Bearbull Global Investments Group Limited
Al Fattan Currency House – Tower 1 – Unit 702
Dubai International Financial Centre (DIFC) - Dubai - UAE
www.bearbull.ae +971 4 2722719

ECONOMIC RESEARCH – DECEMBER 2025

INVESTMENT INSIGHT EUROPE

- ✓ Leading indicators point to a sluggish recovery
- ✓ Household confidence remains defensive
- ✓ Prices set to stabilize at the end of the year
- ✓ No further rate cuts on the horizon for the ECB

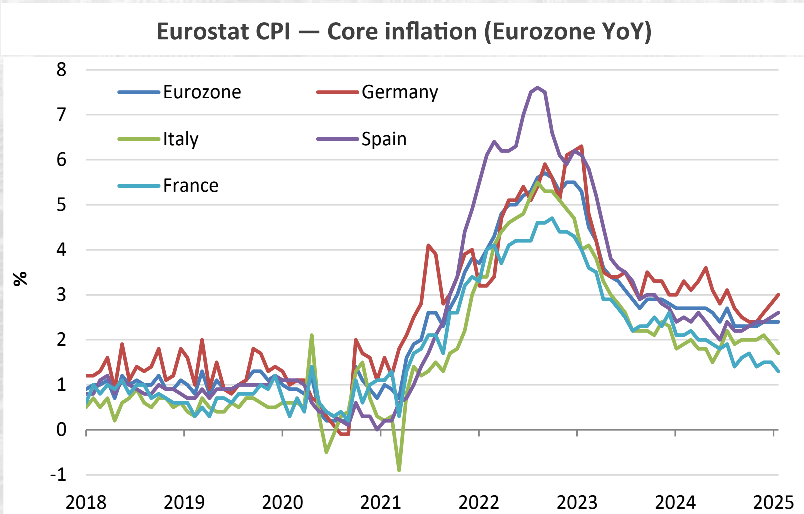
MODERATE OUTLOOK FOR THE EUROZONE IN 2026

Leading indicators signal a fragmented recovery

As 2026 approaches, leading indicators suggest a gradual but sluggish recovery. While recession risks have likely been averted, there is no evidence of a clear acceleration. Economic signals remain "orange," reflecting a persistent sectoral dichotomy where resilient services prevent contraction but lack the industrial support needed for a robust expansion.

Services expansion vs manufacturing stagnation

The services PMI remains a primary growth driver, comfortably holding in expansionary territory at approximately 53 points. However, job creation within this sector is beginning to plateau. Conversely, the manufacturing sector continues to struggle, failing to break back above the crucial 50-point mark. In Germany, the depressed "new orders" component indicates that global destocking has not yet transitioned into a vigorous restocking cycle. Consequently, the anticipated industrial rebound has once again been postponed until the latter half of 2026.



Sources : Bloomberg, BBGI Group

Investment paralysis and geopolitical uncertainty

Despite the pricing-in of interest rate cuts, business investment remains cautious. Qualitative surveys, such as the IFO and INSEE business climate indices, show sentiment remains below long-term averages. Business leaders are currently freezing investment spending for Q1 2026 due to profound uncertainty regarding final demand and escalating trade tensions, specifically the risk of new US tariffs. The aggregation of these forward-looking data points suggests that quarterly GDP growth will struggle to exceed a modest range of +0.2% to +0.3%.

Household confidence and the defensive savings trap

At the end of 2025, Eurozone household behavior remains a bottleneck for recovery. Despite improved financial fundamentals—where nominal wage growth of +3.5% to +4% is significantly outstripping the 2% inflation rate—consumer psychology remains in defensive mode. Real disposable income is rising, yet European Commission surveys show stagnant sentiment. Households appear to be prioritizing the construction of financial buffers against 2026 uncertainties over discretionary spending, even as retail sales data show sporadic signs of improvement.

Stubborn service inflation and the last mile

Technically, the battle against headline inflation has been won, with rates returning to the ECB's target range. However, a "two-speed" inflationary environment persists: while industrial price growth is a negligible 0.4%, services inflation remains stubborn at 3.8%. This complicates the ECB's mandate, as the "last mile" of disinflation—moving the underlying index from 2.8% to 2.0%—is proving difficult. The year 2026 will likely be characterized by a slow and volatile convergence toward the target rather than a steady decline.

ECB policy pivot and the end of easing

The ECB has reached a turning point, moving from active inflation fighting to managing a delicate landing. The cycle of monetary easing is most likely over; barring a sudden economic deterioration, no further rate cuts are expected in the coming months. The Governing Council is prioritizing "careful vigilance" to avoid an inflationary resurgence. Interestingly, markets are now pricing in a 50% chance of a minor rate hike by late 2026, a shift that could cause government bond yields to rise as the era of easy liquidity definitively concludes.