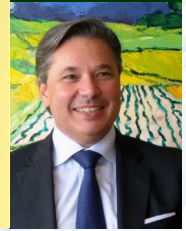


WEEKLY ANALYSIS

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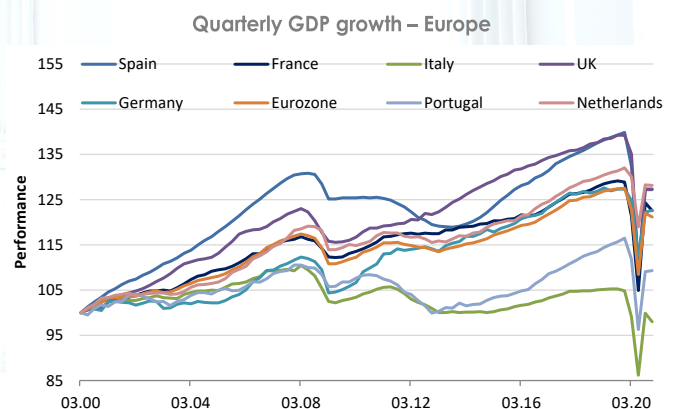
THE EUROZONE IS LAGGING FURTHER BEHIND IN THE BUSINESS CYCLE

GDP contraction of -1.5% in Q1. Outlook reduced to +4% for the year. ECB accelerates its PEPP and could inject 60 bn euros/month. PMIs are optimistic. Interest rate increases temporarily curbed. Weakening euro.

Key points

- European GDP expected to fall by a further -1.5% in Q1
- The glaring failure of the vaccination campaigns calls for new support measures
- More optimistic leading indicators bolstered by Germany's manufacturing PMI
- ECB steps up its action and urges governments to strengthen their fiscal policies
- New upward trend in interest rates temporarily curbed by ECB action
- The euro is logically suffering from an unfavourable growth differential
- European equities are already approaching their year-end price targets

the year has instead triggered a new wave of infections and renewed concerns. Faced with this resurgence of the pandemic in Europe, the authorities have seemed unable to imagine scenarios different from those familiar from 2020. As vaccination campaigns have struggled to get underway, new forms of lockdown have remained the only real measures available to combat a third wave that has taken hold and does not seem to be under control, as Q1 draws to a close.



Sources: BBGI Group SA

European GDP expected to fall by a further -1.5% in the first quarter

Q1 2021 was supposed to be the beginning of a long-awaited return to normalcy in the euro area. After the efforts made by Europe's populations with regard to the restrictions imposed by their governments before the holidays, the beginning of the year was indeed supposed to mark a return to business as usual and "normal" life. These preventive health restrictions were intended to ensure an effective transition between a year of intense recession in 2020 and a year of renewal in 2021.

The long-awaited arrival of the vaccines and announcements of promising and voluntary vaccination campaigns were expected to quickly raise hopes of a return to normalcy. However, the emergence of Covid-19 variants at the beginning of

Q1 was meant to mark the beginning of an economic revival, but in the end it will instead be beset with renewed disappointment in the euro area. Growth expectations for the Eurozone have had to be revised downwards for Q1 and for 2021 as a whole. The new restrictions imposed in the largest Eurozone countries – Germany, France and Italy – suggest that growth is indeed unlikely to pick up with the expected momentum any time soon.

The euro area will therefore not be part of the ongoing international recovery. The prospects for recovery were based on a gradual easing of health measures in March, but recent developments regarding the pandemic mean that a recovery in Europe cannot reasonably be expected for several weeks.