

WEEKLY ANALYSIS

M. Alain Freymond—Partner & CIO



WHICH EUROPEAN ASSETS TO FOCUS ON?

Recession likely in 2023. ECB rate target at 4%. Decorrelation of monetary policies. Bullish recovery of domestic yields. Appreciation of the euro. Attractive valuations of securitized real estate and equities.

Key points



- European economy falters but still avoids a recession in Q4 2022
- Limited economic contraction in the first half of the year
- Leading indicators supported by services
- European households remain worried
- The services sector is holding back a net decline in inflation
- European trade deficit shrinks
- ECB reassures and raises key rates
- Euro bond yields decorrelated
- Euro likely to appreciate
- Real estate unfairly penalized by the banking crisis
- European equities resist uncertainty

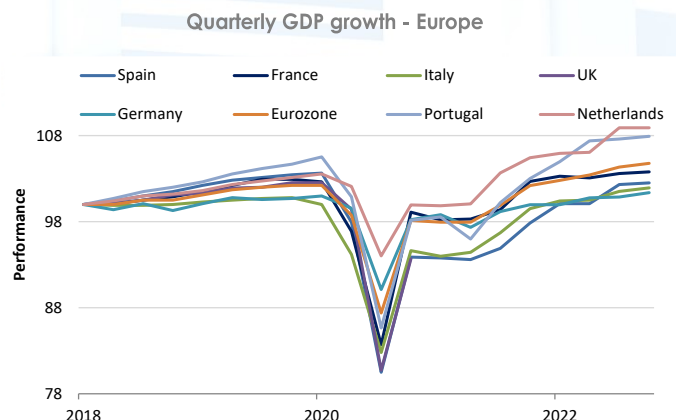
European economy falters but still avoids a recession in Q4 2022

For several months now, economic forecasts have been pointing to a clear slowdown in activity in the euro zone, which would necessarily be followed by negative growth and a recession. It has to be said that the eurozone economy still belied these expectations in the last quarter of 2022. However, it did not take much for the end of the year to be marked by a decline in the economy. Indeed, GDP only barely avoided contracting at the end of December, thanks in particular to government spending up by 0.7% and more positive foreign trade results thanks to a -1.9% drop in imports. However, consumer spending, which fell by -0.9%, did suffer the predicted decline linked to the fall in real household purchasing power, which was also accompanied by a decrease in investment spending (-3.65%). The stagnation of GDP (0%) during the quarter still suggests the possibility of a future recession with reduced effects. The resilience of the European economy, in the current context of a serious decline in real purchasing power caused by rising inflation,

remains surprising. The European economy is staggering under the weight of the -0.4% loss in value of its main economy. Germany recorded the most disappointing national performance of the major Eurozone member countries. Germany, in particular, suffered from a larger decline in private consumption (-1%) and investment (-2.5), while public spending supported domestic demand with an increase of +0.6%. France's ended the quarter with a modest increase (+0.1%) with a result close to Spain (+0.2%), Italy (-0.1%) and Portugal (+0.3%). Among the main countries of the Eurozone, the Netherlands recorded a significant higher dynamic thanks to an advance of +0.6%. The economic result of the European Union was slightly worse, with a drop of -0.1% in GDP.

Limited economic contraction in the first half of the year

The economic surprises were therefore rather positive during the last quarter and the beginning of the year did not cause any significant reversal of the situation. The growth outlook for the year as a whole therefore looks slightly less pessimistic (+0.5%), while the 12-month recession risks have decreased to only a 50% probability. Expectations for Q1 2023 suggest a limited contraction of -0.1% followed by a second quarter decline of -0.2%.



Sources: Bloomberg, BBGI Group SA