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Capital Markets Union: The Trap of Isolationism

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Capital markets union is essential to the success of the European project. Vibrant capital markets efficiently channel investment to companies and, with historically higher long-term rates of return compared to those offered by bank accounts, are an unequivocal engine of household wealth creation. CMU would expand these benefits to individuals across Europe and enhance its competitiveness on the global stage.

Ironically, however, the EU's prospect of an open capital market and economic dynamism is at risk of being undermined by an inward-looking approach.

Some in Europe argue that policymakers should encourage a "home bias" among individual investors, an idea rooted in concerns that greater retail investment will disproportionately benefit the United States.

Others have gone as far as calling for reforms to discourage European households from investing in international markets and limit the ability of international firms to expand services in Europe.

Such thinking goes against the interests of European households, European companies, and Europe in general.

First, European households benefit from investing in international markets. For example, an investment in the US-based S&P 500 from 2009 through today would have generated twice the cumulative returns of an equivalent allocation to the EURO STOXX 50. Thanks to UCITS, which provide access to international and domestic markets, those higher investment gains are a reality for many European households.

Second, as EU policymakers look to jumpstart investments in industries of the future, it's important to remember that capital is global. Europe needs international asset managers—not only domestic ones—to help fund business expansion, research and development, and capital-intensive projects domestically.

The data shows that overseas managers are already a large source of capital for European companies. As of year-end 2023, for example, US-domiciled mutual funds and exchangetraded funds held €1.5 trillion in European equities and bonds (excluding securities from the UK). Moreover, US-based asset managers have been equally active in offering Europeans homegrown investment choices. US-based sponsors of UCITS held €640 billion in European equities and bonds (ex-UK) at the end of last year, representing more than one-fifth of all UCITS assets invested in Europe.

Finally, success for Europe’s capital markets means attracting talent and expertise in Europe. International financial institutions actively recruit Europe’s top university graduates and provide high-paying jobs to EU citizens, employing investment analysts, software developers, and thousands of other knowledge workers.

Europe’s future lies in being the strongest possible participant in global financial markets, not as Île européenne. CMU based on openness to international markets and international firms is a vital step in preserving Europe’s leadership in the global economy which is the true way Europe will secure its strength and independence.

Treating international firms and international markets as second-class will set Europe back just when it most needs to grow.

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