ECONOMIC RESEARCH | March 22nd, 2024

Weekly Analysis

M. Alain Freymond — Partner & CIO

POSITIVE OUTLOOK FOR THE EURO AND MAJOR EUROPEAN ASSETS

GDP stagnates in early 2024. Stagflation takes hold despite net decline in inflation. Less restrictive monetary policy from June. Long rates may fall by 50 bps. Positive outlook for the euro, securitized real estate and equities.

Key points

- Eurozone GDP stagnates
- Stagflation sets in early 2024
- Leading indicators remain highly uncertain
- Slight improvement in confidence and sentiment
- Falling inflation loses momentum
- Change in monetary policy imminent
- Positive outlook for bond markets
- Inflation and interest rate spreads favorable to the euro
- Securitized real estate to benefit from lower rates
- Favourable backdrop for European equities
- European equities rise again

Eurozone GDP stagnates

In the 4th quarter of 2023, the Eurozone's GDP remained totally stable (0%), avoiding a technical recession following the -0.1% decline in the 3rd quarter. The European economy has once again narrowly beaten the predictions of a recession in the 2nd half of the year, thanks to this quarterly stagnation in GDP at the end of the year. The recession predicted by the consensus since the start of 2023 has yet to materialize, as the European economy continues to withstand the headwinds that could have already had a greater impact at the beginning of the year. That said, the European economy remains extremely weak, as demonstrated by the absence of growth for 2023 as a whole, which translates into a barely visible +0.1% year-on-year increase in GDP.

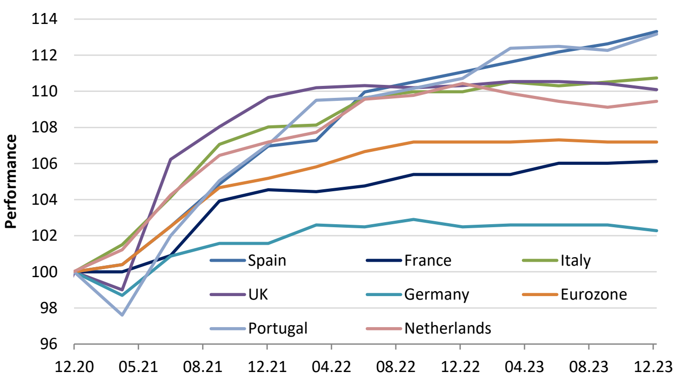
Overall, there was little activity in all GDP components, but it was mainly the very weak growth in household consumption (+0.1%) which continued to decline in Q4, affecting GDP. While consumption growth is shrinking and approaching zero, public spending is supporting GDP with an increase of +0.6%, twice as high as that recorded in the previous quarter (+0.3%).

The investment and fixed capital expenditure component in particular surprised with a +1% rise, in contrast to the contraction expected by experts. In terms of contribution, the change in inventories (-0.1%) and imports (-0.3%) offset the slight positive contributions from government spending (+0.1%) and fixed investment (+0.2%).

Over the past few months, the negative trend in German GDP (-0.3%) has been one of the strongest negative contributions in the country. Among the zone's main countries, Portugal (+0.8%) and Spain (+0.6%) are showing the strongest momentum, well ahead of growth in the Netherlands (+0.3%), Italy (+0.2%) or France (+0.1%). The resilience of the European economy may come as a surprise in the current context, still marked by real purchasing power nibbled away by inflation and financing costs higher than at the start of the year, but which have nevertheless stabilized below their Q3 highs. The European economy bends but does not break. The first quarter of 2024 is not expected to improve either, suggesting instead that the eurozone economy is experiencing a stagflationary phase marked by a lack of growth and sharply declining inflation, but still above the ECB's target. Growth in 2023 in the eurozone was therefore barely positive, and well below the ECB's forecast of +0.6%.

For our part, we were expecting a fall of -0.1% and a very moderate recession, which should have led to slight

Quarterly GDP growth — Europe



Sources: Bloomberg, BBGI Group SA