

MACRO RESEARCH INSIGHT

CROSS-ASSET ANALYSIS

EUROPEAN ASSETS

September 2026



SHIFT FROM STOCKS TO BONDS IN EUROPE – Part 1

- ✓ Net rebound in eurozone GDP before summer (+0.4%)
- ✓ Risks of prolonged stagnation as Q4 approaches

SHIFT FROM STOCKS TO BONDS IN EUROPE – Part 1

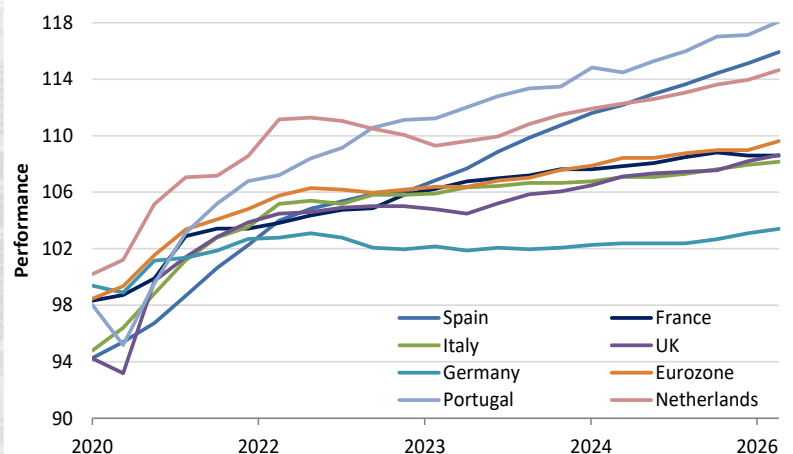
Eurozone GDP Growth and Household Recovery

Eurozone GDP expanded by a stronger-than-expected +0.4% in the second quarter of 2026, beating the +0.2% consensus forecast. This recovery was anchored by a sharp +3.9% rebound in Ireland alongside strong performance in Spain (+0.7%), while Germany maintained modest growth of +0.2%. The bounce-back provided a key reprieve from earlier recession concerns, bolstered by a revival in household consumption, stable labor market conditions, and a recovery in foreign trade. Furthermore, this quarter-over-quarter acceleration demonstrated the underlying resilience of the European consumer base as real wage gains began to take effect.

Inflation Relief and Credit Constraints

Stabilizing energy costs during late spring helped ease pressure on household purchasing power and kept June inflation below the +3% threshold, supporting the ECB's 0.25% interest rate reduction. However, private business investment remained subdued at +0.1% due to elevated borrowing costs. While real wage gains helped insulate domestic demand, ongoing manufacturing weakness and mixed order trends highlighted an uneven recovery across the bloc. High credit costs continue to force many firms to defer major capital expenditures until borrowing rates ease further. Consequently, business sentiment remains cautious as corporate balance sheets absorb the ongoing pressure of elevated interest charges.

Quarterly GDP Growth - Europe



Sources : Bloomberg, BBGI Group

North-South Growth Disparities and Industrial Weakness

A sharp economic divide persists between outperforming southern European economies and the struggling northern industrial core. Spain (+0.7%) and Italy (+0.2%) capitalized on service-sector strength, whereas Germany's +0.2% growth was dragged down by persistent high energy prices and structural changes in trade with China. This prolonged weakness in German heavy manufacturing continues to weigh on supply chains across Central Europe and neighboring industrial trading partners. German industrial output has been further constrained by fierce international competition and weak global demand for traditional capital goods. Until energy-intensive production stabilizes, the wider region's industrial engine will struggle to return to pre-crisis output levels.

Economic Deceleration and Stagnation Risks

Economic momentum is projected to decelerate sharply in the third quarter, with growth slowing to +0.1% and signaling a plateau in economic activity rather than a sustained expansion. Full-year 2026 GDP forecasts from the ECB Survey of Professional Forecasters and private consensus hover at a modest +0.8%. Persistent manufacturing weakness, lingering consumer caution, and potential U.S. tariff risks threaten to keep the eurozone in a low-growth environment through the end of the year. Economists warn that without significant structural reforms or additional policy stimulus, economic activity could remain muted well into 2027. This prolonged baseline plateau highlights the ongoing difficulty of generating robust, self-sustaining growth across the monetary union.

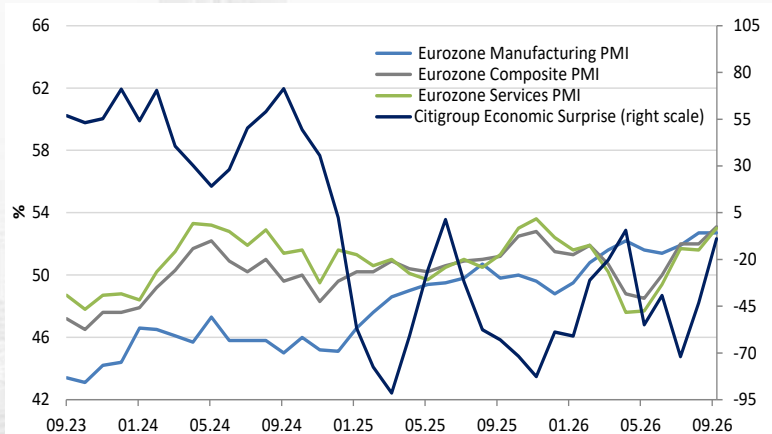
Resurgent Energy Costs and Inflationary Pressures

Renewed upward pressure on energy prices during Q3 has pushed overall inflation to 3.2%, moving it further above the European Central Bank's 2% target. Transport costs have emerged as a primary inflationary driver, while nominal wage growth is only gradually restoring lost purchasing power. As a result, consumer confidence remains fragile, delaying a broader recovery in private domestic demand. The resurgence in price pressures complicates the ECB's monetary policy path, limiting their scope for rapid interest rate cuts. In turn, sticky headline inflation continues to erode consumer purchasing power just as household spending was beginning to stabilize.

High Interest Rates and Capital Investment

High interest rates following the ECB's monetary tightening continue to stall private corporate investment and delay new industrial projects. While private sector capital expenditure remains constrained, public investments directed toward defense, digital infrastructure, and energy transition projects are providing essential baseline support to help offset broader economic stagnation. However, public spending alone cannot fully substitute for the private capital deployment required for long-term productivity gains. Until corporate lending conditions improve significantly, broad-based capital investment across the eurozone will remain severely depressed.

PMI and Economic Surprise Leading Indicators



Sources : Bloomberg, BBGI Group

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