

WEEKLY ANALYSIS

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FAVOR REAL ESTATE AND EQUITIES OVER EUROPEAN BONDS

Limited recession in 2023. Inflation surprises the ECB. End of restrictive cycle closer to 5%. Rising yield curves. Appreciation of the euro. Attractive valuations for securitized real estate and European equities.

Key points



- The European economy is still at a standstill
- The 2nd quarter is likely to remain very weak
- Leading indicators show further declines
- European households less worried than manufacturers
- Falling inflation exceeds ECB expectations
- The ECB is set to raise its key rates to 5%
- Bond yields have yet to adjust
- Euro supported by interest-rate differentials
- Securitized real estate penalized by extreme pessimism
- European equities benefit from higher PEs and returns

weight of the -0.3% loss in value, following a -0.4% fall in GDP in its now in technical recession.

Germany once again recorded the most disappointing national performance of the eurozone's main member countries. Italy (+0.6%), Belgium (+0.5%), Spain (+0.5%), France (+0.2%) and above all Portugal (+1.6%) ended the quarter with growth, while the Netherlands (-0.7%) and Germany (-0.3%) made a negative contribution to overall growth.

The 2nd quarter is likely to remain very weak

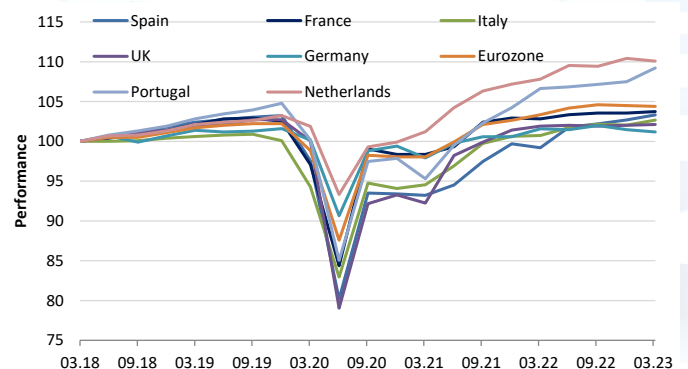
The eurozone economy is unlikely to record significant growth in Q2, and may even stall again. We expect GDP to remain very slightly up at +0.1%, thus avoiding another technical recession. Economic surprises have continued to be negative in recent months, limiting growth prospects. Q2 performance could just be sustained by further public spending.

The European economy is still at a standstill

The eurozone's GDP trend is resisting the headwinds, recording a modest contraction of -0.1% in Q1 2023. For several quarters now, economists have been predicting a recession in the eurozone, which has yet to materialize. The slowdown in eurozone activity is clear, but the economy's performance is not deteriorating as much as the consensus had predicted. It has to be said that the eurozone economy has once again beaten these negative expectations by recording another quarter of GDP stagnation rather than a collapse in economic momentum. The economy's overall resilience seems largely due to the +1.6% growth in government spending and capital goods investment (+0.6%), while household consumption slipped by -0.3%. The difficulties encountered by households are therefore very real, although the contraction in spending is lower than the previous quarter's -0.9%.

Exports contracted very slightly by -0.1%, while imports fell by -1.3%. This stagnation of GDP in the Eurozone is relatively similar to that of the European Union as a whole, which recorded a +0.1% increase in activity. 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, however, is staggering under the

Quarterly GDP growth - Europe



Sources: Bloomberg, BBGI Group SA