European Macro-Resilience Fund

Investment Memo

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Recommendation

I recommend **Portugal** as the primary country allocation for the European Macro-Resilience Fund, with **Sweden** as a secondary allocation. This recommendation comes from screening 15 European economies across four macro pillars and selecting on four non-redundant metrics.

Portugal ranks **second in net after-tax return** (8.05%), **second in risk-adjusted performance** (Sharpe 0.358), and **fifth in fiscal sustainability** ($r - g$ of $+0.99$). It is the only country that ranks top five on three of four selection metrics with *no weak spot in any metric*. Sweden complements Portugal with the third-highest real interest rate (+2.16%) and the second-lowest government debt in Europe (33.5% of GDP).

Analytical Framework

I screened 15 economies (UK, Germany, France, Switzerland, Netherlands, Ireland, Sweden, Denmark, Norway, Spain, Italy, Belgium, Austria, Finland, Portugal) across four pillars, then distilled them into four selection metrics that avoid overlap:

The four pillars:

1. Stock market performance
2. Tax efficiency
3. Real interest rates
4. Government debt sustainability

The four selection metrics:

1. Net after-tax return
2. Sharpe ratio
3. Real interest rate
4. $r - g$ differential

Each metric captures one pillar's insight without overlapping with another. The **net after-tax return** combines stock market performance (Pillar 1) with tax efficiency (Pillar 2) into one number: the return the fund actually keeps after corporate tax and withholding tax are deducted. The **Sharpe ratio** complements it by penalising volatility: a high return is less attractive if it comes with large drawdowns. The **real interest rate** (Pillar 3) signals whether equity valuations reflect genuine economic value or cheap-money distortions. The $r - g$ **differential** (Pillar 4) captures fiscal sustainability by comparing the interest rate on government debt to GDP growth. It is more informative than debt-to-GDP alone because it tells the *direction*: a country with high debt but improving $r - g$ is safer than a country with low debt but deteriorating dynamics.

Returns After Tax: What the Fund Actually Keeps

A US fund investing in European equities faces two layers of tax on dividend income. First, the company pays **corporate income tax**. Headline rates range from 12.5% (Ireland) to 29.9% (Germany, including solidarity surcharge and trade tax). The effective rate often differs from the headline: Italy charges 24% nationally plus a 3.9% regional tax, bringing the effective rate to 27.8%. Second, when dividends cross borders, the source country deducts a **withholding tax (WHT)**. Statutory WHT rates range from 0% (UK) to 35% (Switzerland), but US bilateral tax treaties typically reduce this to 5%. Norway is a notable exception: its treaty rate stays at 15%.

To capture both performance and tax in one number, I compute the **net after-tax return**:

$$\text{Net Return} = \text{Gross Return} \times \left[\underbrace{0.6}_{\text{cap gains}} + \underbrace{0.4}_{\text{dividends}} \times (1 - t_{\text{burden}}) \right]$$

The 60/40 split reflects MSCI Europe data: dividends contributed 36 to 39% of total returns over 40 years (Allianz GI, 2024). Capital gains are not taxed at source; only dividends face the double tax. The full calculation for all 15 countries is in Appendix Table A3.

Portugal delivers **8.05%** net, second only to Norway (12.00%). Norway's returns are driven by its energy-weighted index, boosted by the Iran conflict pushing oil above $90. Oil is cyclical. Portugal's returns reflect structural recovery: banking reform, tourism, and growing technology sectors. The time series (Appendix Figure B1) confirms consistent positive returns since 2021. Sweden delivers 7.43% net on a diversified industrial base.

Fiscal Sustainability and Real Interest Rates

The **real interest rate** (bond yield minus inflation, via the Fisher Equation) signals whether equity valuations are genuine. Negative real rates mean cheap money inflates asset prices beyond fundamentals. The time series (Appendix Figure B2) shows real rates were deeply negative during 2021 to 2022. They have normalised since, but the Netherlands remains the only country still negative.

Portugal has a real interest rate of $+$**1.01%**, comfortably positive. The spread between Portuguese and German 10-year bonds has compressed from over 800 basis points in 2012 to roughly 30 today, confirming a fundamental repricing of Portuguese risk. Sweden has $+$**2.16%**, among the highest in Europe.

The $r - g$ **differential** measures debt sustainability. When r (interest on debt) exceeds g (GDP growth), debt compounds faster than the economy. Portugal's $r - g$ is $+$**0.99**: manageable, with GDP growth of 2.14% keeping the gap narrow. For comparison, Germany has only 62.5% debt-to-GDP but its $r - g$ is $+3.31$ because the economy is contracting. A low debt ratio with worsening dynamics is riskier than a higher ratio with stable dynamics.

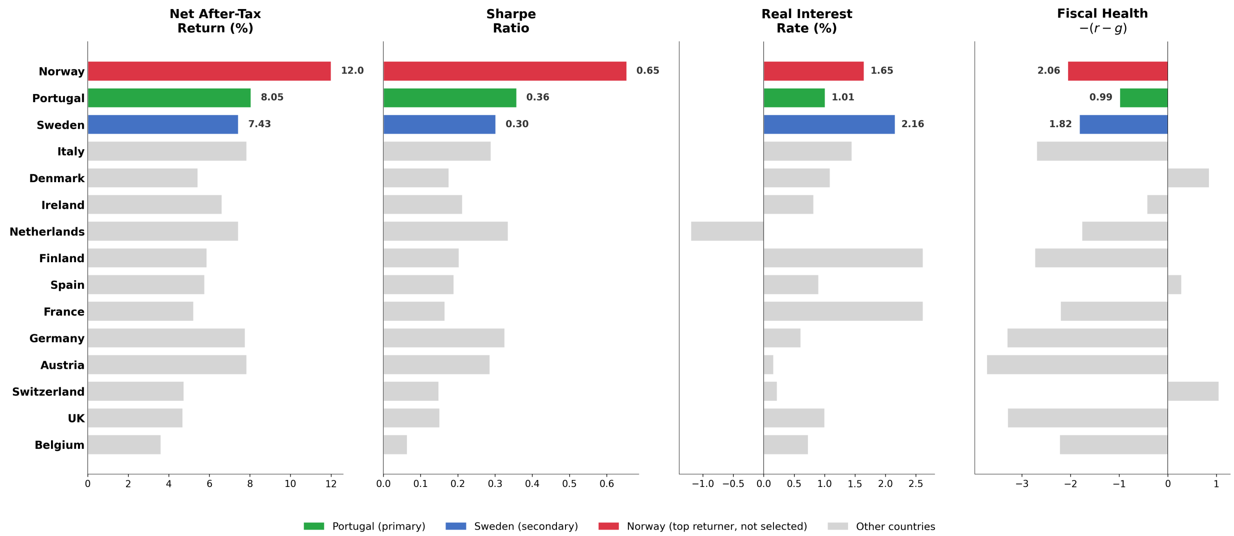

Figure 1: All 15 countries across the four selection metrics. Further right is better in each panel. Portugal (green) ranks near the top in all four. Norway (red) leads on returns but falls back on fiscal health.

The Full Ranking

Country	Net Ret. (%)	Rk	Sharpe Ratio	Rk	Real Int. Rate (%)	Rk	$r-g$ (pp)	Rk	Avg
Norway	12.00	1	0.654	1	+1.65	4	+2.06	8	3.5
Portugal	**8.05**	**2**	**0.358**	**2**	**+1.01**	**7**	**+0.99**	**5**	**4.0**
Sweden	**7.43**	**6**	**0.302**	**5**	**+2.16**	**3**	**+1.82**	**7**	**5.2**
Italy	7.84	3	0.289	6	+1.45	5	+2.70	11	6.2
Ireland	6.62	8	0.212	8	+0.82	10	+0.43	4	7.5
Denmark	5.43	11	0.176	11	+1.09	6	−0.85	2	7.5
Netherlands	7.43	6	0.335	3	−1.20	15	+1.77	6	7.5
Finland	5.88	9	0.203	9	+2.62	1	+2.74	12	7.8
Spain	5.76	10	0.189	10	+0.90	9	−0.28	3	8.0
France	5.22	12	0.165	12	+2.62	1	+2.21	9	8.5
Germany	7.76	5	0.326	4	+0.61	12	+3.31	14	8.8
Austria	7.84	3	0.286	7	+0.16	14	+3.73	15	9.8
Switzerland	4.74	13	0.149	14	+0.22	13	−1.05	1	10.2
UK	4.69	14	0.151	13	+1.00	8	+3.30	13	12.0
Belgium	3.61	15	0.064	15	+0.73	11	+2.23	10	12.8

Table 1: 15 countries ranked on the four selection metrics. Lower $r-g$ is better (debt more sustainable). Lower average rank is better overall. Portugal = primary. Sweden = secondary. Full pillar data in Appendix.

Conclusion

Portugal delivers the second-best net return (8.05%) and Sharpe ratio (0.358) with a manageable fiscal trajectory ($r-g$ of +0.99). Its structural transformation since the euro crisis is confirmed by bond markets compressing the Portugal-Germany yield spread from 800 basis points to 30. The main risk is that a severe recession could widen $r-g$, which is why Sweden, with its low debt (33.5%) and disciplined monetary environment (+2.16% real interest rate), serves as a defensive complement.

Norway deserves a final mention. It ranks first on net return (12.00%) and Sharpe (0.654), the top performer on paper. However, its returns are driven by the energy-weighted OBX index, currently boosted by the Iran conflict pushing oil above $90 per barrel. Oil is cyclical. When prices correct, Norway's profile changes materially. Its $r-g$ of +2.06 also signals fiscal pressure. For a resilience mandate, this commodity concentration is too large a risk.

Sources: Full URLs and data tables are in the Appendix.

Appendix

Full Source URLs

- Stock prices: `https://finance.yahoo.com`, March 2016 to 2026.
- Bond yields, inflation, central bank rates: `https://fred.stlouisfed.org`, monthly, 2014 to 2026.
- Tax rates: `https://taxsummaries.pwc.com` (corporate income tax, withholding tax, US treaty rates).
- Debt-to-GDP: `https://ec.europa.eu/eurostat`, Q4 2024.
- GDP growth: `https://databank.worldbank.org`, 2024 annual.
- Dividend split: Allianz Global Investors, 2024 European Dividend Study.

Why Not the Other Countries

Country	Avg Rank	Why Not Selected
Norway	3.5	Best on returns (12.0% net, Sharpe 0.654) but the OBX index is oil-dependent. The Iran conflict (March 2026) has pushed crude above $90, flattering current numbers. When oil corrects, Norway's return profile changes. The $r-g$ of +2.06 (rank #8) also signals fiscal pressure from Norges Bank's high policy rate.
Italy	6.2	Strong net return (7.84%, #3) but $r-g$ of +2.70 (#11) is the worst among serious contenders. Debt at 135% of GDP means even small shocks can push Italy into sovereign stress.
Ireland	7.5	Excellent tax efficiency (16.9% burden, lowest) but Sharpe of 0.212 (#8) and net return of 6.62% (#8) are mediocre. GDP figures are inflated by multinational IP transfers.
Denmark	7.5	Lowest debt (31.1%) and best $r-g$ (−0.85) but Sharpe of 0.176 (#11) and net return of 5.43% (#11) are bottom-third. Greenland dispute with the US added political risk in January 2026.
Netherlands	7.5	Good Sharpe (0.335, #3) but the only country with a negative real interest rate (−1.20%), meaning inflation outpaces bond yields. This signals overheating.
Germany	8.8	GDP contracted in 2024 (−0.50%), pushing $r-g$ to +3.31 (#14). Tax burden of 33.4% is second worst. Structural decline in manufacturing.
France	8.5	Debt at 113% with $r-g$ of +2.21. Political instability and rising fiscal deficits.
Switzerland	10.2	Best $r-g$ (−1.05) but 5.13% gross return barely beats inflation. Safe haven, not a growth story.
UK	12.0	No top-5 metric. Highest bond yields (4.43%). Post-Brexit regulatory complexity.
Belgium	12.8	No top-5 metric. Lowest Sharpe (0.064). Institutional fragmentation.
Finland	7.8	Best real interest rate (+2.62%, #1) but $r-g$ of +2.74 (#12) and GDP growth of only 0.42% signal near-stagnation. Debt rising fastest in the EU.
Austria	9.8	Economy contracting (−0.66% GDP, worst). $r-g$ of +3.73, worst in the sample.
Spain	8.0	Third-best $r-g$ (−0.28) and strong GDP growth (3.46%) but debt above 100%. One external shock from crisis territory.

Table 2: Exclusion rationale for all non-selected countries, ordered by average rank on the four selection metrics.

A Note on Policy Rates

For Eurozone members (Germany, France, Netherlands, Ireland, Spain, Italy, Belgium, Austria, Finland, Portugal), the ECB Main Refinancing Rate (2.15%) and Deposit Facility Rate (2.00%) apply. For non-Eurozone countries, I used the **3-month interbank rate** as a proxy for the policy rate: UK (3.71%), Sweden (1.91%), Norway (4.17%), and Denmark (2.01%). Switzerland's rate is −0.04%. All rates sourced from the OECD via the FRED API.

A1. Stock Market Performance (10-Year, March 2016 to March 2026)

Country	Index	Ann. Return (%)	Ann. Volatility (%)	Sharpe
Portugal	PSI	8.94	16.60	0.358
Sweden	OMX30	8.24	17.36	0.302
Norway	OBX	13.87	16.63	0.654
Netherlands	AEX	8.42	16.20	0.335
Germany	DAX	8.96	18.28	0.326
Italy	FTSE MIB	8.97	20.64	0.289
Austria	ATX	8.78	20.20	0.286
Ireland	ISEQ	7.10	19.33	0.212
Finland	OMXH25	6.50	17.21	0.203
Spain	IBEX 35	6.51	18.53	0.189
Denmark	OMXC25	6.06	17.43	0.176
France	CAC 40	5.92	17.67	0.165
UK	FTSE 100	5.25	14.91	0.151
Switzerland	SMI	5.13	14.26	0.149
Belgium	BEL 20	4.08	16.93	0.064

Table 3: Source: Yahoo Finance. Risk-free rate = 3%. Sorted by Sharpe ratio.

A2. Interest Rates and Real Interest Rates

Country	Policy Rate (%)	10Y Yield (%)	CPI YoY (%)	Real Int. Rate (%)
Portugal	2.15	3.13	2.10	+1.01
Sweden	1.91	2.64	0.47	+2.16
France	2.15	3.40	0.76	+2.62
Finland	2.15	3.16	0.53	+2.62
Norway	4.17	4.16	2.47	+1.65
Italy	2.15	3.39	1.91	+1.45
Denmark	2.01	2.63	1.52	+1.09
Ireland	2.15	3.03	2.19	+0.82
UK	3.71	4.43	3.40	+1.00
Spain	2.15	3.18	2.26	+0.90
Belgium	2.15	3.30	2.55	+0.73
Germany	2.15	2.81	2.19	+0.61
Switzerland	−0.04	0.25	0.03	+0.22
Austria	2.15	3.07	2.91	+0.16
Netherlands	2.15	2.85	4.10	−1.20

Table 4: Source: OECD via FRED API. Real interest rate = Fisher Equation. Sorted by real interest rate.

A3. Tax Calculation: How the Net After-Tax Return is Built

WHT = withholding tax, the tax deducted at source when dividends cross a border. US Treaty WHT = the reduced rate under the bilateral tax treaty.

Country	Corp Tax (%)	After Corp (€)	Stat. WHT (%)	US Treaty WHT (%)	After WHT (€)	Total Burden (%)
Portugal	21.0	0.790	25.0	5.0	0.751	24.9
Sweden	20.6	0.794	30.0	5.0	0.754	24.6
Ireland	12.5	0.875	25.0	5.0	0.831	16.9
Switzerland	14.9	0.851	35.0	5.0	0.808	19.2
Finland	20.0	0.800	20.0	5.0	0.760	24.0
Denmark	22.0	0.780	27.0	5.0	0.741	25.9
UK	23.0	0.770	0.0	5.0	0.732	26.8
Austria	23.0	0.770	27.5	5.0	0.732	26.9
Spain	25.0	0.750	19.0	5.0	0.713	28.8
Belgium	25.0	0.750	30.0	5.0	0.713	28.8
France	25.8	0.742	25.0	5.0	0.705	29.5
Netherlands	25.8	0.742	15.0	5.0	0.705	29.5
Italy	27.8	0.722	26.0	5.0	0.686	31.4
Germany	29.9	0.701	25.0	5.0	0.666	33.4
Norway	22.0	0.780	25.0	15.0	0.663	33.7

Table 5: Start with €1.00 of pre-tax earnings. After Corp = €1 × (1 − corp tax). After WHT = After Corp × (1 − US treaty WHT). Total Burden = 1 − After WHT. Source: PwC Worldwide Tax Summaries.

A4. Government Debt and Fiscal Sustainability

Country	Debt/GDP (%)	GDP Growth g (%)	10Y Yield r (%)	$r - g$ (pp)
Portugal	94.9	2.14	3.13	+0.99
Sweden	33.5	0.82	2.64	+1.82
Switzerland	40.5	1.30	0.25	−1.05
Denmark	31.1	3.48	2.63	−0.85
Spain	101.8	3.46	3.18	−0.28
Ireland	40.9	2.60	3.03	+0.43
Netherlands	43.3	1.08	2.85	+1.77
Norway	42.0	2.10	4.16	+2.06
France	113.0	1.19	3.40	+2.21
Belgium	104.7	1.07	3.30	+2.23
Italy	135.3	0.69	3.39	+2.70
Finland	82.1	0.42	3.16	+2.74
UK	97.2	1.13	4.43	+3.30
Germany	62.5	−0.50	2.81	+3.31
Austria	81.8	−0.66	3.07	+3.73

Table 6: Sources: Eurostat Q4 2024 (debt), World Bank 2024 (GDP growth), OECD via FRED (yields). Sorted by $r - g$.

A5. Net After-Tax Return

Country	Gross (%)	Burden (%)	Tax Drag (pp)	Net (%)	$1M in 10Y
Norway	13.87	33.7	1.87	12.00	$3,105,938
Portugal	8.94	24.9	0.89	8.05	$2,168,497
Italy	8.97	31.4	1.13	7.84	$2,127,747
Austria	8.78	26.9	0.94	7.84	$2,126,567
Germany	8.96	33.4	1.20	7.76	$2,112,003
Sweden	8.24	24.6	0.81	7.43	$2,047,683
Netherlands	8.42	29.5	0.99	7.43	$2,046,908
Ireland	7.10	16.9	0.48	6.62	$1,898,504
Finland	6.50	24.0	0.62	5.88	$1,770,008
Spain	6.51	28.7	0.75	5.76	$1,750,934
Denmark	6.06	25.9	0.63	5.43	$1,697,196
France	5.92	29.5	0.70	5.22	$1,663,538
Switzerland	5.13	19.2	0.39	4.74	$1,588,527
UK	5.25	26.9	0.56	4.69	$1,580,856
Belgium	4.08	28.7	0.47	3.61	$1,425,773

Table 7: 60/40 cap gains/dividend split per MSCI Europe data. $1M compounded at net return for 10 years.

B. Time Series Charts

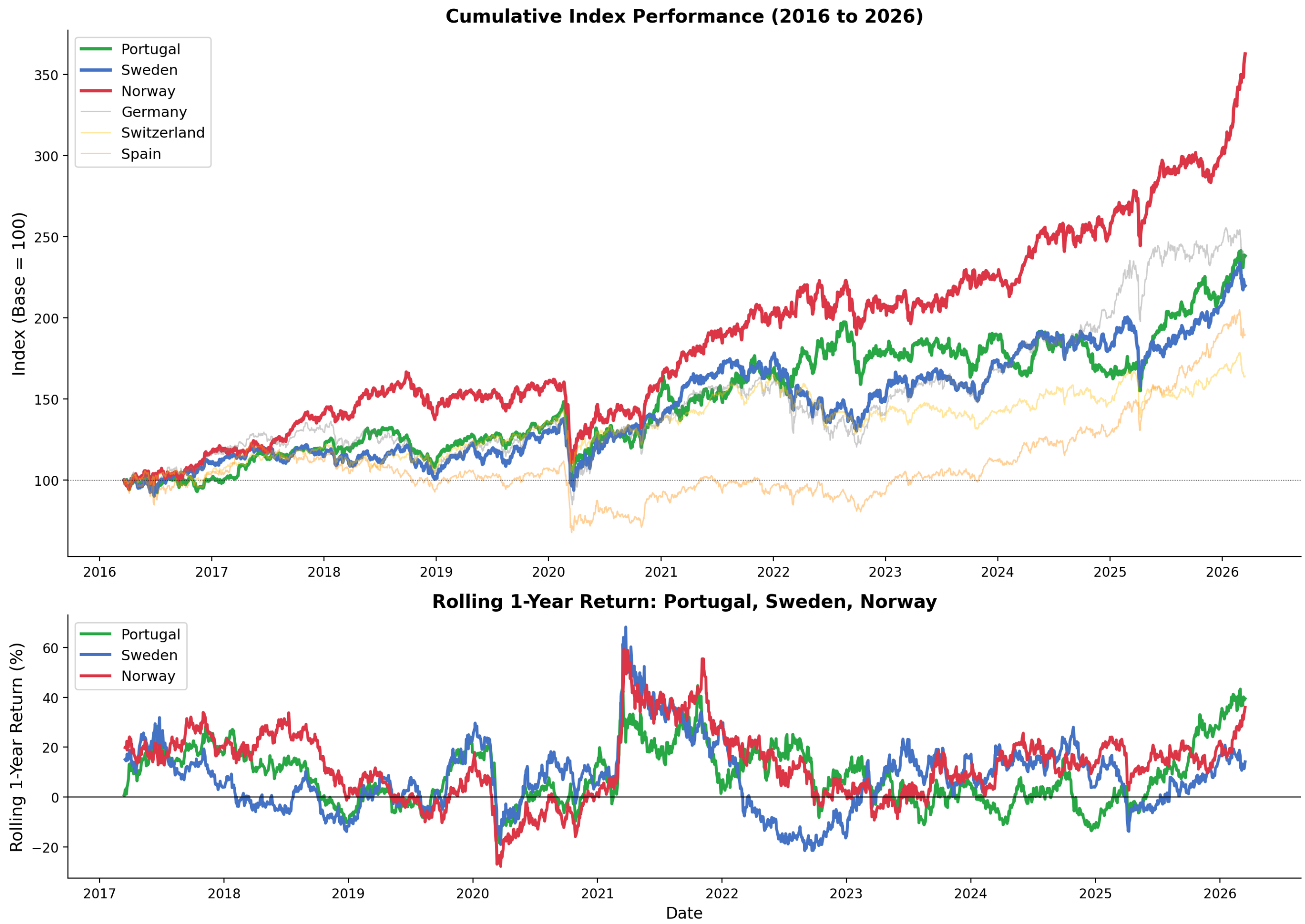

Figure 2: Cumulative index performance (top) and rolling 1-year return for selected countries (bottom). Source: Yahoo Finance.

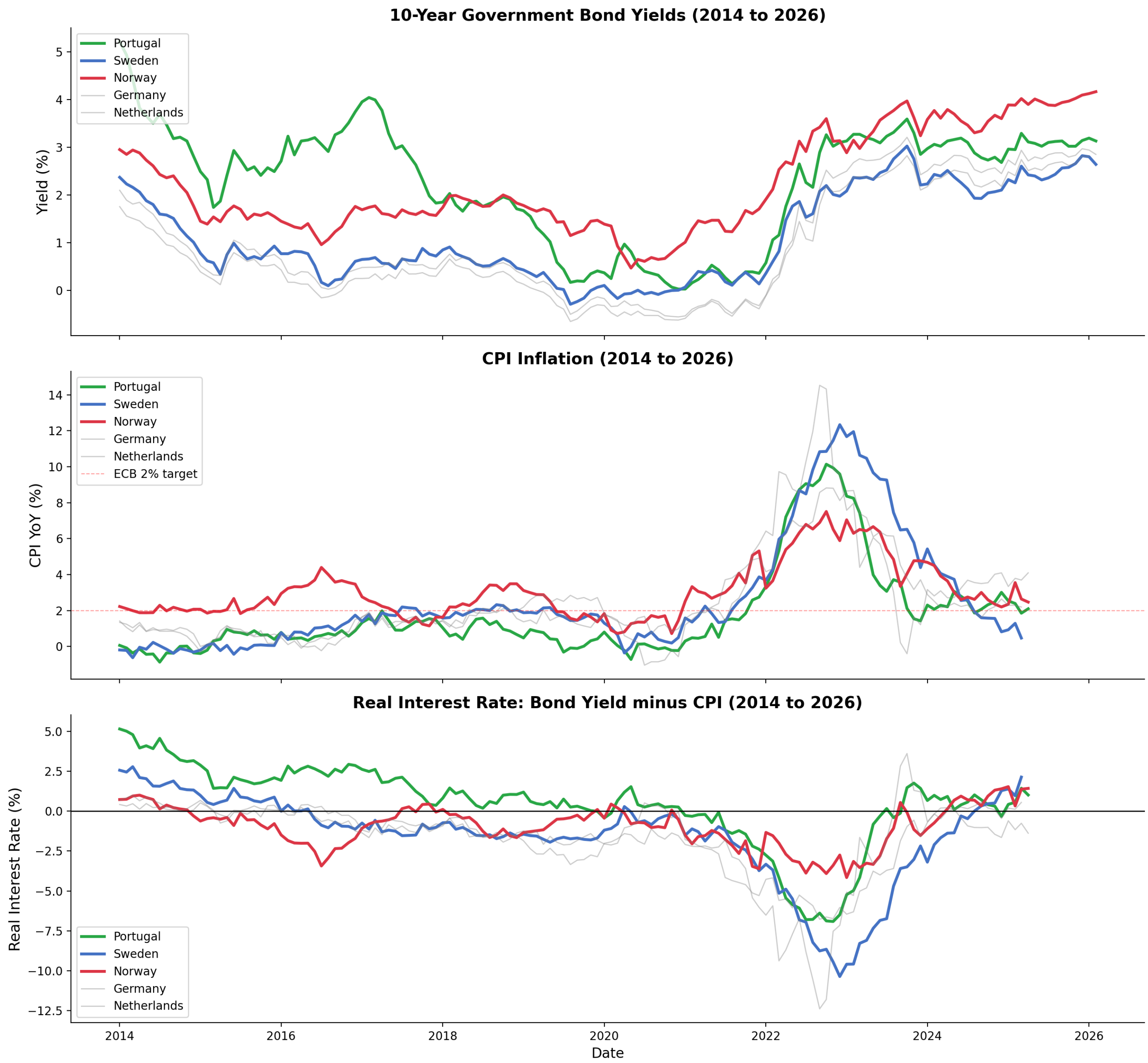

Figure 3: Bond yields, CPI inflation, and real interest rates for selected countries. Source: OECD via FRED.