ECONOMIC RESEARCH | September 22nd, 2023

Weekly Analysis

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EUROPEAN EQUITIES RECOVER AFTER EIGHT MONTHS OF CONSOLIDATION

Risks of recession loom large. Inflation falling too slowly. Key rates towards 5%. Rising yield curves. Appreciation of the euro. Attractive valuations for securitized real estate and European equities.

Key points

- Eurozone economy avoids recession with +0.1% growth in Q2
- Further stagnation in quarterly GDP in Q3 and Q4
- Leading indicators point to recession
- Confidence indices fall again
- Falling inflation still insufficient for ECB
- ECB to raise key interest rates to 5%
- Economic slowdown will not prevent euro bond yields from rising
- Decoupling of monetary policies in favor of the euro
- Ongoing revaluation of securitized real estate
- Equities rise again after 8 months of consolidation

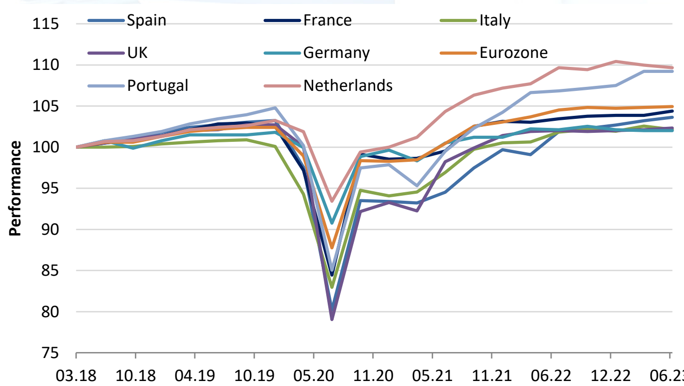
Eurozone economy avoids recession with +0.1% growth in Q2

Eurozone GDP growth in Q2 was exactly in line with our forecast of a barely positive +0.1%. However, this was significantly weaker than the consensus forecast of +0.3%. We were predicting a very weak Q2, but it's interesting to note that even modest momentum is resisting headwinds. After several quarters of negative expectations from economists predicting a recession in the eurozone, their recent optimism has once again proved excessive. The slowdown in activity in the eurozone is clear, but the economy's performance is slowly deteriorating. It has to be said that the eurozone economy has once again thwarted negative expectations, recording another quarter of relative GDP stagnation rather than a collapse in economic momentum. Overall, there was very little activity in any of the GDP components, with household consumption recording a result of 0% and +0.2% year-on-year, government spending also stagnating and rising by just +0.2% year-on-year, and the only notable increase coming from capital goods investment, which rose by +0.3% for a result of just +1.1% year-on-year. The only notable increase came from capital goods investment, which rose by +0.3%, for a result of just +1.1% year-on-year. Eurozone GDP advanced by +0.5% year-on-year. The -0.7% drop in exports over the quarter weighed on the overall result and is a cause for concern. The difficulties encountered by households are therefore very real, even though the evolution of their spending has simply stagnated. Contrary to expectations, it is not the situation in Germany, the eurozone's leading country, that is at the root of this economic stagnation.

Germany's economic momentum (0%) was nil, and it was rather the negative contributions of Holland (-0.3%), Italy (-0.4%) and Austria (-0.7%) that dragged down the Eurozone's performance, while France (+0.5%) and Spain (+0.4%) managed to record increases in their national GDPs. This stagnation in Eurozone GDP is relatively similar to that of the European Union as a whole, where aggregate GDP was perfectly stable.

The resilience of the European economy remains surprising. In the current context, serious declines in real purchasing power are being caused by rising inflation. The European economy is faltering and approaching a new danger zone in the second half of the year. We believe that rising interest rates and financing costs are only just beginning to affect consumption and investment.

Quarterly GDP growth — Europe



Source: Bloomberg, BBGI Group SA