

# WEEKLY ANALYSIS

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## ATTRACTIVE VALUATIONS FOR EUROPEAN EQUITIES

Recession likely in early 2023 in Europe. Confidence still at half mast. First sign of falling inflation. ECB becomes more aggressive. The rise in yields is not over. Rise in the euro. Attractive PE for equities.

### Key points



- The European economy is resilient and still not sliding into the predicted recession
- Recession likely between Q4 2022 and Q1 2023
- Leading indicators in negative territory
- European households remain worried
- First sign that inflation is losing momentum
- ECB becomes the most aggressive central bank
- Decorelation of rates and yields?
- The rise in yields is not over
- Securitised real estate still influenced by interest rates
- Attractive valuations for European equities

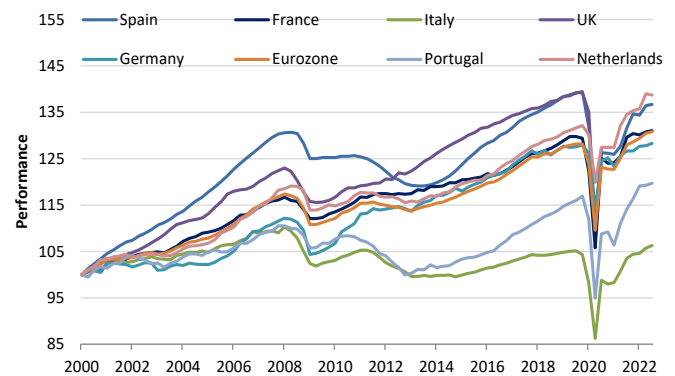
Among the major countries, only the Netherlands recorded a limited decline (-0.2%), as the major euro-zone members were able to withstand the headwinds. Italy (+0.5%) and Germany (+0.4%) were ultimately among the best contributors to overall GDP, while France (+0.2%) and Spain (+0.2%) recorded more limited increases.

Germany, which is particularly affected by the energy problem, proved to be stronger and more resilient than expected, thanks in particular to sustained consumer spending. Household consumption actually rose by 1% in the quarter despite significant increases in energy prices and costs. The German economy has thus recorded a sequence of six consecutive quarters of positive growth after the decline observed in Q1 2021. Nevertheless, the end of the year is likely to be more difficult for the continent's largest economy, although the energy crisis may finally be contained thanks to a particularly mild autumn. Government measures and subsidies to limit the effects of rising gas and electricity prices will reduce the inflationary and recessionary effects on the German economy. However, the European economic slowdown is still widely perceived as inevitable at the end of the year.

### The European economy is resilient and still not sliding into the predicted recession

A few months ago we already highlighted the rather surprising resilience of the European economy in a context that is still particularly difficult and marked by historic inflation. Positive economic growth in Q2 (+0.8%) had largely surprised economists by significantly exceeding their more moderate growth estimates (+0.2%), as was already the case in Q1, which had surprised by its resistance. The third quarter of 2022 follows the same logic and surprises again by the resilience of the economy of the euro zone countries. The GDP of the euro zone has indeed grown again by +0.3% in the 3rd quarter, slightly better than the forecast of a likely increase of only +0.1%. Over a twelve-month period, European GDP finally grew by +2.3% at the end of September 2022. Household consumption has held up rather well to the rise in inflation, as indicated by its +0.9% increase over three months (+1.7% yoy). Government spending, on the other hand, stalled in Q3 (+0.1%), while investment spending jumped by 3.6% to record a very clear increase of 7.4% over the year. Growth for the EU as a whole was similar in Q3 (+0.4%).

Quarterly GDP growth-Europe



Sources: Bloomberg, BBGI Group SA