

# The market is hungry for more

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## WisdomTree

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The European Economy has deteriorated since the last European Central Bank (ECB) meeting and the market awaits further stimulus from ECB in December. In the meantime, the European Union has begun to issue European Union Bonds under the Support to Mitigate Unemployment Risks in an Emergency (SURE) programme to support the labour market across EU member states. While news about several vaccines with high efficacy rates have driven investor optimism about the long-term economic outlook, rising infection rates will likely still impact the economic picture over the next quarter at a minimum. In Europe, lockdowns remain in place around several European countries in varying degrees until the most part of November 2020 and has weighed heavily on fourth quarter GDP estimates for Europe. In the euro area, the Economic Sentiment Indicator (ESI) which tracks GDP growth within the Euro area stalled in October 2020 after reflecting several months of recovery. According to the European Commission (EC), the sluggishness in ESI reflected diminished confidence in services and among consumers meanwhile there appears to be positive momentum in areas such as industry and construction<sup>1</sup>. The EC survey also indicated that the ESI improved in Germany and Italy but registered significant losses in the Netherlands and France. The EC survey is broadly in line with the Markit Eurozone Purchasing Manufacturers Index data which highlights that Eurozone Services PMI has been below 50 since September, indicating that the services sector is contracting yet the Eurozone's Manufacturing PMI remains expansionary as referenced in Figure 12. In this blog, we will explore the latest instrument issued by the European Union to help support the economic recovery in Europe amid the ongoing pandemic.

### Figure 1: Markit Eurozone Purchasing Manufacturers Index data

*Source: Bloomberg. Period is based on data availability and cover from 30 November 2017 to 31 October 2020. A reading above 50 is indicative of expansionary activity and a reading below 50 is indicative of contractionary activity. Historical performance is not an indication of future performance and any investments may go down in value.*

As the economic outlook for Europe weakens going into the fourth quarter, the European Union has already issued its second EU bond deal this year. Both the first deal sold in October and the second deal sold in November received strong investor demand at their primary offering. Bonds under the SURE programme fall under the social bonds framework and received particularly strong interest from ESG investors.

The SURE programme which reflects the first step towards a more unified Europe in crisis was approved on 19 May 2020. It is aimed at helping mitigate unemployment risks caused by the pandemic and can provide loans of up to €100bn total to EU member states. This was one of the first programmes launched amid the health crisis and was followed by the proposal for a larger Recovery Fund programme which is

pending final approval in the coming month. The Recovery Fund programme could provide another €750 bn of support to aid in the recovery process. To fund the SURE programme, the EU has indicated new EU bond issuance of around €87.4 billion in 2020 and 2021. These funding operations will be carried out following the agreement of individual loans with member states.

The EU bond deal issued in November 2020 received tremendous demand within the investor community and symbolizes one of the largest Supranational transaction ever launched<sup>3</sup>. As the amount of EU bond issuance rises in the coming years, the EU could become a significant new player in the market.

**Below are the details of the latest EU bond deal<sup>3</sup>:**

1 Source: European Commission Business and Consumer Surveys for October 2020, [https://ec.europa.eu/info/sites/info/files/full\\_bcs\\_2020\\_10\\_en.pdf](https://ec.europa.eu/info/sites/info/files/full_bcs_2020_10_en.pdf)

2 Source: Bloomberg as of 31 October 2020, ISM PMI data.

3 Source: European Union Bonds Press Release 10 November 2020, deal table illustrated in the press release; [https://ec.europa.eu/info/sites/info/files/about\\_the\\_european\\_commission/eu\\_budget/sure\\_2nd\\_dual\\_tranche\\_press\\_release\\_final\\_0.pdf](https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/sure_2nd_dual_tranche_press_release_final_0.pdf)

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