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WEEKLY ANALYSIS

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POSITIVE OUTLOOK FOR THE EURO ZONE

Moderate GDP growth. Inflation may fall further. The ECB has begun its rate-cutting cycle. Positive outlook for bond markets. Price/net asset ratios still attractive. Very favorable discount for equities.

Key points

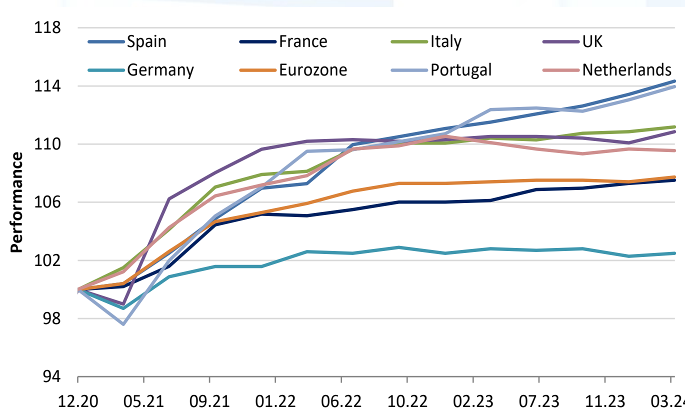
- 1st quarter rebound to continue into 2024
- Growth returns at a slower pace
- Leading indicators remain uncertain
- Household confidence stabilizes
- Inflation may yet decline
- The ECB began its rate-cutting cycle in June
- Positive outlook for bond markets
- Inflation and interest rate spreads favorable to the euro
- Average yield and price/net asset ratio still attractive
- Attractive valuations for European equities

1st quarter rebound to continue into 2024

The European economy had once again narrowly thwarted predictions of a recession in the 2nd half of 2023, thanks to stagnating GDP (0%) at the end of the year. The growth figure announced for Q1 2024 (+0.3%) finally shows a European economy in better shape, returning to growth with its best quarterly result since September 2022. Thanks to this upturn, GDP in the eurozone is now up +0.4% year-on-year. The upturn at the start of the year was underpinned by strong consumer spending and exports. It was above all the positive trend in foreign trade that contributed most to this economic recovery, adding +0.9% to the overall result, while the positive contribution of consumption was limited to +0.1%. Inventories and investments, on the other hand, pulled down the overall result for all countries. In terms of regional contributions, the vast majority of countries recorded positive growth rates, with only three exceptions: Denmark (-1.8%), Estonia (-0.5%) and the Netherlands (-0.1%). Among the major euro zone countries, Germany (+0.2%), France (+0.2%) and Italy (+0.3%) tended to experience limited positive growth, while Spain (+0.8%), Portugal (+0.8%) and Italy (+0.7%) seemed to benefit from a better economic climate. The eurozone thus avoided recession thanks to higher-than-expected growth in all four major economies. Germany's recovery, albeit fragile, was welcome after the previous quarter's -0.5% fall, and contributed to the overall result of +0.3%.

The European economy has thus certainly passed the nadir of its growth cycle, as witnessed by the reversal of the trend in Germany, and can now draw on a number of more positive factors and developments to envisage a strengthening of activity over the coming months. Weak domestic demand has been one of the causes of the lack of GDP growth, due to the decline in household purchasing power in an inflationary environment that is still present, and to the rate hikes of recent quarters. Even so, we are seeing a clear drop in inflation indicators, with or without energy and food, which should continue and bring us closer to the ECB's target of +2%. The first signs of interest-rate softening are appearing, as the European Central Bank made its monetary policy pivot in June by lowering its key rates for the first time after two years of restrictive policy. A new cycle of monetary easing will quickly have an impact on yield curves and on the cost of financing for households, businesses and public authorities.

Quarterly GDP growth - Europe



Sources: Bloomberg, BBGI Group SA