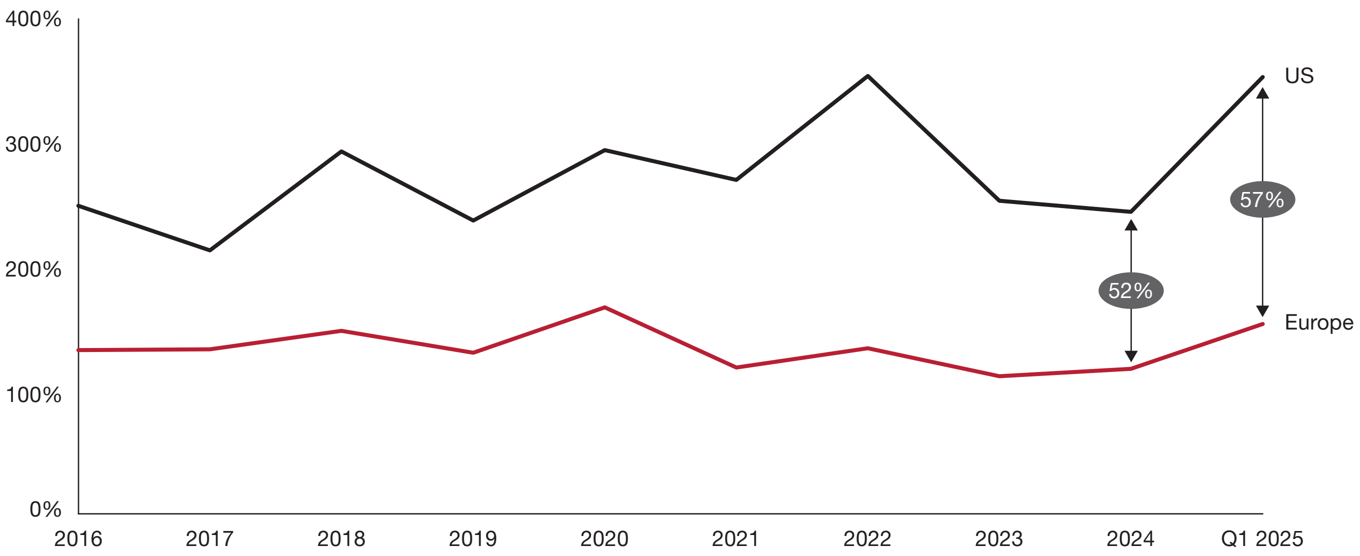
1. Without the seven largest firms sorted by market capitalisation
2. Without the forty largest firms sorted by market capitalisation
Source: big xyt, PwC Strategy& analysis

European markets are typically more stable, with lower volatility

Higher turnover is strongly driven by higher market capitalisation, events and results (which in turn impact volatility). When measuring turnover ratio (turnover divided by market capitalisation), the US and Europe are more comparable, albeit the US still exhibits a stronger performance (*see Exhibit 10*). This may reflect the fact that the European market is characterised by less pronounced volatility trading compared to the US, which may indicate steadier investor sentiment or a preference for lower-risk assets.

EXHIBIT 10

Turnover ratio, Europe versus US (2016–Q1 2025), historical performance in %[7]



Source: AFME, SIFMA, PwC Strategy& analysis

> The impact of innovation on turnover is clearly seen by the Magnificent 7 tech giants. Europe lacks the same depth and breadth of high-growth, innovative companies."
>
> **Managing Director, Electronic liquidity provider**

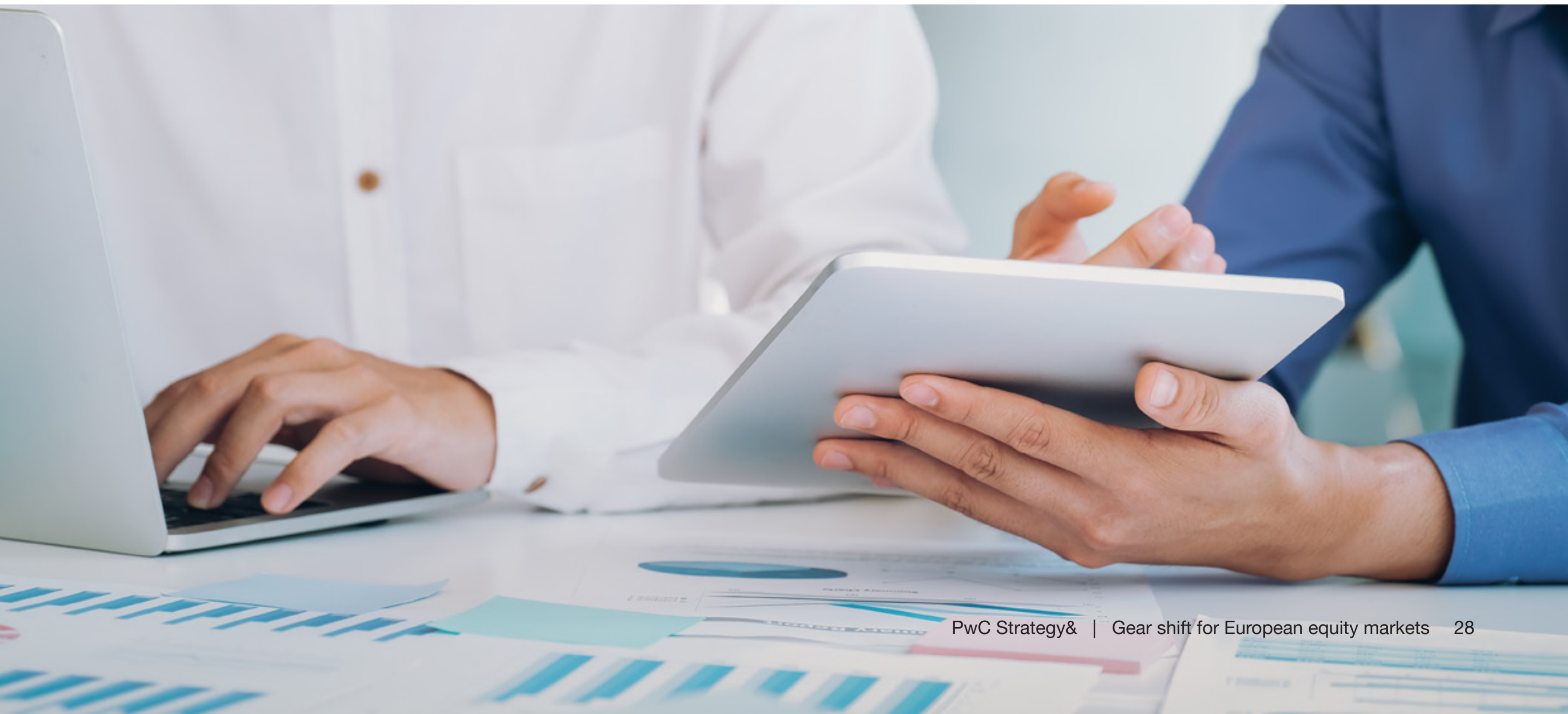
This is in alignment with views from interviewees on liquidity, as detailed *in Table 5,* although we note a positive direction of travel in the first half of 2025. Average daily equity trading on European main markets and MTFs has increased by 16% YoY. Market liquidity, as measured by turnover ratio (turnover value/market cap) increased from 122% in Q4 2024 to 153% in Q1 2025. The increase in trading activity can be seen as a response to a series of market-relevant announcements in the US in Q1 2025, and it remains to be seen whether these elevated flows are sustained over the medium-term. We also note that it is difficult to compare European and US turnover data, since the data available is not prepared on a directly comparable basis.

Table 5: Interview opinions on liquidity

Subtopic	Insight	Interview support
Liquidity	**View 1:** The US has a much deeper, high frequency type of market, whereas the UK and Europe have less deep markets with less known types of companies. The lack of liquidity discourages companies from listing locally to begin with.	
	View 2: It is difficult to compare the US and the EU/UK in terms of liquidity. The UK, for example, is a much more heritage market, focusing on over-the-counter trade.	
Further underlying factor: Lack of research	In Europe, the overall level of equity research is lower. Many US investors are leading the dialogues on European companies as well.	Selected opinion
Further underlying factor: Lack of sophistication	Management teams frequently lack the necessary preparation to operate as a public company, including handling earnings calls and managing expectations for previous financial periods.	Selected opinion
Further underlying factor: Relatively low volume	Given the relatively low volume of European IPOs, a single underperformance leaves little room for recovery, making successful execution even more critical.	Selected opinion

High interview support Low interview support

Source: Interview insights, PwC Strategy& analysis



Levels of retail investor participation

European equity markets struggle with low retail investor participation compared to the US, limiting the depth and resilience of the market. Capital access for companies, especially SMEs, is also relatively restricted, as a smaller investor base reduces the overall availability of funds. Europe has initiated pan-European initiatives aiming to foster retail investor participation by harmonising regulations, attempting to improve financial literacy, and enhancing access to capital markets across member states, thereby hoping to overcome differences in investor attitudes, education, and market infrastructure. However, it is necessary to make sure that such initiatives are part of a more comprehensive and holistic approach that will actively increase market liquidity, broaden capital access, and drive greater retail investor participation.

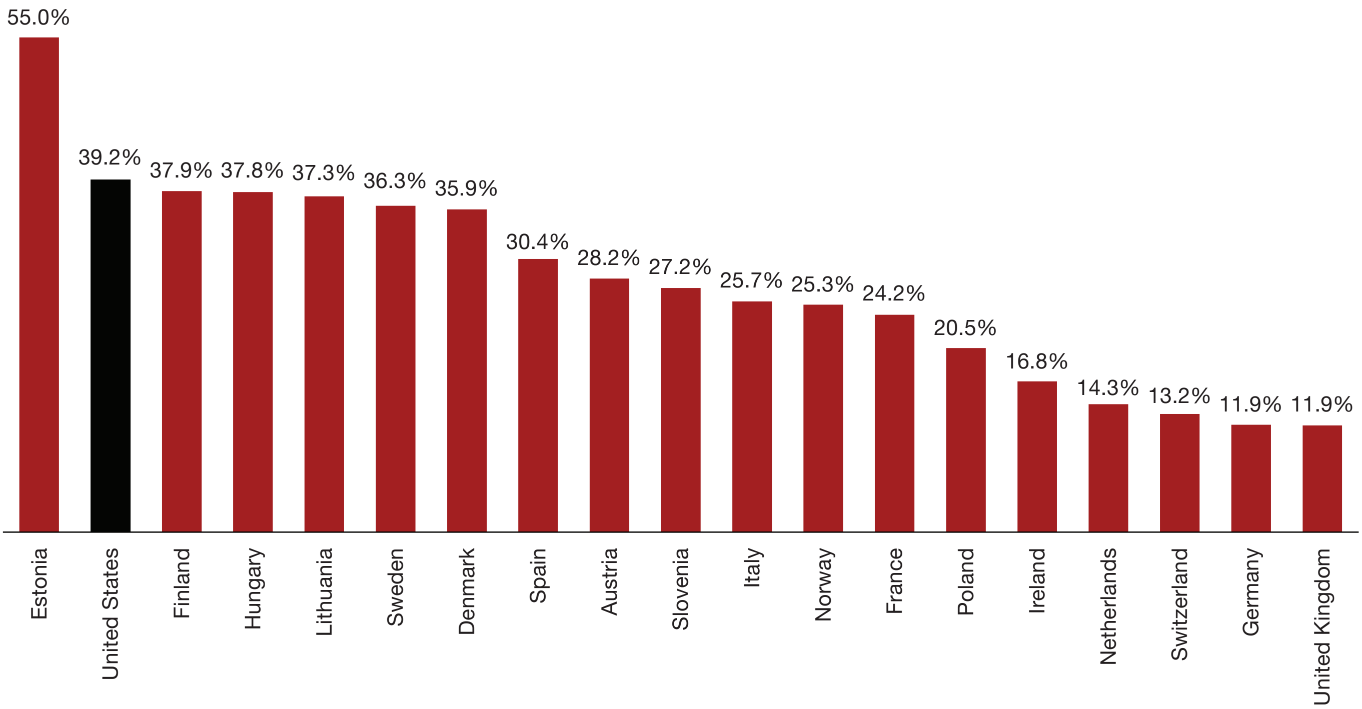
The engagement of both retail and institutional investors is very important for market liquidity, performance, and growth. The lack of retail participation was mentioned by interviewees as the most relevant point hindering flourishing equity markets in Europe, and this is supported by available data (*see Exhibit 11, next page*). In the US, nearly 40% of household financial assets are invested in shares and equity. By contrast, European countries lag significantly behind, with Germany at 11.9%, France at 24.2%, and the United Kingdom at 11.9%.

The data also highlights that Europe has pockets of success when it comes to promoting equity investments. Certain European countries, such as Estonia (55.0%) and Finland (37.9%) but also Sweden (36.3%), demonstrate a more equity-focused investment culture. Sweden's Investment Savings Account (ISK) model, in particular, has fostered a strong equity culture.

> "Improving retail participation and financial education are key to creating a healthy and active equity market ecosystem."
>
> **Head of Regulatory, Exchange**

EXHIBIT 11

Total household financial assets in shares and other equity in selected European countries versus US (2022), in %



Note: Luxembourg, Czechia, Belgium, Greece, Portugal, Slovak Rep. excluded for display reasons, Financial assets of households per capita in USD at current PPPs
Source: OECD (2022) Household Financial Assets

Underlying reasons for low European investment behaviour

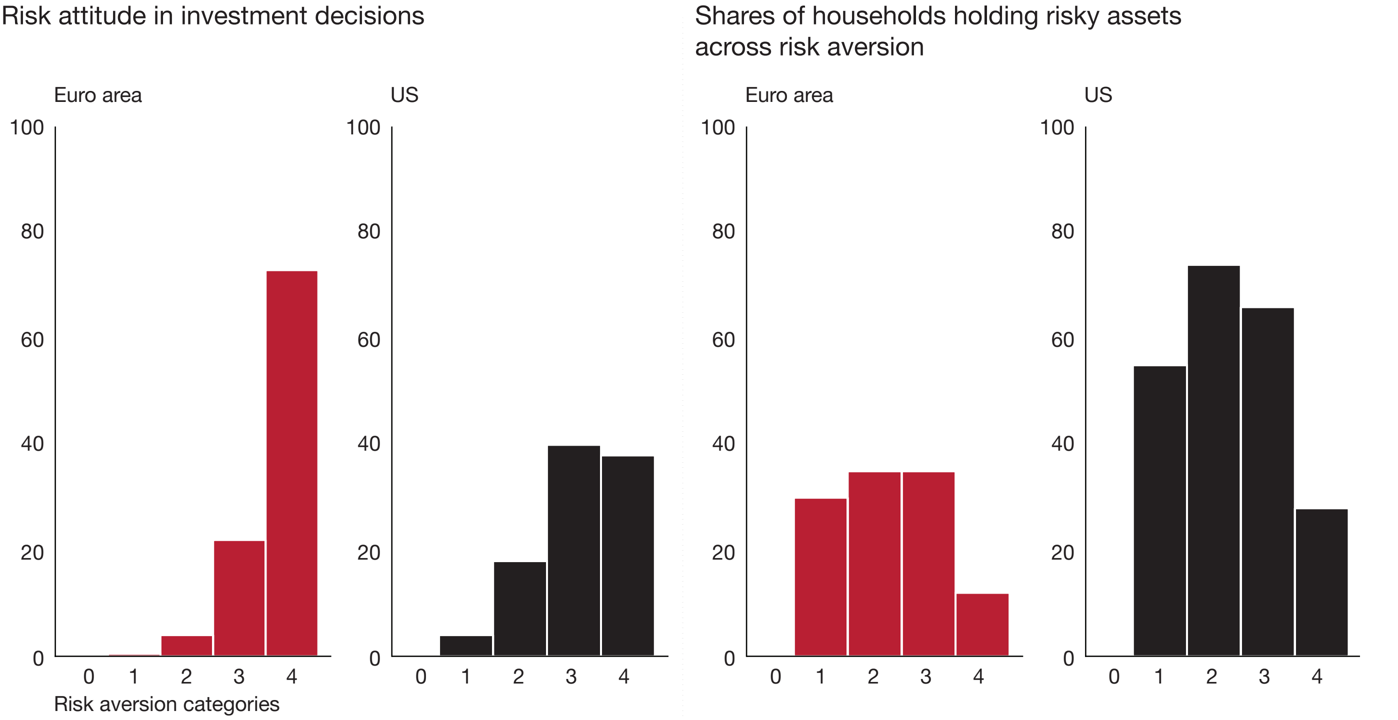
A recent study by the EU[4] shows that only 18% of EU citizens display a high level of financial literacy, whilst noting that there are wide differences between member states. In member states with a high percentage share of financial asset allocation, such as Sweden, citizens appear to show higher levels of financial literacy.

Likewise, Eurobarometer survey data shows that 72% of Europeans have not invested in any financial products, despite 86% of respondents expressing confidence in managing their personal finance (although their self-assessment may not correspond with their actual level of financial literacy). In spite of this, only 11% of Europeans are actively seeking investment opportunities, highlighting a significant gap between confidence in financial management and willingness to take risks in the stock market. This gap points to a broader challenge within European equity markets: not only is financial literacy lacking, but also even when financial literacy is present, there is often a reluctance to translate this knowledge into active equity investment behaviour. This reluctance limits the potential growth of retail investor participation, thereby constraining overall market liquidity and growth. It was further noted that European citizens are typically reliant on professionally-managed pensions, compared to the US, where there is a greater willingness for citizens to manage their own investments.

The difference in investment behaviour can partly be explained via the varying risk appetites between US and European investors, as researched by the ECB (*see Exhibit 12*). In Europe, over 70% of respondents report being unwilling to take any financial risk at all, while in the US this figure is only about 40%. However, approximately a quarter of individuals in the US who express unwillingness to take financial risks still hold risky assets, compared to just over 10% in the Euro area. Moreover, in the US, regardless of their risk aversion category, parties are more likely to hold risk assets (direct holdings of stocks and bonds and individual holdings via mutual funds) compared to their counterparts in Europe. These underlying cultural differences demonstrate that American investors generally have a much higher risk tolerance than their European counterparts.

EXHIBIT 12

Risk attitude of European versus US retail investors (2019)[1]



1. Risk aversion categories: Which of the statements on this page comes closest to the amount of financial risk that you are willing to take when you save or make investments? (1) Willing to take substantial risk if substantial return is expected, (2) Willing to take above average risk if above average return is expected, (3) Willing to take average risk if average return is expected, (4) Not willing to take any financial risks

Source: ECB, PwC Strategy& analysis

The interviews made very clear that more needs to be done in order to ignite "the liquidity fire". Recent initiatives include the EU Retail Investor Strategy (RIS), which aims to enhance investor protection and accessibility by focusing on the expectations and responsibilities of market participants when providing certain financial products to retail investors. The RIS framework, which is still being finalised by policymakers, includes rules intended to ensure that investors receive "value for money" with respect to these products. Similarly, the Markets in Financial Instruments Directive (MiFID II) strengthens investor protection by enforcing strict transparency and disclosure requirements. This ensures retail investors receive clear information about the risks and costs associated with investment products, fostering trust and engagement.

In the UK, the Consumer Duty requires firms to prioritise consumer interests, delivering fair value and clear communications. This initiative promotes a more inclusive financial ecosystem, encouraging retail investors to engage confidently with the markets. *See Appendix 3* for more information on relevant UK and EU regulatory frameworks and initiatives.

A summary of some of the opinions mentioned by the different stakeholders can be found in *Table 6, next page.*

Table 6: Interview opinions on investor participation

Subtopic	Insight	Interview support
Lack of retail participation	Nascent liquidity could be initiated specifically by retail investors.	
	View 1: Level of retail investor participation in European IPOs is far lower than in the US.	
	View 2: Europe needs to be closely looked at. For example, unique and strong retail investment culture in Sweden, as the two dominant online brokers have around 10–15% of secondary market share and even more in SME shares (35–45%).	
Lack of pension fund investments	Compared to the US, pension systems are significantly underinvested in domestic equities.	
	Example UK: Despite the UK's massive pension fund market, with £3 trillion in assets, less than 4% is invested in domestic equities.	Selected opinion
	Legislative changes that encouraged pension liabilities to be allocated into fixed-income securities instead of equities have exacerbated the problem.	Selected opinion
Underlying cultural and educational differences	European investors often exhibit a more risk-averse and short-term mindset compared to the US, where there is a greater tolerance for risk ("pro-entrepreneurship") and a focus on long-term growth ("working through problems").	
	View 1: In the US, equity culture starts at a younger age, while UK equity trading is often viewed more like "speculation", and not seen as a durable approach.	Selected opinion
	View 2: Evidence from retail platforms shows that funds invested by retail investors are mostly in plain-vanilla ETFs and well-known stocks, speaking against the fear of retail investors "losing all their money".	Selected opinion
	A strong tradition of bank-driven savings also prevails in Europe, where retail investors often favour savings accounts over investment accounts.	
	View 1: Financial literacy in Europe is often lacking, impacting retail investors' ability to participate confidently in equity markets.	
	View 2: Financial literacy initiatives as currently conducted have not helped, as people may be pushed towards a global portfolio. What is fine as an individual is disastrous as a group, and not to the long-term benefit of the domestic economy.	
	View 3: A global portfolio is fine when it gives the best returns. Retail investors should not be limited to obtain best returns.	
	In Europe, the long-only investment community tends to be more passive, while US mutual funds are more actively managed.	
Underlying overregulation	Overregulation contributed to the lack of retail culture in Europe.	
Underlying cross-border challenges for retail platforms	Retail platforms in Europe face challenges expanding across borders due to diverse regulatory environments and tax regimes.	
	Retail platforms must often customise services for each new market, adding complexity to their operations.	

High interview support   Low interview support

Source: Interview insights, PwC Strategy& analysis

1

Recommendation 1: Supercharge investment growth through pan-European or country-specific retirement fund programmes, creating c. €200–500bn of new investment

The introduction of a 401(k)-like pan-European pension system (an individual account offered by a European company to eligible employees, fed automatically from their salary and given certain tax advantages) has the potential to significantly enhance liquidity in European equity markets.

According to the pan-EU stochastic model developed by AFME and PwC Strategy&, retail investors alone could contribute an additional €190–480 billion in 2025/2026 as part of an EU pension fund (*see Exhibit 13, next page*), comparable to the yearly contributions of the US at €450 billion (with 160 million employees and 51% penetration).

The stochastic model includes three scenarios (baseline balance, optimistic opportunity and prosperity plus) with underlying assumptions relating in the core to three pillars: 1) demographics, 2) investment propensity and 3) contributions (*see Appendix 2 for further details and sources*).

1. Demographics

Demographics encompasses population development – or, more precisely, the development of the European workforce – and is managed via the growth rate (default –0.085%) and migration (default 0%). The time path is overlaid with a stochastic fluctuation.

2. Investment propensity

Investment propensity (= penetration) represents the expected share of participating individuals, based on a baseline rate (default 30%) and additional sensitivities to GDP and funding status. The 20-year trajectory is modelled as a normally distributed random variable.

3. Contributions

Contributions are the expected contribution per person per year (default €2,800). As with investment propensity, the temporal progression is modelled on the basis of a normal distribution, with the standard deviation configurable.

Consequently, the three calculated scenarios emerge as follows:

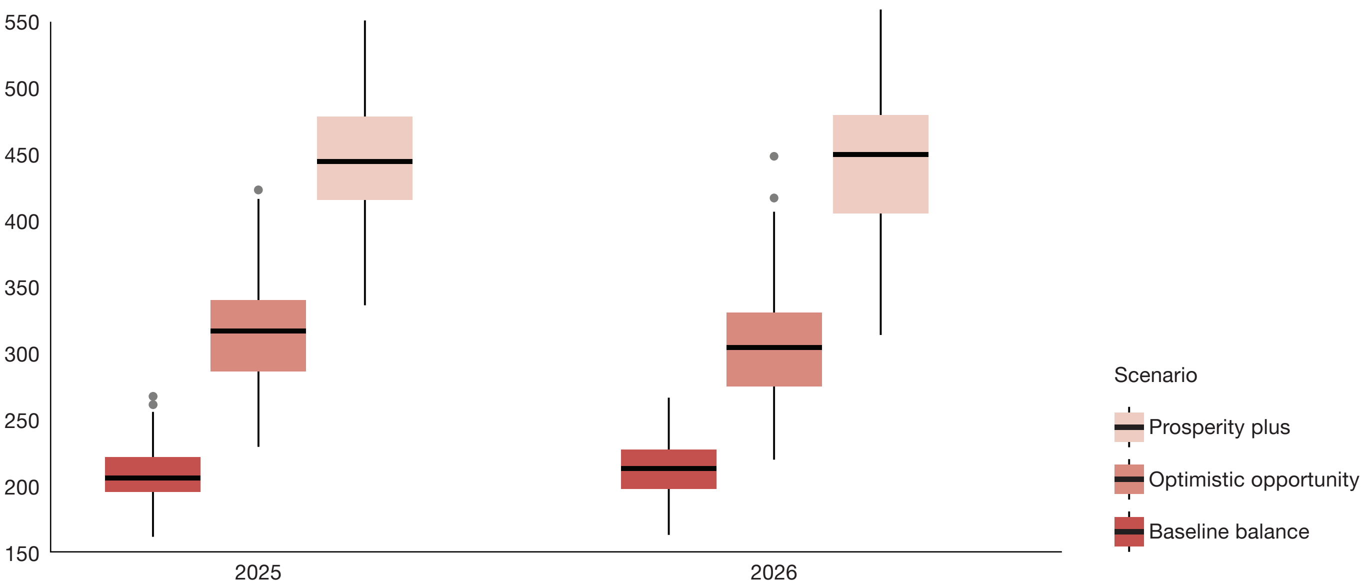
The "baseline balance" scenario assumes a close to constant demographic development, as well as a nullified migration effect, a conservative default investment propensity of 30% and default contribution per person of €2,800 (approximately monthly savings rate of €230). These default values for the baseline scenario are conservative. For example, in terms of demography, there are currently about 526 million people living in Europe, of whom 259 million are employed. Forecasts put the population in 2100 at only 500 million. Investment propensity is around 50% in both Sweden and the United States, whereas the PWC Strategy& model assumes 30% (*see Exhibit 13*). Lastly, the contribution of €2,800 equals roughly 7% of the average European worker's gross salary (equalling approx. €39,600). The contributions are also well below the annual contribution of €3,600 proposed by former German finance minister Lindner as part of his proposal for a "generation capital"– a stock-based pension reform in Germany; and also lower than the average contribution of US employees to their 401(k) plans – around €5,500 – with a cap of €22,000, which equals roughly 9-10% of the average US worker's gross salary (equalling approx. €57,000 – 60,000).

The "optimistic opportunity" scenario assumes a higher investment propensity (35%), an increased contribution per person (€3,200), reflecting a more dynamic adoption of the pension system, combined with a more pronounced migration effect, alleviating demographic shrinkage.

The "prosperity plus" scenario further builds on this by incorporating stronger GDP growth and an expanding workforce, as well as increasing investment propensity (40%) and contribution (€3,800).

EXHIBIT 13

Total employee contribution (in baseline balance, optimistic opportunity and prosperity plus scenario) (2025–2026), in € billion

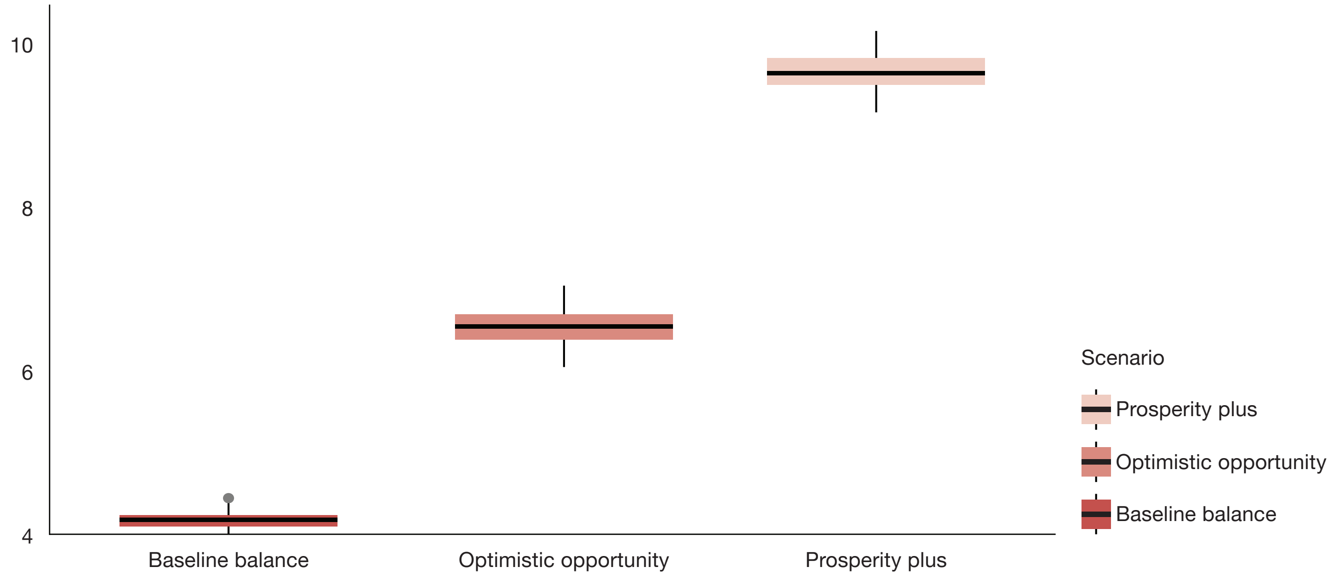


Note: Model includes EU member states, UK and Switzerland not modelled due to differing fx rates
Source: PwC Strategy& analysis

Over the longer term, cumulative retail contributions could reach an astounding €4–9.5 trillion by 2044 (*see Exhibit 14*), rivalling the current size of the US market at approximately €9 trillion.

EXHIBIT 14

Cumulative employee contribution (in baseline balance, optimistic opportunity and prosperity plus scenario) (2025–2044), in € trillion



Note: The projections assume the new pension savings are net additive – that is, they come mainly from reduced consumption rather than from moving money that households were already saving elsewhere. However, whether a 401(k)-style plan raises total household saving or merely reallocates existing deposits is empirically debated; results vary by income group, plan design and the generosity of the tax incentive. Because the evidence on 401(k) style schemes is mixed, we apply a ± 25% sensitivity band to the baseline only – a width chosen because it spans most of the empirical crowd out range (0–30%) found in the literature, yet keeps the numbers easy to interpret: Partial crowd-out (–25%) – Part of the contribution is diverted from other saving vehicles (e.g. bank deposits or mutual funds), so net new saving falls. Under this assumption, baseline inflows drop to c. €140bn and the 2044 asset pool to c. €3tn. Crowd-in (+25%) – The automatic, tax favoured account induces households to save more overall, adding to existing saving. In this case, baseline inflows rise to c. €240bn and the asset pool to c. €5tn.
Source: PwC Strategy& analysis

To ensure these efforts have lasting impact, prioritising financial education is essential. EU citizens must be empowered with the skills to invest confidently and knowledgeably, even in small amounts, across diversified portfolios. Targeted programmes in schools are required to teach savings, investments, and retirement planning to future generations. While member states acknowledge the importance of these changes, progress at the national level remains slow and inconsistent. Many countries have developed financial literacy strategies with OECD guidance, yet these are often still in their infancy or (e.g. in the case of Germany) stalled due to political disagreements and insufficient concrete action. Accelerating these efforts is vital to unlocking the full potential of European citizens as active participants in the capital markets.

The design of a pension system can draw lessons from examples like Sweden's Investment Savings Account (ISK) and Italy's Individual Savings Plans (PIR). While ISK represents a highly successful model with flat-rate taxation and simplified reporting requirements that encourage retail participation, the PIR initiative offers valuable insights into challenges, such as its dependence on limited national incentives and its struggles to achieve scalability across diverse EU markets. PIR was designed to channel savings into small-cap markets, but its limited scalability across the EU highlighted the need for harmonised frameworks and better-aligned incentives.

Europe should consider introducing tax-advantaged retirement savings plans with features such as employer-matching contributions and auto-enrolment. However, adapting this model to the European context presents challenges, including varying national tax regimes, differing employer capacities to provide matching contributions, and cultural attitudes towards retirement savings. Addressing these issues through tailored solutions, such as flexible matching schemes and harmonised but adaptable tax incentives, will be crucial to ensure feasibility and success.

Sweden – Success story

One European success story is Sweden which was able to foster a strong equity culture. Sweden's success can be largely attributed to its well-planned regulatory incentivization of retail investors, which significantly boosted liquidity in its equity markets. The introduction of various tax-efficient schemes over the years has played a crucial role. For instance, the Tax-Save Funds introduced in 1978 allowed savers to benefit from a 20–30% income tax deduction, which resulted in a 450% increase in the number of savers within just three years. Similarly, the "Allemansspar" public savings program launched in 1984 offered completely tax-free returns on invested funds, further encouraging households to invest in equities. More recently, the Investment Savings Account (ISK), introduced in 2012, has become widely popular due to its preferential tax setup and minimal administrative burden, with one-third of Sweden's population utilizing this account. These initiatives collectively contributed to a surge in the number of retail investors, which in turn led to increased market liquidity. The improved liquidity not only benefited retail participants but also attracted a greater number of institutional investors and electronic market makers, creating a corroborative cycle of growth and investment.

The increase in retail investor participation has had further positive consequences for Sweden's secondary market. The boosted liquidity helped create a well-functioning secondary market, which in turn made the market more attractive to venture capitalists and institutional investors. These investors saw the benefits of entering a market with an already established liquidity base, which ultimately strengthened the primary and secondary markets. This regulatory and cultural shift demonstrates that targeted incentives aimed at retail investors can create the "ecosystem effect," where the presence of a broad investor base supports the growth and stability of equity markets, making Sweden a compelling model for other European nations. Moreover, Sweden's experience suggests that coupling favourable tax policies with strong financial education initiatives is critical for encouraging retail participation. By making investment both financially advantageous and more accessible through simplified regulations, Sweden has created an investment-friendly environment that could serve as a blueprint for broader European reform. Expanding such initiatives could help bridge the gap between confidence in personal financial management and the actual practice of investing, thereby fostering a more dynamic and inclusive equity market ecosystem across Europe.

PIR – Unsuccessful story

The Piani Individuali di Risparmio (PIR) initiative in Italy was designed to promote investment in small and mid-sized Italian businesses by offering attractive tax incentives. These vehicles offer exemptions from capital gains tax and inheritance tax, provided that specific conditions are met. A key requirement is that 70% of the portfolio must be invested in Italian or European companies, with 30% of that investment allocated to firms outside the FTSE MIB (Italy's large-cap index) and 5% in companies outside the FTSE Mid Cap index. Investors must also maintain their investment for a minimum of five years to qualify for these benefits.

Initially, PIRs succeeded in driving more capital into small-cap companies, bolstering their listings and providing a temporary boost to the Italian stock market. A tax incentive introduced around 2017-2018 further supported the listing of small and mid-cap companies. Other Italian investors noted that this incentive enabled asset managers to raise substantial funds to invest in newly-listed SMEs, which temporarily lifted prices, potentially creating a bubble. The funds flowed in rapidly and in a concentrated manner, leading to inflated stock prices in the initial years. However, once the tax incentives expired over the last few years, significant outflows occurred, destabilising small-cap investments.

This sudden liquidity shift has contributed to a collapse in small-cap listings in Italy. Moreover, the higher costs and lower liquidity associated with PIR-compliant funds have reduced the attractiveness of these vehicles, limiting their long-term appeal to investors. Alongside these issues, balancing the ease of listing with investor protection has been challenging. While relaxing listing requirements can encourage more SMEs to go public, it may also result in underperformance, causing investors to lose confidence in the SME market.

In addition to the structural weaknesses of PIRs, private equity and family buyback activities have played a role in the decline of small-cap listings. As companies opt to delist or transition to private ownership, the pool of publicly-traded small companies shrinks further, undermining the initial goals of the PIR initiative. Other Italian investors have suggested that the authorities are likely exploring new ways to reinvigorate the SME market by reintroducing incentives while ensuring investor protection through more balanced regulations.

Recommendation 2: Prioritise financial education and improved financial literacy

2

Effective financial literacy programmes can be helpful in empowering citizens to make informed investment decisions. For example, Sweden's national financial literacy initiative, which includes public campaigns and free investment courses, has significantly increased retail investor participation by 15% over the past five years. Programmes for broader Europe should include online tools, interactive workshops, and community outreach. Furthermore, incentivising existing financial literacy apps would expand their reach and effectiveness.

4. ECOSYSTEM FACTOR 2: MARKET STRUCTURE FRICTIONS

Infrastructure fragmentation

The complexity of the market infrastructure landscape in Europe remains a source of friction and additional costs, and can make markets harder to navigate for investors. Our analysis identifies several notable differences between US and European market structures, including:

- The post-trade ecosystem in the US is highly simplified, with equity trading activity funnelled to a single clearing house and CSD (central securities depository). In Europe, there remains a complex web of market infrastructures – including at least 12 CCPs and 30 CSDs, with uneven connectivity between them.

- Major US exchanges typically operate according to the same core trading hours (09.30 – 16.00 ET), whereas there is a degree of variance in both the opening and closing times of European venues, as well as the timing and duration of auction periods. There is significant further variance in the operating hours and key process timings of CCPs and CSDs.

- Unlike the US, Europe does not have a consolidated tape, which would provide all types of investors with a clear and comprehensive picture of the liquidity landscape, irrespective of domicile, resources or degree of sophistication.

Historically, each European country has had a dominant stock exchange exercising concentration rules, to which MiFID brought welcome competition and reductions in the cost of trading through the introduction of alternative venues and transparency to off-venue trading. Intermediaries play a critical role in European markets, as a means of connecting investors to different pools of liquidity.

Whilst the primary aspect of the market is indeed fragmented across national lines, a European stock is typically available for trading across multiple venue operators (and multiple venue types), including i) the incumbent exchange; ii) MTFs (lit, dark, periodic auctions); and iii) a number of systematic internalisers at any given time. Across the many trading venues in Europe, it should be noted that not all exchanges provide trading in all European shares; however, multilateral trading facilities offer access on a pan-European basis.

During the interviews, institutional investors and asset managers acknowledged that while geographic fragmentation poses challenges for cross-border investments, it is not the most critical factor. Their primary concerns lie with liquidity and investor participation rather than geographic barriers alone, noting that the fragmentation may be a symptom of low liquidity rather than a cause. Private equity firms and venture capital investors shared a medium level of concern, noting that while fragmentation impacts scaling companies across borders, they often adopt localised strategies to mitigate these challenges.

AFME member banks are fully supportive of their corporate and investor clients' obligations to comply with the existing EU and UK regulatory framework. Examples in equities markets are assisting clients with navigating regulatory complexity, acting as intermediary in the routing of trade execution, including provision of risk capital, and meeting the objective of best execution regulatory requirements. This support will of course continue, in the interest of building the best possible primary and secondary equities markets for end-users of equity markets – issuers and investors.

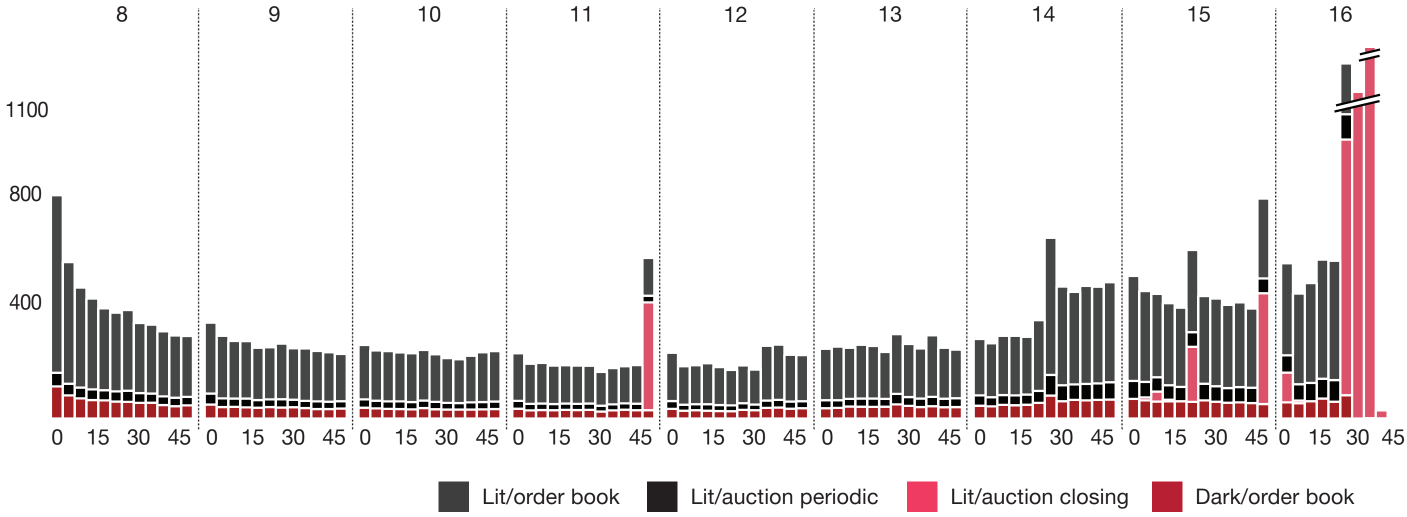
Concentration of liquidity during late trading hours

Our analysis shows that the average traded value during the closing auction is approximately 25% of the total on book trading and can be as high as 50% in times of exceptional events (e.g. index rebalancing) (*see Exhibit 15, next page*). From 8:30 (after the opening auction) to 14:30 CET, the liquidity is quite stable at a low point of below €500m. European markets are also significantly influenced by US trading activity. Liquidity spikes occur at key times, such as when US futures markets open at 13:30 CET and again when US equity markets begin trading at 14:30 CET. Liquidity in European markets tends to increase following the US market opening, while lower liquidity is observed during the morning session. This dependence on US trading reflects regional disparities in market participation, where US markets benefit from more consistent engagement throughout the day, whereas European markets benefit from external liquidity drivers, such as the US market opening.

While this structure ensures substantial liquidity during the closing minutes, it raises concerns regarding liquidity distribution throughout the trading day. Institutional investors, such as active fund managers and hedge funds, now also increasingly execute large trades towards the close to minimise the risk of adverse price movements. Similar is observed for algorithmic and high-frequency trading. This could also be considered as a symptom of (rather than a cause of) a lack of dynamism and vibrancy in EU equity markets.

> "As a large electronic liquidity provider, we tend to focus our investment strategies on large-cap names with ample liquidity in the European market. The lower liquidity levels in Europe, compared to the US, limit the universe of opportunities that we can consider, leading us to prioritise the most liquid large-cap stocks. To manage this liquidity challenge, banks are increasingly engaging in "completion strategies," using their own inventory to provide additional pockets of liquidity, particularly around the opening and closing auctions."
>
> **Anonymous, Electronic Liquidity Provider**

EXHIBIT 15
Average traded value during the day, in € million



Source: big xyt, PwC Strategy& analysis

This increasing dominance of the closing auction, triggered by various market players, leads to less favourable trading conditions during regular hours, characterised by wider spreads and reduced liquidity, making price discovery challenging.

> I am concerned about the structural challenges in the European IPO market, including the decline of active portfolio management and the shift towards passive index trading”
>
> **CEO, European issuer with EU listing**

Recommendation 3: Harmonise post-trade FMIs' operational models to simplify European markets

3

A first step towards reducing fragmentation in European markets would be to develop a more homogenised set of market conventions across all trading venues, clearing houses (CCPs) and CSDs. This could include standardised timings for key trading and post-trading processes, and greater interoperability between post-trade service providers. The goal should be to create a clear picture for global investors of "how European markets work", rather than maintaining a complex tapestry of national-specific rules and conventions, and reducing the number of post-trade infrastructures that market participants need to connect to in order to fully participate in European markets.

Recommendation 4: Incentivise active investment towards smaller cap stocks

4

One notable global development is the growth of passive investment strategies, which may have contributed to liquidity disparities between regions and sectors. Research by the European Central Bank (ECB) indicates that higher passive ownership correlates with reduced liquidity and increased market volatility during turbulent periods. One approach could be to encourage a more balanced flow of investments towards growth markets and regions, e.g. through establishing EU-backed liquidity enhancement funds or creating other incentives. While active exchange-traded funds (ETFs) offer a dynamic approach to capital allocation by combining the flexibility of ETFs with the benefits of active management, their higher trading costs and limited penetration position them as a complementary tool rather than a standalone solution.

Recommendation 5: Prioritise delivery of the EU and UK consolidated tape

5

Consolidated tape will contribute to the ultimate goal of increasing capital flows in Europe and challenging retail investors' existing "home bias", i.e. their tendency to hold a significant share of domestic assets in their portfolios. An equity real-time consolidated tape will ensure that investors are aware of the investment opportunities beyond their national market.

The clearer and more comprehensive picture provided by the tape will make European markets more competitive and attractive to all investors, regardless of their resources, sophistication or origin – including to foreign investors. This is important because we need to build strong and competitive secondary markets to ensure we also have well-developed primary markets and can thus also promote IPOs and contribute to the necessary re-equitisation of Europe's economy following the pandemic.

5. ECOSYSTEM FACTOR 3: MACROECONOMIC INFLUENCES AND CORPORATE DYNAMICS

Macroeconomic challenges – industrial composition and geographies

Both the US and Europe have been significantly impacted by macroeconomic challenges such as high inflation, the COVID-19 pandemic, and the ongoing conflict in Ukraine. But for a variety of reasons, the US market recovered faster than in Europe.

The US Federal Reserve and the European Central Bank (ECB) adopted different strategies to stabilise their economies in the light of recent challenges. For instance, in response to the COVID-19 pandemic, the US Federal Reserve swiftly cut interest rates to near zero, implemented aggressive quantitative easing, and established various emergency lending facilities to enhance liquidity and support businesses. In contrast, the ECB introduced the Pandemic Emergency Purchase Programme (PEPP) to buy €1.85 trillion in securities, but moved more cautiously with interest rate adjustments due to pre-existing low rates. However, the Fed's flexible and immediate actions may have contributed to greater economic predictability and resilience, fostering investor confidence, while the ECB faced challenges in coordination among Eurozone member states, leading to increased uncertainty in the markets. Furthermore, the US has experienced stronger GDP growth compared to Europe, highlighting the more effective economic recovery. In 2023, US GDP growth reached 2.5%, while Europe struggled with slower growth rates (approx. 1%), partially due to the varying impacts of macroeconomic challenges across member states.

Sectoral and political differences between US and European economies

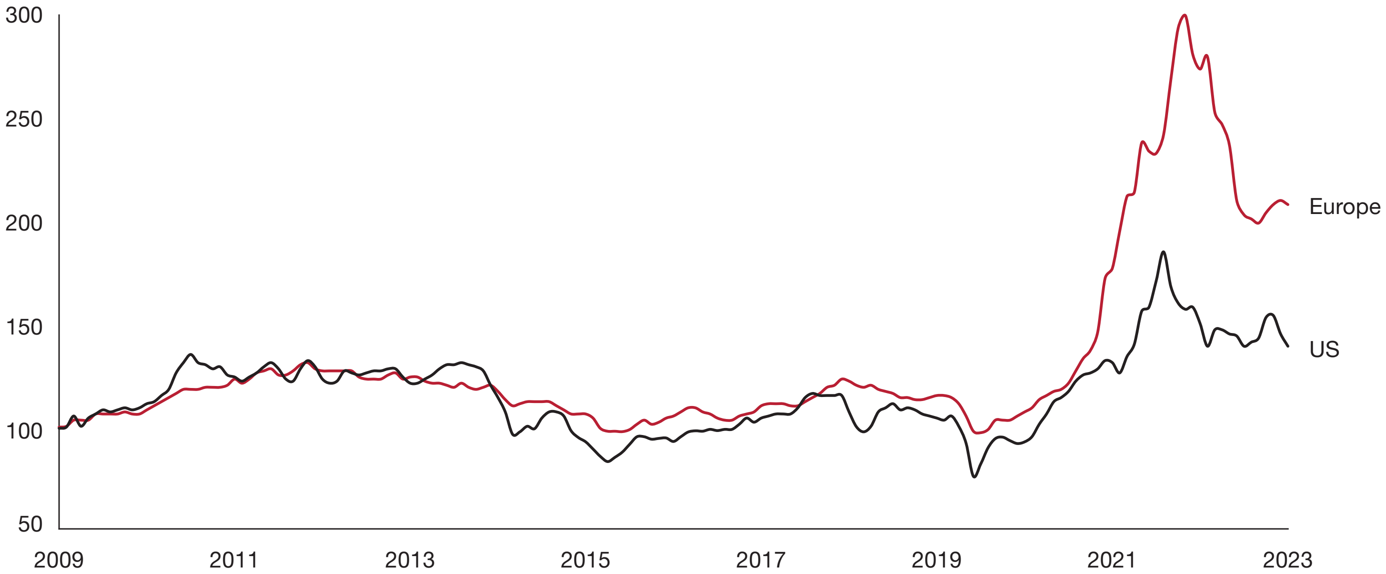
One structural difference contributing to this difference in GDP growth is the US' energy cost advantage, which has further widened by 30% since 2021, due to the US' wealth of natural gas resources which the Eurozone lacks. On average, from 2008 to 2022, US businesses faced electricity costs that were 32% lower than those of French businesses, 53% lower compared to Spanish businesses, 57% less than Italian businesses, and up to 63% lower than German businesses[5] (*see Exhibit 16*).

This specifically hits Europe hard as its corporate sector is characterised by a higher prevalence of traditional industrial sectors (constituting 19% in the STOXX 600 versus 9% in the S&P 500), while the US has seen a surge in technology-driven firms (constituting 32% in the S&P 500 versus 6% in the STOXX 600), contributing significantly to its market dynamism and growth potential. In 2023, the state of California alone raised more than USD 81 billion in VC capital, which is more than the entire European continent has raised (USD 63 billion). As a consequence, the US has more than three times the number of new start-ups than the largest EU economies.[6]

The question of valuation gaps between the US and Europe, remains contentious at a more granular level, as interviewees expressed varying opinions on this overarching valuation gap. These differing views are presented *in Table 7, next page.*

EXHIBIT 16

Production prices, energy sector (Nov 2009=100)



Source: LSEG Datastream, Allianz Research, PwC Strategy& analysis

Table 7: Interview opinions on the observed valuation gap

Subtopic	Insight	Interview support
Overarching valuation gap	**View 1:** Europe's largest sectors, such as manufacturing and financial services, tend to have lower valuation multiples compared to sectors that dominate in the US. These sectors inherently drive down overall market valuations in Europe.	◑
	View 2: Since the overall market trades at a lower multiple, the premium assets in that market are impacted by the average valuation across that market.	◔
	View 3: The valuation gap between the US and Europe is not as pronounced when comparing sector by sector, particularly outside of "megacap" firms.	◔

● High interview support
◔ Low interview support

Source: Interview insights, PwC Strategy& analysis

Exchanges and index providers highlighted that while macroeconomic conditions impact market attractiveness, they are beyond the direct control of exchanges. They stressed that policy changes and economic stability are essential for long-term market growth. Institutional investors expressed high concern over macroeconomic conditions, particularly in Europe, where frequent elections and political shifts create additional uncertainty. The coming years may represent an opportunity for Europe to demonstrate a relatively high level of stability and political predictability.

> "One aspect in the differences between the US and European equity markets is the perceived economic prosperity of the particular jurisdiction. In Europe and the UK, given the political environment, the economy has a limited trajectory. In the US, there is really a beacon of economic prosperity despite them going through their own problems."
>
> **Managing Director, Investment Bank**

Liquidity providers, while more focused on operational barriers, acknowledged that macroeconomic trends affect market liquidity and volatility. They emphasised that while macroeconomic stability is important, they tend to prioritise the regulatory environment and capital access in driving their investment strategies.

Investment banks highlighted that high-growth tech companies in the US command higher valuations, while Europe continues to be dominated by traditional sectors that typically do not offer valuations as high as those in the US. Private equity firms and venture capitalists emphasised that European equity markets are less attractive for tech companies, which often choose US markets for better access to capital and a more knowledgeable investor base, particularly in biotech and tech sectors. Exchanges and index providers also noted that Europe's market composition, with its focus on industrials and energy, limits its attractiveness to high-growth sectors like technology. They stressed that encouraging tech listings in Europe is vital for long-term market competitiveness. At a political level, one potential route to do this could be through continuing to champion Europe as a green technology hub, incentivising global investment into this sector and attracting new issuers.

Recommendation 6: Prioritise economic growth to help improve European corporate profitability/RoE

6

Companies which have demonstrated or have the potential to generate good profitability will drive higher price/earnings multiples. Although there are no easy solutions, European countries must continue to explore how to make national economies more efficient and dynamic, helping to support the growth of European companies. This could include less cross-border red tape, expanding economies of scale, innovations for cost control, and possible tax incentives.

> "The political uncertainty in Europe (as part of the macro-economic influence), with frequent elections – around 20 elections on a rolling 4-year basis – and the complex market structure, impacts valuations in European markets."
>
> **Institutional investor**

> "The US has more high-growth companies that are able to list, which contribute to the valuation gaps as these companies command higher multiples."
>
> **Managing Director, Investment Bank**

7

Recommendation 7: Focus on European sectoral strengths: e.g. Europe as a hub for green technology

A crucial area for intervention is fostering the growth of sectors where Europe holds a competitive advantage. This could advance the current index composition to begin with, thereby contributing to enhanced liquidity. Such firms not only attract investors interested in sustainable growth, but also encourage new issuers to enter the market. According to the European Investment Bank (EIB), sustainable finance initiatives have already mobilised significant capital for green projects, highlighting the potential of this sector to bolster market liquidity. By creating targeted incentives, such as tax benefits or streamlined regulatory pathways, European markets could strengthen their position as a hub for green technology and attract further investment.

Addressing these challenges through a combination of targeted regulatory adjustments, strategic support for high-growth sectors, and measures to foster market inclusivity will be vital to strengthen European capital markets. By implementing these recommendations, the European financial ecosystem can achieve greater resilience, integration, and capacity to support long-term economic growth.

Recent regulatory reforms in European equity markets

Please see Appendix 3 for further details on recent regulatory reforms.

In recent years, both the EU and UK have undertaken a number of reforms of the legal and regulatory framework for primary and secondary equities markets. These include reforms to listing regimes and prospectus rules, civil liability rules, sustainability reporting, market abuse, secondary market trading, and transaction reporting.

Interviewees frequently mentioned the complexity of Europe's regulatory landscape as a deterrent for companies looking to list in Europe. Interviewees noted that numerous, and at times inconsistent, national regulations create friction in the listing process, as opposed to a perceived more streamlined and unified US system. In order to ensure meaningful, long-term and positive benefits for European equity capital markets, further harmonisation, simplification, and cost reduction is necessary.

Recent reforms, such as the EU Listing Act, aim to increase the attractiveness of Europe as a listing venue. Despite these efforts, the perceived impact of these new regulations on listing activity has been mixed. The majority of interviewees expressed the view that while these reforms are positive steps, they do not sufficiently address the structural and other barriers that currently deter companies from choosing public markets, particularly the high costs and perceived complexity of compliance. Some interviewees even noted that they are not informed enough about the regulatory changes to gauge their current effectiveness.

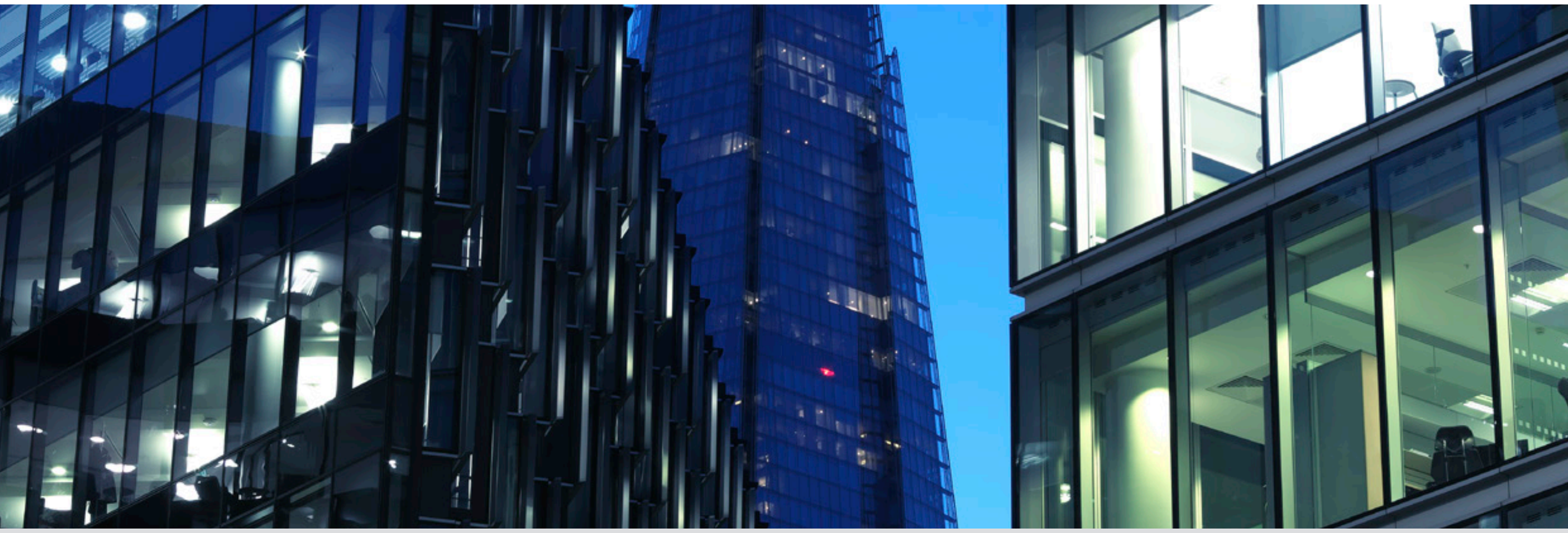
> "We need more holistic changes to revitalize the European IPO landscape, beyond just incremental regulatory reforms."
>
> **EU issuer with EU listing**

Approximately 80% of issuers with EU/US listings and private equity/VC firms stated that recent regulatory changes had no significant impact on their propensity to list.

Institutional investors and asset managers found some benefits in standardising processes, but stressed that further harmonisation, simplicity, and cost reductions are essential to truly address the barriers posed by Europe's complex regulatory environment.

Investment banks acknowledged improvements related to the changes to the prospectus regulations but remained sceptical of broader impacts, emphasising that stimulating demand and fund flows remains a larger challenge compared to the US. A managing director at an investment bank summarised this view: "Regulatory changes can help but stimulating demand and fund flows is the bigger challenge compared to the US."

A summary of the opinions as well as further insights on additional regulations can be found in the following *Table 8, next page.*



> The EU Listing Act is a complex framework. Anything that unifies and standardises the listing process and related procedures and timelines will help. If we want to foster an environment where companies, especially small caps, find decent ground in Europe, it should be simple."
>
> **Asset Manager**

Table 8: Interview opinions on regulatory changes

Subtopic	Insight	Interview support
Regulations in Europe	European regulatory frameworks are slow to adapt to changing market conditions. The rule-making process involves excessive detail to avoid arbitrage between member states, making it difficult for firms to operate nimbly in a fast-paced market.	◑
	European regulatory bodies often work in silos, addressing issues independently without considering the broader impact on the financial services ecosystem, leading to inefficiencies and unintended consequences (Example: EU Directive on Capital Markets, see further below for specific insights).	◑
	European equity markets suffer from fragmented regulations across 27 countries, making it difficult to implement standardised practices, unlike the more cohesive regulatory environment in the US which is steered from the agencies.	●
EU Listing Act	*General* – **View 1:** Provision of further simplification and standardisation, especially in small-cap sectors – all positive moves.	◔
	General – **View 2:** While the EU's Listing Act includes positive reforms, there remains a disconnect between what investors care about and the actions of various stakeholders, leading to low impact on market volumes.	◔
	General – **View 3:** The EU Listing Act does not fundamentally change who wants to IPO. "The Listing Rules are a 10% fix, they are not going to suddenly explode the IPO markets."	◕
	General – **View 4:** Not at all familiar with the EU Listing Act.	◔
	Prospectus format – **View 1:** Positive adaptation of the prospectus format, although the two-year track record instead of three years remains a point of contention.	◔
	Prospectus format – **View 2:** The prospectus regulations do not significantly influence the decision-making process for companies considering an IPO.	◕
	Multiple voting rights – **View 1:** Finally, unification on how multiple voting rights are handled in the EU.	◔
	Multiple voting rights – **View 2:** Having multiple voting rights limits companies from a governance perspective.	◔
UK Listing Rules	**View 1:** UK listing rules are really beneficial. The LSE has done a very good job to be at the forefront and quite innovative .	◑
	View 2: Despite the new rules, capital structure issues remain a larger barrier to attracting listings, and even the recent changes do not address broader concerns like tax structures.	◔
Other regulations: EU Directive on Capital Markets and Investment Firms Regulation	The Investment Firms Regulation created a classification methodology which looks purely at the size of a company's balance sheet. Thus, banking regulations are applied to all companies, even if some are ill-suited for the unique needs of investment firms. This is challenging, because market makers are treated as banks due to their large balance sheets, although they have low market risk due to their high-frequency trading. It severely inhibits the ability of market makers to operate in Europe, leading to limited to no business in Europe.	Selected opinion
Other regulations: Compensation rules	Tech-driven investment firms face difficulties competing for talent due to remuneration restrictions that apply to banks. These rules limit the flexibility needed to attract and retain top talent in both trading and technology roles.	Selected opinion

● High interview support ◔ Low interview support

Source: Interview insights, PwC Strategy& analysis

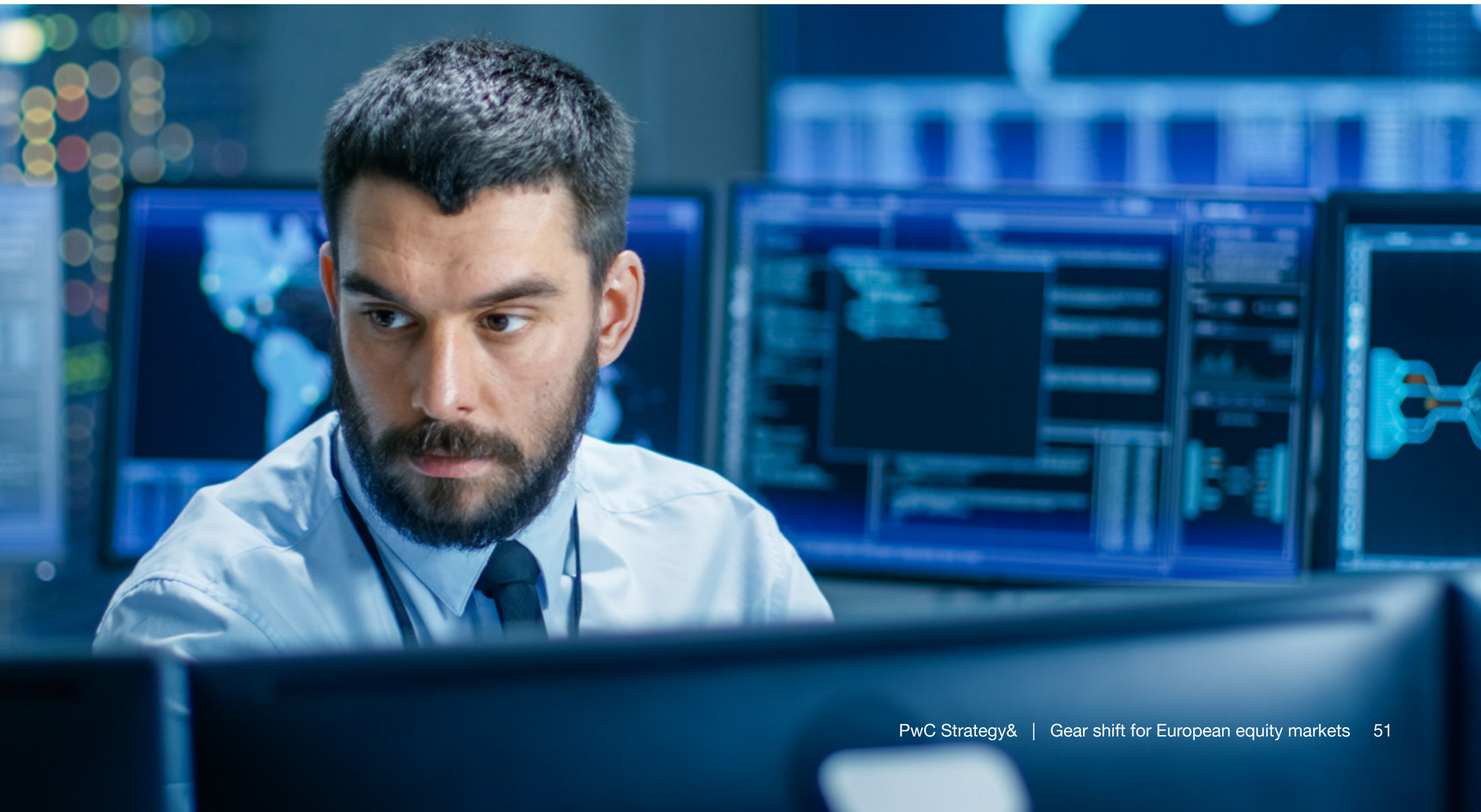
These overarching themes from the interviews indicate that while progress has been made, it is often perceived as too slow or not completely effective. Balancing investor protection with an environment conducive to growth and innovation remains a critical challenge. While the EU listing and prospectus proposals can be considered targeted refinements, they do not go far enough as they do not take a holistic approach to the issues causing European markets to lag behind.

Recommendation 8: Harmonise rules for dual share class structures

8

Europe should adopt more favourable rules for dual share class structures to compete effectively with the US (and more recently the UK), where such structures are widely accepted and allow companies to retain control while accessing public markets. Currently, while the EU has proposed permitting dual share class structures for SMEs, restrictions will remain for larger, high-growth companies, which may encourage technology and other high-growth firms to list in the US (and perhaps also in the UK once the UK dual-class share structure becomes more baked in), leading to a loss of high-growth listings for non-UK Europe.

The challenges are further compounded by the high costs and regulatory burdens of maintaining dual listings. Companies often choose to delist from less effective markets, typically Europe, when performance falls short, as a means of simplifying operations and reducing costs. By reforming its rules to provide greater flexibility for dual share class structures, Europe can attract more tech and innovation-driven companies, positioning itself as a competitive global listing hub. Ensuring regulatory alignment and providing companies with flexibility to balance control and public market access are critical steps in this direction.



9

Recommendation 9: Improve the clarity and comprehensibility of prospectuses

Many of the proposed reforms, targeting simplification of the prospectus and offering process, acknowledge the need to also consider changes to improve investors' general understanding of the information provided to them. While we agree with the intention to streamline disclosure documents and make them more useful and easily understood by investors, we would encourage supervisory convergence of NCAs' approaches to the current "plain language" rules in the EU.

The EU Prospectus Regulation requires that "[T]he information in a prospectus shall be written and presented in an easily analysable, concise and comprehensible form", taking into account information that is deemed necessary for investors to make an investment decision. As practitioners, AFME members note that these requirements are not uniformly monitored and enforced by all European NCAs. In the US, SEC Rules 421(b) and 421(d) set out how to write in plain language and provide examples for acceptable disclosure in this regard. The US also appears to have a more robust framework for monitoring compliance and addressing any shortcomings. Similarly, the Hong Kong Stock Exchange (the regulator of listed offerings in Hong Kong) has published guidance on producing prospectuses that are clear, concise and in plain language.

We agree that further progress towards a consistent approach to supervising, monitoring and addressing derogations from the existing requirements would make EU prospectuses more accessible to, and useful for, investors. The current framework and proposals may (or may not) help to increase simplicity and investor understanding; we believe the recommendations above would on balance lead to improvements.

10

Recommendation 10: Enhance cross-border regulatory coordination

Financial market participants have always had to accommodate different market and other financial conditions in different jurisdictions in which they want to list, or offer financial instruments, both within and outside Europe. The most obvious comparison had been between the EU and the US. However, the UK's Brexit decision and its aftermath has exacerbated the problem. Parties must now navigate a growing myriad of financial market rules, regulations, customs and practices within Europe and in comparison to the UK, the US and other important jurisdictions.

While we see the necessity, and merit, of specific rules and practices for specific markets and jurisdictions, we recommend that the EU take greater account of the negative effects of divergence both within the EU and with respect to other important jurisdictions.

This would include making a greater effort to accommodate reasonable practices and rules that work well in other successful jurisdictions in a way that helps to increase both opportunities and protections for European market participants.

CONCLUSION

Europe's equity markets have faced persistent challenges in maintaining competitiveness with the US, characterised by lower IPO activity, lower market liquidity, and regulatory fragmentation. These structural gaps threaten innovation, growth, and financial stability.

However, in light of recent global trends, Europe has a moment of opportunity to capture global capital flows and provide worldwide investors with an attractive, stable and efficient place in which to transact and invest.

To close the competitiveness gap, a holistic ecosystem approach is crucial, addressing four interconnected levers: market structure, macroeconomic factors and corporate dynamics, investor participation, and regulatory frameworks.

Key priorities include fostering greater retail and pension investor participation, targeted regulatory change that builds on the good work already done and focuses on simplification, and renewed efforts towards harmonisation of the legislative, regulatory and operational environments. A comprehensive, long-term strategy – anchored in increasing the efficiency and attractiveness of European equity markets – is essential to reinvigorate Europe's capital markets, mobilise domestic savings, and attract global investment. With sustained focus and collaboration, Europe can build a more dynamic and inclusive equity ecosystem, supporting its broader economic resilience and global relevance.

> "The European market ecosystem is highly interconnected. Reforms in one area, like liquidity, without addressing regulatory fragmentation or capital access, will only provide partial solutions. A unified, comprehensive approach is needed to truly compete with the US."
>
> **Head of Regulatory, Index provider**

APPENDIX 1

US versus EU index analysis: S&P 500 versus STOXX 600

Constituent comparison

The S&P 500, focused on large-cap US companies with a market cap of at least $14 billion, is dominated by technology, healthcare, and financial sectors. In contrast, the STOXX 600 spans 17 European countries and includes large, mid, and small-cap firms, offering more geographic diversity and smaller company representation.

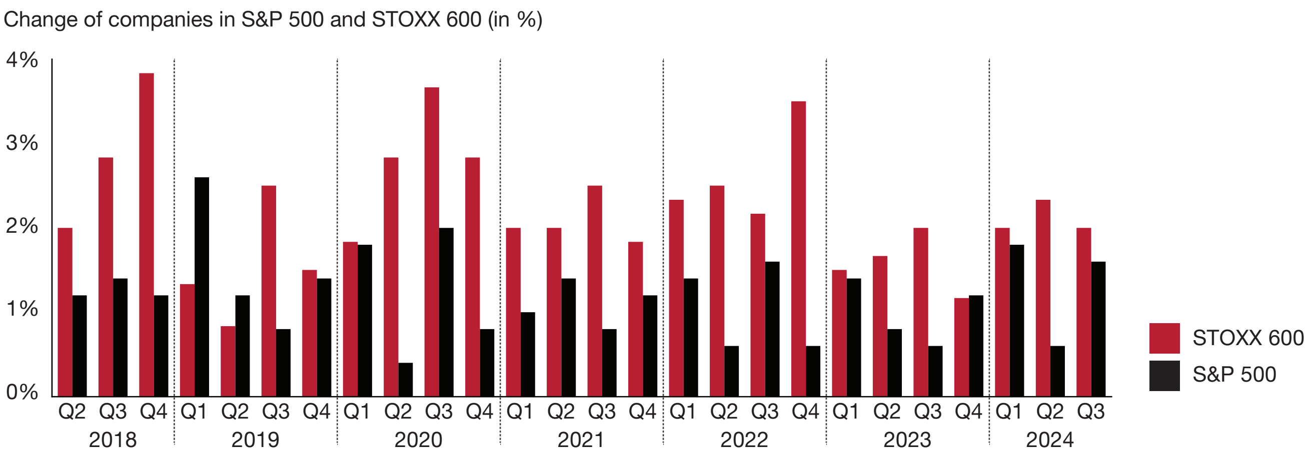
The S&P 500 is highly concentrated, with top companies holding significant weight, while the STOXX 600 has a more balanced structure but faces liquidity challenges. Stricter inclusion and liquidity standards make the S&P 500 more efficient, whereas the STOXX 600's lenient criteria allow mid-cap growth firms to enter, despite lower trading volumes.

Index composition volatility

The STOXX 600 is notably more volatile compared to the S&P 500 due to more frequent changes in its constituent companies, largely driven by the inclusion of small- and mid-cap stocks (*see Exhibit 17*). This higher turnover allows easier access for new stocks but also contributes to increased short-term volatility. In contrast, the S&P 500's focus on large-cap companies, particularly dominant U.S. tech firms, provides more stability. The STOXX 600 experiences a higher rate of constituent changes, whereas the S&P 500 maintains more consistent inclusion criteria, contributing to its stability. This volatility in the STOXX 600 may present opportunities for smaller firms but also poses challenges in terms of stability and investor predictability.

EXHIBIT 17

Volatility of S&P 500 versus STOXX 600 constituent (2018–2024), in %



Note: Change of companies meaning companies entering or leaving the respective index
Source: Bloomberg, PwC Strategy& analysis

APPENDIX 2 – STOCHASTIC MODEL

Assumptions

Scenarios	Baseline balance	Optimistic opportunity	Prosperity plus
Rate of return and withdrawals			
Annual rate of return	5%	5%	5%
Demography and workforce participation			
Demographic growth	-0.085%	-0.05%	0%
Migration effect	0%	0.5%	1%
Participation rate	62%	62%	62%
Employment rate	75%	78%	78%
Investment readiness			
Investment propensity	30%	35%	40%
GDP growth rate	1%	2%	3%
GDP sensitivity	0.5	0.8	1
Capital coverage ratio	50%	65%	70%
Contribution			
Median contribution	€2,800	€3,200	€3,800
Standard deviation	€300	€400	€400

APPENDIX 3

Overview of recent EU and UK regulatory reforms

EU Listing Act

- Directive on multiple-vote shares: Introduction of a new directive on multiple-vote shares, allowing founding shareholders to retain control over their companies when listing (subject to certain conditions) – particularly relevant for SMEs and innovative scale-ups.

- Free float requirements: Reduction in free float requirements for EU-regulated markets from 25% to 10%, which is intended to lower the barrier for firms to be listed

EU Prospectus Regulation

- Increase in the threshold below which issuers are exempt from the obligation to publish a prospectus for the admission to trading of certain fungible securities on a regulated market from 20% to 30%.

- Shortening of the minimum offer period for IPOs from 6 to 3 trading days.

- Increased exemption thresholds from the Prospectus Regulation for small offers, raising it to € 12,000,000 over 12 months, while the de minimis threshold decreases to € 5,000,000.

- Reduced requirements for historical financial requirements in equity prospectuses (two years of financial information instead of three).

- Introduction of a new "EU Follow-On Prospectus" with a 50-page limit for issuers with securities admitted for at least 18 months, replacing the previous simplified prospectus format.

- Introduction of a 300-page limit for prospectuses, with exemptions depending on offer thresholds.

- Addressing the criteria for scrutiny and the procedures for approval of the prospectus.

- Enhanced flexibility for the language of prospectuses, reducing translation requirements to improve efficiency.

EU Market Abuse Regulation and MiFIR Changes

- Market Abuse Regulation changes that simplify reporting requirements, making it easier for companies to communicate with potential investors during share buy-backs and other sensitive transactions.
- Enhanced detection of market manipulation through better integration and cross-checking of order books (MiFIR).
- Simplification of the conditions under which inside information must be disclosed, allowing delayed disclosure if it does not contradict prior public announcements.

EU Civil Liability Rules

The EU has also consulted on potentially harmonising its civil liabilities regimes in order to provide greater certainty and consistency on liability expectations for participants in securities offerings. The lack of a uniform prospectus liability regime across the European Union may create uncertainty on where responsibility, liability and risks lie in equity transactions, and in some cases may deter parties from undertaking a transaction in Europe. However, it is acknowledged that full harmonisation of civil liability regimes across Europe would be a daunting task.

EU Packaged Retail and Insurance-Based Investment Products (PRIIPs)

There have been several changes proposed for the EU PRIIPs Key Information Documents (KID), all intended to make the document more flexible and suitable for different and changing investor needs.

UK Listing and Prospectus Rules

The UK reforms are primarily focused on modernising listing and prospectus requirements, and simplifying the regulatory burden to make public listings more accessible, particularly for companies aiming to list on the London Stock Exchange. These changes are intended to improve the competitiveness of the UK equity markets in the face of global competition.

UK Prospectus Rules:

These reforms are intended to simplify the prospectus regime, making it more agile and responsive to innovation. The reforms purport to remove unnecessary red tape, provide more guidance, and facilitate broader participation, particularly for retail investors, allowing more individuals to benefit from public company growth and improving market liquidity.

The UK also proposes the separation of public offers from admission to trading regulated markets, therefore allowing a more tailored approach for each. This distinction is expected to make the listing process more efficient and better adapted to different types of issuers.

UK Public Offers and Admissions to Trading:

The UK government proposed a new Public Offers and Admissions to Trading Regulations 2024 (POATR) in January 2024. This framework establishes a new regime and delegates greater rule-making powers to the FCA. Under the proposals, companies would still be required to publish a prospectus when first admitting securities to public markets, but for further capital raises a prospectus would not be required unless the amount is in excess of 75% of their existing equity.

The UK generally proposes a less prescriptive approach to prospectus preparation, for example by removing the requirement for detailed financial information in the summary.

The UK also proposes increasing the threshold for requiring a prospectus for further issuances of securities on a regulated market, from 20% to 75% of existing equity.

Corporate Governance Adjustments:
To promote listing by innovative growth companies, the UK Listing Rules first allowed dual-class share structures in the premium segment of the London Stock Exchange (which were formerly only permitted in the standard segment). This change granted directors, particularly founders, enhanced voting rights on certain decisions, with safeguards and conditions in place to maintain high governance standards. The UK has more recently moved to a single listing segment, on which such structures are permitted.

The free float requirement – the percentage of shares that must be publicly held – has been reduced from 25% to 10%, with allowances for other measures to demonstrate sufficient liquidity. This change aims to make it easier for high-growth companies to access public markets without needing to allocate a large proportion of shares to public investors initially.

SPACs (Special Purpose Acquisition Companies) and Financial Ecosystem:
- Liberalisation of SPAC regulations: The UK Listing Rules now allow more flexibility for SPACs, with appropriate safeguards for investor protection. This liberalisation is intended to attract more SPAC activity to the UK, in line with international financial centres.
- Improving retail investor engagement: Measures are being taken to encourage retail investors to participate more actively in stewardship, including considerations of how technology can improve engagement and participation.

UK FCA Proposal on Sustainability Disclosures
The FCA proposes introducing a general requirement for sustainability disclosures in prospectuses. The rules would apply to issuers that have identified climate-related risks as risk factors or climate-related opportunities as material to the issuer's prospects, and would establish minimum information requirements aligned to the high-level categories common to the Task Force on Climate-related Financial Disclosures (TCFD) and International Sustainability Standards Board (ISSB) standards. In the prospectus, issuers would also need to provide a summary of key information about their transition plan, if applicable. Issuers of debt instruments would also need to disclose whether they are marketed as 'green', 'social' or 'sustainable'.

UK PISCES Proposal
The UK has proposed a "Private Intermittent Securities and Capital Exchange System", or PISCES, that will be a new type of trading platform designed to enable intermittent trading of private company shares using a market infrastructure. PISCES is intended to improve the growth of private companies in the UK by providing periodic liquidity in their shares, whilst also bridging the gap between private and public markets by enabling companies to engage in transactions using a regulated public trading market. It can also be seen as a potential stepping stone to listing on public markets.

Important features of the PISCES regime include:

- PISCES will operate as a secondary market that will facilitate trading in existing shares in intermittent trading windows, but will not facilitate capital raising through the issuance of new shares;
- Only shares in companies whose shares are not admitted to trading on a public market (in the UK or abroad) can be traded on PISCES;
- PISCES operators will determine any admission requirements for their markets;

- At least initially, only institutional investors, employees of participating companies and investors who can meet the definition of high net-worth individuals and self-certified or certified sophisticated investors under the financial promotion legislation will be able to purchase shares on PISCES;

- The PISCES regime will not include a public market-style market abuse regime. This is a change to what was proposed in the consultation. Instead, the FCA will be given rule-making powers to create a disclosure regime for PISCES which would require disclosures and pre- and post-trade transparency to be shared with all investors participating in a PISCES trading event.

UK PFLS

In order to provide flexibility and to acknowledge different company and capital structures, the FCA also encourages the promotion of more forward-looking information, through the concept of the Protected Forward Looking Statement (PFLS). It proposes that PFLS will be subject to a reduced liability threshold (i.e. recklessness rather than negligence), and seeks to provide clarity and sufficient legal certainty over what can constitute PFLS and how it should be presented in a prospectus. This may provide flexibility for parties which, under the particular circumstances, need to make such statements in order to tell the full equity story.

EU and UK reviews of MiFID investment research provisions

Additional optionality for research payments was introduced in 2024 by the EU Listing Act and, concurrently, the UK Investment Research Review, to stimulate the research ecosystem, driving increased visibility of firms and therefore more investments and liquidity.

ENDNOTES

1 Defined in this report as including the European Union (EU), United Kingdom (UK) and Switzerland

2 Two Sigma (2014) The Effect of French and Italian Transaction Taxes on Equity Market Microstructure and Market Efficiency Centre for Policy Studies (2024) Stamp duty on shares: analysis of its economic impact and the benefits of its abolition

3 Date of data query: 30 April 2025. The largest seven companies in the index: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla

4 Eurobarometer (2023)

5 Allianz Research: Europe needs to step up its game (2024)

6 Atomico (2023) State of European Tech

7 The European turnover ratio includes all forms of execution, both on-venue and off-venue (Exchanges, MTFs, OTC, and SI). The trading volume is adjusted to exclude non-addressable and non-price forming trades. If these technical trades were included, the European turnover ratio would be 148% in 2024. The US turnover volume encompasses Tape A, Tape B, and Tape C, executed both off-exchange and on exchange (ICE, NASDAQ, CBOE, and other exchanges). Some non-price forming and technical trades are excluded from US tape reporting such as internal inventory transactions (desk-to-desk), traded on a non-business day, T+365 trades, corporate control transactions, internal leg of riskless principal transactions (to avoid double reporting with the client leg), trades to redeem an ADR or an ETF, derivative-linked transactions, and “away from market sale” (e.g. gifts, inheritance). (see FINRA)., https://europa.eu/eurobarometer/surveys/detail/2953

SOURCES

Sources used for the stochastic model

- Investment Company Institute (2025), The U.S. Retirement Market, 2024 Q4 – €450bn annual 401(k) contributions; 160 m employees; 51% plan penetration.
- Eurostat (2025), Population and Employment Database – 526 m residents and 259m employed persons in EU + UK + CH.
- United Nations DESA (2022), World Population Prospects, medium variant – c. 500m total population for EU + UK + CH in 2100.
- Swedish Pensions Agency (2024), Orange Report – 50% voluntary pension participation benchmark.
- Vanguard (2024), How America Saves – average employee 401(k) deferral c. €5,500; statutory cap €22,000.
- German Federal Ministry of Finance (2022), press release on "Generationenkapital" – proposal for €3,600 annual personal contribution.
- Eurostat (2023), Structure of Earnings Survey – average EU gross salary €37,900.
- UK Office for National Statistics (2024), Annual Survey of Hours and Earnings – median gross pay £37,430.
- Swiss Federal Statistical Office (2023), Swiss Earnings Structure Survey – median gross salary CHF 6,788 per month.
- U.S. Bureau of Labor Statistics (2025), Current Population Survey, Q4 2024 – median weekly earnings USD 1,192 (c. $62,000 c. €57,000 per year)

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