

ECONOMIC RESEARCH – JUNE 2025

INVESTMENT INSIGHT

EUROPE



- ✓ **Positive but moderate outlook for eurozone bond markets**
- ✓ **Euro benefits from renewed confidence**
- ✓ **Securitized real estate benefits from lower rates**
- ✓ **Return of uncertainty for equities over the summer months**

CONFIDENCE GROWS STRONGER

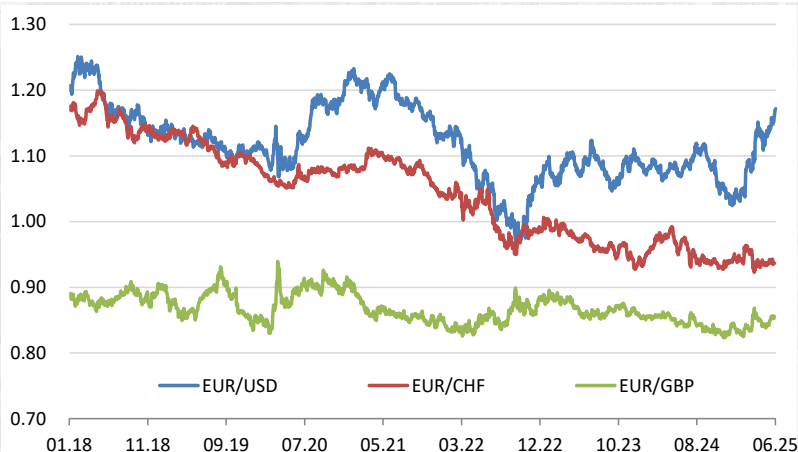
Positive but moderate outlook for eurozone bond markets

Following the latest key rate cut, short-term yields in the Eurozone are near inflation, leaving real yields close to zero. The outlook for further cuts depends on a continued decline in inflation and economic conditions. We expect the downward trend in inflation and the ECB's accommodative stance to continue pressuring yield curves, particularly at shorter maturities, making a flattening of the curve unlikely.

New fiscal policies influence bond yields

The trajectory of long-term bond yields is now significantly impacted by evolving economic risks and, more specifically, by a potential paradigm shift in European fiscal policy. The recent announcement of massive budgetary spending, particularly in Germany, is a major disruptive factor. This change could offset the negative impact of trade tensions, but it has already led to a notable rebound in German yields as the market anticipates increased debt supply and higher financing costs. This shift suggests that a significant flattening of the yield curve is unlikely to occur in the near term.

Euro exchange rates (USD, CHF, GBP)



Sources : Bloomberg, BBGI Group

The Euro's strengthening against the dollar

Since the announcement of new, more stringent US import tariffs, the euro has appreciated sharply against the US dollar. The European currency has gained more than 8% against the dollar in recent months, bringing its six-month advance to over 13%. This significant appreciation highlights a fundamental shift in investor sentiment and a move away from the greenback in response to the United States' more protectionist policies. The euro's resilience against the dollar is also underpinned by a more positive inflation trend and better-than-expected growth in the Eurozone.

Renewed investor confidence in the Euro

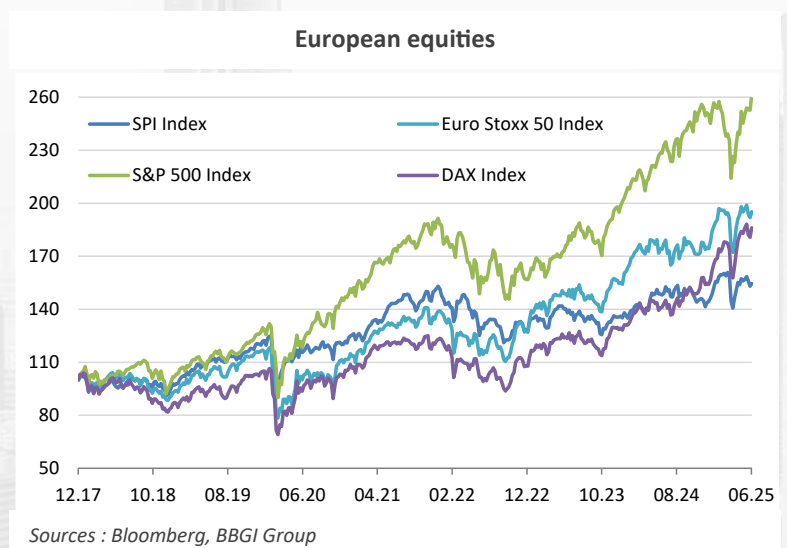
While the euro's rise against the US dollar has been dramatic, its appreciation against other major currencies has been more modest, with limited gains against the pound sterling and the yen. The European currency has, however, proven to be particularly strong against the Chinese yuan. This broad performance indicates that the euro is benefiting from a renewed sense of stability and investor confidence. We anticipate this positive sentiment will last and support a slightly upward trajectory for the euro, as its fundamental economic outlook continues to improve.

Securitized real estate benefits from lower rates

European securitized real estate has reacted positively to the ECB's accommodative monetary policy, achieving significant gains over the last quarter. Lower financing costs and attractive valuations continue to support a strong market outlook. With an average yield of 6.8% and a favorable price-to-net asset ratio, the sector remains a compelling opportunity for investors. We believe the favorable situation will lead to a strong stock market performance in 2025, and we recommend an overweight asset allocation to this segment.

European equities face renewed uncertainty

European stocks began the year with strong outperformance but have recently shown signs of renewed uncertainty. After a significant rebound following the postponement of US tariffs, equity indices have returned to high levels. However, investors are now becoming more cautious, as doubts return to the market. Although European valuations remain attractive compared to US and other global markets, this temporary hesitation could lead to a new phase of market weakness over the summer. We therefore recommend a more cautious approach and a reduction in exposure to European equities at these levels.



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