



Richelieu Pragma Europe



Emmanuel Paolini

The Bloomberg Eurozone Developed Markets (EURODN) index closed March up 4.42%. This performance was mainly driven by banking stocks, led by Banco Santander and BBVA. The latter were rewarded for sharing in resurgent profits at the expense of investing in future growth. From a macroeconomic point of view, the Eurozone appears to be sailing in stormy waters, with economic growth having stagnated since mid-2022 and, according to the European Commission, likely to remain modest through 2024. The downward revision of growth forecasts to 0.8% for 2024, alongside an inflation projection back to 3%, highlights the persistent challenges facing the European economy. The specter of recession was narrowly averted in the fourth quarter of 2023, but stagnant growth in the first half of 2024 suggests a fragile economic recovery. However, a significant recovery is anticipated in the second half of the year, thanks to weakening inflation, expected rate cuts by the European Central Bank (ECB) and increased fiscal support. Despite a solid job market, consumption remains sluggish, as reflected in retail sales. Rising real wages and high employment could, however, support private demand in the future, offering a ray of hope for an economic recovery.



Alexandre Hezez

Looking back, inflation crossed critical thresholds in early 2022, defying expectations of a temporary and limited rise. The ECB's response to this unexpected inflationary surge marked a turning point, as it abandoned its traditional forward guidance in favor of a real data-driven approach. This pivot initiated a disinflationary turn, although inflation remains above the ECB's target. The central bank is now in a delicate position, juggling the risk of acting too late in a disinflationary environment with expectations of a rate cut. The shift towards a more flexible monetary policy, echoing the signals from the US Fed, suggests cautious optimism about the Eurozone's ability to overcome its current challenges and foster sustainable economic growth, while remaining vigilant about wage trends and underlying inflation.

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