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Investments - Flash

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POSITIVE MOMENTUM FOR EUROPEAN ASSETS

ECB rate cuts likely to accelerate

The eurozone economy has recorded two consecutive quarters of moderate growth. Despite the ECB's change of monetary policy in June, we do not anticipate any acceleration in economic activity over the next few quarters. Leading indicators remain highly uncertain, and household confidence is still extremely fragile. Consumers have not yet been able to fully appreciate the effects of the ongoing interest-rate adjustment, and do not yet realize that the fall in inflation and the interest-rate adjustment will contribute to an improvement in their purchasing power. We believe that household confidence should strengthen with a further cut in key interest rates. It will also react positively when CPI falls below +2% in the coming months. The ECB has already increased the amplitude of its second rate cut (-0.5%) compared to June's (-0.25%), and already seems ready to orchestrate rate cuts consistent with the economic situation. If inflation slips rapidly to +1.8%, the ECB will undoubtedly make two further cuts in 2024 and others in 2025 to reduce the current rate differential by 200 bps. The long end of the euro yield curve has already slipped from 2.65% to 2.1% in the space of a few weeks, but there are still capital gains to be captured if our expectations of further long-rate cuts materialize, albeit probably limited to a further 50 bps. The euro could finally benefit from the widening yield differential with the Swiss franc, now at 170 bps. European securitized real estate is also attractive, with an average yield of 5.7% (EPRA Nareit Eurozone), while equities still benefit from a favorable relative PE 2025 (13.3x) compared to the US (20.8x).