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WEEKLY ANALYSIS

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STAGFLATION: A NEW CHALLENGE FOR THE EURO ZONE

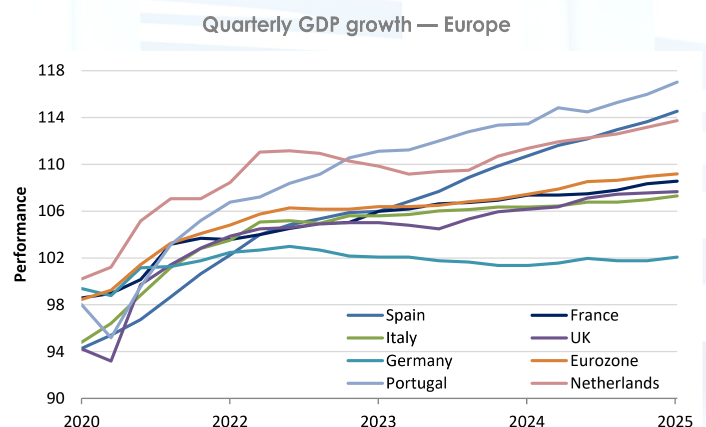
GDP growth at zero in the first half? Stagflation risks are back in full force. Household confidence is plummeting. New inflationary threats. Risk of three rate hikes in 2026. A weak euro. The rate shock is weighing on all financial assets.

Key points

- Q4 trend strongly called into question in Q1
- Will the GDP forecast for H1 be revised to zero?
- Leading indicators point to stagflation
- Consumer confidence plummets
- Inflation: Return of energy risks in 2026
- New ECB policy: 3 rate hikes in 2026?
- Rising bond yields and risk premiums
- The oil crisis weighs on the euro against the dollar
- The rate shock weighs on securitized real estate
- European stocks react to possible stagflation

Positive Q4 trend strongly called into question in Q1

The momentum of the recovery is proving to be slightly less robust than expected following the revision, despite the easing of political uncertainties and the gradual recovery in demand. Q4 GDP is now estimated at +0.2%, while for 2025 as a whole, growth has consolidated at +1.2%. The eurozone economy thus ended the year on a positive, albeit relatively modest, note, as we had anticipated, thanks to the continued easing of credit conditions and disinflation. Private consumption (+0.4%) and public spending (+0.5%) supported growth, in contrast to inventories. Overall, the eurozone demonstrated considerable resilience amid trade adjustments, undoubtedly thanks to a labor market that remained close to full employment, allowing household spending and investment to stay at a healthy level. The environment of low interest rates and a more accommodative monetary policy has also contributed to this positive trend. The recovery has thus taken hold, but its sustainability remains to be confirmed, particularly with regard to exports and in Germany. The eurozone's resilience was driven in particular by the strength of France (+0.2%), Germany (+0.3%), Italy (+0.3%), and Spain (+0.8%). Spain (+0.8%) confirmed its current status as the driving force with robust growth, supported by a still-thriving services sector. Overall, household confidence was linked to falling energy prices and currently subdued inflation. These nations were clearly on a more promising trajectory, but in contrast to this momentum, Europe's traditional industrial heartland was still struggling to gain speed, raising questions about the pace of Germany's recovery. Germany, in fact, recorded growth of +0.3%, emerging from stagnation but without a real rebound. Its economic model remains hampered by the costly energy transition and by Chinese demand which, although stabilizing, weighs on its industrial competitiveness. This German fragility indirectly affects Italy, whose manufacturing sector remains highly dependent on orders from across the Rhine. Ultimately, the fourth quarter of 2025 did not show a promising acceleration, but rather a slow convergence toward more uniform, low-level growth. Uncertainty related to trade barriers had certainly weighed on sentiment in Q3, but this factor faded, supporting a recovery in industrial orders in Q4. It is also worth noting, in this regard, that the global economy has held up fairly well in the face of the price shock and that it could now draw on improving domestic fundamentals and global trade at the start of the year. That said, while initial growth estimates suggested stronger momentum in early 2026, with GDP expected to grow by +0.3% in Q1, the outbreak of the crisis in the Middle East will also affect the eurozone —which is highly sensitive to energy and gas supplies from the region— and alter the outlook.



Sources: Bloomberg, BBGI Group SA