

MACRO RESEARCH INSIGHT

CROSS-ASSET ANALYSIS

EUROPEAN ASSETS

September 2026



SHIFT FROM STOCKS TO BONDS IN EUROPE – Part 3

- ✓ Pressure on rates and rising yields
- ✓ Euro up vs. the Swiss franc, down vs. the dollar
- ✓ Securitized real estate under pressure from rising rates
- ✓ Cautious shift from stocks to bonds

SHIFT FROM STOCKS TO BONDS IN EUROPE – Part 3

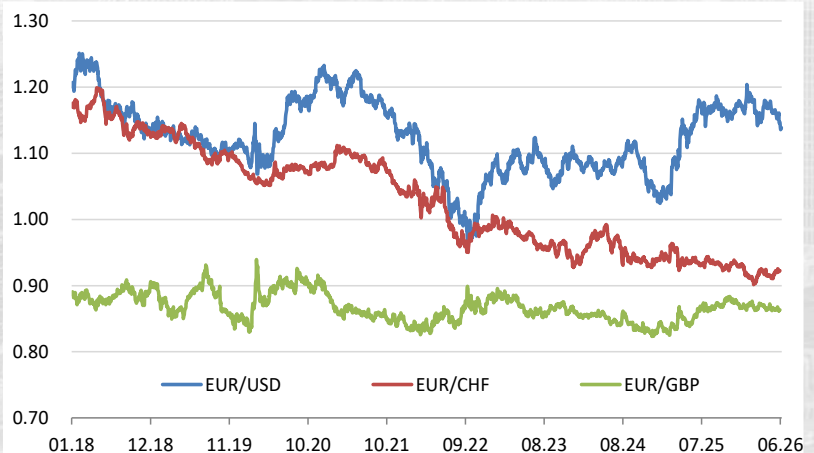
Rising Bond Yields and Risk Premiums

After reaching peaks of uncertainty in Q1, tensions in the Middle East began to ease in May. The 10-year German Bund, the market benchmark, eased to trade around 2.85% after hitting the 3.2% threshold. The deterioration in economic activity in the eurozone contributed to this easing. Faced with the risk of a sharp slowdown and stagflation, investors adjusted their allocations by taking advantage of better yields, particularly on sovereign debt. The European Commission unveiled its financing plan for the second half of the year, which calls for the issuance of 80 billion euros.

Sovereign Supply and Maturity Strategy

Since the volume was in line with expectations and very well managed by the EU's auction mechanism, this announcement reassured the markets about the stability of the supply of high-quality securities across Europe, thereby preventing a crowding-out effect on national debt. This successful issuance strategy demonstrated market demand even amidst broader macroeconomic volatility across the monetary union. Consequently, sovereign spreads across member states remained stable without triggering secondary market liquidity bottlenecks. Nevertheless, the outlook remains highly uncertain and calls for a degree of caution in light of the risks of rising inflation, with a preference for short maturities.

Euro Exchange Rates (USD, CHF, GBP)



Sources : Bloomberg, BBGI Group

Exchange Rate Dynamics Across EUR, USD, and CHF

The euro faces a threefold challenge: economic, inflationary, and monetary. Tensions in the Middle East have shifted the outlook for the dollar, which benefits from its role as the “petro-currency” and its energy independence. Unlike the eurozone, the United States is a net energy exporter, which makes the greenback more attractive during an oil shock and the U.S. economy more resilient. In contrast, the eurozone may enter a recession in Q2, while the ECB has been forced to tighten its monetary policy in June. The single European currency continued to slide against the dollar in June, falling below the previous support level of 1.14, and may well struggle to stabilize in the short term before reaching the 1.10 level.

Securitized Real Estate Market Recovery

The real estate market fell sharply in March amid concerns about rising inflation and interest rates. Recent developments have provided a little more clarity on the sector’s actual outlook. The EPRA Nareit Euro Zone TR Index rebounded by more than 6% in June thanks to valuations that have become more attractive again, notably with a yield of 5.6% and a 34% discount to net asset value.

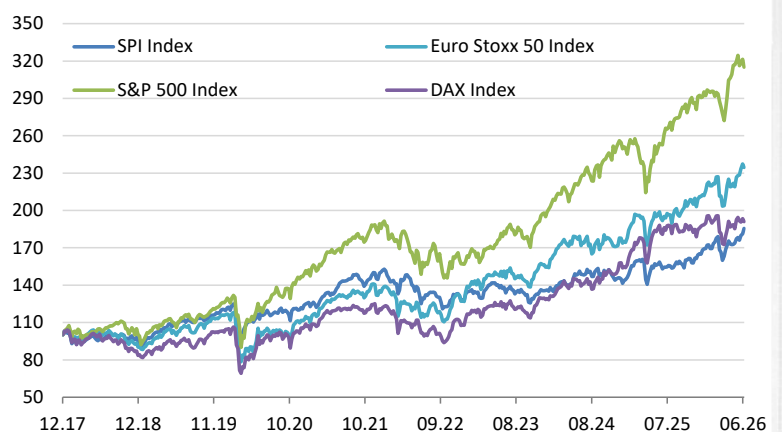
Compression of Corporate Margins and Valuations

Since the lows in March, the indices have bounced back, pushing valuations back toward their “fair value.” Current valuation multiples no longer include any margin of safety in the event of bad news, even as recession risks have intensified in recent weeks. Rising production costs (PPI) are beginning to weigh on corporate profit margins, while forecasts for sales volume growth are being called into question. Contrary to the initial scenario of declining inflation, price rigidity in the services sector shows that underlying pressures are persistent. In June, the ECB’s rate hike dashed hopes for a rapid decline in the cost of capital.

Equity Market Headwinds and Portfolio Allocation

With bond yields rising, stocks are losing their relative appeal. Institutional investors now have a profitable and less risky alternative in the bond market, which is driving capital flows away from equity portfolios over the summer. In the current environment, Europe’s structural vulnerability to energy supply shocks may further prompt international capital to shift away from European stocks toward the dollar and U.S. assets. With a P/E ratio of 14x, SX5E stocks remain attractive from a relative perspective; however, we nevertheless recommend a more cautious exposure to European stocks in the short term given the current economic slowdown and pressures on margins and earnings.

European Stocks



Sources : Bloomberg, BBGI Group

Contact US : BearBull Global Investments Group | Dubai International Financial Centre (DIFC) | Al Fattan Currency House | Tower 1 | Unit 702 Dubai | United Arab Emirates | Tel +97142722719 | www.bearbull.ae

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