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UNITED KINGDOM

Our view on central banks

We're pushing back our call for the next Federal Reserve rate cut to June, given the solid growth backdrop. We still expect the European Central Bank to keep rates on hold this year



So far this year, we're expecting cuts from the Fed and the BoE, a pause for the ECB in its 'good place', and a summer rate hike from the BoJ

Federal Reserve

After four 25bp interest rate cuts in 2024 and three in 2025, we forecast only two 25bp rate cuts from the Fed in 2026. The economy continues to report healthy growth, and equity markets are at all-time highs. Still, there are concerns about the resilience of the jobs market and the concentration risk of the growth story, where high-income household spending and tech investment dominate.

Inflation has been better behaved than feared in the wake of the President's tariffs on foreign-made goods, and we expect lower gasoline prices, slowing housing rents and cooling wage growth to allow it to continue trending down towards the 2% target. Monetary policy is still slightly restrictive, and although the growth story is firm, we expect the Fed to be able to move policy closer to a neutral setting, given the risks that the jobs data continues to lose momentum.

We had been forecasting that the Fed would cut rates at the March and June FOMC meetings, but we now think the timeline will be pushed back three months. To deliver a March rate cut, the Fed's dual mandate needs to come under pressure quickly. It would probably require two

consecutive drops in employment in the January and February jobs reports to get a majority of members backing it, and that is not something we are forecasting.

European Central Bank

Given everything currently going on in the world, the ECB has almost become a beacon of continuity – some might even say boredom. The ECB simply calls it its ‘good place’, i.e., a eurozone economy that looks set to grow at around potential and an inflation rate settling around target.

What's not to like? Well, maybe the high level of uncertainty in both geopolitics and economic outcomes. Up until now, there has been a clear disconnect between geopolitics and macroeconomics. No one knows whether this disconnect will hold or whether one side of the equation will eventually move. Geopolitical risks could slow down, or the economy could eventually still weaken. But for now, the ECB remains comfortably in its good place. We expect policy rates to remain unchanged for the rest of the year. It would need strong positive or negative surprises to force the ECB back into action.

Bank of England

We continue to expect rate cuts from the BoE in March and June, even if markets don't expect another move before the summer. The data points to further easing: hiring is weak, wage growth is slowing, and inflation is set to fall dramatically between now and April. But the Bank itself remains cautious. Doves and hawks alike have pointed to wage growth expectations, which, according to one BoE survey, have bottomed out at 3.5-4% – a little higher than officials would like.

Nothing has dramatically changed since December, so a rate cut in February is unlikely. We doubt we'll see a big change in signalling, either. But by March, we'll have had another two rounds of jobs/wage/price data, and if recent trends continue, we think the Bank will have enough confidence to cut rates further. Remember, the committee is heavily divided, so it only takes one or two officials to change their view to dramatically change the path of interest rates.

Bank of Japan

The Bank of Japan kept its policy rate steady at 0.75% in January, while the outlook for growth and inflation in FY2026 has been raised, reflecting increased confidence in the overall economic outlook. We have moved our expectations for the timing of the next rate hike forwards from October to June. Previously, we expected that the BoJ would delay action due to slowing inflation and growing concerns over tariffs and challenges from China. Now, we foresee more robust wage growth during the upcoming Shunto, firmer price adjustments in April, and expanded fiscal stimulus measures, all of which increase the likelihood of a rate hike

in June.

We think that an April hike is less probable, as the BoJ needs to carefully balance the yen and rates. The BoJ aims to avoid JPY weakness that could drive up domestic inflation, but with the currency expected to remain below 157, the central bank has room to wait. At the same time, it should closely monitor rate markets. With the recent spike in JGB yields, the BoJ is expected to work even more closely with the pro-stimulus Takaichi administration. The BoJ is likely to exercise caution if fiscal concerns spill over and start lifting short-end tenors as well.

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