

Europe: an accommodative policy-mix

Europe is facing a context of high economic uncertainty, particularly on the world trade front. However, the policy-mix has been adjusted with several plans that have been decided, some of which are already active. While the total number of programmes appears to be massive, the economic impact remains difficult to assess, particularly because of the overlaps and interactions between the different programmes. The anticipation of these policies has contributed to the clear outperformance of European equity markets since the beginning of the year.

Next Generation Europe: half of the capacity remains!

The NextGenEU programme was adopted in March 2021, in response to the Covid crisis. It consisted of €650 billion in project financing by the end of 2026, half in the form of grants, financed by a loan from the European Commission, and the rest in the form of loans that member states will have to repay. While this programme has clearly supported the recovery of some countries (Spain and Italy in particular), only a small half of the amount has been used to date. This leaves 340 billion euros of capacity, which can be activated by the end of 2026.

Rearm Europe: potentially €800 billion by 2030, to align with NATO's objectives. Europe has just approved the financing of defence spending from the European budget for an amount of 150 billion euros, with the condition that these amounts be spent on products of which at least 65% of the components come from Europe. In addition, the ReArm Europe programme provides for a relaxation of the Maastricht criteria for member states' defence spending, for a total amount of €650 billion. However, the use of this envelope remains uncertain because the most indebted countries may be reluctant to increase their use of bond financing in a context of high interest rates. Part of the increase in defence

spending could thus be done by substitution for other spending and would have a limited impact on economic activity.

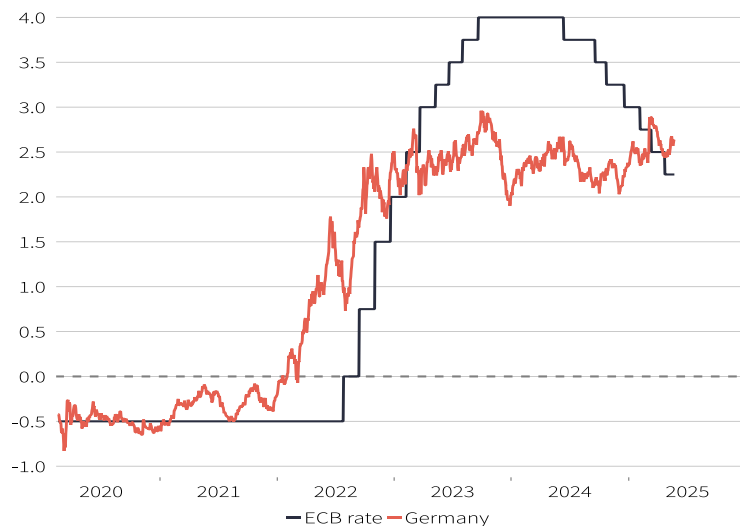
The German "whatever it takes". The new German coalition is in the process of validating a massive support package in two parts: (i) the creation of a special fund of 500 billion euros for infrastructure spending, particularly for the next 12 years, and (ii) a reform of the "debt brake" which until now has limited the federal government's annual deficit. From now on, defence spending above 1% of GDP will be exempted from the mechanism and the Länder will also be able to take on debt. This second part could total 1000 billion euros in additional spending over the same period. As defence spending is a significant part of the German plan, it can be noted that part of this plan is also accounted for in the Rearm Europe plan. Moreover, while the amounts of expenditure for Germany are massive, questions are being raised about the adjustment of production capacity. This could moderate the favourable impact on growth.

A more accommodative monetary policy. The sharp easing of inflation since the peak of Covid has allowed the European Central Bank to reduce its key rate from 4% to 2.25%, offering support to economies. The ECB is expected to continue this easing in the coming months. However, the accommodative nature of monetary policy is moderated by the implementation of fiscal support plans. Indeed, these plans will generate significant bond issuance needs that maintain upward pressure on long-term interest rates. In addition, these support plans could generate pressure on the medium-term inflation outlook and prompt the ECB to be more cautious.

AMOUNTS & TIMETABLES OF EUROPEAN PLANS

NextGenEU 2021-2026	ReArm Eu 2025-2030	Plan Allemand 2025-2037
€291 BILLION IN LOANS + 359 BILLION IN SUBSIDIES	650 BILLION LOANS : + 150 BILLION SUBSIDIES	500 BILLION (SPECIAL FUND) + 1000 BILLION (END OF THE DEBT BRAKE)
650 BILLION: 47% SPENT	800 BILLION: 0% SPENT	1500 BILLION: 0% SPENT
End of the project in 2026	Approval on May 27	Vote in September

ECB rate and 10-year sovereign rates



Sources: Société Générale Investment Solutions, Macrobond, Macrobond, U.S. Treasury, ECB 22/05/2025

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OUR MACRO COMMENTS

Events of the week

United States: "One Big Beautiful Bill"

Donald Trump's budget proposal was adopted by the House of Representatives, 215 votes to 214. This proposal, called "one big beautiful bill" by the President, includes the extension of tax cuts and credits put in place during Donald Trump's first term and provides for cuts to certain programs, such as Medicaid health insurance or support for clean energy from the Inflation Reduction Act. In order to be ratified, this proposal must still be adopted by the Senate. However, the Senate approval is not a given. The measures could have an impact on Republican districts, while the Grand Old Party only has a narrow majority in the upper chamber.

The Committee for a Responsible Federal Budget, a nonpartisan organization, estimates that this budget would increase the U.S. federal debt by more than \$3.3 trillion over the next decade. Debt would rise from about 98% of GDP to a record 125%. This prospect encouraged Moody's to downgrade the country's public debt by one notch, it was the last of the three main agencies to grant the maximum rating of AAA. In this context of budgetary discussions, the financial markets experienced turbulence, with new pressures on rates (the US 10-year rate at 4.5% and the 30-year rate at more than 5%). Equity markets fell over the week, -1% for the S&P500 index, as well as the dollar (euro/doll at 1.13).

Different signals on the business climate

In the US, the May PMIs came out above expectations for both services and manufacturing (at 52.3 for both), supported by domestic demand, a dynamic that remains at least partly due to the expectation of future price increases. At the same time, the component of prices paid by companies is increasing very significantly.

In the eurozone, on the other hand, the May PMIs disappointed expectations. The composite index came out in contraction territory (at 49.5 vs. 50.4 in April), mainly penalised by the services component, while the manufacturing segment appears more resilient. On the other hand, the survey no longer shows any pressure on prices, leaving room for more easing by the European Central Bank.

EVENTS AND KEY FIGURES TO COME

Monday

Euro area Speech by C.Lagarde

Tuesday

Germany Household confidence index (June)
France Inflation yoy (may)
United States MoM Durable Goods Order (April)

Wednesday

United States FOMC minutes

Thursday

Japan Confidence Index (May)

Friday

Italy Inflation prel (may)
Germany Inflation prel (may)
Canada Growth rate (Q1)
United States CORE Inflation (April)

EVENTS OVER THE NEXT FEW MONTHS

5 June: ECB monetary policy meeting

18 June: Fed monetary policy meeting

19 June: BoE monetary policy meeting

Early July: End of the suspension of US tariffs

Mid-July: major budget orientations announced by the government

MARKET PERFORMANCES

Interbank rates

%	21/05/2025	23/04/2025	21/02/2025	01/01/2025	23/05/2024
US SOFR	4,324	4,35	4,35	4,53	5,32
Euro area €ster	2,169	2,17	2,67	2,91	3,91
UK SONIA	4,212	4,46	4,45	4,70	5,20
Switzerland SARON	0,206	0,18	0,44	0,45	1,45
Japan TONAR	0,477	0,48	0,48	0,23	0,08

10Y Government rates

%	22/05/2025	23/04/2025	21/02/2025	01/01/2025	23/05/2024
US Treasuries	4,54	4,40	4,42	4,58	4,47
France OAT	3,32	3,24	3,17	3,18	3,09
Germany Bund	2,64	2,50	2,46	2,36	2,61
Italy BTP	3,65	3,63	3,55	3,52	3,90
Spain Bonos	3,26	3,18	3,13	3,06	3,37
Switzerland	0,39	0,42	0,58	0,32	0,77
UK Gilts	4,75	4,56	4,57	4,55	4,26
Japan JGB	1,51	1,31	1,41	1,08	0,99

Credit

%	22/05/2025	23/04/2025	21/02/2025	01/01/2025	23/05/2024
United States IG	5,35	5,37	5,22	5,33	5,54
United States HY	7,64	8,01	7,23	7,49	7,93
Europe IG	3,46	3,42	3,36	3,44	4,09
Europe HY	5,80	6,04	5,44	5,70	6,63
Emerging FX	6,30	6,40	6,22	6,40	6,92

Equity indices

22/05/2025 vs	-1w	-1m	-3m	01/01/2025	-1y
World	-1,37	7,84	-0,837	1,904	9,558
United States	-2,04	8,90	-2,219	-0,588	10,619
Euro area	0,56	8,67	4,121	15,029	11,972
France	0,22	6,86	-0,176	9,153	0,588
Germany	0,88	8,74	7,001	20,416	26,428
United Kingdom	0,59	4,81	2,726	8,440	7,192
Japan	-0,85	5,30	0,246	-1,450	0,820
Emerging	-0,53	5,02	1,435	5,623	8,943
China USD	0,68	5,91	-0,032	15,993	21,929
India USD	-1,68	1,13	11,286	0,055	3,840
Latin America USD	-0,21	5,53	12,215	25,131	-3,664

Foreign exchange rates

	22/05/2025	23/04/2025	21/02/2025	01/01/2025	23/05/2024
EUR/USD	1,13	1,13	1,05	1,04	1,08
GBP/USD	1,34	1,33	1,26	1,25	1,27
EUR/CHF	0,94	0,94	0,94	0,94	0,99
USD/JPY	143,81	142,65	149,60	157,00	157,07
USD/CNY	7,20	7,31	7,25	7,30	7,25

Commodity prices

	22/05/2025	23/04/2025	21/02/2025	01/01/2025	23/05/2024
Brent, USD/BL	64	66	74	75	81
Copper, USD/Metric ton	9 493	9 417	9 494	8 706	10 291
Gold, USD/Troy oz	3 295	3 289	2 936	2 606	2 329
Silver, USD/Troy oz	33	33	33	29	31
Palladium, USD/Troy oz	1 023	941	978	909	988
Platinum, USD/Troy oz	1 084	970	976	913	1 038

Source : Bloomberg on 23 May 2025, 1W = 1 week change, 3M = 3 month change, 12M = 12 mont change, YTD = year to date change, Equities; total return in local currency . Government bonds = 10 year returns. Figures are rounded..



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Private Banking

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