

# OUTLOOK

*Between American Optimism and European Uncertainties*

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**François RIMEU**  
*Senior Strategist*

# Political and Economic Instability: Europe's Growing Challenges

The two main economies of the Eurozone are sinking deeper into crisis with each passing day. The political situation remains highly complex on both sides of the Rhine.

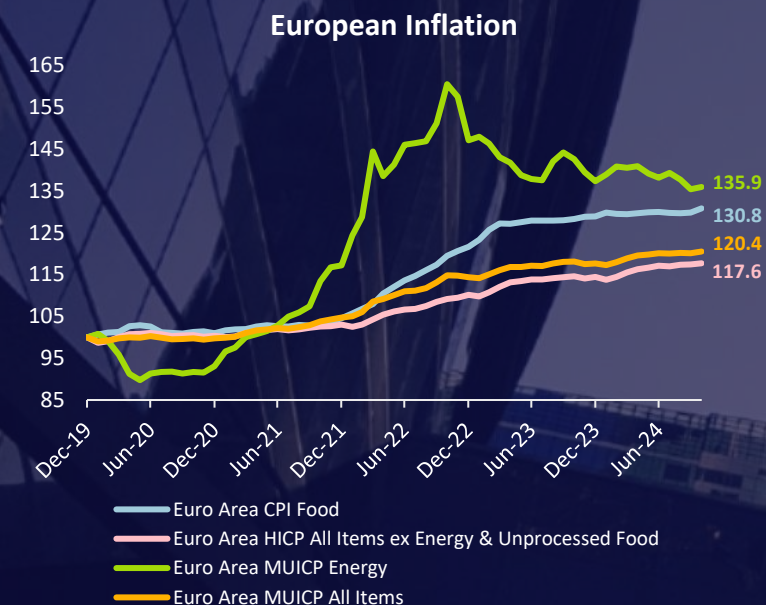
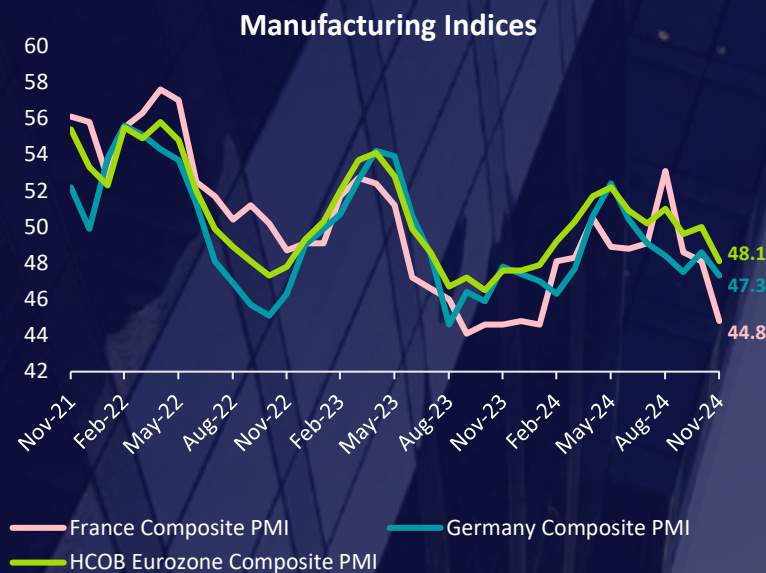
On the French side, uncertainty surrounds the Barnier government's ability to maintain power and secure passage of the 2025 budget, an almost unprecedented situation under the Fifth Republic. Even if the budget will be approved, the government's weak representational base would likely prevent it from maintaining power beyond July 2025.

On the German side, snap elections are scheduled on 23 February with potential modifications to the "debt brake" rule, which limits the federal deficit to 0.35%, under consideration. Unfortunately, amending this rule requires a two-thirds parliamentary majority, a challenging target given the current instability of the traditional parties.

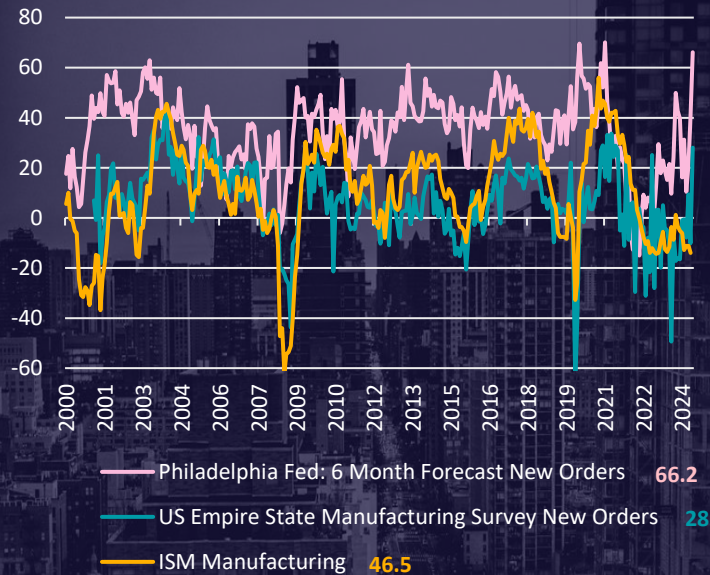
On the economic front, the latest PMI figures are once again disappointing. Manufacturing sectors have been in crisis for nearly two years, and service sectors are also showing signs of slowing activity. In France, an economic recovery appears unlikely, with new business and current business activity declining at an accelerated rate compared to October. It is also worth noting that the paid price components are increasing.

The challenges facing the Eurozone are staggering: fiscal integration to prevent optimization within the zone itself (Ireland, Netherlands, Luxembourg), a common defense policy to address current and future

geopolitical risks, a shared energy strategy, a unified migration policy, and more. In the shorter term, focusing on achievable solutions, we believe that **any growth recovery will depend on a rebound in consumer confidence indicators**. For this to occur, purchasing power losses must decrease, particularly regarding non-discretionary expenses such as energy and food. These two categories have increased at rates far exceeding general inflation and represent a significant portion of spending for lower-income households. **Until the relative cost of these expenditure items decreases, it will be difficult to restore confidence among households** that have the highest marginal propensity to consume.



## Manufacturing Sector Health



Source: Bloomberg Finance L.P., as of 30/11/2024

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*ECB continues its momentum while FED remains awaiting future Trump administration decisions.*

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## U.S. Markets Maintain Their Optimistic Outlook

Across the Atlantic, conditions remain highly favorable with robust economic indicators. While uncertainty persists regarding the policies to be implemented by the Trump administration, market optimism continues to be buoyed by expectations of moderate duties policies, a return to pre-Covid immigration policies, and tax reductions. In essence, the market is anticipating the best possible scenario, though this optimism could become self-fulfilling by influencing confidence indicators, as evidenced in certain regional metrics. A rebound in U.S. manufacturing activity appears feasible in the coming months.

Updates from central banks remain limited; the Fed remains hesitant, awaiting clarity on the new administration's agenda. The ECB signals its intention to continue with 25bps rate cuts per meeting, showing little formal concern for German and French economic challenges. From our perspective, more aggressive rate cuts would be better suited to the European economic environment, though the euro's decline appears to be causing concern among central bankers, as reflected in Isabelle Schnabel's recent statement: "Policy rates are not far from the neutral rate."

Our strategic positions remain largely unchanged. We maintain our preference for U.S. equities despite challenging valuations. We also continue to favor duration exposure in the Eurozone, although short-term U.S. curve positions are becoming increasingly

attractive. A neutral rate at 4% reflects minimal anticipation of future macroeconomic risks, creating an asymmetric situation. Finally, we maintain a positive outlook on credit.

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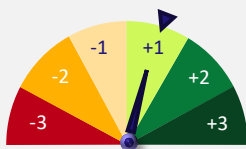
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Asset Management

## Assets

## Outlook

## Strategic Vision

### EQUITY



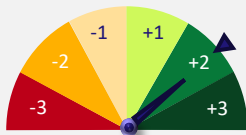
We maintain a slightly positive bias with a clear preference for U.S. equities. The European economic situation and political instability warrant caution in Europe. Japanese equities should perform adequately due to the weak yen.

### FIXED INCOME



We continue to maintain our positive bias, not on credit spreads specifically, but on the overall yield of credit assets. Corporate health remains robust, including in the Eurozone, with this being particularly evident in the banking credit sector.

### RATES



Previously, we held a strong preference for European bonds over their U.S. counterparts, though this position has moderated. The U.S. yield curve currently prices in only a minimal probability of deteriorating American economic conditions in the coming years.

## December Outlook

As year-end approaches, we observe the traditional decrease in market liquidity. However, broader political factors are likely to continue significantly impacting market developments: the Middle East conflict, the war in Ukraine, Donald Trump's announcements, and the French budget crisis are among the numerous concerns. Similar to certain years such as 2018, these conditions appear conducive to potentially volatile movements in this year-end.

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## AGENDA



**US Inflation**  
11 December



**ECB meeting**  
12 December



**FOMC meeting**  
18 December



**BoJ meeting**  
19 December



**French Budget Bill**  
December