

Macro Microscope

Reversal of Fortunes: Northern vs Southern Europe

September 2025



Indrani De

Head of Global Investment
Research
FTSE Russell, LSEG



John Dioufas

Director, Datastream and
Macroeconomics
LSEG

LSEG



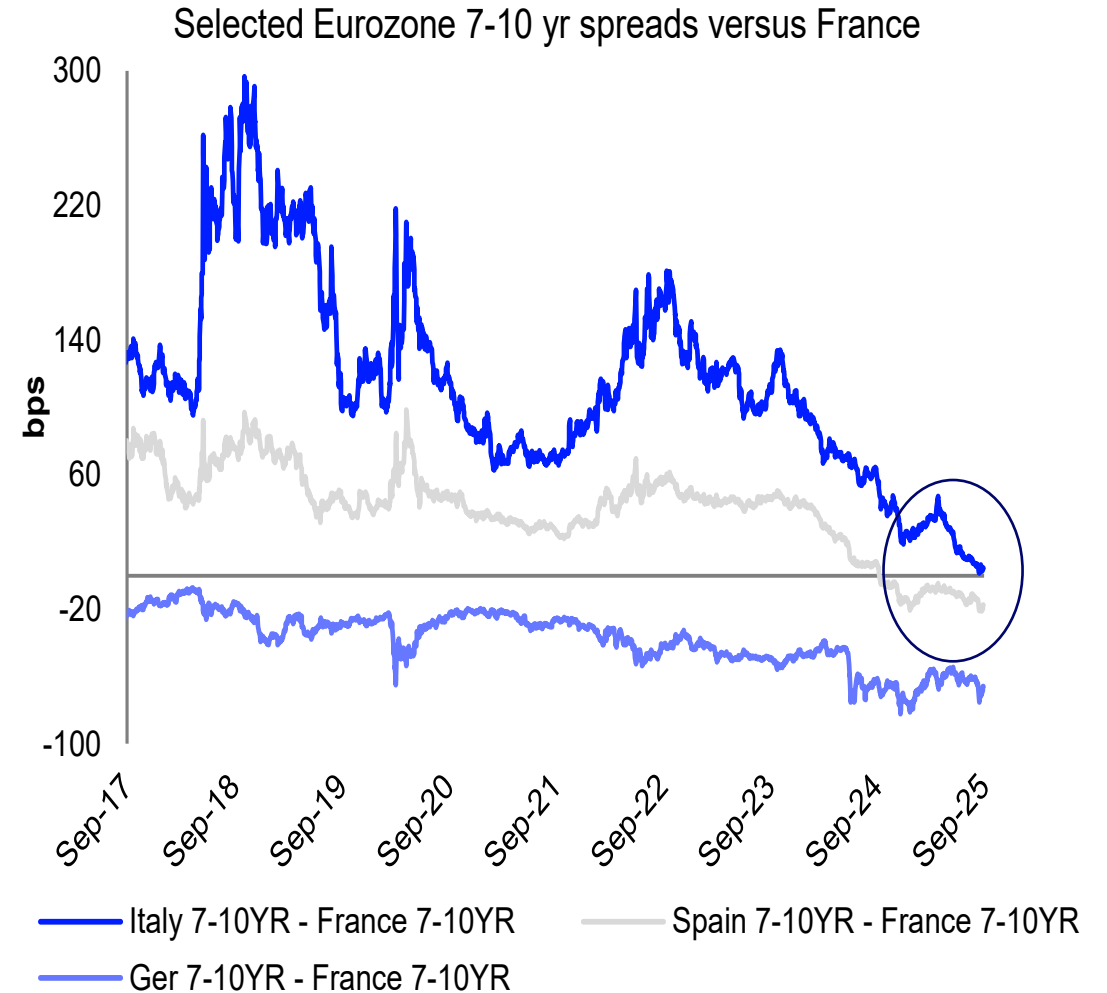
FTSE Russell is not an investment firm and this presentation is not advice about any investment activity. None of the information in this presentation or reference to a FTSE Russell index constitutes an offer to buy or sell, or a promotion of a security. This presentation is solely for informational purposes. Accordingly, nothing contained in this presentation is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of making any investment through our indexes.

Views expressed are subject to change. These views do not necessarily reflect the opinion of FTSE Russell or London Stock Exchange Group plc.

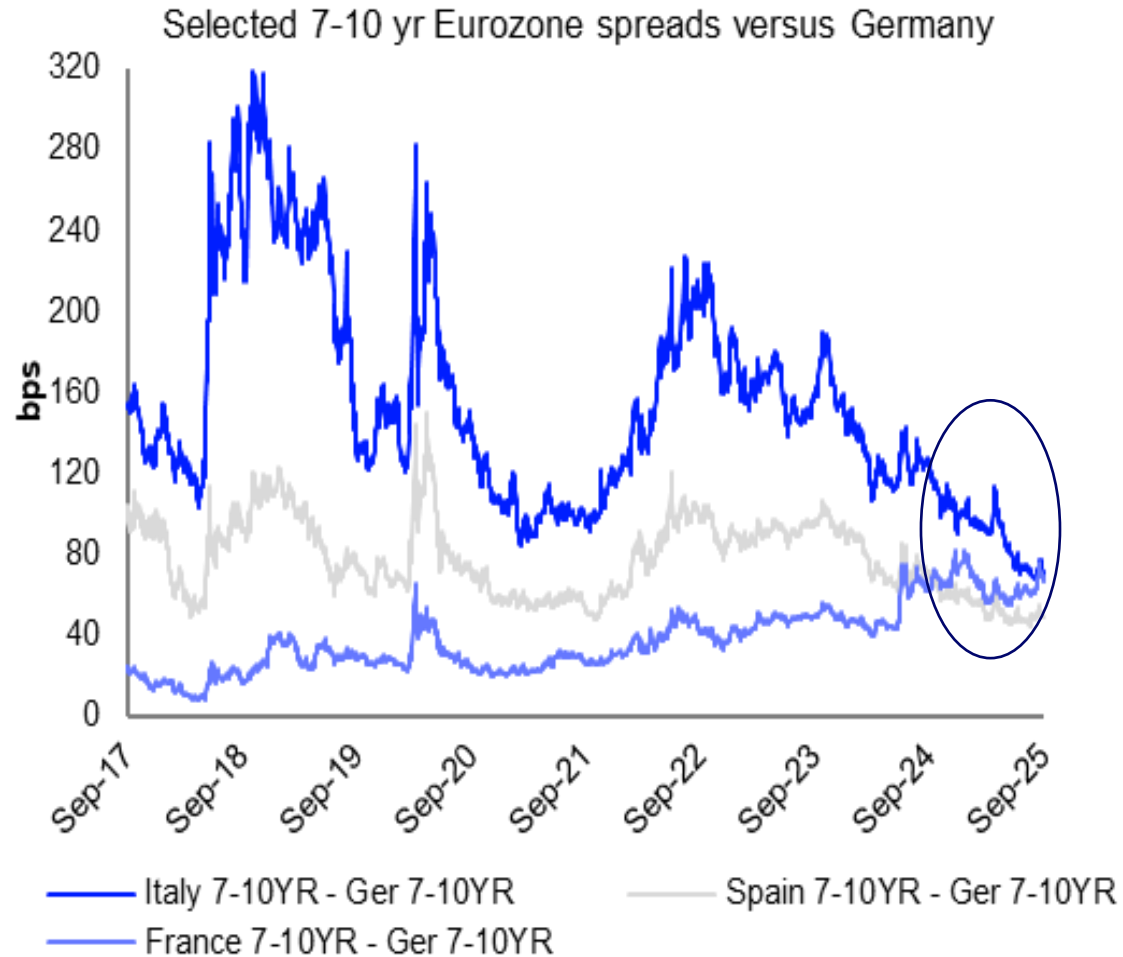
Re-structuring of Eurozone sovereign spreads reflects fiscal policy divergence...

- Re-ordering of Eurozone sovereign spreads reflects a **shift away from fiscal orthodoxy in Germany & France**. In contrast, **Italy has implemented budget cuts**.
- Italian fiscal deficit/GDP fell from 7.2% in 2023 to 3.8% in 2024 with target of 3.3% in 2025, & < 3% in 2026
- Successive French govts fell in 2024-25, unable to deliver budget deficit cuts (currently 5.8% of GDP). German coalition govt. projects deficits averaging 3.5% in 2025-29, abandoning fiscal orthodoxy and 3% deficit ceiling for Eurozone members

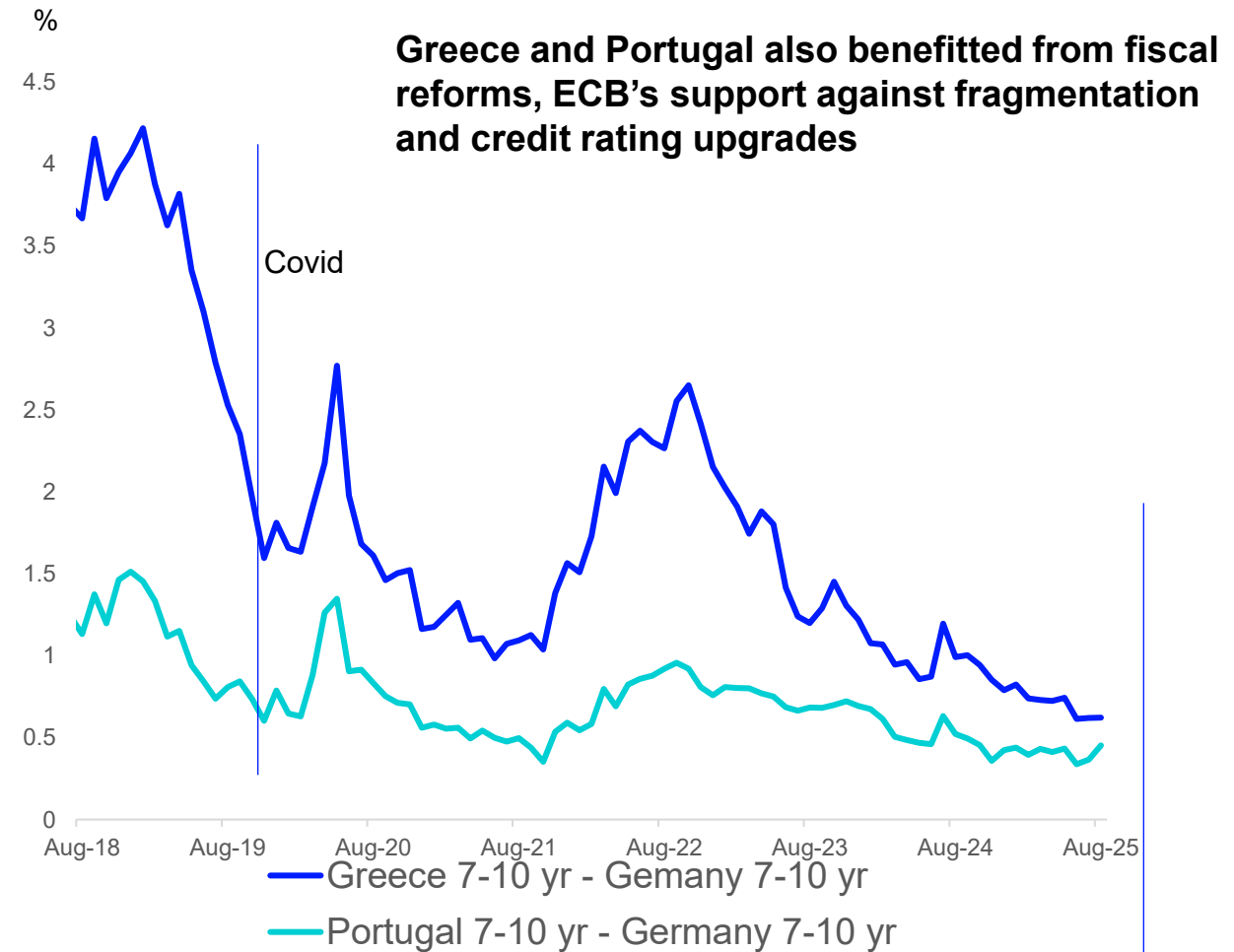
North = Germany, France, Netherlands
South = Italy, Spain, Greece, Portugal



Same story against German yields...holds for the 20Y+ tenor too

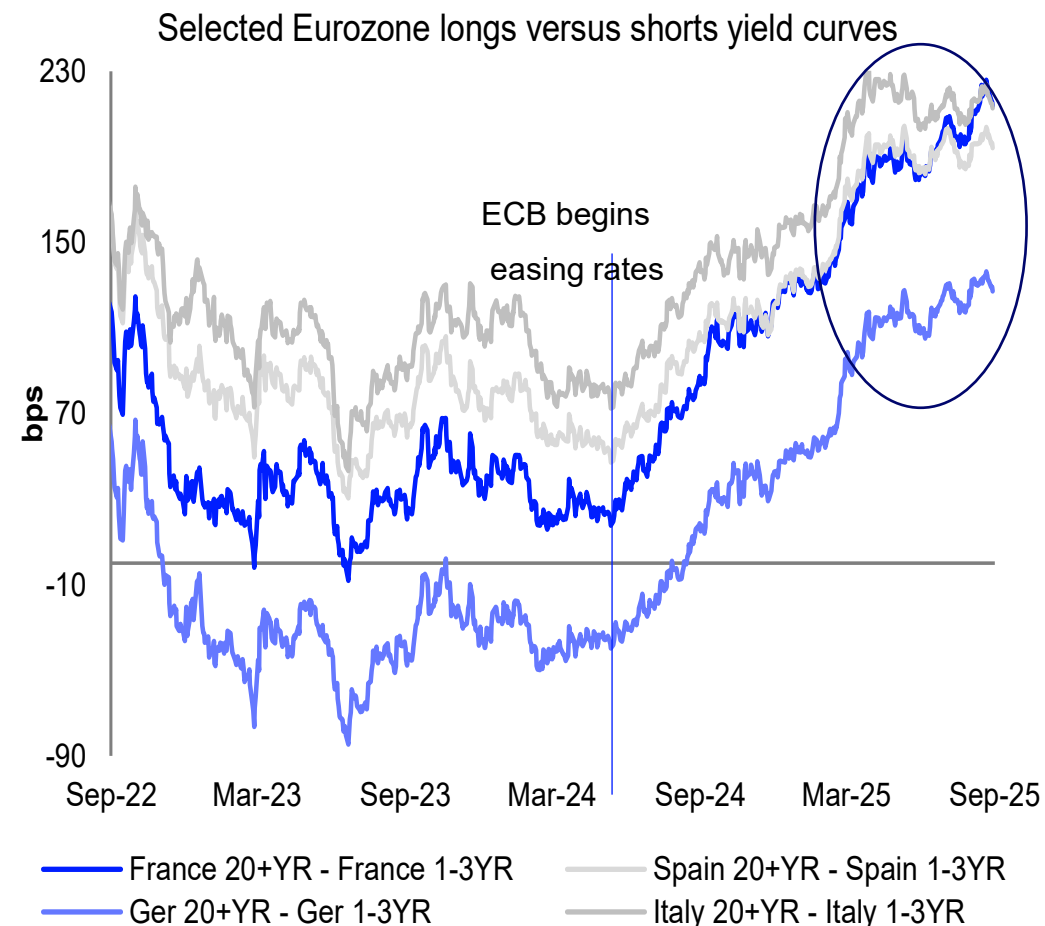


Greek & Portuguese 7-10 yr spreads v Germany



Greater French yield curve steepening suggests an increased risk premium

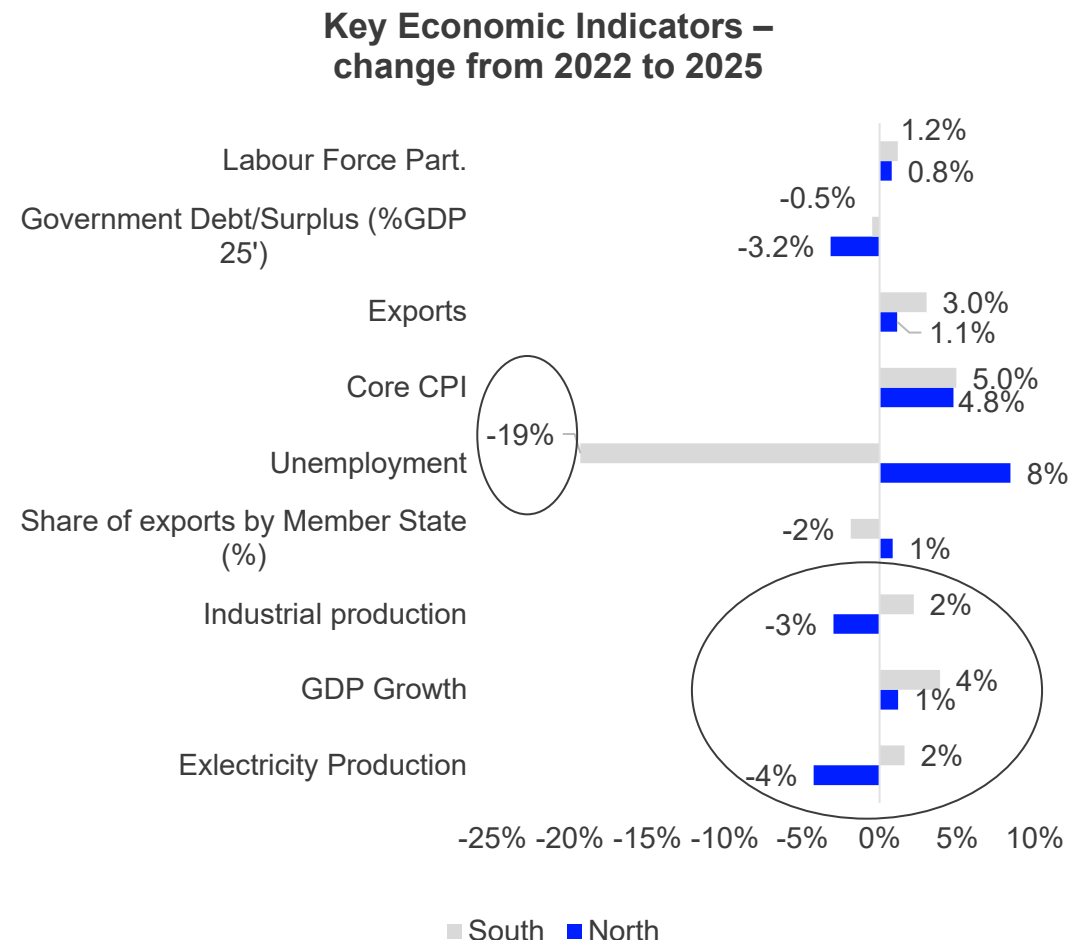
- **The Italian and Spanish yield curves are now no steeper at the long end than the French curve.** They have flattened in recent months, despite ECB easing. The moves are consistent with divergent fiscal policy.
- **Increased risk/term premia in long French bonds** is evidenced by the relative steepening of its yield curve... now steeper than Spain. The Italian yield curve now no steeper than France
- These are big relative moves, given that the 4 countries share the **same ECB monetary policy**
- While the Spanish and Italian curves stabilised/flattened in recent months, the French curve has steepened



Macro View & Fiscal Policy Outcomes: North vs South

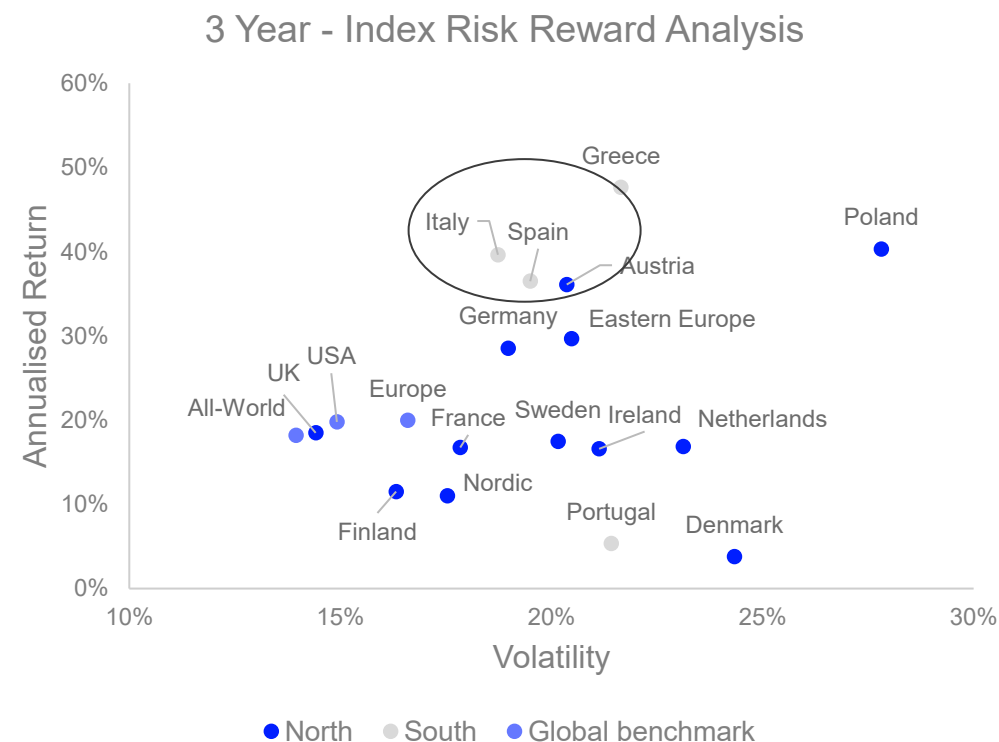
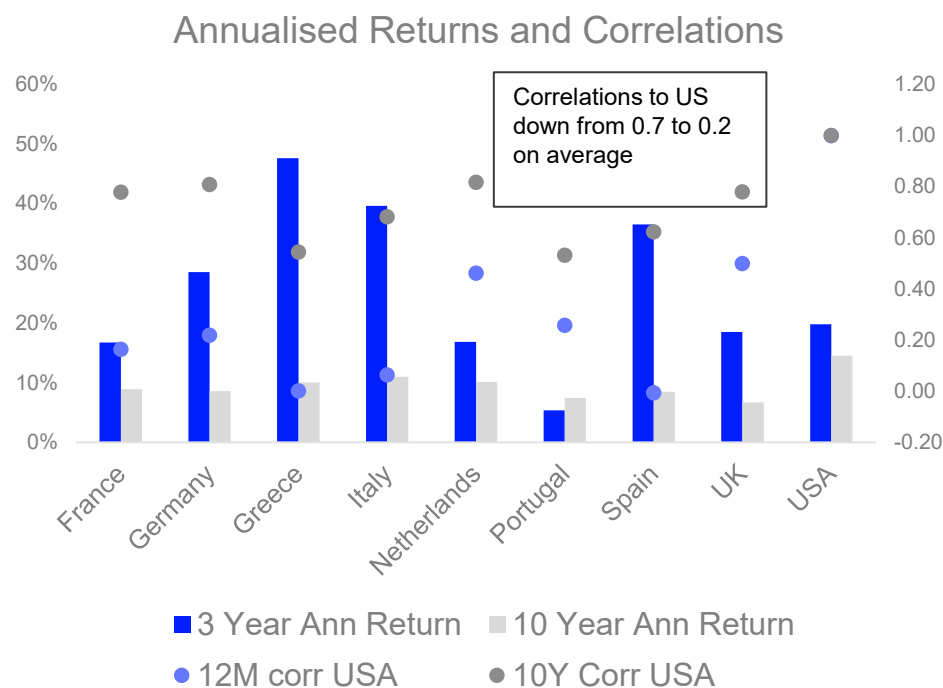
- **Northern Europe** (Germany, France, Netherlands) shows only **modest growth**, while **fiscal deficits & debt levels increased**
- **Southern Europe** (Spain, Italy, Portugal, Greece) delivered **stronger growth**, **lower unemployment**, **fiscal repair**, **improved exports**.

Country	Key fiscal measures (2022–2025)	Debt trend	Assessment
Germany	€200bn energy shield, VAT cuts; later ended, coalition govt projects higher defence and infrastructure spending	Debt up	Partial success: shock absorbed, but debt burden higher
Netherlands	Energy price cap, broad supports; phased out to targeted relief	Debt slightly up	Limited impact: relief helped, but little fiscal restraint
France	Energy tariff shield, pension reform; shield phased out, spending freezes	Debt rising	Mixed: inflation curbed, but deficits high with major implementation risks
Italy	Tax cuts, costly Superbonus; later curbed, new levies. Sales of state assets, stronger growth cut deficits	Debt high but trending down	Lower deficits & debt/GDP ratio helped by growth
Spain	Subsidies, VAT cuts, windfall taxes; later phased out, smaller relief	Debt stable to slightly down	Moderate success: balanced relief and consolidation
Greece	Consolidation, EU funds, primary surpluses sustained	Debt falling	Strong success: discipline recovering fiscal credibility
Portugal	Targeted supports, surplus budgets; later PIT cuts with surplus intact	Debt falling	Success: relief + discipline kept debt declining
















Equity market Performance & Correlations

- Reflecting stronger growth, and lower energy costs, **Spanish, Italian and more recently Greek equities outperformed** and correlation to the US fell, offering diversification benefits. Greece also benefitted from fiscal consolidation.
- France, and Nordic equities delivered weaker returns than Italy and Spain, with similar volatility.**



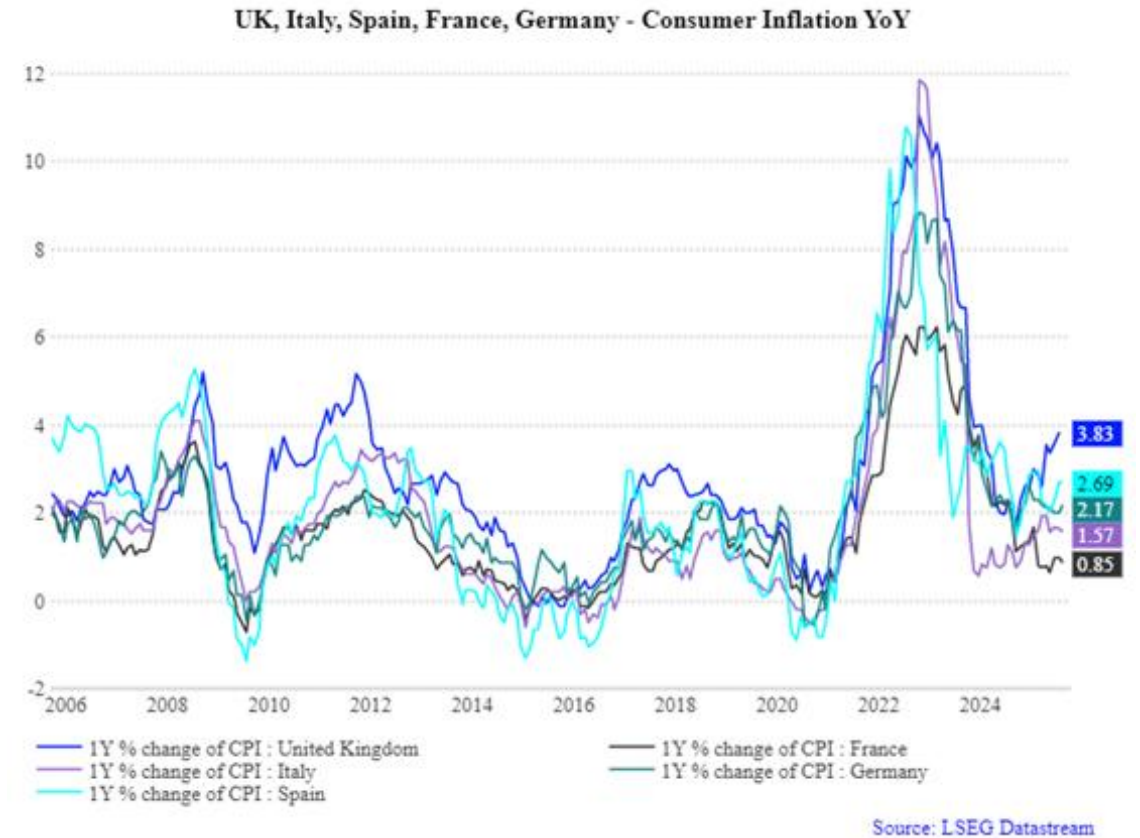
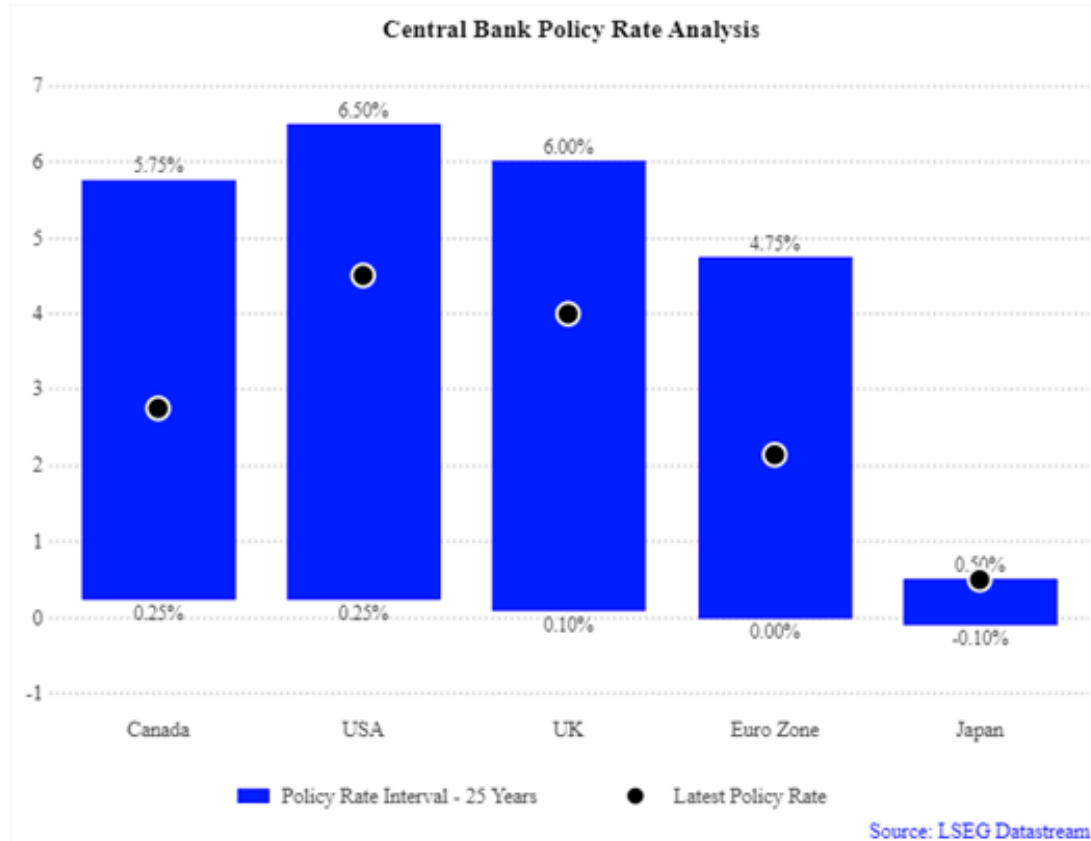
Central Bank Policy Environment

- Most probable action for 22 central banks is: No Change (14 central banks) and Cut (8 central banks)

	Central Bank	Target Rate	Next Meeting Date	Current Rate	Implied Rate	Most Probable Action	Change By	Probability (%)		Least Probable Action	Change By	Probability (%)
	Federal Reserve	Fed Funds Target	17-Sep-2025	+4.375	4.073	CUT	-0.25	97.3		CUT	-0.50	2.7
	European Central Bank	Deposit Facility Rate	30-Oct-2025	+2.00	1.913	NO CHANGE	-	95.5		CUT	-0.25	4.5
	Bank of Japan	Policy Rate Balance	19-Sep-2025	0.50	0.489	NO CHANGE	-	95.4		HIKE	0.25	4.6
	Bank of England	Bank Rate	18-Sep-2025	+4.00	3.963	NO CHANGE	-	98.4		CUT	-0.25	1.6
	Swiss National Bank	SNB policy rate	25-Sep-2025	0.00	-0.051	NO CHANGE	-	95.3		CUT	-0.25	4.7
	Bank of Canada	ON Target Rate	17-Sep-2025	+2.75	2.577	CUT	-0.25	85.4		NO CHANGE	-	14.6
	Reserve Bank of Australia	Cash Target Rate	30-Sep-2025	+3.60	3.549	NO CHANGE	-	79.6		CUT	-0.25	20.4
	Reserve Bank of New Zealand	Cash Rate	08-Oct-2025	+3.00	2.783	CUT	-0.25	84.2		NO CHANGE	-	15.8
	Sveriges Riksbank	Repo Rate	23-Sep-2025	+2.00	1.917	NO CHANGE	-	68.2		CUT	-0.25	31.8
	Banco Central do Brasil	SELIC Target Rate	18-Sep-2025	15.00	15.005	NO CHANGE	-	98.0		HIKE	0.25	2.0
	Central Bank of Chile	Target Rate	28-Oct-2025	+4.75	4.720	NO CHANGE	-	92.9		CUT	-0.25	7.1
	Czech National Bank	2 Week Repo Rate	24-Sep-2025	+3.50	2.980	CUT	-0.25	80.0		CUT	-0.50	20.0
	National Bank of Hungary	MNB Base Rate	23-Sep-2025	6.50	6.461	NO CHANGE	-	88.1		CUT	-0.15	11.9
	Reserve Bank of India	Repo Rate	01-Oct-2025	+5.50	5.427	NO CHANGE	-	78.6		CUT	-0.25	21.4
	Central Bank of Colombia	Intervention Rate	30-Sep-2025	+10.25	8.674	NO CHANGE	-	78.2		CUT	-0.25	21.8
	National Bank of Poland	7 Day Repo Rate	08-Oct-2025	+4.75	4.438	CUT	-0.25	90.9		CUT	-0.50	9.1
	Danmarks Nationalbank **	Lending Rate	30-Oct-2025	+1.75	1.711	NO CHANGE	-	90.7		CUT	-0.25	9.3
	Central Bank of Turkey	Repo Rate	23-Oct-2025	+40.50	37.198	CUT	-4	54.9		CUT	-3.75	45.1
	Central Bank of Thailand	1-Day Repo Rate	08-Oct-2025	+1.50	1.337	CUT	-0.25	62.6		NO CHANGE	-	37.4
	Bank Indonesia	7-Day Reverse Repo	17-Sep-2025	+5.00	4.463	NO CHANGE	-	63.4		CUT	-0.25	36.6
	Norges Bank	Key Policy Rate	18-Sep-2025	+4.25	4.104	CUT	-0.25	58.4		NO CHANGE	-	41.6
	Bank of Korea	BoK Base Rate	23-Oct-2025	+2.50	2.387	NO CHANGE	-	55.8		CUT	-0.25	44.2

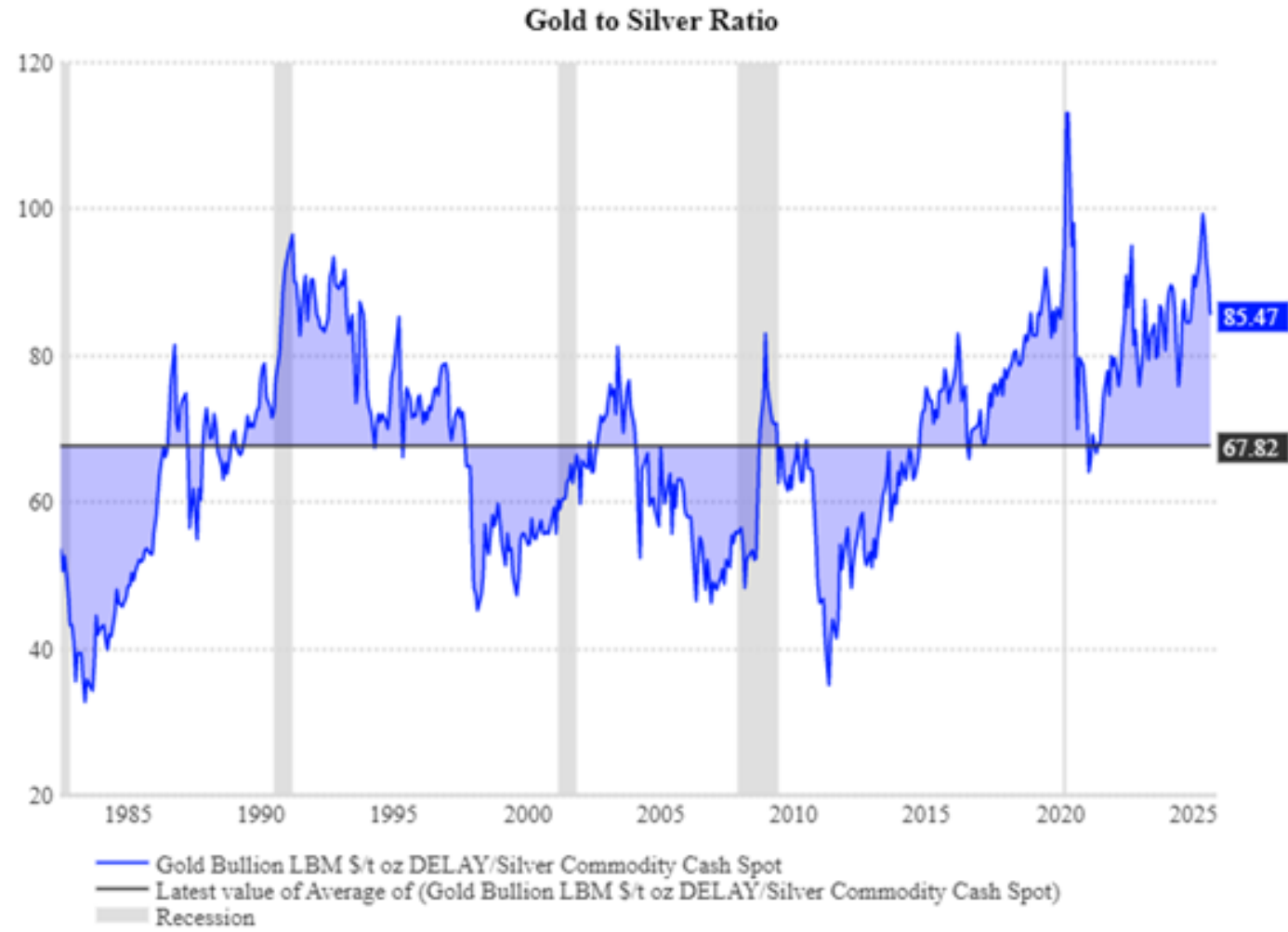
Policy Rate and Consumer Inflation Analysis

- US and UK still need to move towards their neutral rate, Japan unwinding multiple decades of monetary easing
- France with the lowest rate of Consumer Inflation of the largest European economies



Market pricing risk down?

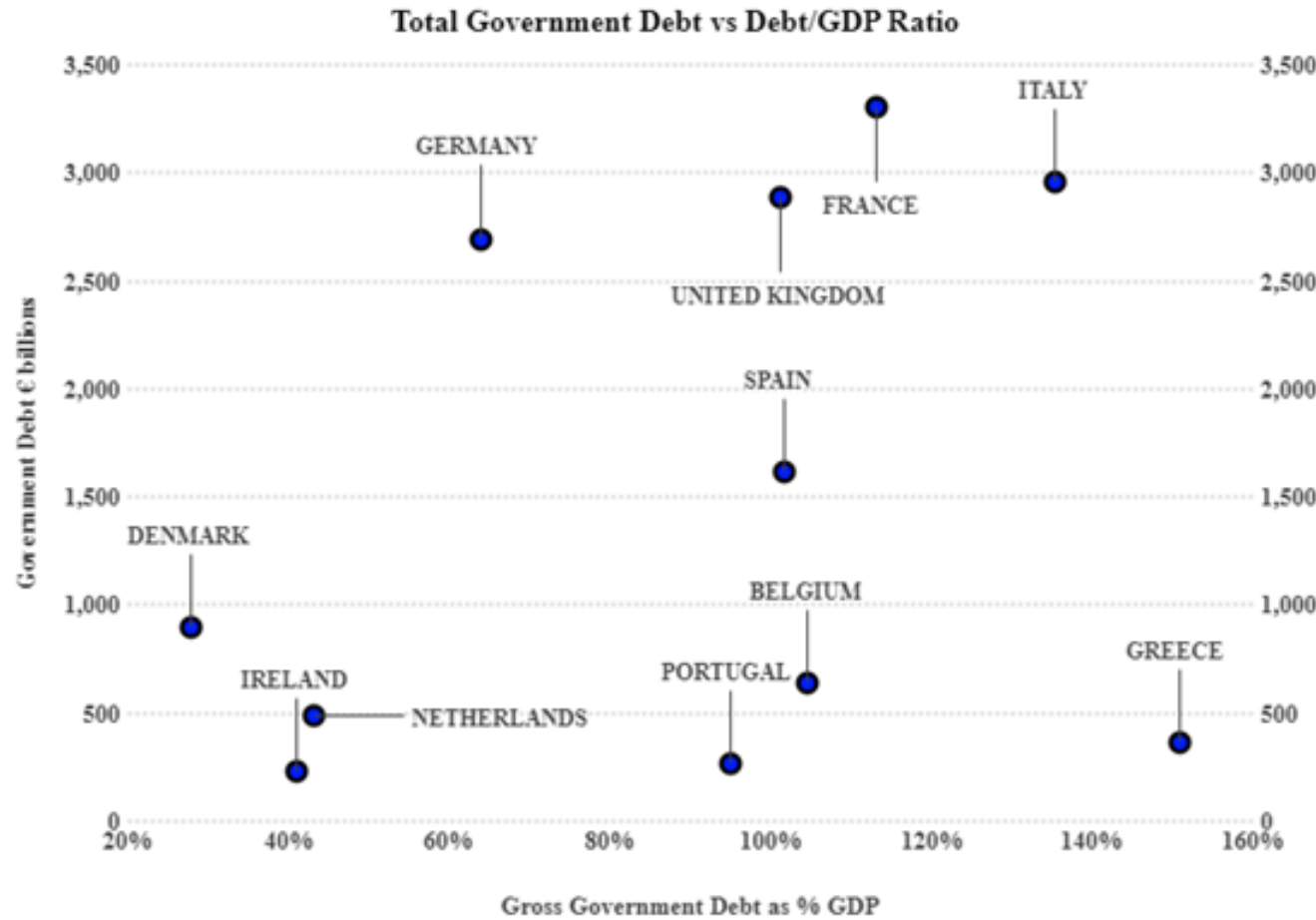
- Gold/Silver ratio down from previous high of 99.23, heading towards long term average



Source: LSEG Datastream

Total Government Debt vs Debt/GDP Ratio

- France has the highest Total Debt, and with the third highest Debt/GDP ratio



Source: LSEG Datastream

Disclaimer

© 2025 London Stock Exchange Group plc and its applicable group undertakings (the “LSE Group”). The LSE Group includes (1) FTSE International Limited (“FTSE”), (2) Frank Russell Company (“Russell”), (3) FTSE Global Debt Capital Markets Inc. and FTSE Global Debt Capital Markets Limited (together, “FTSE Canada”), (4) FTSE Fixed Income Europe Limited (“FTSE FI Europe”), (5) FTSE Fixed Income LLC (“FTSE FI”), (6) The Yield Book Inc (“YB”) and (7) Beyond Ratings S.A.S. (“BR”). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB and BR. “FTSE®”, “Russell®”, “FTSE Russell®”, “FTSE4Good®”, “ICB®”, “The Yield Book®”, “Beyond Ratings®” and all other trademarks and service marks used herein (whether registered or unregistered) are trademarks and/or service marks owned or licensed by the applicable member of the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB or BR. FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

All information is provided for information purposes only. All information and data contained in this publication is obtained by the LSE Group, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical error as well as other factors, however, such information and data is provided “as is” without warranty of any kind. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly, or impliedly, either as to the accuracy, timeliness, completeness, merchantability of any information or of results to be obtained from the use of FTSE Russell products, including but not limited to indexes, data and analytics, or the fitness or suitability of the FTSE Russell products for any particular purpose to which they might be put. Any representation of historical data accessible through FTSE Russell products is provided for information purposes only and is not a reliable indicator of future performance.

No responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any error (negligent or otherwise) or other circumstance involved in procuring, collecting, compiling, interpreting, analysing, editing, transcribing, transmitting, communicating, or delivering any such information or data or from use of this document or links to this document or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if any member of the LSE Group is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset or whether such investment creates any legal or compliance risks for the investor. A decision to invest in any such asset should not be made in reliance on any information herein. Indexes cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset nor confirmation that any particular investor may lawfully buy, sell or hold the asset or an index containing the asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

The information contained in this report should not be considered “research” as defined in recital 28 of the Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council (“MiFID II”) and is provided for no fee.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index returns shown may not represent the results of the actual trading of investable assets. Certain returns shown may reflect back-tested performance. All performance presented prior to the index inception date is back-tested performance.

Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index was officially launched. However, back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index.

This document may contain forward-looking assessments. These are based upon a number of assumptions concerning future conditions that ultimately may prove to be inaccurate. Such forward-looking assessments are subject to risks and uncertainties and may be affected by various factors that may cause actual results to differ materially. No member of the LSE Group nor their licensors assume any duty to and do not undertake to update forward-looking assessments.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of the LSE Group. Use and distribution of the LSE Group data requires a licence from FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB, BR and/or their respective licensors.

About FTSE Russell (LSEG)

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 40 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

To learn more, visit lseg.com/ftse-russell; email info@ftserussell.com; or call your regional Client Service team office:

EMEA
+44 (0) 20 7866 1810

North America
+1 877 503 6437

Asia-Pacific
Hong Kong: +852 2164 3333
Tokyo: +81 3 6441 1430
Sydney: +61 (0) 2 7228 5659