RAMBLER INVESTMENT FUND

Luke Gaskill
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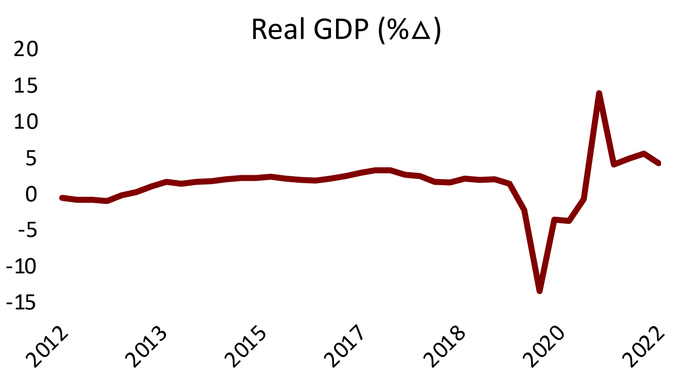
European Union Macroeconomic Overview

Economic Profile	
Country	European Union
Member Countries	27
Currency	Euro
Population	447.7 Million
Economy	Developed
GDP	$17.09 Trillion (USD)
GDP per capita	$38,169.80 (USD)
Largest Trading Partner	China

Market Outlook	
Point in Economic Cycle	Left of Trough
Outlook	Bearish



Real Gross Domestic Product, Percent Change From Year Ago, Prev. 10 Years (Source: Federal Reserve)

__Macroeconomic Thesis:__

The outlook for the EU is challenging, many indicators show tightening economic conditions for Europe, and I am bearish on the EU for the foreseeable future. The EU has seen rising inflation, a weakening currency, and the European Central Bank (ECB) is tightening financial conditions.

Inflation has been at record highs with the Eurostat flash estimate putting inflation at 9.1% in August, though some member countries have experienced much higher. The main causes of this inflation have been food and energy costs. The war in Ukraine has increased the severity of these problems, with sanctions cutting off the Russian LNG many countries had become dependent on. The disruption to Ukraine's grain exports have increased food cost in the EU and around the world.

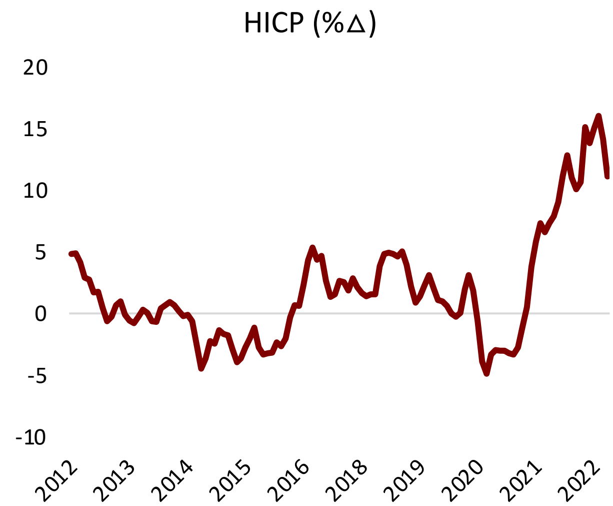
This has put the ECB in a difficult position as they try to get inflation under control and back to their 2% mid term target. The ECB has raised rates and is expected to raise them more to combat inflation. The ECB however, has not decided to do quantitative tightening and will continue to reinvest maturing securities purchased during the pandemic meant to ease monetary conditions and provide liquidity. These rate increases will tighten financial conditions though may have limited success fighting inflation when it comes to the supply problems Europe is facing.

Consumer confidence is weakening, and the Euro is losing value compared to the U.S. dollar making imports more expensive, contributing to inflation. Manufacturing activity has also seen a slow down as supply chain problems and high costs continue to be pervasive. It will be challenging for the EU to address these problems and for economic conditions to improve. These indicators and geopolitical factors create much uncertainty and a difficult economic environment.

Economic Indicators

Harmonized Index of Consumer Prices

The Harmonized Index of Consumer Prices (HICP) tracks a basket of goods and services and is a measure of inflation in the EU. The ECB uses the HICP to measure inflation with the goal of maintaining 2% inflation over the medium term. The HICP has been quite high as the EU faces large amounts of inflation and is at 11.1% as of August. The ECB has begun to raise rates to try and combat inflation, raising rates by 75 bps in September. The new rates respectively will be 1.25%, 1.50% and 0.75%. Inflation is expected to remain high for the time being especially as the EU will have elevated energy costs. The ECB believes the main factors of inflation are food and energy costs along with some sector's supply chains still recovering from covid lockdowns as the economy reopens.

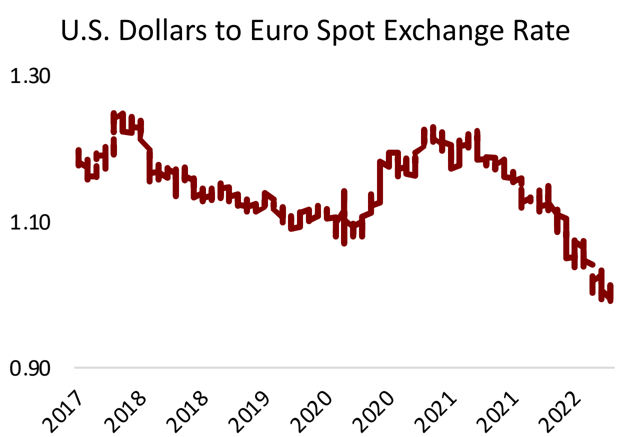


Harmonized Index of Consumer Prices, Percent Change From Year Ago, Prev. 10 Years (Source: Eurostat*)*

Consumer Confidence

This statistic shows an index of consumer confidence in the European Union from November 2021 to February 2022. Consumer confidence is shown by seasonally adjusted averages, from answers to a selection of questions related to expectations on personal finances for the next twelve months. Positive values indicate that the consumers are optimistic about the economic situation; a negative value indicates pessimism. In February 2022, the consumer confidence in the EU amounted to -10.2 points. Consumer confidence is expected to remain low as the EU goes into winter with high energy prices and as inflation remains high.

Consumer Confidence in EU (0 = neutral), Percent Change From Year Ago, Nov 2020 – Feb 2022 (Source: European Commission*)*

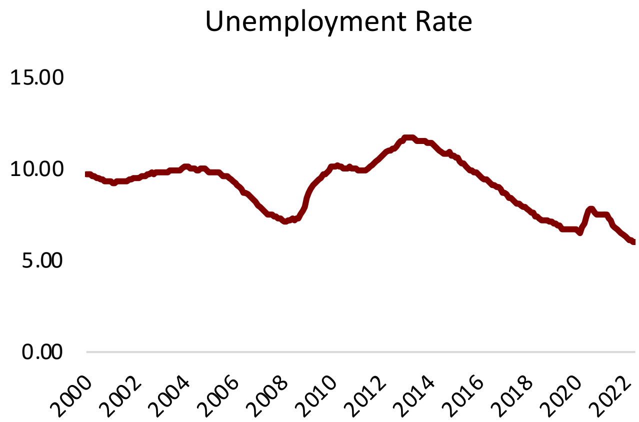


U.S. Dollars to Euro Spot Exchange Rate, Prev. 5 Years (Source: Board of Governors of the Federal Reserve system*)*

U.S. Dollars to Euro Spot Exchange Rate

The Euro has been weakening and broke parity with the U.S. dollar for the first time in two decades. This will make goods more expensive to import into the EU though it will help exporters. The current rate is one Euro is equal to 0.96 US dollars. This will make the Euro less attractive to foreign investors and increase the cost of borrowing adding to inflationary pressures.

Economic Indicators (contd.)



Unemployment Rate (EU27), Prev. 22 Years (Source: Eurostat*)*

German Manufacturing PMI

The German Manufacturing Purchasing Managers' Index measures the activity level of purchasing managers in the manufacturing sector. It is derived from a survey of 500 industrial companies and is compiled of five individual indexes with weightings of New Orders (30 percent), Output (25 percent), Employment (20 percent), Suppliers' Delivery Times (15 percent) and Stock of Items Purchased (10 percent), with delivery times inverted so it can be positively correlated to the other indexes. Readings above 50 indicate growth in the industrial space and readings below 50 represent contraction. The index currently sits at 49.1 showing a slow down in manufacturing as the downward trend continues. This trend is expected to continue as supply chain problems persist, costs remain high, and overall outlooks are pessimistic.

EURO STOXX 50, Prev. 5 Years (Source: Refinitiv*)*

Unemployment Rate

An unemployed person is defined as a person aged between 15 to 74 that is not currently employed, is available for work, and actively seeking work. The unemployment rate is the number of people unemployed as a percentage of the labor force. The Unemployment rate saw a bump during the pandemic though is continuing a downward trend and is currently sitting at 6%. With the ECB raising rates and an economic slowdown throughout the EU this rate may rise.

German Manufacturing PMI, Prev. 4 Years (Source: Refinitiv*)*

EURO STOXX 50

Volatility in the equity markets reflect the economic conditions and can be a good indicator of sentiment. The EURO STOXX 50 is an index of blue-chip companies that represent the largest 50 companies in the eurozone. The index has been in a downward trend this year as rates are rising and earning estimates are being reduced. The index hit a peak in November of 2021 and has seen a YTD return of -32%. This trend could continue for the near future as outlooks remain negative. Rising energy costs, inflation, and the war in Ukraine have hurt companies earning potential and have increased uncertainty in markets.

Geopolitical Factors

War in Ukraine

The Russian war in Ukraine has sent Europe into chaos exacerbating many problems EU member countries were already facing. In late February 2022 Russia launched a full-scale invasion of Ukraine. Ukraine forces have held up well against Russia with forces going back and forth over territory. The war has destabilized Europe and global relations. Western countries have responded with economic sanctions on Russia, with Russia responding by cutting oil and LNG exports to Europe. The war has disrupted trade in the region, primarily grain exports from Ukraine, causing food prices to rise around the world. These conditions add to an already inflationary period for the world and cause more uncertainty.

Supply Chain

Global supply chains continue to be affected by the pandemic lockdowns and will take more time to normalize. Shipping became disorganized and the war in Ukraine has sent the EU scrambling to find alternative sources of energy, grain, and fertilizer. Shipping in the Black sea has been turned on its head and stability in the region has declined. This has pushed shipping rates and insurance on those shipments to increase, adding to the cost of commodities.

Continued lockdowns in key Asian countries such as China have also added to supply bottlenecks as many factories have remain shut down and are not producing goods. Semiconductors remain in short supply slowing the completion of many manufactured goods. The situation with Taiwan could cause more challenges suppling semiconductors if Chinese aggressions increase. There has also been a focus on trying to build more resilient supply chains shifting from a “just in time” to a “just in case” model. This will help companies weather some of these problems though it will increase costs caused by sitting on inventory.

Energy Crisis

Europe is struggling to contain an energy crisis as supply is low and prices have skyrocketed. Sanctions against Russia for the war in Ukraine have caused a steep reduction of the import of LNG into the EU. For a long time, certain countries such as Germany had become too reliant on cheap Russian oil and LNG. In 2021 Russia accounted for 55% of Germany’s LNG imports and is now down to 26% by the end of June 2022. Germany now has the goal of ending all Russian energy imports by mid 2024.

With winter coming many countries simply do not have enough energy to keep the lights on in all businesses and homes. Poorer countries are turning to wood fire for heat, and some have relaxed environmental restrictions on coal to get through the winter. There have also been government plans to try to subsidize the cost of energy though these have been largely financed leading to conflicting fiscal and monetary policy.

Raising Rates

On September 8th, the Governing Council of the ECB decided to raise the three key interest rates by 75 basis points. The ECB is tightening financial conditions with the goal of getting inflation back to its 2% mid term target. The ECB now expects inflation to average 8.1% in 2022, 5.5% in 2023 and 2.3% in 2024. Rate increases are expected to continue to reduce inflation though the Governing Council intends to continue reinvesting maturing securities under the Asset Purchase Program (APP). It will be interesting to see how successful this path is for the ECB and if they will need to do quantitative tightening to break inflation.