Coffee Break

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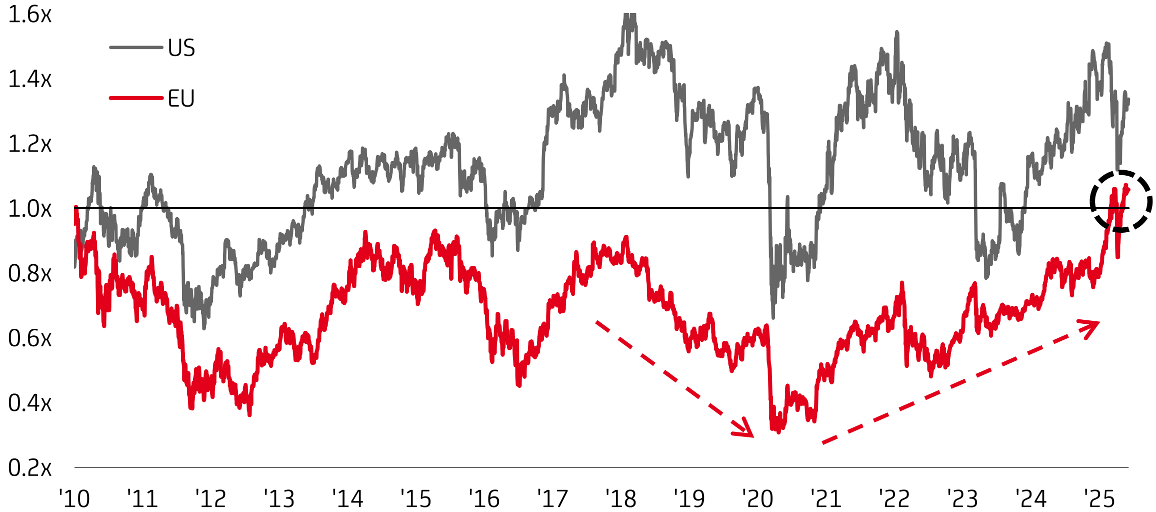
Euro area banks narrow valuation gap to US peers

5 June 2025

The average price/book ratio of euro area banks is back above one for the first time since 2010. The banks' profitability gains stem from structural improvements that go beyond higher interest rates, with solid growth and valuation prospects expected to continue through 2026.

AVERAGE PRICE/BOOK RATIOS OF EURO AREA BANKS IS BACK TO ONE

AVERAGE PRICE/BOOK RATIOS OF EU AND US BANKS



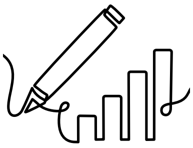
Source: Bloomberg, The Investment Institute by UniCredit
Note: Data is based on the EURO STOXX Banks index, which covers 28 banks in the euro area and the KBW Bank index, which comprises 23 banks in the United States.

THE CONTEXT

The price/book ratio measures a firm's market capitalization against its book value and indicates the ability of a company generate a higher return on equity (RoE) than its cost of equity. A price/book ratio of more than one means the stock is being valued in the market at a premium to its equity book value, whereas a ratio of less than one indicates a firm is being valued at a discount to its equity book value. The financial crisis left its mark on European banks, leaving the average price/book ratio of euro area banks below one for well over a decade. For the first time since 2010, this ratio is back above one, supported by a strong improvement in the profitability, asset quality and capitalisation of European banks.

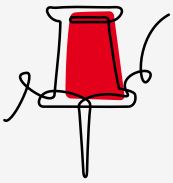
THE DATA

Our data shows a long time series of the average price/book ratios for large US and euro area banks. In 1Q25, the average price/book ratio of euro area banks exceeded 1.0x for the first time since January 2010. These banks also narrowed their valuation gap to their US peers. The main driver was an improvement in profitability among euro area banks, as measured by RoE, which has been higher in Europe than in the US recently. From 2012 until 2024, the average RoE of these banks was constantly below that of their large US peers, as euro area banks had to cope with the European sovereign-debt crisis and the long period of negative interest rates in the currency union between 2014 and 2022. While the overall sector has improved, there are differences between euro area banks. More profitable euro area banks are already trading at the same price/book ratios as the US average, whereas others are lagging and are still trading below book value.



OUR VIEW

Suggesting that higher interest rates are the sole reason for the improved profitability of euro area banks fails to capture the full picture. The stronger financial performance also reflects that the European banking sector has successfully reduced non-performing loans, improved its operational efficiency, transformed its business model by improving fee-driven revenues and embraced digitalization. Greater bank consolidation with a focus on domestic mergers (mainly in Spain and Italy) also supported higher profitability from the structural side. The ECB's move towards single European banking supervision in November 2014 was crucial in avoiding excessive risk taking by banks and addressing weaknesses in the euro area banking sector early on. Consensus estimates forecast euro area banks will continue to enjoy higher profitability than US banks in 2025 and 2026, achieving 11% return on equity compared to just 10% for US banks. We see a high likelihood that European banks will continue to trade at an average price/book ratio of more than one and will continue to close the valuation gap to their US peers.



OTHER THINGS TO NOTE

ECB to cut rates further

The ECB is highly likely to reduce its policy rates by another 25bp today, lowering the deposit rate to 2.00% and leaving the door wide open to further easing. We expect the decision to be fairly uncontroversial, as most members of the Governing Council seem to agree that US tariffs are weighing on economic activity and increasing downside risks to the eurozone's inflation outlook through a number of channels, which include EUR appreciation, lower energy prices and the rising prospect that Chinese trade will be diverted. The ECB's new macroeconomic forecasts are likely to support this assessment, although revisions will probably be small at this stage. A rate cut today is widely expected and is therefore unlikely to trigger any significant market reaction.

TODAY'S DATA RELEASES

Time (CET)	Country	Data	Period	UniCredit	Consensus	Previous
14:15	EZ	ECB depo rate (%)		2.00	2.00	2.25
14:15	EZ	ECB refi rate (%)		2.15	2.15	2.40

Source: Bloomberg, The Investment Institute by UniCredit

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