Economic Outlook for Europe
Is the EU-27 an attractive investment location for global investments?

3 April 2025

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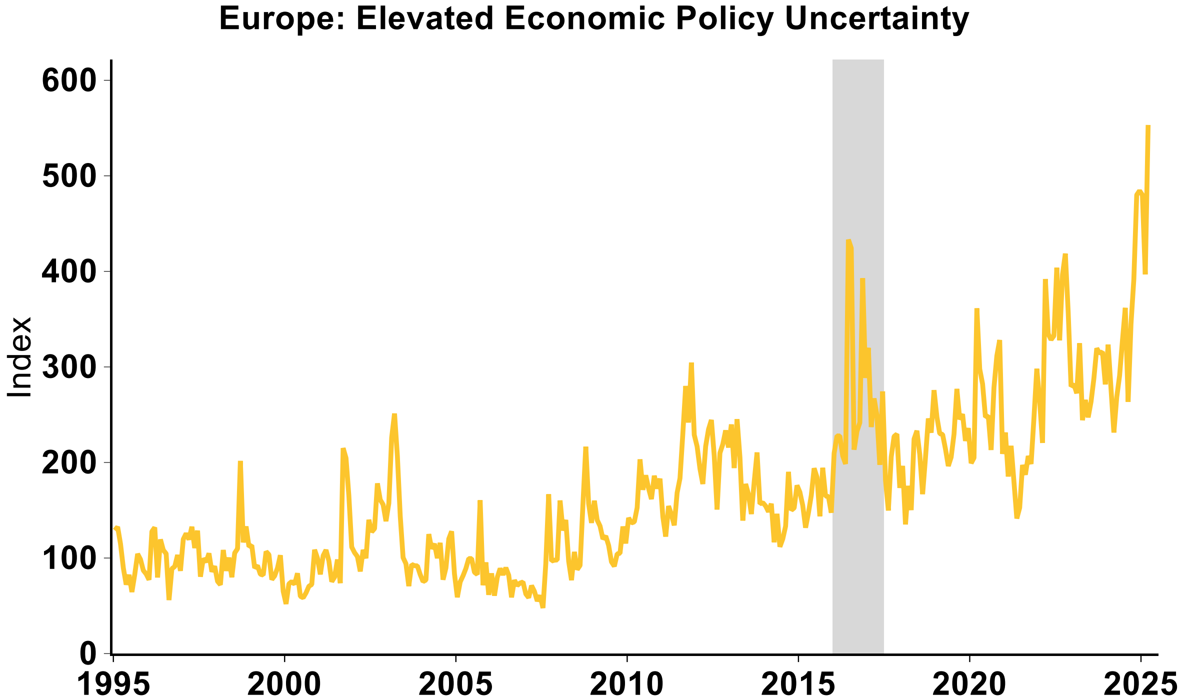
Agenda

- First quarter 2025: Elevated uncertainty and a champagne mood go hand in hand
- Current economic assessment: Why is (core) Europe's economy not growing?
- Is the EU-27 an attractive investment location for global investments?

The uncertainty is palpable

Investment and consumption decisions are delayed.



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 03.2025

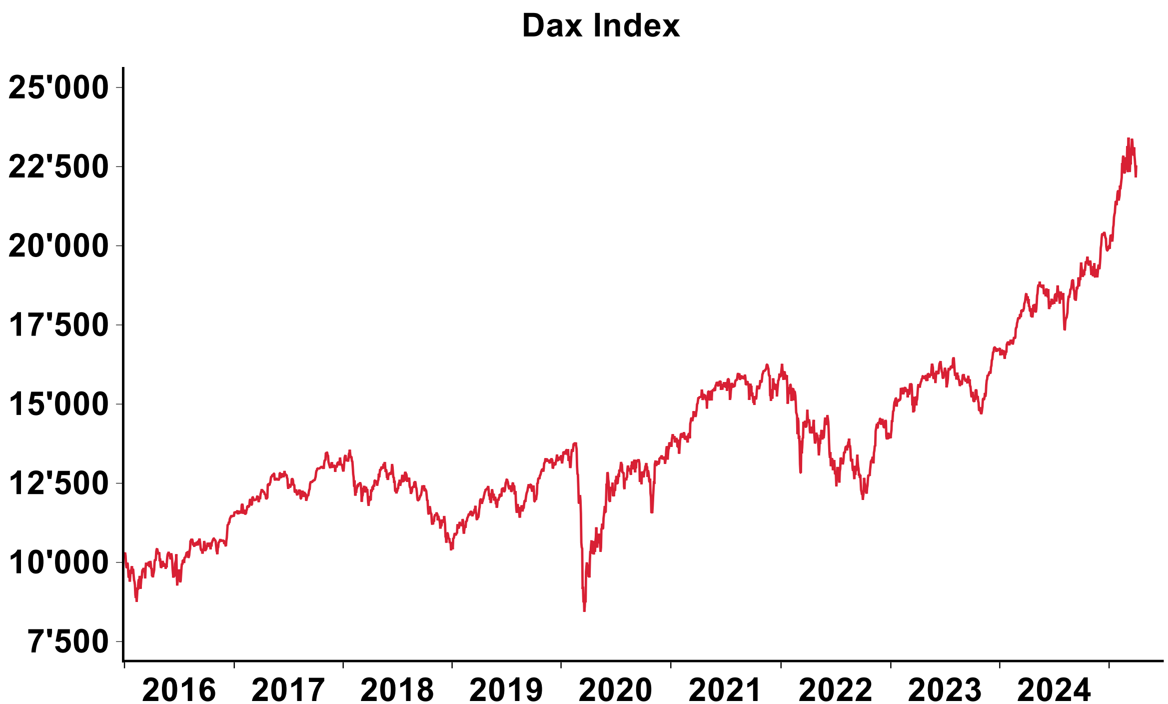
Uncertainty delays investment decisions

Strained investment environment as in 2018.

Sources: BfS, Macrobond, Swiss Life Asset Managers

Uncertainty, what uncertainty?

Europe's stock markets climb to record highs in Q1 2025.



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 01.04.2025

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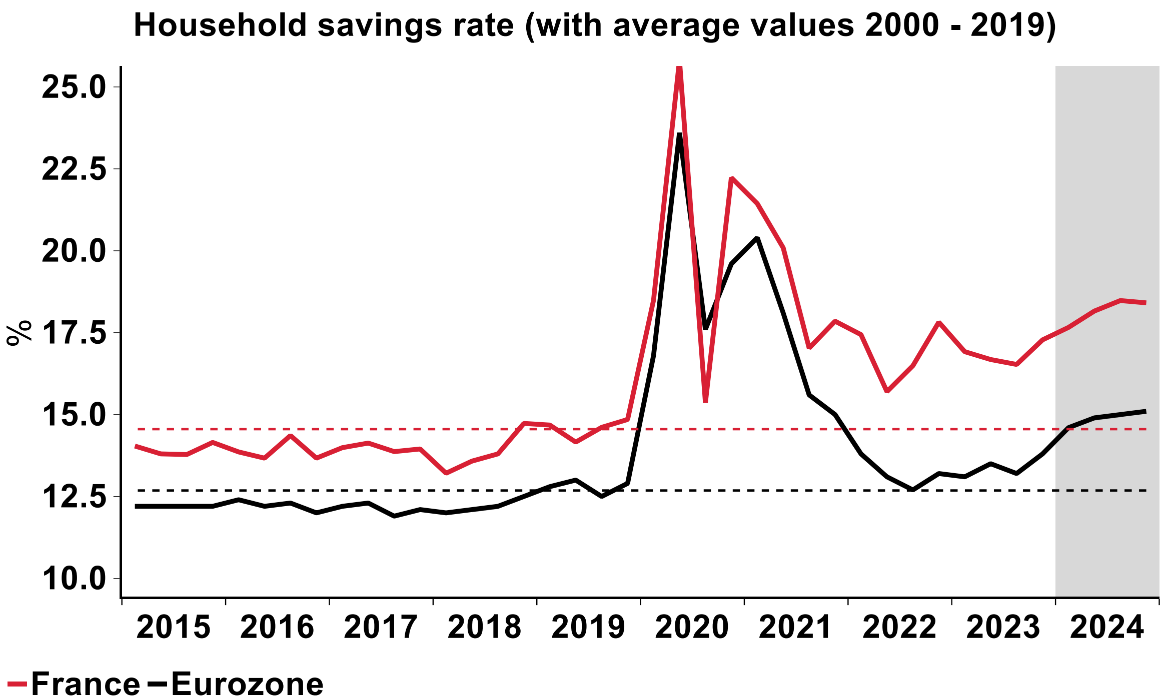
European consumers' reluctance to spend

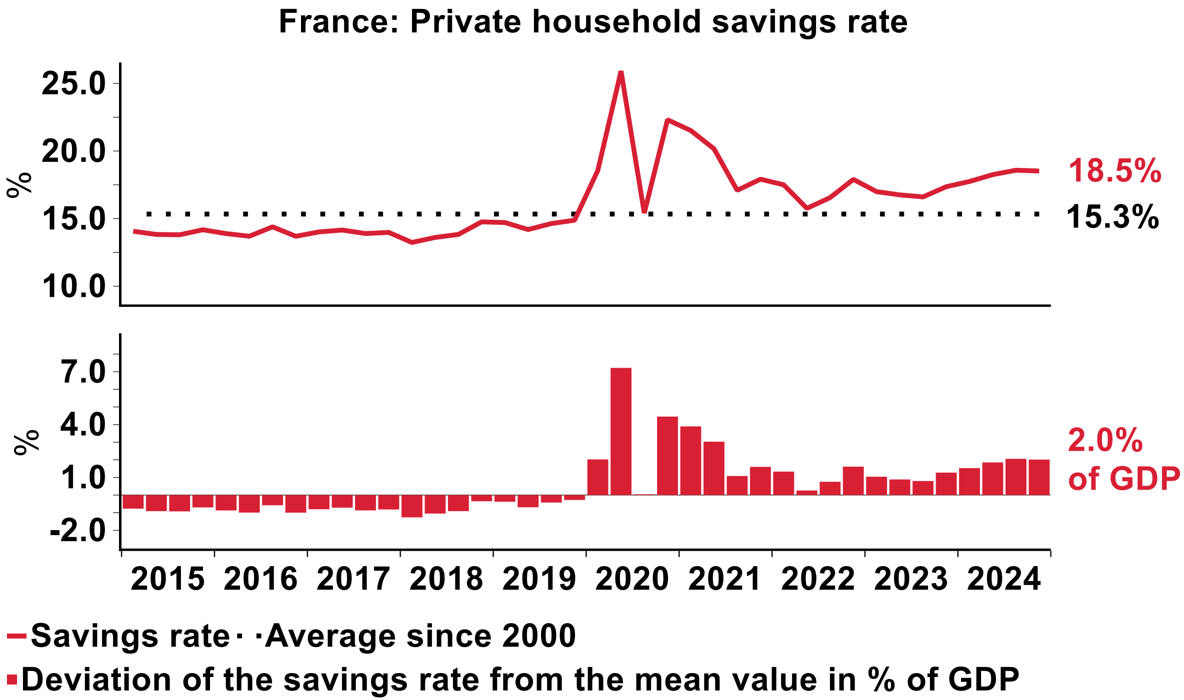
Savings rate is high and rose further in 2024.



Sources: Macrobond, Swiss Life Asset Managers. Last data point: Q4/2024

When will the European consumer wake up?

Anxiety savings accumulate considerable growth potential.



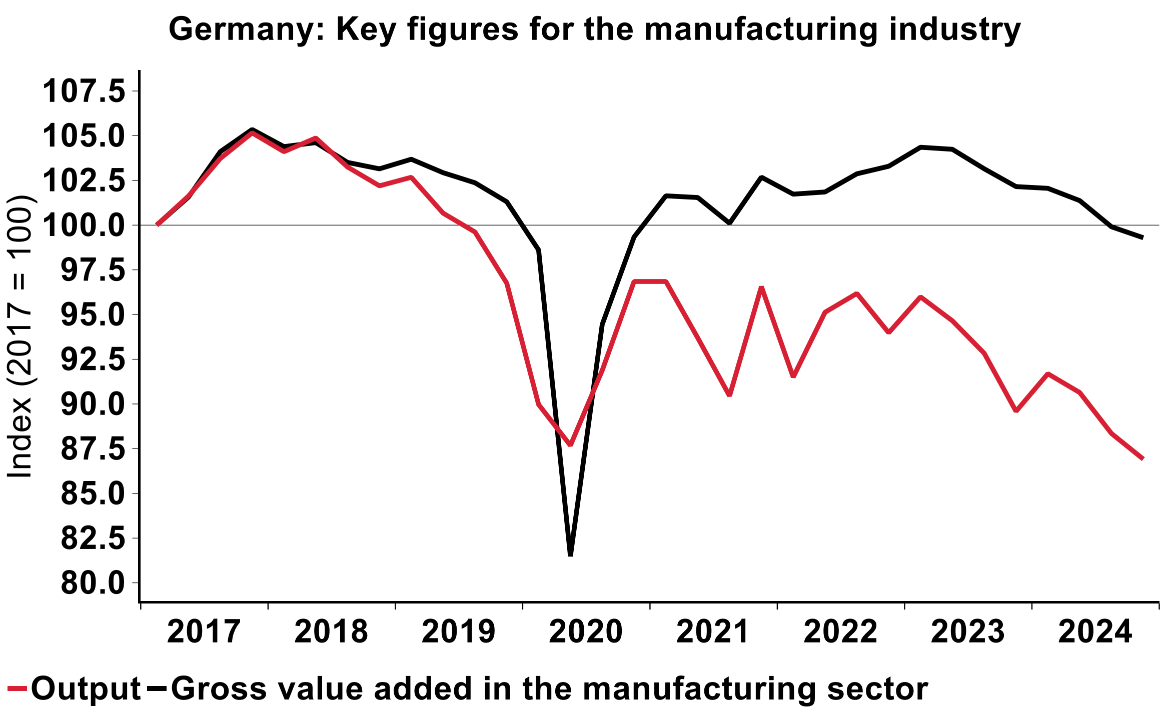
Sources: Macrobond, Swiss Life Asset Managers. Last data point: 2024 Q4

Excess savings

- If French consumers were to return to their long-standing savings behaviour overnight, this would release a 'consumption reserve' of 2% of French gross domestic product.
- In Germany, this consumption potential amounts to around 0.7% of GDP.

Recession in Germany's industry

However, structural change has long been underway.



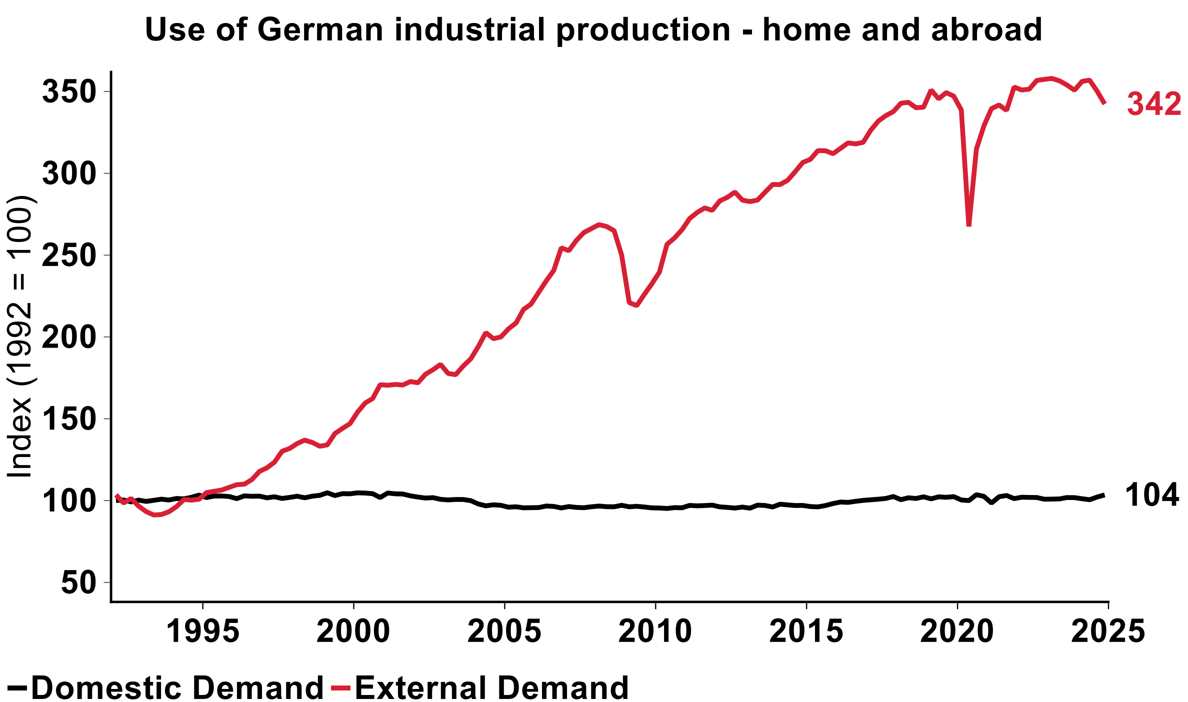
Sources: Macrobond, Swiss Life Asset Managers. Last data point: 2024 Q4

Industry in transition

- Traditional parts of German industry are becoming less competitive.
- At the same time, there is a shift to high value-added sectors.
- This partly explains the DAX's performance, which is decoupled from the economy.

Germany: In need of a new economic model

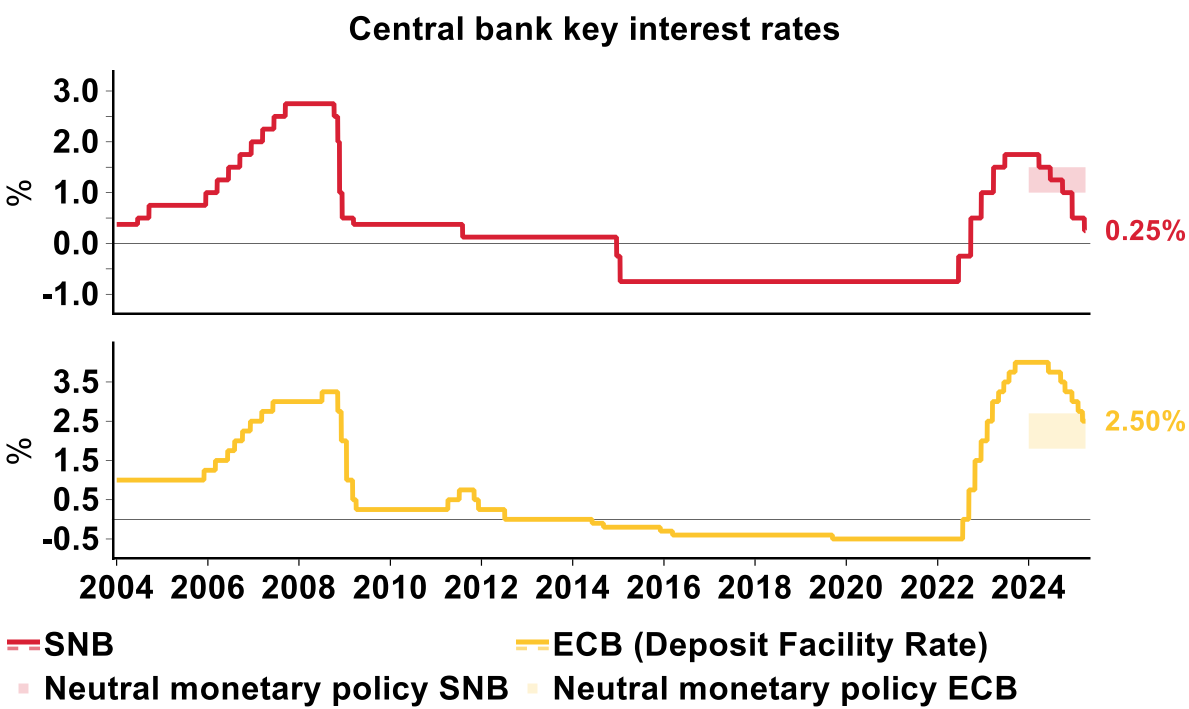
Domestic demand must be promoted sustainably.



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 2024 Q4

Monetary policy in Europe is no longer restrictive

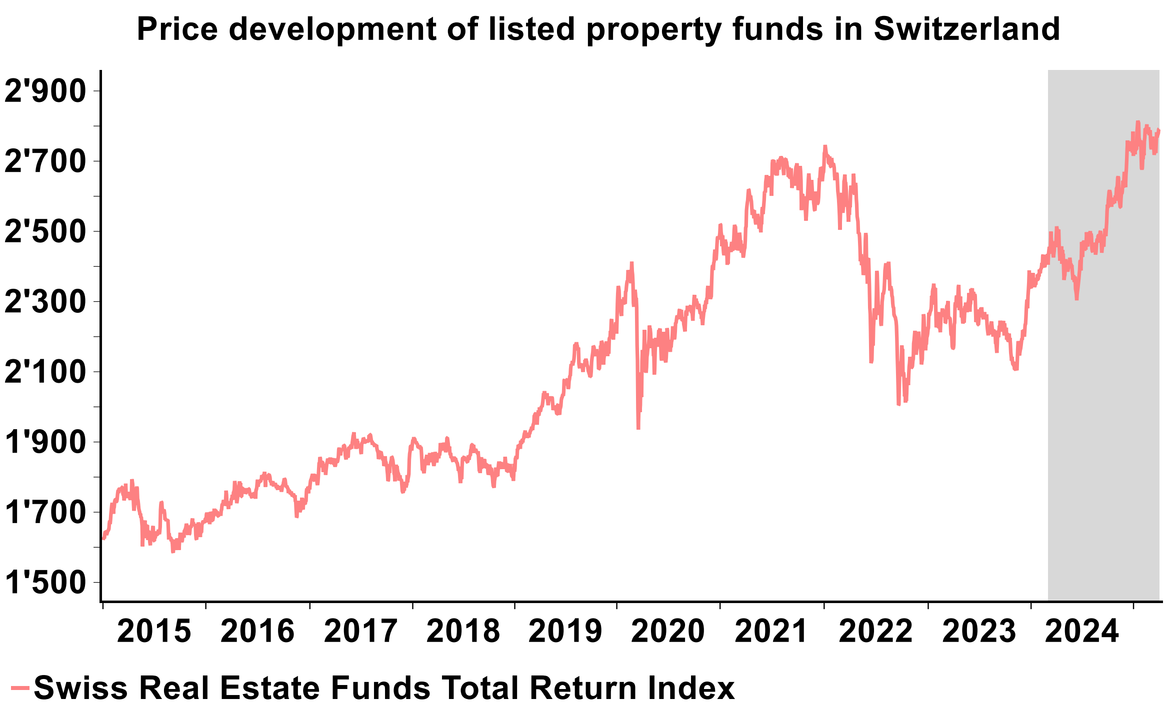
The Swiss National Bank SNB acted proactively in 2024.



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 31.03.2025

Switzerland: Revival on the property market

Expansive monetary policy by the SNB ensures favourable financing conditions.

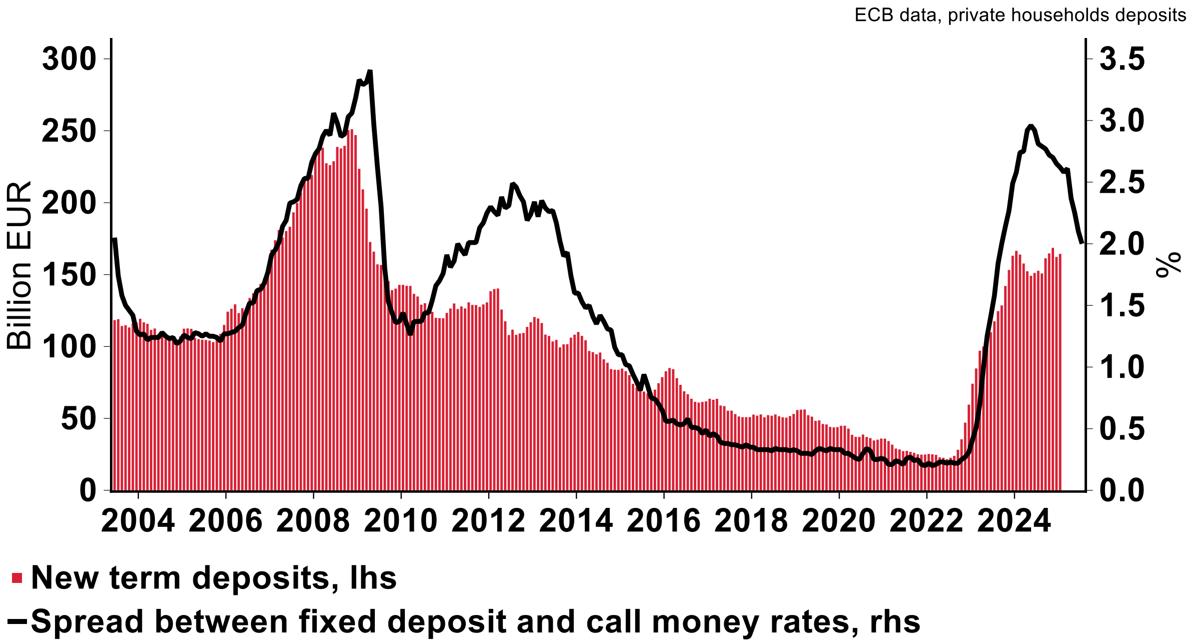


Sources: Macrobond, Swiss Life Asset Managers. Last data point: 01.04.2025

Monetary policy easing reduces incentives to save

Partial release of consumption reserve likely in quarters ahead.

Lower savings interest rates reduce opportunity costs of consumption



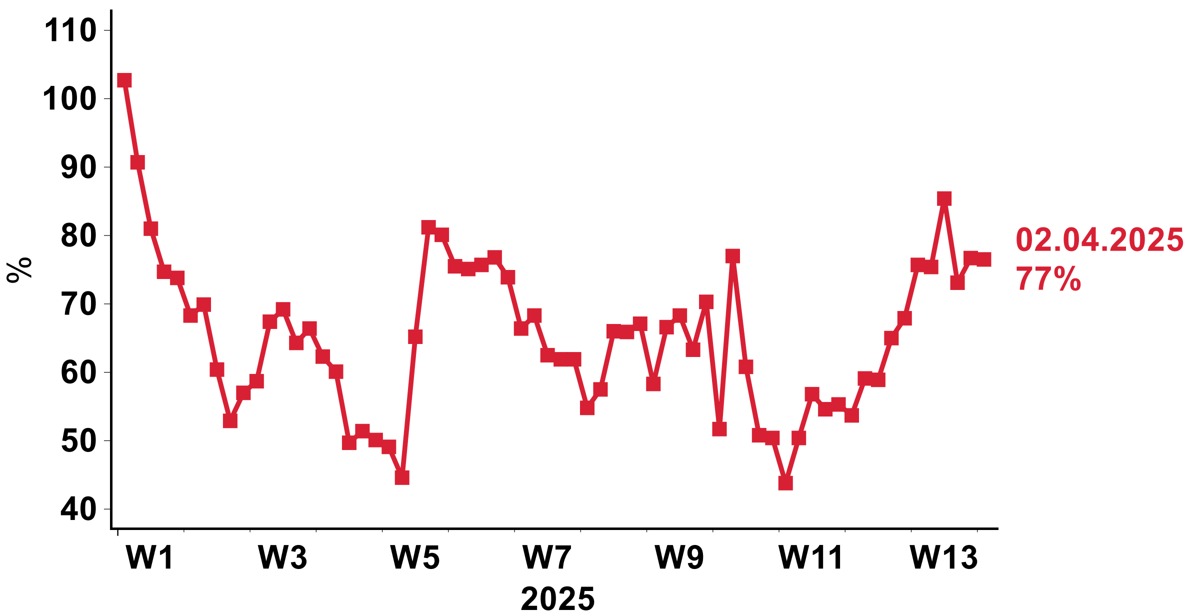
Sources: Macrobond, Swiss Life Asset Managers. Last data point: 01.2025

What's left in the monetary policy pipeline?

Three more ECB rate cuts expected through 2025.

Market implied probability of a 25 basis point rate cut by the ECB

Data for ECB meeting on 17 April 2025



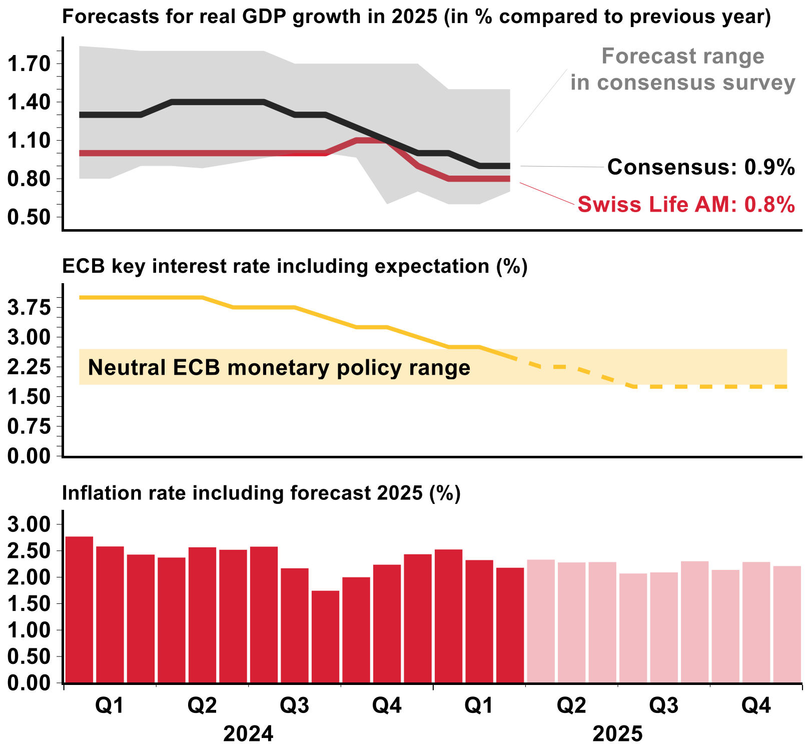
Sources: Macrobond, Swiss Life Asset Managers. Last data point: 02.04.2025

Market expectation on monetary policy

- For the next ECB meeting on 17 April, the market is pricing in a probability of around 80% for a further interest rate cut.

Elevated uncertainty and the impact on the economic forecast for Europe

Projections 2025: Eurozone



Sources: Consensus Economics London, Bloomberg, Macrobond, Swiss Life Asset Managers

Strained investment environment as in 2018

- Sub-potential GDP growth
- Unemployment rate to rise slightly

Monetary policy in Europe is no longer restrictive

- ECB: three rate more cuts in 2025

ECB inflation target is within reach

- Expected average inflation rate in 2025: 2.3%

Further expansion of the debt economy

- «Crowding Out» effects bear inflationary potential
- Safe haven status of Swiss Franc strenghtens further

China: Trade diversion challenges Europe

- China floods Europe with goods and disinflation
- Difficult export environment for MEM industries

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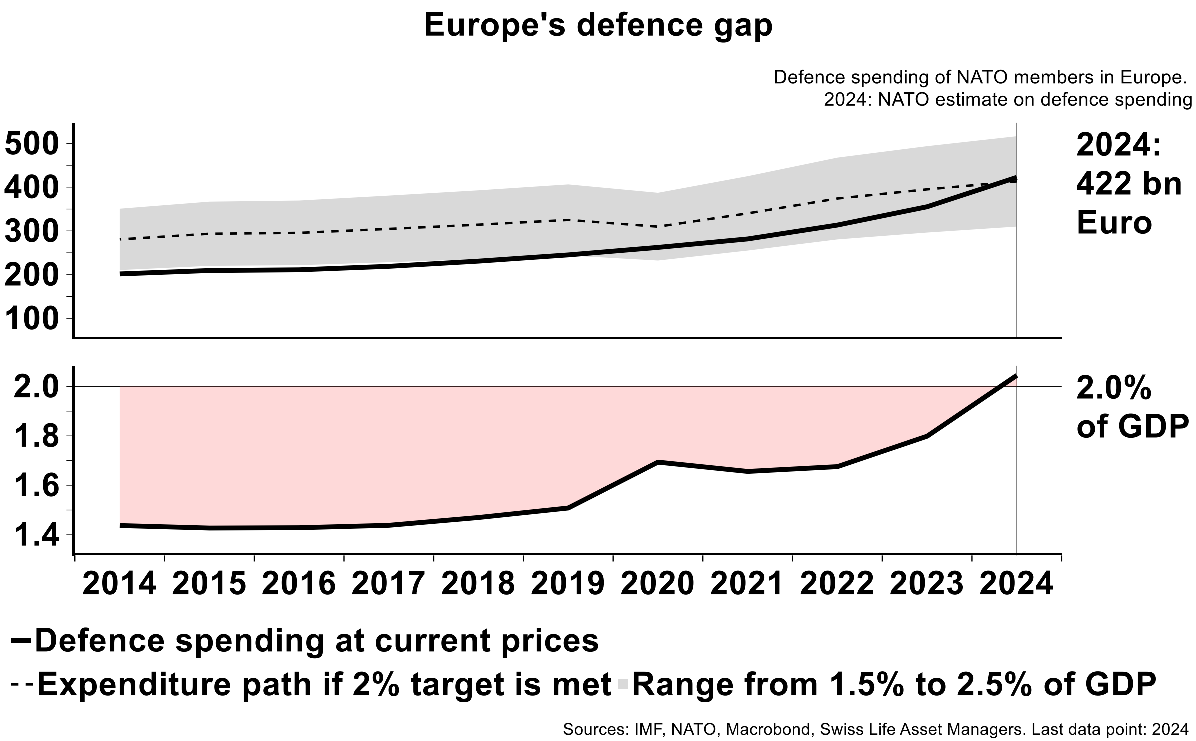
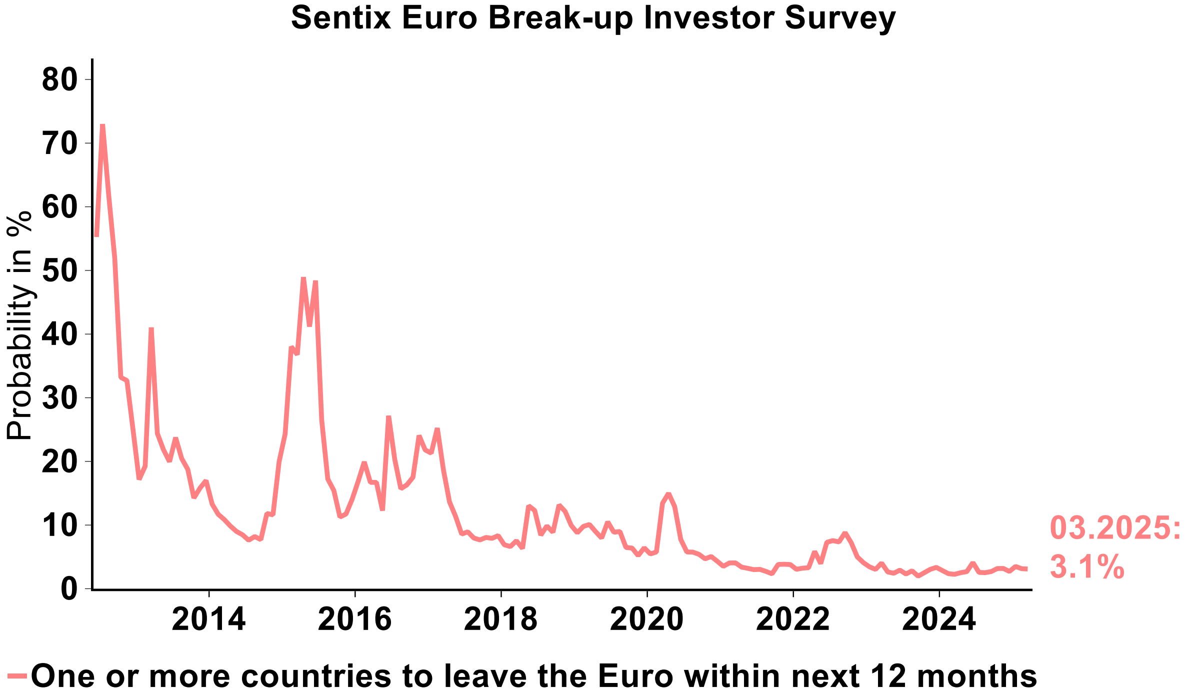
Further expansion of the debt economy

A major defence gap has opened up in Europe.



Europe moves closer together

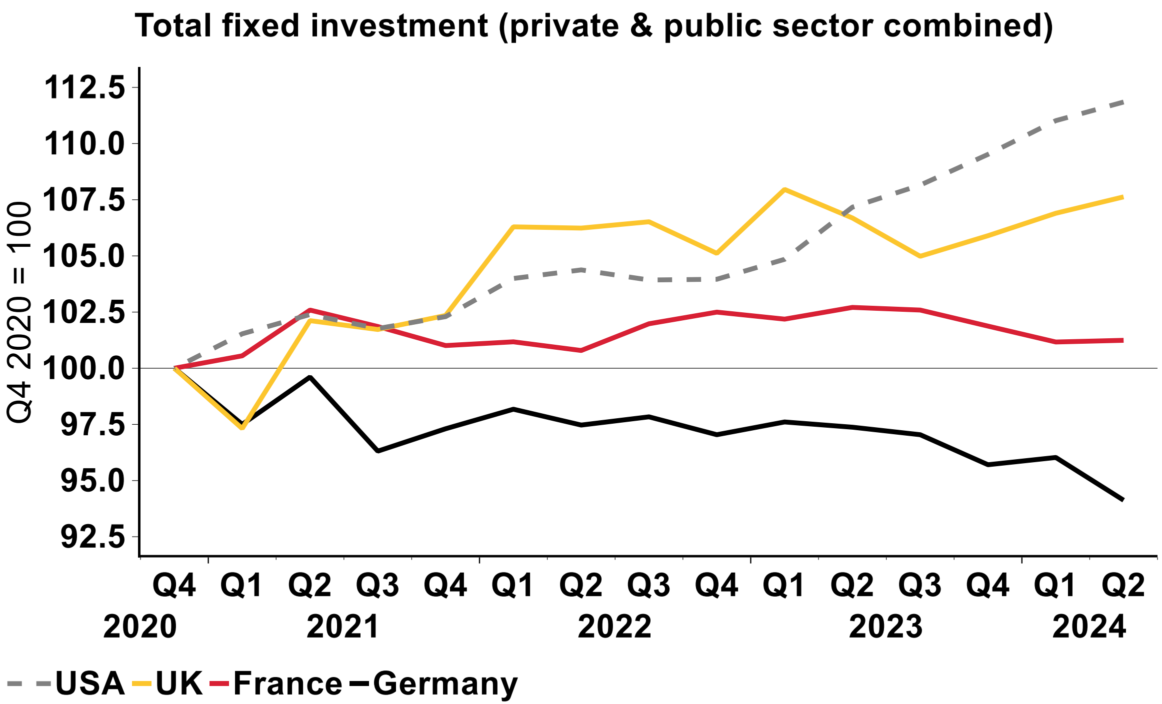
Multipolar world order is challenging Europe.



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 03.2025

Germany does the right thing…

Declining infrastructure investment in Germany since the pandemic.



Sources: Macrobond, Swiss Life Asset Managers. Last data point: Q4/2024

…now she needs to do it the right way

Fiscal multipliers: Investments as growth stimuli.

Theory

- Infrastructure multipliers are generally high but depend on the economic situation. They are effective
  - in a recession
  - when there is an actual need for investment and when projects are ready immediately
  - when financing is possible on a sustainable basis.

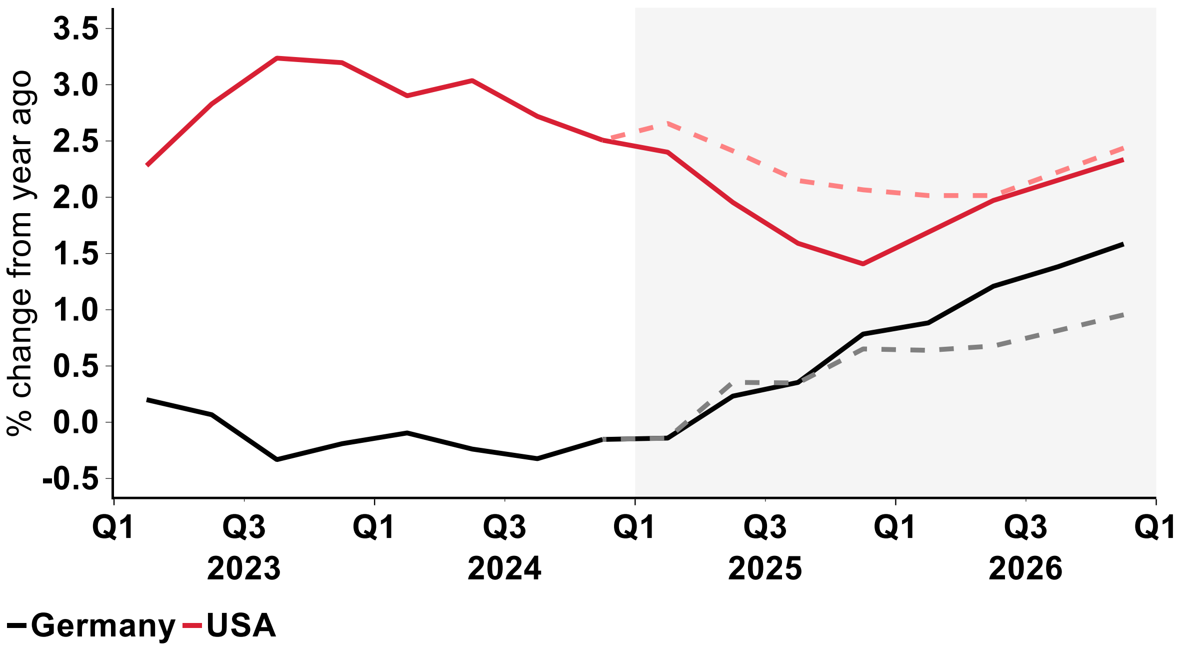
The reality depends heavily on the implementation

- Risk of reallocation from the regular budget for education or digitalisation
  - Mending school building roofs alone does not help
- Risk of a sharp rise in prices (in case of insufficient competition between providers)
- Windfall effects when contracts need being awarded abroad

„Take this, Mr. Trump!“

German GDP growth forecast for 2026 raised from 0.8% to 1.3%

GDP growth: current forecast vs. December 2024 (dashed lines)



Sources: Macrobond, Swiss Life Asset Managers

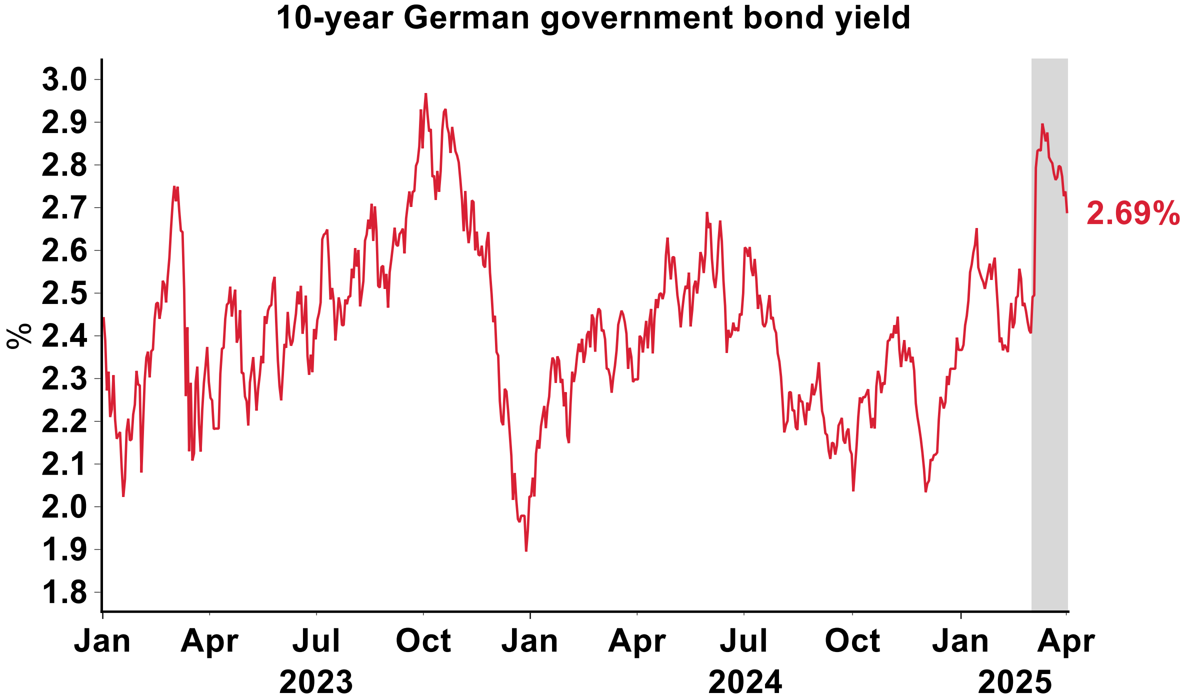
Forecast
GDP growth in base case

USA
2025: 1.8%
2026: 2.0%

Germany
2025: 0.3%
2026: 1.3%

Reaction to Germany's fiscal bazooka

Temporary rise in long-term interest rates.



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Reaction to Germany's fiscal bazooka

Minor correction of long-term inflation expectations.

Germany: Break-even inflation rate over 10 years

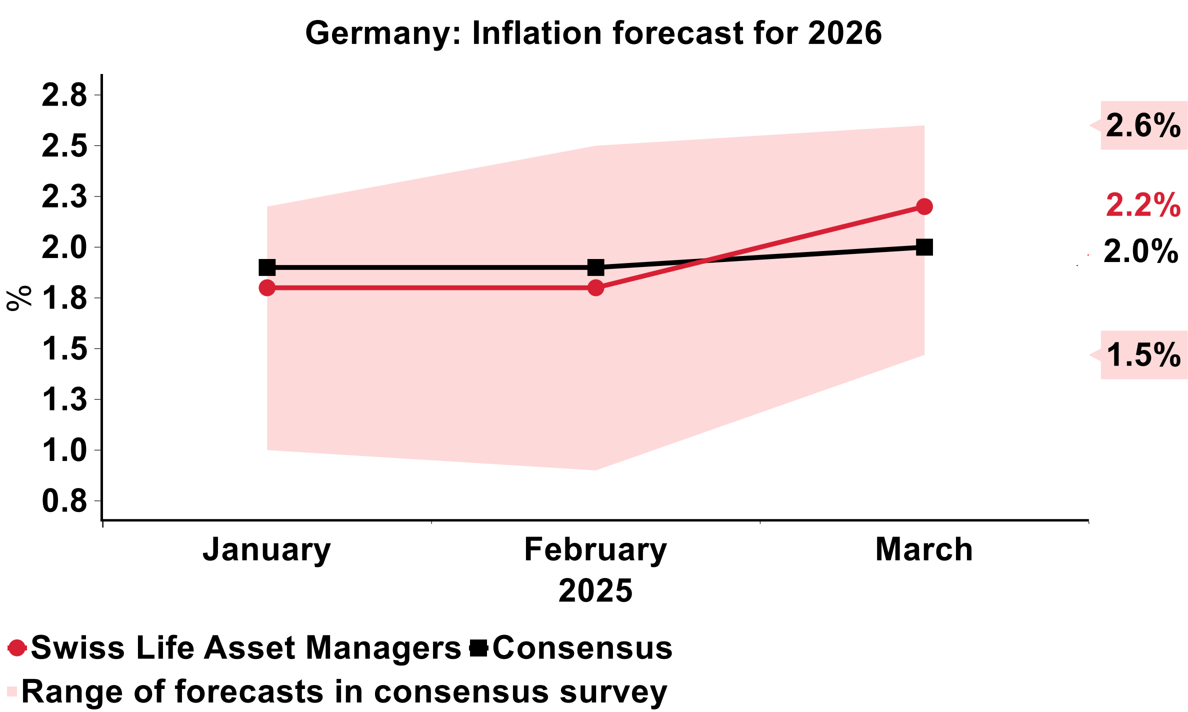
Sources: Macrobond, Swiss Life Asset Managers. Last data point: 01.04.2025

Inflation expectations

- The market implicit inflation expectation has only risen slightly
- Break-even inflation rate markedly below post-pandemic peak

Adjusted inflation projections

Inflation rate forecast for 2026 increased from 1.8% to 2.2%.



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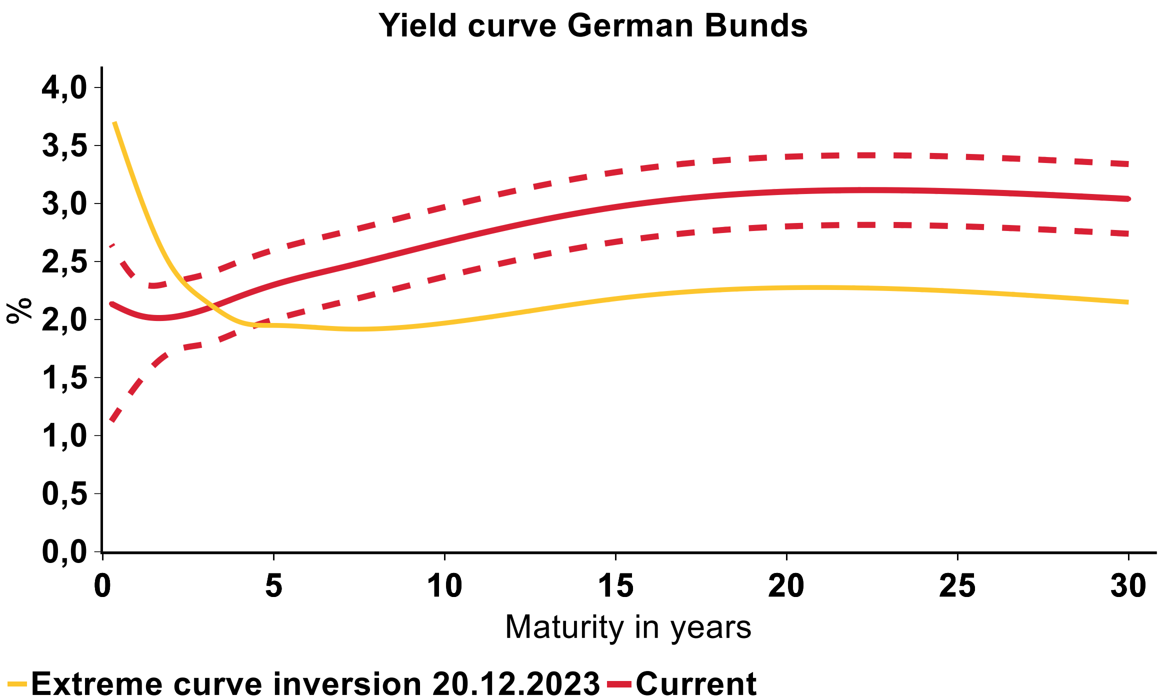
Fixed Income is back!

Investors and actuaries can play the whole keyboard again.



Quellen: Macrobond, Swiss Life Asset Managers

Is the EU-27 an attractive investment location for global investments?

- Real Assets to further benefit from monetary policy easing
- German fiscal bazooka offers possibilities for public private partnership in infrastructure
  - Favourable regulatory framework to attract institutional investors
- (German) fixed income is back!
  - The imminent increase in the supply of paper from one of the world's top sovereign borrowers is attracting ALM investors from other currency areas
- Impressive catch-up race
  - The current stock market rotation is not concluded

SwissLife Asset Managers