



Global Investment Research | Equities

Made in Europe

Turning European demand into
European production

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AUTHORS

Alex Nae
Quantitative Research Analyst,
Global Investment Research
Alex.Nae@lseg.com

David McNay, CFA
Director,
Global Investment Research
David.McNay@lseg.com

Cyril Bosch
Senior Product Manager,
Equity and Multi-Asset Indices, EMEA
Cyril.Bosch@lseg.com

Contents

Introduction – Made in Europe and the return of industrial policy..... 4

From cost efficiency to industrial security 5

 China and the scale of the competitive challenge 6

 Battered, not broken: Europe’s industrial base still matters 7

Policy architecture – the six legislative blocks 7

 From policy to the production line 10

FTSE Russell Made in Europe 11

 Methodology – systematic exposure capture..... 11

 What does the index capture? 12

Conclusion..... 15

Overview

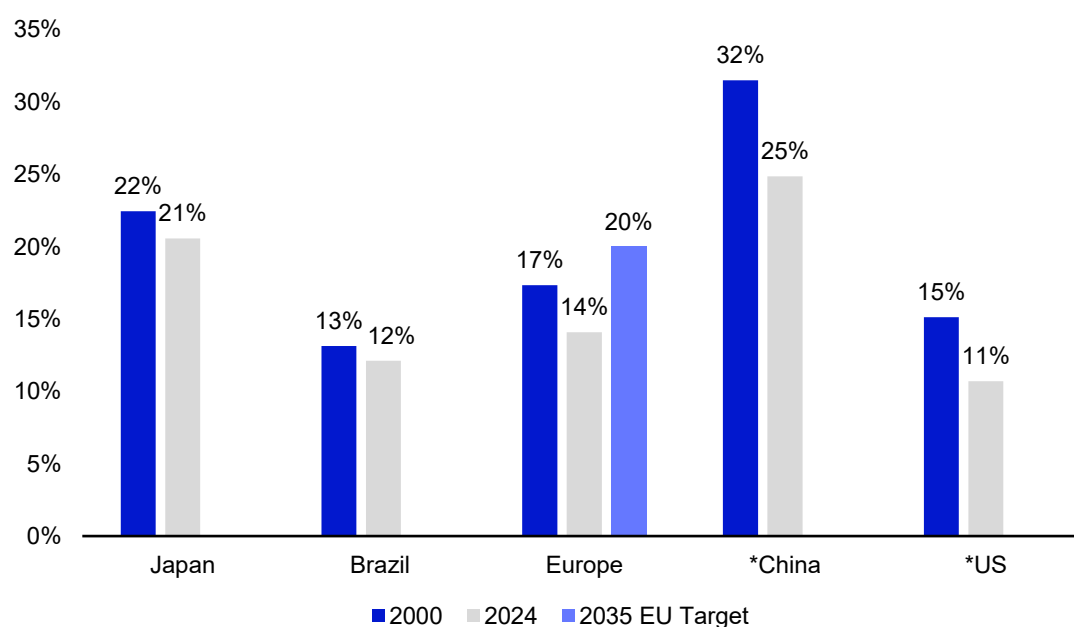
- Europe has benefited from open trade, but the global economic environment is becoming more interventionist, with tariffs, state support and policies favouring locally made goods playing a larger role. As Europe remains more reliant on open cross-border trade than either the US or China, the stakes are higher for how its economy responds.
- Made in Europe (MiE) is part of that response. It aims to turn more of Europe's own demand into industrial orders inside the bloc. The Industrial Accelerator Act (IAA) would use part of the EU's roughly €2tn annual public-procurement market to favour European production, giving manufacturers a steadier base of orders as export markets become less predictable.
- Manufacturing has lost some ground as a share of European GDP, but the continent's industrial base remains significant. Beyond the IAA, CADA aims to triple EU data-centre capacity. Other acts work through different channels, with CBAM raising the cost of carbon-intensive imports and the CRMA making private investment in critical minerals easier. Taken together, these policies address several of the concerns raised in Draghi's 2024 report around technology, industrial competitiveness and dependence on critical inputs.
- FTSE Russell is launching the FTSE Made in Europe 50 Index, a rules-based index of 50 EU-27 companies impacted by MiE. It identifies the industries most affected by the six policy blocks, then adjusts company scores according to the share of revenue earned in Europe, helping capture where policy tailwinds are most likely to translate into real commercial exposure.

Introduction – Made in Europe and the return of industrial policy

Europe is trying to turn public demand into industrial capex. Through a collection of policies coined “Made in Europe” (MiE), the European Commission is using public procurement, industrial support and strategic access to encourage production inside the bloc. The Commission’s ambitious aim is to lift manufacturing from 14.3% of EU GDP in 2024 to 20% by 2035.

A critical element of achieving that goal is deploying Europe’s roughly €2tn annual public-procurement budget toward companies with European production facilities and supply chains¹.

Figure 1: Manufacturing share of GDP: global comparison and EU 2035 target



Source: LSEG Workspace, DataStream. Limited data availability for US and China: 2023*.

Figure 1 shows that Manufacturing accounted for 17.0% of EU GDP in 2000, compared with 14.3% in 2024. Measured against today’s EU economy, that decline is equivalent to roughly €480bn of annual output. Put differently, if manufacturing still accounted for 17.0% of EU GDP today, the sector would be almost half a trillion euros larger. And with a 20% contribution to GDP from manufacturing, the continent would see a total of €3.6tn annual contribution from manufacturing – a €1tn net contribution from 2024’s level.

¹ [The Industrial Accelerator Act](#) forms part of the EU’s response to the US Inflation Reduction Act, reflecting concerns over trade distortions, local-content requirements and the diversion of investment. Earlier policy responses also included relaxed state-aid rules and the Green Deal Industrial Plan, aimed at improving competitiveness and supporting the transition to net-zero industry.

Made in Europe should therefore be read as the EU's strategic-industrial policy for the 2030s, aimed at directing more demand towards production inside the bloc and expanding Europe's industrial base. [The IAA](#), for example, favours European-made products and content, giving companies already producing inside the bloc an advantage over competitors that manufacture predominantly elsewhere. The broader ambition is to reverse the decline in manufacturing and lift manufacturing as a percentage of GDP by 2035 to the 20% target.

MiE combines procurement, financing, permitting and eligibility rules to support investment and growth across manufacturing and infrastructure, while reducing external dependencies. If successful, more public demand would flow to companies already operating across European supply chains and create an incentive to expand capacity inside the bloc. The effect is unlikely to be spread evenly across European equities, with the strongest tailwinds concentrated in the industries and companies most directly exposed to these policies.

From cost efficiency to industrial security

For years, production networks were organised primarily around cost efficiency, but governments and companies are now placing greater weight on resilience and security of supply. The pandemic exposed the fragility of just-in-time production, while Russia's invasion of Ukraine pushed energy and defence higher up the industrial-policy agenda. Renewed trade restrictions have since added another constraint by making access to export markets less predictable.

The same emphasis on resilience is increasingly visible in energy, where, as discussed in [After the Energy Shock](#), the threat of a Strait of Hormuz closure has become more about energy security than the price of oil itself. Indeed, energy security is increasingly connected to [economic and industrial security](#)²; while governments are already reassessing [defence capacity](#), rebuilding supply chains closer to home and expanding the physical infrastructure required for an [AI-driven economy](#).

This higher geopolitical volatility has changed how large trading blocs approach economic security. The US has combined subsidies, tariffs, export controls and domestic-content incentives to encourage investment in semiconductors, clean technology and other strategic industries³. China has developed deep domestic supply chains across many of the same sectors, supported by industrial scale and sustained state intervention. Japan's fiscal expansion agenda under [Takaichi](#) provides another example of governments directing capital and policy support toward industries considered important to economic security.

² Limited or more expensive energy raises production costs and compresses margins. In extreme cases, energy shortages can force industrial production to stop altogether.

³ The [CHIPS and Science Act](#) provided roughly \$50bn for semiconductors, including \$39bn in manufacturing incentives. The Inflation Reduction Act added clean-energy tax incentives, with additional benefits for domestically produced components.

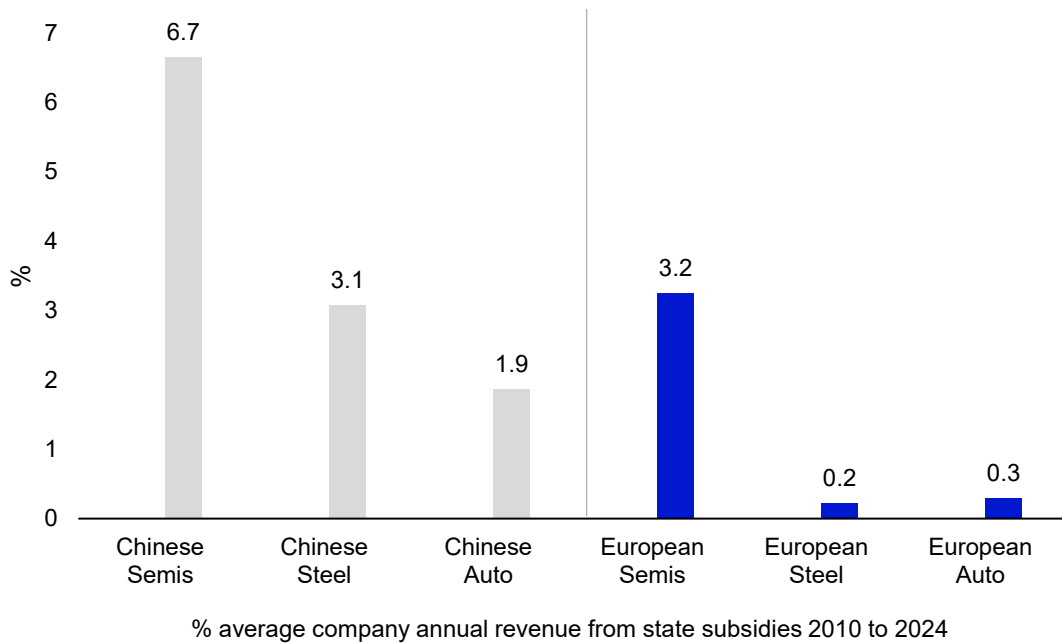
Europe, however, is more reliant on open cross-border trade than either the US or China because its industrial base remains deeply embedded in international production networks. A [European Parliament briefing noted](#) that extra-EU trade was equivalent to 45% of EU GDP in 2024, compared with 25% for the US and 37% for China. It also warned that apparent de-risking from China can be overstated as Chinese inputs can be routed through third countries. As a result, measures that favour domestic producers in major trading partners can put European companies at a relative disadvantage by restricting market access or strengthening foreign competitors.

This helps explain the logic of Made in Europe. Europe remains deeply integrated in global trade, but MiE uses targeted procurement, rules favouring European-made goods and components, and industrial policy to direct more domestic demand toward European production in selected industries. The aim is to reduce dependence in areas considered strategically important without unwinding the broader trade relationships on which the European economy still relies.

China and the scale of the competitive challenge

China is central to this subtle but important change in Europe’s industrial policy because state subsidies have created excess capacity in several key industries and allowed some Chinese firms to compete globally at prices European producers may struggle to match⁴. Figure 2 shows that between 2010 and 2024, government subsidies were generally around two to three times higher for Chinese companies than for their European counterparts across the industries shown.

Figure 2: Average state subsidies by strategic industry between 2010 to 2024



Source: OECD MAGIC Database of Industrial Subsidies, 2026.

Another angle is the scale of clean-technology production. Some estimates suggest that [76% of global clean-technology](#) factory investment in 2024 went to mainland China –

⁴ Currency is another factor. A back-of-the-envelope estimate by [Reuters](#) suggests that a 25% stronger yuan would raise China’s costs by 14% on average across key sectors, reducing its cost advantage relative to some Western countries by around a quarter.

keeping prices lower across solar, batteries, EVs and related supply chains. This makes it harder for European firms to compete and establish a production chain at home, all the while leaving Europe's clean-energy strategy dependent on foreign suppliers. The comparison with Europe's previous reliance on Russian gas is not exact, but both illustrate the risks of becoming heavily dependent on a dominant external supplier.⁵

Battered, not broken: Europe's industrial base still matters

Europe still has a substantial industrial base even after two decades of relative decline. The EU accounted for 14.7% of global GDP in 2023, despite representing only 5.5% of the [world's population](#), and remains the world's third-largest economic bloc. More recent [World Bank](#) data put EU GDP at around US\$21.2tn and manufacturing value added at approximately US\$3.0tn in 2025.

Its industrial clusters span high precision machinery, aerospace, defence, autos, grid equipment, chemicals, semiconductors and clean-technology components, alongside a public sector large enough to shape demand over several years.

Made in Europe is designed to use that industrial base more deliberately. By making access to public procurement and industrial support increasingly dependent on production inside the bloc, the framework can redirect more demand and investment towards European industry.

Even a limited redirection of public procurement toward European output may have a wider domestic multiplier. Companies that win public contracts require upstream inputs, spreading demand into steel, batteries, electrical equipment, construction and engineering. MiE could therefore unlock value already embedded in Europe's industrial base and, if sustained, help give rise to a broader European industrial renaissance.

Policy architecture – the six legislative blocks

As we noted in our [Global Equity Insights report in May](#)⁶, "Made in Europe" is not a single piece of legislation, but a collection of policies. Since then, the European Commission has added another – the Cloud and AI Development Act (CADA) – aiming to triple data-centre capacity within the next 5-7 years.

MiE's logic is closely aligned with Draghi's 2024 report on European competitiveness, which argued that Europe could no longer rely on expanding global trade, cheap imported energy and a benign security backdrop⁷. Its recommendations centred on closing the innovation gap with the US and China, improving competitiveness alongside decarbonisation, and reducing external dependencies in raw materials, advanced technology and defence.

⁵ In 2021, Russia accounted for around 45% of EU gas imports and almost 40% of total EU gas consumption.

⁶ See [FTSE Russell Global Equity Insights - May 2026](#). The note framed Made in Europe as a group of EU industrial-policy measures aimed at reversing the decline in manufacturing's share of GDP, with the Industrial Accelerator Act presented as the most consequential pillar because it applies procurement rules across sectors rather than relying only on sector-specific subsidies. It grouped the IAA with the Critical Raw Materials Act, the European Chips Act, SAFE/ReArm Europe and CBAM, and argued that these measures could create a structural tailwind for selected European manufacturing industries

⁷ See Mario Draghi, [The future of European competitiveness: A competitiveness strategy for Europe](#), September 2024. The report identifies three main areas for action: closing the innovation gap with the US and China, developing a joint plan for decarbonisation and competitiveness, and increasing security while reducing dependencies. The report also argues that Europe can no longer rely on external conditions that supported its previous growth model. Hence MiE appears to closely follow the "wake up call" stemming from Draghi's report.

The flagship policy is the [Industrial Accelerator Act \(IAA\)](#), proposed in March 2026, which puts the “Made in Europe” idea into procurement and public-support rules. The IAA introduces “Made in EU” and low-carbon requirements in public procurement and public support schemes, with an initial focus on strategic sectors such as steel, cement, aluminum, automotive and net-zero technologies. It also incorporates the political target of raising manufacturing’s share of EU GDP from 14.3% in 2024 to 20% by 2035. In practice, the IAA is the main demand-creation arm of Made in Europe, using public support and procurement rules to retain a greater share of public demand within the bloc – see Table 1: Made in Europe initiatives - so far.

That procurement lever has become more relevant as access to one of Europe’s largest export markets has become more costly and less predictable⁸. The US accounted for [21% of EU goods](#) exports in 2025, worth €554.9bn, while higher US tariffs are expected to weigh on trade volumes⁹. The IAA cannot replace external demand, but by directing more public procurement toward European production it can give manufacturers operating in Europe a steadier base of orders within the bloc, reducing their reliance on export markets such as the US.

[CADA](#) is separate from InvestAI, the [€200bn](#) AI investment initiative launched in 2025, which includes €20bn for AI gigafactories. CADA itself aims to at least triple EU [data-centre capacity](#) over the next five to seven years. A build-out on that scale would create demand beyond cloud and AI companies, reaching into cooling, power equipment, electrical systems and grid connections. It would also increase demand for the processors, memory and other semiconductors used in data centres, creating a natural link to Europe’s semiconductor policy. The [European Chips Act](#), in force since September 2023, covers semiconductors and aims to double the EU’s share of the global semiconductor market from roughly 10% in 2023 to 20% by 2030. Together, the policies connect Europe’s AI ambitions with a much wider industrial build-out.¹⁰

Defence is supported by three programmes in MiE – [EDIP](#), [SAFE](#) and [ReArm Europe/Readiness 2030](#). Together these create a broader framework for defence manufacturing, industrial capacity and ultimately, defence financing. EDIP provides €1.5bn of grants for 2025-27 to support common procurement, manufacturing capacity and security of supply. SAFE adds up to €150bn of long-maturity loans for defence investment and joint procurement, with origin rules limiting non-EU, non-EEA-EFTA and non-Ukraine content to 35% of component costs. ReArm Europe adds the fiscal layer, with the Commission estimating that a 1.5% of GDP increase in defence budgets could create nearly €650bn of fiscal space over four years.¹¹

Table 1: Made in Europe initiatives - so far, shows the six blocks in aggregate, however, their headline figures are not directly comparable: some represent procurement markets, others loans, fiscal headroom, mobilised private investment or regulatory measures.

⁸ Under the EU–US framework that entered into force on 1 July 2026, most EU goods face [an all-inclusive tariff ceiling of 15%](#), although some steel and aluminium derivatives remain subject to rates as high as 50%. ECB estimates suggest foreign exporters absorb only around 5% of tariff costs, with most borne by US importers and consumers. Among products that remain traded, the ECB estimates that a 10% increase in tariffs is associated with a 4.3% decline in US import volumes.

⁹ Following the European Commission’s €890m fine on Google, President Trump announced an investigation into the EU’s treatment of US technology companies and threatened further tariffs. [USTR](#) said the dispute placed the stability of the EU–US trade framework at risk, although no new tariff rate or product list for that dispute had been announced as of 27 July.

¹⁰ See [Europe’s Digital strategy](#) for further discussion on the links between semiconductors, digital infrastructure, cloud and AI.

¹¹ SAFE also includes a 65% European-origin requirement, with non-EU, non-EEA-EFTA and non-Ukraine components limited to 35% of component costs.

Table 1: Made in Europe initiatives - so far

Block	Status	Scale
Industrial Accelerator Act (IAA)	Proposed March 2026, not yet enacted	~€2tn of annual public procurement steered toward EU producers; origin thresholds from 2029; 20% manufacturing/GDP target by 2035
Cloud and AI Development Act (CADA)	Proposed June 2026, not yet enacted	At least triple EU data-centre capacity within five to seven years; complements InvestAI, which aims to mobilise €200bn for AI, including €20bn for AI Gigafactories
Critical Raw Materials Act (CRMA)	In force (2024)	€22.5bn mobilised across 47 strategic projects in 13 member states
Defence (EDIP, SAFE, ReArm)	Active and ramping	€150bn SAFE loans; 1.5% of GDP fiscal headroom for four years; 65% EU-origin content rule
European Chips Act	In force (2023)	€43bn+ mobilised; target to lift EU global share to 20% by 2030
Carbon Border Adjustment Mechanism (CBAM)	In force; cost regime live since January 2026	No budget; carbon-cost equalisation on imports; free-allowance phase-out completing in 2034

Source: European Commission, European Council and FTSE Russell. Status and scale figures as of August 2026.

The Critical Raw Materials Act mainly improves the conditions for investment into critical minerals through strategic-project status, faster permitting and financing support¹². But it can work together with the IAA and defence policies. Critical minerals sit near the beginning of the production chain, feeding into the metals and components used by European manufacturers. The IAA can then favour European-made products further along that chain, while higher defence spending creates demand at the other end via EDIP/SAFE/ReArm. The effect can therefore run from extraction and processing, through component manufacturers, and ultimately into orders for defence producers.

Germany provides an example of how national fiscal expansion could interact with IAA procurement rules. On 21 March 2025, it reformed its constitutional debt brake, exempting defence spending above 1% of GDP and creating a €500bn infrastructure fund that runs over twelve years. It was a deliberate break from decades of fiscal orthodoxy toward fiscal expansion – motivated by external geoeconomic developments.¹³ Therefore, core defence spending alone is set to climb from around €95bn in 2025 to €162bn by 2029, close to 3.5% of GDP.

Quote from the European Commission:

“However, simply spending more is not enough. Member States need to spend better, work together, and prioritise European companies. The EU can support this by helping Member States coordinate their investments and develop defence equipment within Europe.”

Source: [European Commission, Future of European Defence](#).

¹² The Critical Raw Materials Act, enacted in 2024, relies largely on private investment rather than direct public spending. Its main contribution is to improve the conditions for investment through faster permitting, strategic-project status and easier access to financing, allowing critical-mineral projects to move forward more quickly.

¹³ Some commentators [suggest](#) that tariffs introduced by the new Trump administration were one catalyst for Germany's fiscal expansion. However, the change also reflected the Russia-Ukraine war and the US indication that Europe would need to assume greater responsibility for its own defence.

While that spending lifts aggregate demand, Made in Europe can influence how much of the additional spending remains inside the bloc. By tying [procurement](#) and Union-origin thresholds to local production, the framework can turn a member state's fiscal decision into a broader European supply-chain impulse.

From policy to the production line

The extent to which that additional demand remains within Europe depends partly on the depth of European supply chains and how far the IAA reaches into the components behind the finished product. In automotive, for example, the IAA goes beyond final assembly, requiring parts of the battery, e-powertrain and electronic systems to be made in Europe as well under the rules.

This extends the effect upstream from vehicle manufacturers into component manufacturing, materials and industrial equipment. Final assembly can relocate relatively quickly – [Chinese manufacturers](#), for example, have expanded manufacturing capacity in Mexico, following higher US tariffs on Chinese goods, moving production closer to the US market and thereby circumventing tariffs. Therefore, by requiring European content across key components, it becomes harder for non-European competitors to move only the final stage of production into the bloc while leaving most of the supply chain elsewhere.

On the demand side, the IAA directs more public contracts toward European production, while CBAM works from the other direction by raising the cost of carbon-intensive imports. The IAA can also place conditions on some large foreign investments, including employment in Europe, R&D, technology and know-how, and the sourcing of inputs from within the EU. Together, these measures make it harder to base only the final stages of production in Europe while keeping much of the underlying activity elsewhere.

These policies may affect directly exposed industries and companies further up the relevant supply chains differently from the broader market. The FTSE Made in Europe 50 Index turns these differences into a rules-based framework, scoring subsectors against the six policy blocks before adjusting company-level exposure according to the share of revenue earned in Europe.

FTSE Russell Made in Europe

Methodology – systematic exposure capture

The policy framework described above is broad, but its implications could create a multi-year tailwind for selected European companies.

The FTSE Made in Europe 50 Index is designed to identify companies from the EU's 27 member states with exposure to MiE. Company selection and weighting is rules-based, with the methodology first identifying subsectors that have exposure to the policy programme, before adjusting that exposure according to how much revenue each company earns in Europe.

Company selection and weighting

Each ICB subsector is scored against the six Made in Europe policy blocks discussed earlier in this paper. Scores range from -2 to +2 for each policy block, with positive scores indicating an identified benefit, negative scores an identified displacement risk and zero no identified exposure. The six scores are then summed into a composite measure of policy exposure. However, the six policy blocks are not weighted by their headline financial scale, which is not directly comparable across policies. Differences in their importance instead emerge through the number of subsectors affected and the strength of their individual policy scores. The composite is then scaled by the share of company revenue generated in Europe. Table 2 provides an illustrative example of how selected subsectors score across the six policy blocks.

Table 2: Illustrative ICB subsector policy scores

ICB Subsector	IAA	CRMA	Defence	Chips Act	CBAM	CADA	Composite
Aluminium	2	2	1	0	2	0	7
Semiconductors	1	1	1	2	0	1	6
Specialty Chemicals	2	1	1	1	0	0	5
Renewable Energy Equipment	2	1	0	1	0	1	5
Defence	0	1	2	1	0	0	4

Source: FTSE Russell, Index Research, illustrative policy rating example.

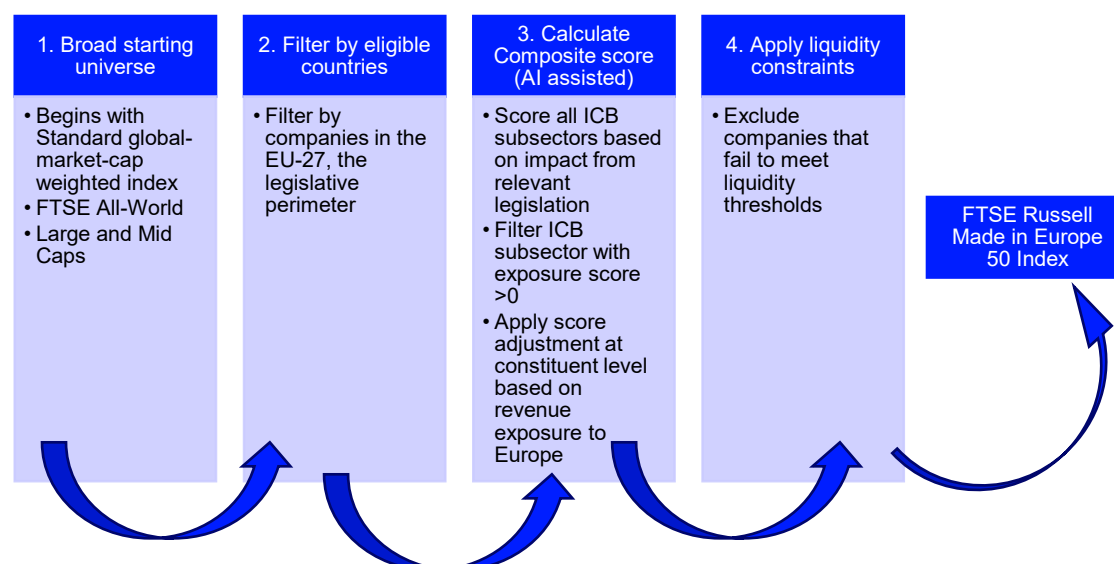
The scoring process is supported by LLM-assisted evidence review, with each non-zero score linked to a named policy provision or documented supply-chain connection and all final scores reviewed and owned by FTSE Russell.¹⁴

¹⁴ LLMs are used to assemble structured legislative briefs from primary sources and to produce first-pass subsector scores together with the supporting policy provision or supply-chain link. Proposed scores and rationales are subsequently reviewed by the index design team, amended where necessary, and retained with an evidence trail that allows individual scores to be traced back to their underlying source. Final scores are determined and owned by FTSE Russell.

Revenue is the second component of the company-level score. Policy exposure is a good place to start, though insufficient for a company to rank highly in the index – it must also have a meaningful share of revenue generated in Europe. Therefore, a company operating in a high-scoring policy subsector but selling predominantly into Asian or North American markets receives a materially lower score than a peer with equivalent subsector exposure and a European customer base. Companies deriving a larger share of revenue in Europe will therefore receive higher adjusted scores, all else equal.

Furthermore, the eligible universe is restricted to FTSE EU-27, which comprises large- and mid-cap companies. Following liquidity screens, the 50 highest-scoring eligible companies are selected. Their adjusted company scores are rebased to 100% to determine constituent weights, subject to a 5% constituent cap and UCITS diversification requirements.

Figure 3: Index Construction Process

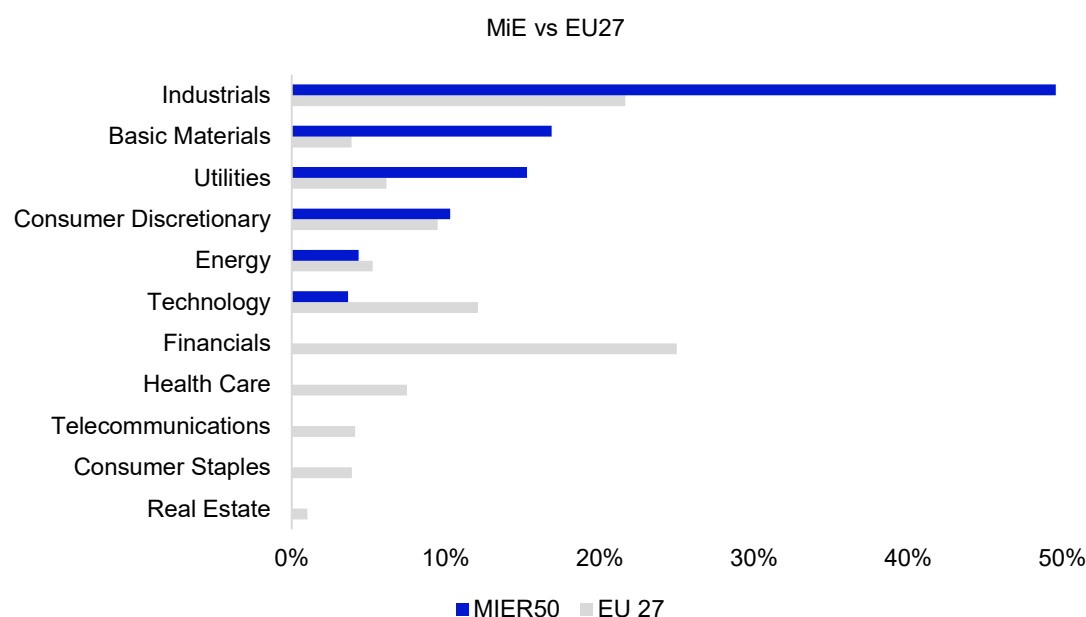


Source: FTSE Russell, Index Research, Index construction process.

What does the index capture?

The resulting portfolio has larger weights in Industrials, Basic Materials and Utilities than the broader EU-27 equity universe. Industrials account for around 49.6% of the simulated index, compared with 21.7% of the benchmark. Basic Materials represent 16.9%, against 3.9%, while Utilities rise to 15.3% from 6.2%. Technology falls from 12.1% of the benchmark to 3.7% of the index, largely reflecting the treatment of semiconductors.

Figure 4: MiE Industry weights relative to EU 27



Source: FTSE Russell Index Research, data as of April 2026.

Although Semiconductors score highly on policy exposure (Table 2), eligible companies currently generate a relatively small share of their revenue in Europe, reducing their company-level scores and limiting the subsector's representation in the index. If that revenue mix becomes more European over time, their adjusted scores would rise, increasing the likelihood of semiconductor companies entering the index at a future review.¹⁵

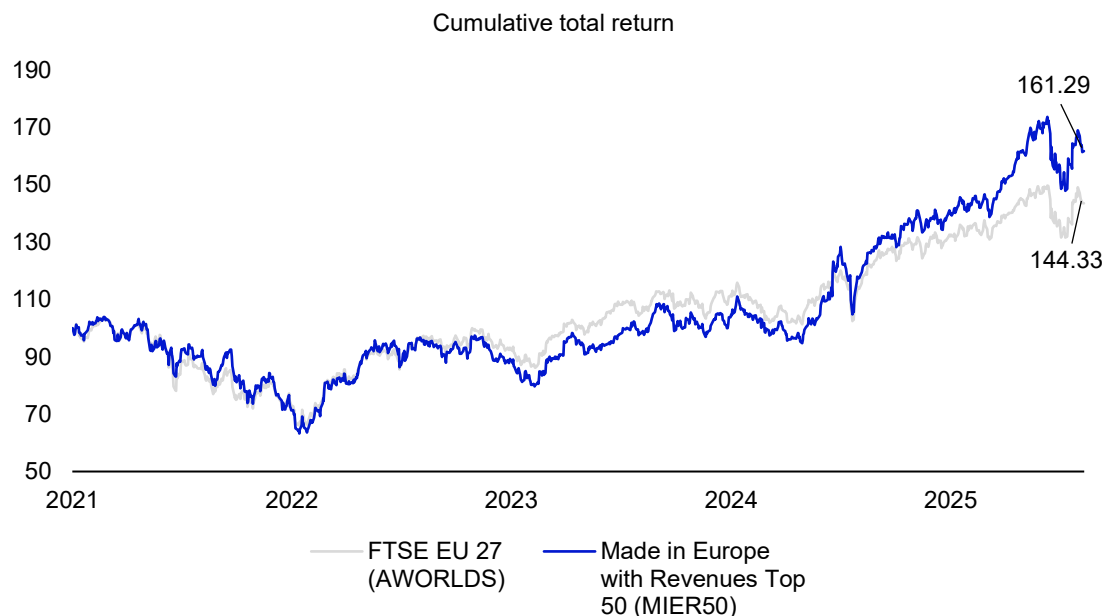
The composition is also capable of changing as the policy framework and company revenue exposures evolve. CADA, for example, with its extended framework into cloud and data-centre infrastructure, adds another channel through which companies can score against MiE policy. Changes in legislation and revenue exposure can therefore alter both constituent selection and index weights at subsequent reviews.

Simulated performance

As the index is yet to have a live performance history, historical results are simulated by applying the current methodology retrospectively. Over the simulation period from September 2021 to April 2026, the FTSE Made in Europe 50 returned 11.0% annually compared with 8.2% for the EU-27 benchmark, (Figure 3). The stronger return was accompanied by higher annualised volatility, at 22.6% compared with 19.7%, and a tracking error of 8.5%.

¹⁵ Financials, Health Care and Telecommunications also receive no index weight because the relevant subsectors do not have positive exposure under the six MiE policy blocks.

Figure 5: Simulated cumulative total return – FTSE Made in Europe 50 versus EU-27 benchmark



Source: FTSE Russell Index Research, data as of April 2026.

The simulated index lagged for much of the earlier period, with relative performance reaching its low point in 2024 before recovering sharply. That timing broadly overlaps with the emergence of the policy framework itself, the Chips Act and CBAM came into force during 2023, the CRMA followed in 2024, and European defence spending and related programmes accelerated during 2025. The strongest relative gains came during this later period, particularly from 2025 onwards.

The timing of the later gains overlaps with a period in which defence spending and several elements of the Made in Europe policy framework became more prominent, but the relatively short backtest does not establish a causal relationship between policy implementation and performance. The simulation is better viewed as context for the exposure created by the methodology than as evidence of the returns that the theme may generate in future.

Conclusion

Made in Europe marks a clear change in how the continent is approaching industrial policy, with public spending increasingly being used to influence where production takes place and requirements for European-made components pushing demand beyond the end manufacturer and further up the supply chain.

The first effect may therefore be seen less in a wave of new factories than in fuller order books and higher utilisation at existing ones. With manufacturing value added of around US\$3tn and established production networks across the continent, Europe already has much of the industrial capacity the policy is designed around. A steadier flow of domestic demand could unlock more value from that existing capacity.

That makes MiE a more selective industrial story than the 20% manufacturing target might initially suggest, with the first beneficiaries likely to be companies that already have capacity to absorb additional orders. A broader industrial renaissance would depend on whether that demand eventually translates into new capacity.

That selectivity is also visible in the FTSE Made in Europe 50. The index favours companies where policy support overlaps with an existing commercial link to Europe, rather than sectors simply because they feature prominently in legislation. Semiconductors are a useful example where the industry scores highly against the policy framework, but limited European revenue among eligible companies reduces the weight it receives in the index. Policy relevance alone is therefore not enough as companies also need a meaningful economic link to Europe for the theme to translate into company-level exposure.

If Europe succeeds in directing a larger share of its own demand through domestic production and supply chains, the companies positioned closest to that spending could look very different from the broader European equity market.

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