

MACRO RESEARCH INSIGHT

CROSS-ASSET ANALYSIS

EUROPEAN ASSETS

September 2026



SHIFT FROM STOCKS TO BONDS IN EUROPE – Part 2

- ✓ Leading indicators: fragile stabilization
- ✓ Household confidence undermined by doubts
- ✓ Inflation picks up, driven by PPI
- ✓ The ECB raises rates and adopts a hawkish tone

SHIFT FROM STOCKS TO BONDS IN EUROPE – Part 2

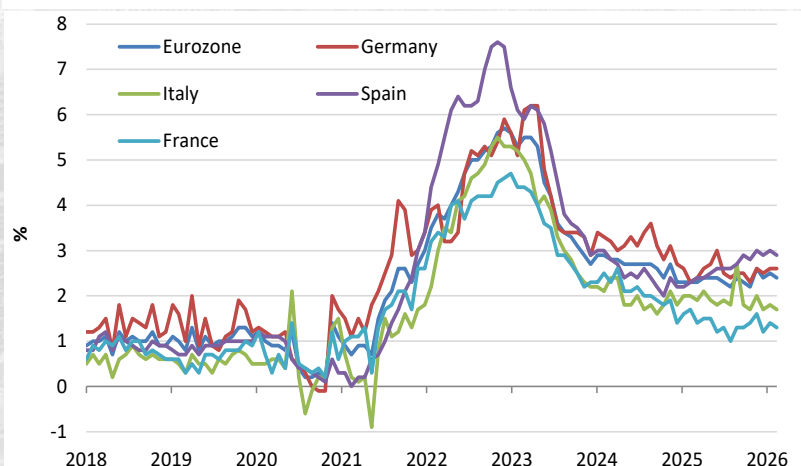
Moderate Private Sector Stabilization

The Eurozone Composite PMI index rebounded to 52 in July and reached 53.1 in September, indicating that private sector contraction halted over the summer. An easing of tensions in the Middle East helped stem the decline in new orders and moderate upstream cost pressures. Manufacturing activity rose to 52.7 as delivery times normalized, while services rebounded to 53 in September to serve as the primary engine of third-quarter economic growth.

Gradual Household Sentiment Recovery

Household sentiment is stabilizing at a very slow pace, with the European Commission's consumer confidence index rising from its spring low of -20.4 to -16.5 in September. Despite lower energy costs offering relief to household balance sheets, consumer behavior remains heavily dominated by precautionary saving and persistent concerns over employment prospects. In contrast, the Sentix indicator surged to 5.1 in September, its highest point in five years, reflecting an improving yet fragile underlying outlook. German consumer sentiment via the GfK index registered a minor uptick to -26.6 points, underscoring ongoing retrenchment across the bloc's largest economy.

Eurostat CPI — Core Inflation (Eurozone YoY)



Sources : Bloomberg, BBGI Group

Producer Prices Fuel Headline Inflation

Headline consumer inflation accelerated sharply over the summer to reach 3.4% in September, with projections pointing toward 4% in the second half of the year. This acceleration is driven by rising factory-gate pressures, as the Industrial Producer Price Index (PPI) surged by +0.8% in July and +0.7% in August, pushing the annual PPI rate to +5.8%. Domestic energy costs charged to manufacturers jumped +11.8% year-over-year, while processed raw materials and component prices accelerated +1.6% month-over-month due to renewed logistics bottlenecks. Additionally, import price pressures intensified as surging ocean freight and energy costs easily surpassed minor deflationary flows from Asian trade.

Persistent Inflationary Rigidities in Services

Services inflation remained exceptionally sticky at +3.6% in September, driven by ongoing wage increases averaging +3.3% for the year as workers seek to recover lost purchasing power. Weak labor productivity growth during the quarter prevented service firms from absorbing these rising payroll expenses, forcing them to pass labor costs directly onto consumer prices. Concurrently, retail prices for manufactured goods rose +1.2% in September as the deflationary impulse from Chinese imports narrowed to -2.5%. This weakening of the Asian price buffer leaves core goods exposed to regional supply chain cost increases.

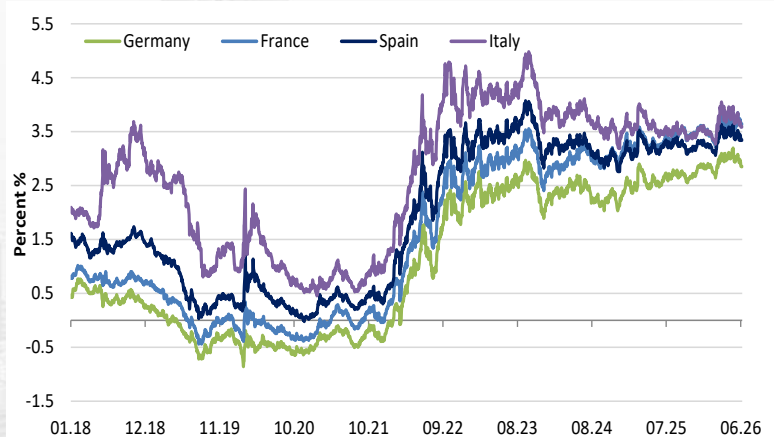
ECB Implements Hawkish Rate Hike

In response to rising energy costs and elevated inflation, the European Central Bank raised its key interest rates by 0.25%, marking a formal shift from monetary normalization to policy tightening. ECB leadership cited the Middle East supply shock and sticky service inflation as significant risks to medium-term price stability, ruling out rate cuts until oil market volatility subsides. To further tighten financial conditions and counter imported inflation, the central bank is accelerating the reduction of its balance sheet and tightening liquidity operations. Financial markets have adjusted their expectations, pricing in one additional 0.25% rate hike before the end of 2026.

Financial Conditions and Stagnation Risks

The ECB's renewed monetary tightening is driving up borrowing costs for businesses and households across the monetary union, dampening credit demand and delaying capital deployment. While the rate hike aims to prevent second-round wage-price effects, it adds financial friction to a private sector already coping with high input prices and subdued consumer demand. Private corporate investment remains severely depressed, leaving public spending on defense, digital transformation, and green infrastructure as the primary buffers against systemic slowdown. Market participants remain concerned that sustained high interest rates could push vulnerable economies into a technical recession.

10-year Interest Rates in European Countries



Sources : Bloomberg, BBGI Group

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