

WEEKLY ANALYSIS

SHIFT FROM STOCKS TO BONDS IN EUROPE

A GDP rebound? Stagnation likely in Q4. Leading indicators have stabilized. Household concerns persist. Price indices are rising. The ECB is taking a tougher stance. Mixed outlook for the euro. Stocks likely to consolidate in Q4.

Key points

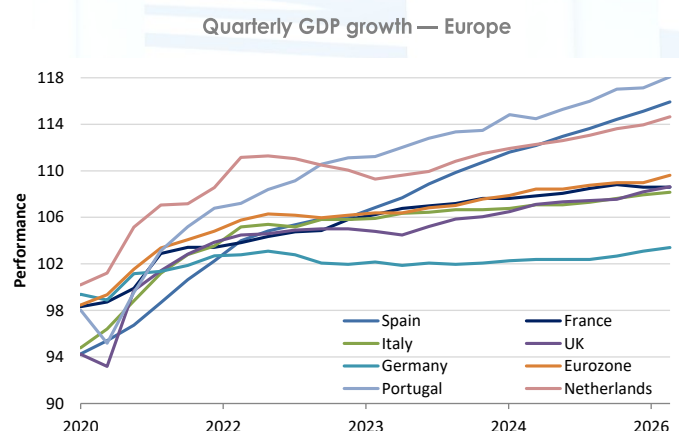


- Net rebound in eurozone GDP before summer (+0.4%)
- Risks of prolonged stagnation as Q4 approaches
- Leading indicators: fragile stabilization
- Household confidence undermined by doubts
- Inflation picks up, driven by PPI
- The ECB raises rates and adopts a hawkish tone
- Pressure on rates and rising yields
- Euro up vs. the Swiss franc, down vs. the dollar
- Securitized real estate under pressure from rising rates
- Cautious shift from stocks to bonds

Eurozone GDP posts a sharp +0.4% rebound before summer

Fears of a recession subsided during the second quarter of the year, helped by the combination of a rebound in household consumption and a recovery in trade. While the consensus forecast was for +0.2%, eurozone GDP grew by +0.4% in Q2, driven by Ireland's sharp recovery (+3.9%) and stability in Germany (+0.2%). Excluding the fluctuations in Ireland, the bloc's overall growth would have been around +0.3%. The end of June thus marked a respite, dispelling fears of an economic slump. The stabilization of energy prices following the spring spikes provided relief for household purchasing power, while June inflation remained below the +3% threshold, reinforcing the ECB's decision to adjust rates by 0.25%. Private business investment (+0.1%), however, remained constrained by the cost of credit. Broadly, the bloc showed some resilience in the face of trade frictions, while the strength of the labor market shielded households from rising unemployment. PMI surveys sent mixed signals, with the manufacturing index still struggling to regain momentum. This dynamic maintained disparities in growth rates, highlighting the divergence between the southern countries and the northern core. Spain (+0.7%) and Italy (+0.2%) drove overall activity thanks to the services sector, while France also

rebounded slightly (+0.2%). On the whole, purchasing managers' confidence has stabilized at modest levels due to mixed order trends. These dynamics support the scenario of moderate growth, in which Europe's productive engine is still searching for a second wind, held back by a persistent lack of price competitiveness. Germany epitomizes this slow recovery with growth of +0.2% in Q2. Its heavy industry remains hampered by still-high energy costs and the structural shift in trade flows with China. This weak momentum in the German manufacturing sector is holding back the recovery in Italy and in the industrial economies of Central Europe. Ultimately, the second quarter of 2026 appeared to reflect a cyclical rebound achieved despite external headwinds, though it is difficult to project that momentum into the second half of the year. Uncertainty over U.S. tariffs compounded tensions in supply chains, which continued to dampen investment and delay the launch of industrial projects. The most encouraging sign was that while the manufacturing sector struggled to accelerate, the services sector managed to sustain growth thanks to the gradual consolidation of real wages across all households. That said, although the ECB's annual projections have been revised upward toward +0.8%, we expect growth in the third quarter to remain moderate, thereby reducing the risk of an immediate recession. For the second half of the year, everything will depend on the stability of commodity prices and the absence of a resurgence in inflation.



Sources: Bloomberg, BBGI Group SA