

## FIXED INCOME EUROPEAN RATES VIEW

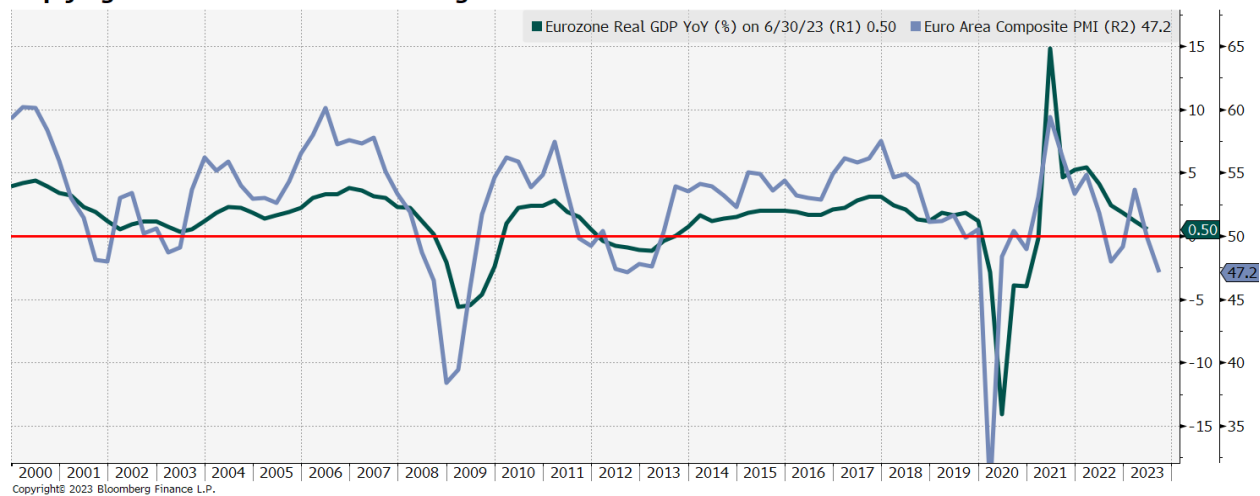
### SUMMARY OUTLOOK

In the current context, we have high conviction for a **long duration stance**. We will **continue adding** duration based on rates weakness or a clear deterioration in economic data.

The global manufacturing sector continues its downtrend, driven by the lack of both domestic and international demand. In Europe, the **services sector is following suit across countries**. The next spillover is happening, i.e., a deteriorating employment picture in manufacturing. When this spills over to the services sector, self-reinforcing cycle of demand contraction and unemployment increases might occur.

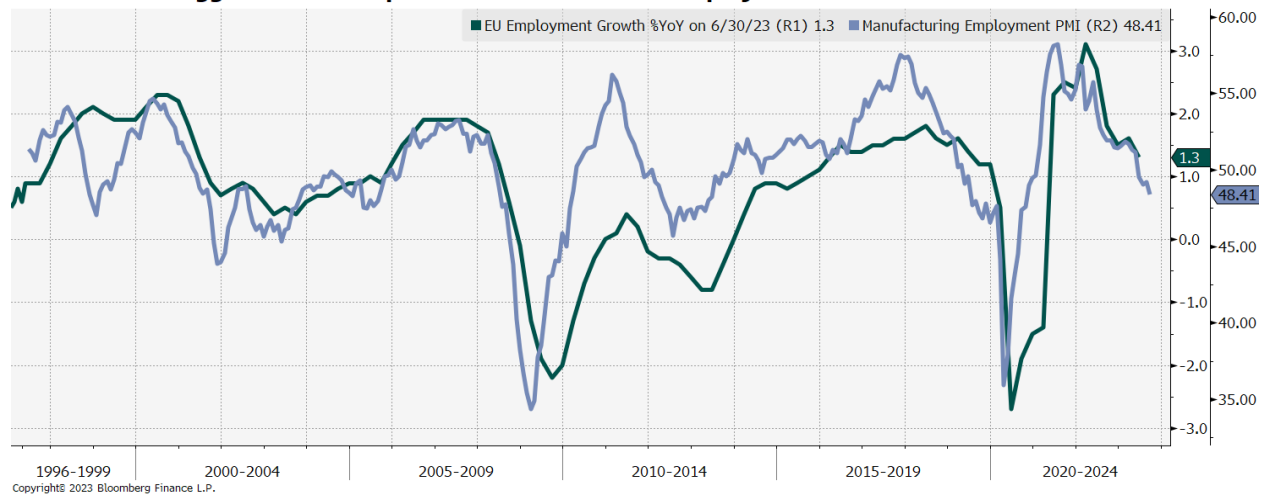
### PMI data continues moving at levels below 50

Implying more downside risks to the growth outlook



### Employment PMI's are pointing towards a labour market that is turning

Based on the lagged relationship between the PMI and employment



Source: Bloomberg

The **ECB** is finished with the interest rate hiking cycle and is as such at the cycle's terminal rate, with high conviction in curve steepening. Their focus has shifted from hiking interest rates to keeping **the policy**

**rate high** for an extended period. Monetary policy transmission is forcefully working and will continue to do so.

**Pent-up consumer demand** following **China's reopening** might make them an **exporter of inflation** for the first time ever. So far, data points to the risk of them being an exporter of deflation, as it was the case in the past.

**In terms of inflation, it will remain an important market theme in 2023.** Although the recent momentum in inflation numbers confirms we are on the good track, the easy part will be over soon. The question remains whether we will move back to target, if ever. However, we believe that strong negative risks to the real growth outlook will become more important than risks to the inflation outlook.

**Structural drivers of inflation will keep it a higher level than ECB target** (demographics, fiscal policy etc.) and **medium-term drivers remain present** (inflation expectations, labor market, margin pressure etc.). An economic slowdown will not be enough to bring inflation back to target and we believe value in short-term inflation-linked bonds is present and have hence been adding in market-value terms.

**Regarding country allocation**, we continued profit-taking on **Romania**, and we increased our allocations to **Germany** and a lesser extent to **Spain** on the very long end where our average entry point on the 30Y bond is 4.30%.

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Disclaimer

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