

Investments - Flash



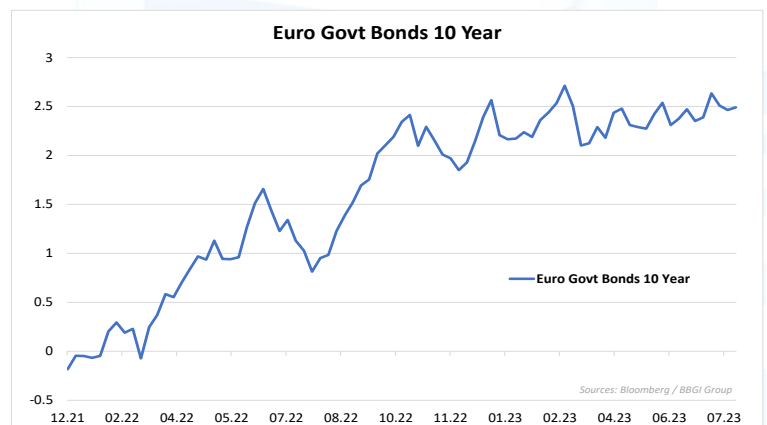
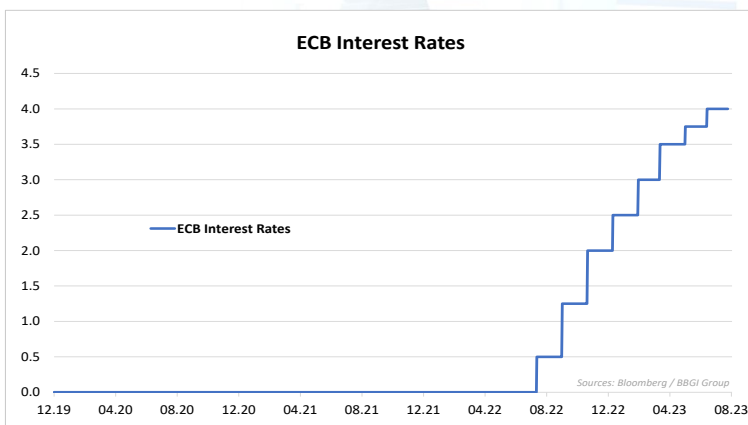
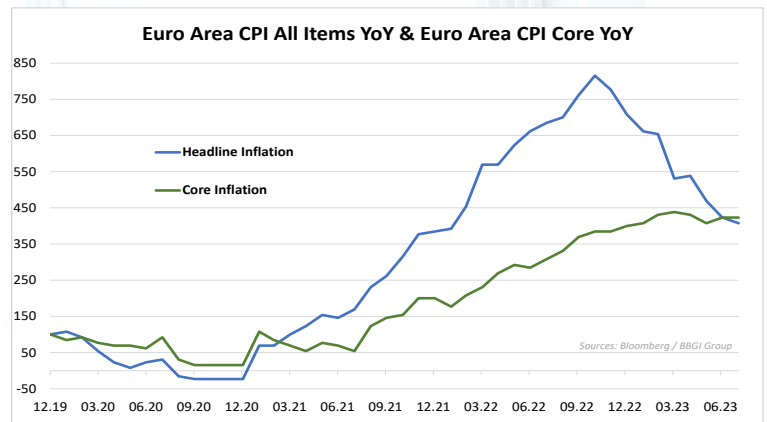
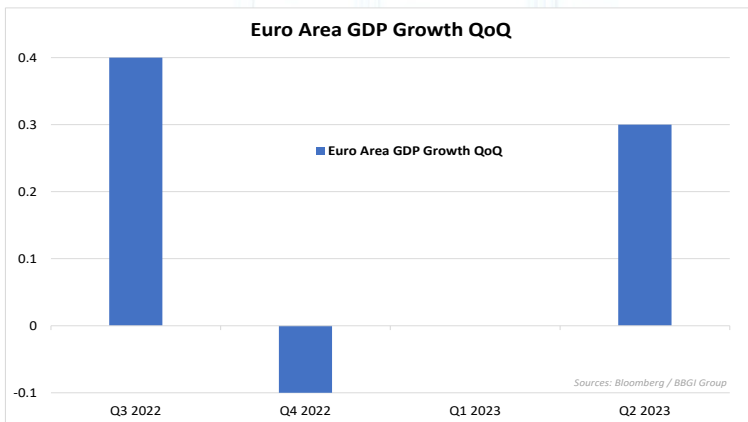
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THE EURO BOND MARKET HAS NOT BOTTOMED OUT

Growth and inflation will push rates even higher

Eurozone GDP rose by +0.3% in Q2, putting an end to two quarterly sequences of stagnation, while core inflation no longer slipped, stabilizing at +5.5% in July. This modest return to growth, in an environment that is still too inflationary, should not allow the ECB to consider a temporary pause in its policy. Core inflation is now back above CPI for the 1st time since 2020. Consequently, the ECB's key rate of 4% still seems to us to be far from its equilibrium point. Despite statements by the ECB to the effect that its policy is certainly coming to an end, we believe that inflation remains too slow for the institution to really envisage a pause. It will take several more hikes before the trend changes, at best by the end of Q4 2023. The slight growth in Q2 does not indicate a general upturn in activity, nor does it constitute any real threat to inflation. However, price dynamics

continue to be fuelled by the structural specificities of the public and private sectors. Economic stagnation in a context of still above-average inflation will therefore not have a favorable impact on markets in the medium term. The fall in inflation to 3%/year in the USA has barely allowed the yield curve to stabilize at around 4%, i.e. 1% above CPI. A sharper fall in Eurozone CPI is needed to justify a pause in monetary policy. In the meantime, euro yields still need to rise to offer investors a sufficient risk premium. The ECB's rhetoric won't last long if inflation doesn't fall faster in July and August. The autumn is likely to be hotter for the European fixed-income market, which has certainly not yet hit bottom. It is still premature to consider euro bonds as attractive, given that the risk of capital loss seems greater than the consensus view.



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