



By Thomas Wash

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Europe's Push to Close the AI Gap

The European Union is seeking a place at the starting line of the AI race as it attempts to catch up with the United States and China. According to the latest Competitiveness Report, not a single EU company founded in the past [50 years has organically reached a market capitalization exceeding 100 billion EUR \(\\$117 billion\)](#). This stands in sharp contrast to the US, which has produced multiple trillion-dollar firms, and China, where companies have achieved similar scale before encountering regulatory constraints.

The EU is now trying to reverse this trajectory through a sweeping industrial policy agenda focused on strategic technologies and supply chain resilience. In this report, we examine how the EU is leveraging its size to position itself as a sovereign AI power, while assessing its structural weaknesses and the policy adjustments required to meet rising demand. We also explore the broader market implications and the role AI may play as Europe seeks to establish itself as a more compelling destination for global capital.

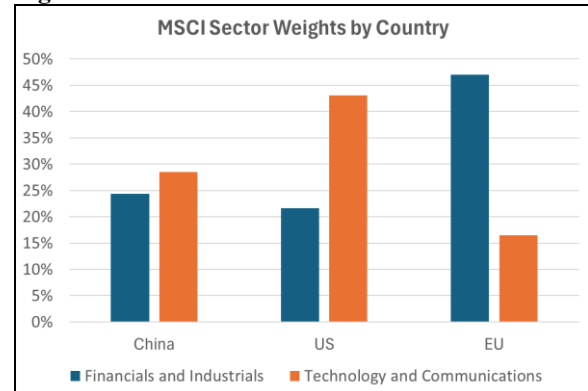
The EU Competitiveness Gap

Despite having one of the world's largest economies, the EU lacks the dominant consumer-facing tech platforms that define equity markets in the US and China. While Europe is home to industry leaders like ASML and Bosch — both of which are critical to the build-out of global AI

infrastructure — these firms are concentrated in “middle technologies,” such as semiconductor equipment and industrial systems, rather than the large-scale digital ecosystems that capture investor attention.

Public equity markets in the EU are also dominated by mature industrial and financial firms, which together account for almost 50% of the MSCI European Union Index's market capitalization. By contrast, information technology and communication services represent about 17% of the index. In the US and China, the sector mix is almost reversed: financials and industrials make up only about 22% and 24% of market capitalization, respectively, while information technology and communication services account for about 43% and 28%, respectively.

Figure 1



(Source: MSCI)

This contrast in composition — Europe's distinct value tilt versus the more growth-oriented profiles of the US and Chinese markets — has contributed to the EU's lag in global capital inflows. Because many investors prioritize capital appreciation and

high-growth sectors, they have increasingly overlooked European equities, limiting that market's ability to attract and retain foreign capital.

Figures from the Investment Company Institute underscore this imbalance. [In 2024, European investment in US assets totaled about \\$300 billion, nearly six times more than the \\$50 billion or so that US investors channeled into Europe.](#)

This net capital flight to the US means the EU fails to leverage its substantial savings surplus of [roughly 14.4% of gross domestic product \(compared to 4.0% in the US\)](#). In contrast, China's high domestic savings and restricted capital outflows have propelled its equity market to become the world's second largest, trailing only the US. To establish itself as a premier technology and AI hub as well as to help boost its economic growth, the EU must bridge this chasm between domestic savings and local investment.

Hurdles for the EU

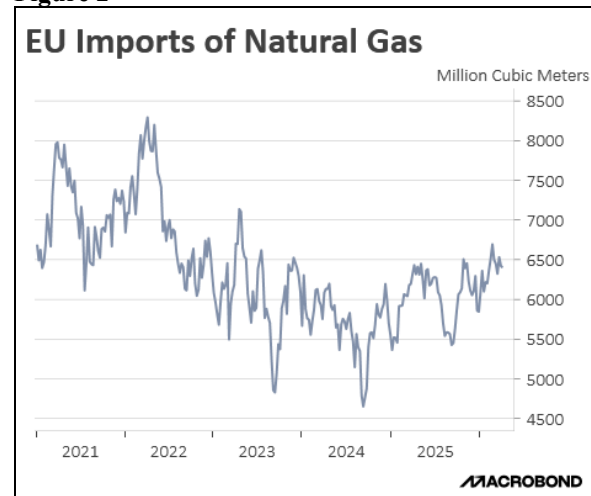
To attract more investment into its own capital markets, we believe the EU must overcome a mix of regulatory and structural barriers that prevent its firms from scaling as quickly as their US and Chinese counterparts. The European Commission has signaled its intent to ease some environmental and compliance rules to encourage investment, but the area also faces hard physical constraints — most notably limited access to the cheap, reliable energy required to support large-scale, power-intensive data centers.

Although the EU operates a common market, individual member states often impose different regulations and approval processes. These inconsistencies make it harder to build true “European champions” that can scale across borders since firms face

varying permits, energy-use restrictions, and compliance costs that complicate investment planning and cost estimation. Fragmented financial systems further exacerbate these issues, with access to capital differing by country and contributing to an uneven distribution of investment across the bloc.

This regulatory and structural framework has left the EU at a clear disadvantage relative to the US and China, particularly in AI-related investment. The challenge has become more acute as energy prices have risen, given Europe's more limited domestic energy resources and tighter constraints on AI-related energy use. Contrast that with the US's abundant natural gas and China's readiness to rely on coal, as well as looser banking and financing conditions that make it easier for large tech projects to secure funding in both countries.

Figure 2



In response to these challenges, EU policymakers have begun outlining reforms designed to improve competitiveness and make the investment landscape more attractive for long-term capital. These include proposals to relax certain environmental rules to allow more flexibility in energy sourcing, and to advance a capital markets union that would integrate national

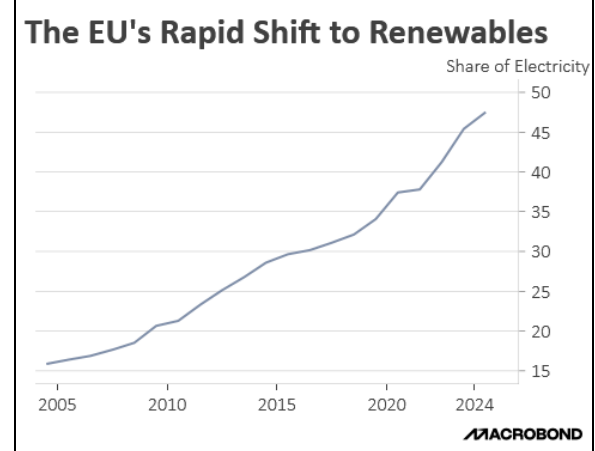
markets into a single financial space. Under this vision, a core group of countries could move first, with membership gradually expanding as other states meet common standards, creating a deeper, more unified pool of capital for European firms, including those in AI-intensive sectors.

Where the EU Excels

The structural challenges for Europe's economy and financial markets are well known, and many investors are pessimistic about the region's prospects. However, we think investors are paying insufficient attention to the areas where the EU remains an attractive destination for AI investment. The continent's linguistic and cultural diversity makes its data uniquely valuable for training models that need to perform reliably across multiple languages and social contexts. At the same time, Europe has made meaningful advances in renewable energy technologies, which helps offset some of its traditional energy disadvantages. These strengths do not yet make the EU more attractive than the US or China, but they suggest that it could be an important target for AI-focused capital.

Although US and Chinese AI models are generally more advanced, they often lack the breadth of data needed to avoid linguistic and cultural biases that limit their usability across borders. Models that are trained primarily on relatively homogeneous data can struggle with edge cases and local nuances outside their core markets. As a result, their performance tends to be strongest for users who resemble the training base and weaker for those who do not. This constraint is a key reason why access to the rich and diverse European data is increasingly sought after by global AI developers.

Figure 3



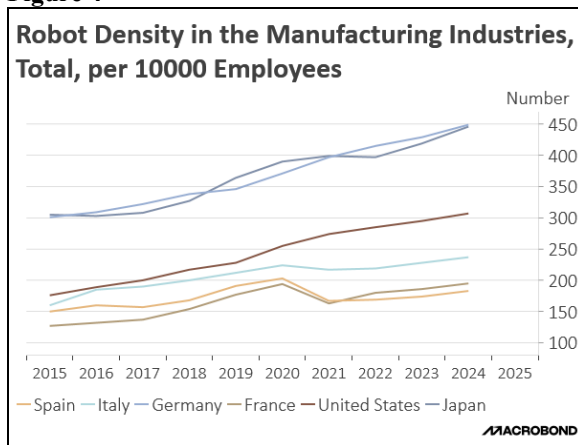
Europe also holds an advantage in its progress on renewable technologies. While the region still depends on imported fuels and faces energy supply disruptions and price volatility, its build-out of wind, solar, and other renewables provides a growing pool of domestically sourced, lower-carbon power that AI firms can tap. For some operators, pairing data centers with renewable sources offers a way to secure cleaner energy without placing additional strain on household electricity prices. This combination of valuable data and improving green energy capacity gives the EU a set of differentiated assets in the global AI race.

EU Use of Data and Robots

The EU's valuable data sets, along with its access to renewable resources, have made select areas of Europe more ready for certain types of data centers. Additionally, its manufacturing base has made it a target for robotics. These advantages suggest that while the EU may be at a disadvantage when it comes to overall AI leadership, it is not starting from scratch. Therefore, the region may be better positioned to spread AI and advanced technology throughout the rest of Europe as the bloc makes changes to improve its overall competitiveness.

Europe’s most important data-center hubs are in or around London, Frankfurt, Dublin, Paris, and Amsterdam, which have been able to benefit primarily [due to their access to reliable power sources, well-developed financial markets, and predictable connectivity](#). These strengths have positioned these cities at the leading edge of overall AI investment spending within the EU, particularly for US tech companies looking to expand into new markets. While AI investment spending in Europe has lagged behind that of the US, the capital flowing into the region still represents significant potential.

Figure 4



Outside of data centers, the EU has also shown its capability to adapt or apply AI, especially in manufacturing. The region has been quick to adopt robotics technology to improve overall efficiency and boost manufacturing capacity. This is one area in the AI race where Europe is making respectable progress, with more robots per 1,000 workers than the US — an advantage particularly noticeable in Germany, the market leader. In addition, the share of European factories utilizing robotics stands at 55%, which is quite high when compared with 36% for the US. As a result, while the EU may not match its competitors in overall AI capacity, its integration of AI into its key manufacturing base may be much higher.

Investment Implications

The EU will likely continue to lag its US and Chinese counterparts in cutting-edge AI innovation and development, but efforts to improve competitiveness could make the region more attractive to investors over time. As regulations become more harmonized across member states — potentially through a capital markets union — European firms could gain deeper access to capital, improving the bloc’s ability to cultivate its own AI “national champions.”

As these changes take hold, non-European firms may also look to expand their footprint across Europe to tap into its strengths in renewable technology and high-quality, diverse data. In that sense, reforms aimed at making Europe more investable could draw not only domestic capital but also a new wave of foreign AI investment.

If the dollar continues to weaken over time as we expect, it will likely give a boost to international stock returns, in general. As the Europeans scramble to respond to the threat of further Russian territorial aggression and a weaker US commitment to their defense, we expect they will also continue to boost their defense spending and keep implementing deregulation and other needed reforms to boost general economic growth.

Against this backdrop, we view the EU as a long-term project rather than a finished product. While Europe is likely to remain better known for its strength in middle technologies rather than producing cutting-edge, consumer-facing tech platforms, the region could become increasingly attractive to investors seeking value, diversification beyond domestic markets, and selective exposure to Europe’s evolving role in the global AI ecosystem.

Thomas Wash
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