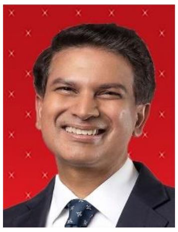
# Macro Insights Weekly

## The case for Europe

**Group Research** **March 24, 2025**

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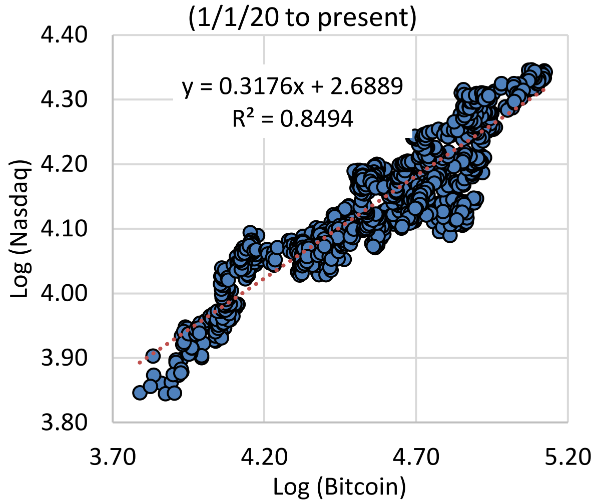
- *Europe is at an intriguing crossroads. Its myriad challenges are well known, but its leaders appear energised to deal with them like never before.*
- *Trump 2.0 is bringing Europe together, but the urgency for greater action predates that.*
- *Last year's Draghi report on competitiveness was a major wake-up call.*
- *EU's plans to boost defence spending substantially is striking.*
- *Germany's recently passed legislation to loosen its fiscal purse reinforces the continent's resolve.*
- *Much can go wrong, but Europe has the wherewithal to mount a major comeback.*

### Chart of the Week: Bitcoin and Nasdaq

Is Bitcoin living up to the claim of being "digital gold"? Over the last five years, Bitcoin price has climbed seven-fold, while gold has doubled, so clearly investors in the crypto currency have much done better than gold investors. But the test of gold is not in its value accretion, rather its ability to retain value when the market turns risk averse. As a hedging tool, gold does well when inflation or geopolitical risks rise. In contrast, Bitcoin seems to do well when market risk sentiment is strong, its movement being highly correlated with the Nasdaq index. Not quite the place to hide when it is risk-off.

**Bitcoin versus Nasdaq**
(1/1/20 to present)




Source: Bloomberg, DBS

## Commentary: The case for Europe

Europe is at an intriguing crossroads. Its problems are well known, including sapping productivity and weak growth, an aging population, struggles with managing immigration, energy insecurity, the war in Ukraine, and the steady rise of the far right.

And yet, its stock market has revved up this year, sitting on double-digit gains even as US markets have corrected. The decade-long investment thesis of US exceptionalism is under challenge; investors are looking at Asia and Europe for better value and opportunities.

What has caused Europe's moment in the sun, and will this be a sustainable revival? While Donald Trump's forceful and antagonistic policies on trade and national security have been a major wake-up call, we detected a shift in European resolve last year. We think the resolve will outlast Trump 2.0.

Last year's Draghi report caused major ripples in European circles. The report made a strident call for regional focus on boosting innovation, decarbonisation, and security. It estimated that to do this, funds worth about 4.5% of Euro Area GDP were needed annually. The report's message resonated then, and now, with Trump 2.0, resonates even more.

Earlier this month, EU Commission President Ursula von der Leyen presented a plan to mobilise up to €800bn for defence spending over the next four years. This push was further reinforced on March 21, with Germany's upper house voting for a landmark bill that plans to unlock hundreds of billions of euros for defence and infrastructure projects. The legislation, passed with more than two-thirds majority, will amend Germany's fiscal rules, allowing for a sizeable increase in spending. Public spending's contribution of European GDP growth is poised to increase substantially.

Europe's push for productivity gains would come from public spending on technology and infrastructure, but the private sector will also be spurred by the unifying tide. Europe's leadership on green transition, from setting decarbonisation standards to investment in renewables, will continue. The region's research universities and laboratories are about to get a big funding boost.

Given the leadership position of the US on many tech verticals, along with the headlines grabbed by China's relentless stride, Europe is often overlooked. But the fact is that Europe maintains leadership in many areas of the critical technology stack, including semiconductor lithography, chemicals, glass, laser, GLP1 drugs, and fintech. Coupled with its high-quality human capital, high standard of living, and deep reservoirs of savings, Europe has the wherewithal to deal its challenges.

How can this positive momentum be derailed? The US (and potentially Russia) could sow discord within Europe, with some governments keen to pursue narrow goals as opposed to the continent's collective good. Europe might also struggle to contend with China's rise as a manufacturer of high value-added products. Future elections could bring to power parties uncommitted to the European vision. But recent developments show that regional leadership is energised to deal with the looming generational challenges. The odds of a European renaissance is rising.

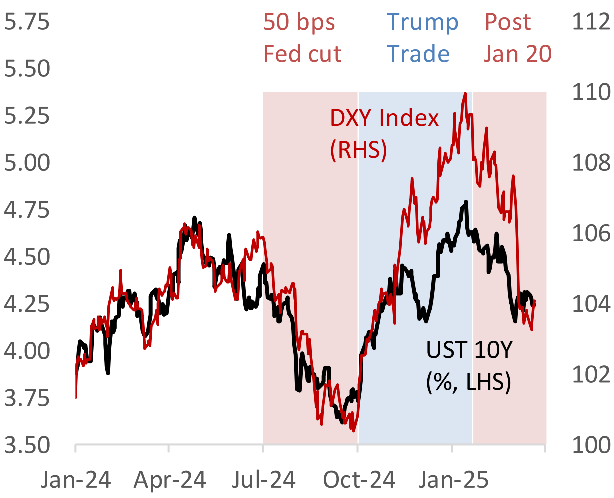
*Taimur Baig*

## FX: Markets in a state of flux

**The USD exhibited notable resilience, countering market sentiments suggesting otherwise.** The DXY Index consolidated within a tight 103-104 range after its plunge from 107.60 in the first week of March on "Trumpcession" fears and EUR optimism driven by the "ReArm Europe" Plan now rebranded as the "Readiness 2030" Plan.

**EUR depreciated 0.6% to 1.0820 last week despite the German vote to approve the debt brake reform** to increase defence and infrastructure spending. Despite the outgoing Bundestag's major victory, the incoming Bundestag is fragmented and could slow or dilute implementation. Incoming Chancellor Friedrich Merz will also need to sustain the momentum with a public averse to more debt. Fitch has already emphasized the need for Germany to balance its increased spending plans with credible fiscal consolidation measures to maintain its AAA debt rating. A potential US-EU tariff war could also offset growth hopes.

**"Trump Put" priced out**




Sources: DBS Research, Bloomberg data

The DXY's realignment with the US Treasury 10Y yield suggested that markets had priced out the "Trump Put" between the US elections and Trump's inauguration.

The **Atlanta Fed GDPNow model flagged a shallower US economic contraction in 1Q25**. GDP growth was projected at -1.8% on March 18th vs. -2.8% on March 3rd. Upon closer scrutiny, the negative growth was driven by US companies frontloading imports to get ahead of Trump's impending tariffs. Projections for consumer spending remained positive at +0.4% despite the pessimism in sentiment surveys. Government spending was higher at +2% despite DOGE's cost-cutting measures. Hence, we do not rule out upside surprises in tomorrow's US Conference Board consumer confidence index.

At last week's FOMC meeting, the **Fed separated the signal from the noise in the Summary of Economic Projections**. The Fed anticipated increased trade tensions would moderate GDP growth to 1.7% from 2.1% and lift core PCE inflation modestly to 2.7% from 2.5% in 4Q25. On March 28th or Friday, consensus sees core PCE inflation rising to 2.7% YoY in February from 2.6% in January. The **Fed maintained its projection for two rate cuts this year, rejecting the market pricing for three**. This week's Fed speakers will likely keep to the narrative that tariffs would lead to transitory inflation unless longer-term inflation expectations become unhinged. **Central bankers should continue the heightened uncertainty narrative ahead of Trump's reciprocal tariffs** on April 2nd, which aim to align US tariffs with those imposed by other countries and focus on nations with significant trade imbalances with the US.

*Philip Wee*

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**Sources**: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)