

ECONOMIC RESEARCH – APRIL 2025

INVESTMENT INSIGHT

EUROPE



- ✓ **Positive but moderate outlook for eurozone bond markets**
- ✓ **Euro benefits from new German paradigm**
- ✓ **Real estate to benefit from improving sentiment**
- ✓ **European stocks back in favor with investors**

A POSITIVE NEW PARADIGM

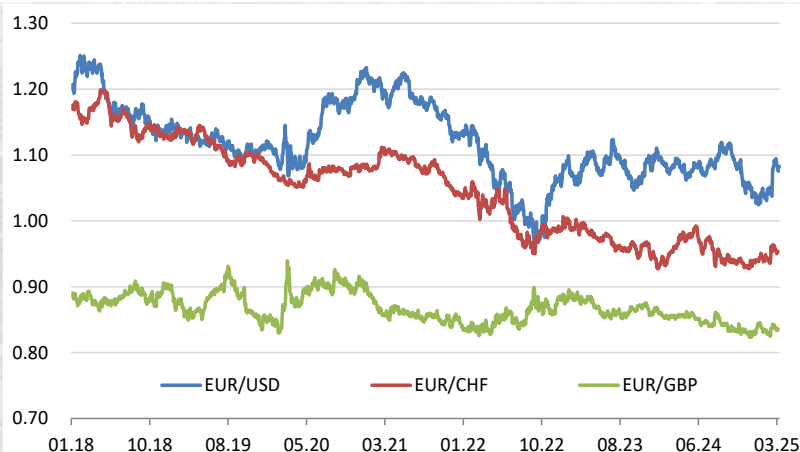
A mixed outlook for Eurozone bond yields

Following the latest key rate cut, the German yield curve remains slightly upward sloping, with 10-year yields at 2.7%. The likelihood of further easing in short-term rates is increasingly tied to a continued fall in inflation and a weakening economic outlook. Real yields, which are the return on a bond after accounting for inflation, are currently close to zero for Germany. This environment offers a positive but moderate outlook for investors.

New German fiscal policy reshapes market expectations

The recent change in Germany's fiscal policy represents a significant disruptive factor in the Eurozone, acting as a potential counterweight to external pressures like rising US tariffs. The prospect of increased government spending on infrastructure and defense has already triggered a notable rebound in German bond yields, with 10-year yields jumping by 40 basis points in just three days. This is driven by both the anticipation of an economic recovery and the potential for a larger supply of new debt to finance the additional spending, altering the overall dynamics of the bond market and putting upward pressure on long-term interest rates.

Euro exchange rates (USD, CHF, GBP)



Sources : Bloomberg, BBGI Group

The Euro strengthens amid renewed confidence

The euro has shown a remarkable reversal of fortune, particularly against the US dollar. Since April 2, it has appreciated by over 8% against the dollar, driven by renewed investor confidence in the Eurozone's economic and political stability. The new German government's change in attitude, signaling a more dynamic economic approach, is a key factor. This positive sentiment, combined with the prospect of a US economic slowdown, is drawing capital away from the dollar and towards the single currency.

Securitized real estate finds its footing

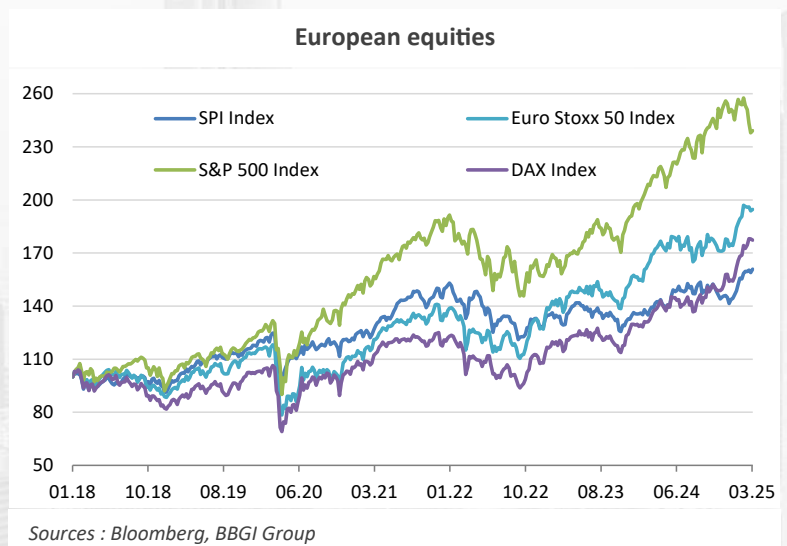
European securitized real estate has been a mixed bag, reacting negatively to early March interest rate volatility but benefiting from the overall positive shift in sentiment. Despite a persistently weak economic outlook, the sector offers compelling opportunities. The EPRA Nareit index for the Eurozone, with an average yield of 6.6% and an attractive price-to-net-asset ratio of 59%, presents a strong value proposition for investors.

European equities regain investor favor

European stock markets have outperformed their US counterparts in the first quarter, benefiting from a significant repositioning by investors. The shift is driven by a stark contrast between the worsening US economic outlook and a perceived new, positive paradigm in Europe. This includes a backdrop of falling inflation, low interest rates, and the anticipation of new fiscal and budgetary strategies. The valuations of European equities are also a key draw, with a favorable P/E ratio of 14.9x, making them significantly more attractive than US, Japanese, and Swiss markets.

A positive outlook with potential for outperformance

In summary, the Eurozone's economic narrative is undergoing a significant transformation, with new fiscal policies and a stabilizing inflation environment providing a solid foundation for growth. While bond yields are expected to remain volatile in the short term, the overall outlook for European equities and real estate is increasingly favorable. Investor confidence in the euro has been bolstered by this renewed dynamism, with the currency poised for further strength against major peers.



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