

## Central banks: the ECB and the Fed on opposite paths

*The European Central Bank (ECB) has continued its cycle of interest rate cuts. It has indeed reduced its benchmark rate to 2.25%, in a context of continued decline in inflation, growth that remains moderate and high uncertainties related to the United States' trade policy. These elements should lead the ECB to maintain an accommodative stance and tone during the coming meetings. On the other hand, the Federal Reserve (Fed) is expected to keep its key rate unchanged at 4.5% at the May 7 meeting, amid a growing risk of stagflation in the US economy. These different paths taken by central banks would continue to be reflected in the financial markets as well, with European markets doing better than US markets.*

**The rate cut cycle continues in the euro zone.** The ECB cut the interest rate on its deposit facility to 2.25%, continuing its rate cut cycle that began in June 2024. This new decline reflects the continuation of disinflation in Europe with total inflation at 2.2% in March and core inflation (excluding food and energy prices) at 2.4%. In addition, the sharper decline in services inflation (3.4% in March) as well as the moderation in wage growth confirm that inflationary pressures continue to moderate, thus allowing for the rate cut. The continuation of the ECB's downward cycle also reflects the sharp increase in uncertainty on the global trade front. Indeed, even if activity is expected to remain moderately positive in the first quarter, the increase in effective US customs duties from 3% to 13% for imports of European goods and uncertainties about the outcome of negotiations between the European Union and the United States are expected to weigh on activity.

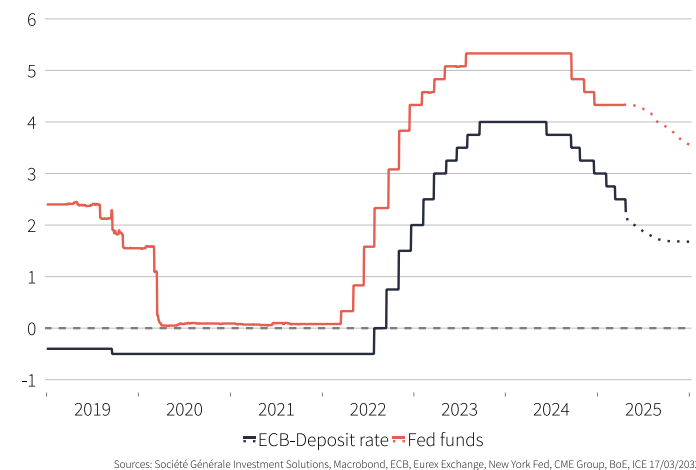
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In this respect, even if Mrs. Lagarde insisted on the fact that the ECB remains "data-dependent", she also mentioned that the price shock is "a negative demand shock" for the euro zone, i.e. a deflationary risk all other things being equal. In this context, we continue to expect the downward cycle to continue in the coming months, up to a terminal rate of 1.5% for 2025.

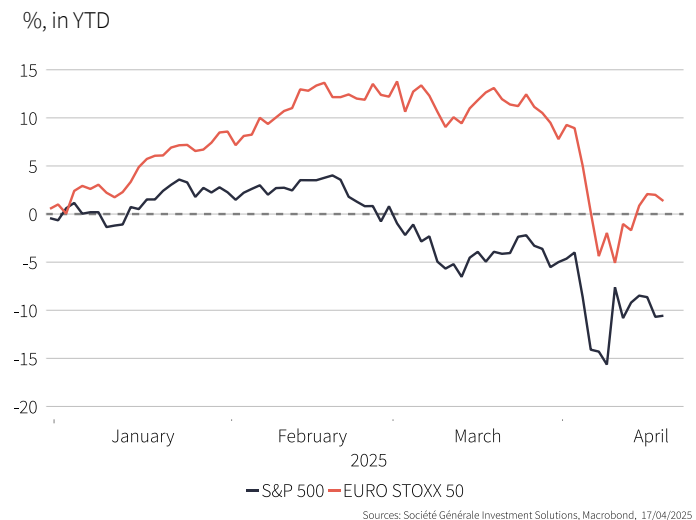
**The Fed maintains a cautious tone in the face of the risk of stagflation.** Unlike the ECB, the Fed governors are maintaining a more restrictive tone in this context of trade uncertainty. Indeed, the price shock is stagflationary in nature for the US economy, where inflation is expected to rise significantly in the coming months and domestic demand is expected to slow markedly given the erosion of household purchasing power and the deceleration in investment prospects. In this regard, Powell stressed during a presentation on Wednesday 16 April that the Fed would set its monetary policy according to the gap between the inflation target and the full employment target "and potentially different time horizons over which these respective gaps should be closed". We expect the Fed to keep its key interest rate at 4.5% at the meeting on May 7th and maintain a restrictive tone as long as the labour market does not deteriorate markedly.

**A difference in policies that reinforces the gap in the evolution of the financial markets.** The US and European financial markets have shown contrasting performances since the start of the trade tensions. Indeed, despite the uncertain environment, the Eurostoxx 50 still posted a positive performance over the year of 1.4%, while the S&P 500 was down 11%. Long-term sovereign yields are also on different paths, with the 10-year Treasury rising to 4.3% after Liberation Day while the 10-year Bund fell to 2.5%, erasing its rise after the stimulus plan was announced. All in all, the difference in monetary policies and the increase in the probability of US stagflation confirm our strong preference for European equities.

## MARKET EXPECTATIONS OF CENTRAL BANK INTEREST RATES



## EQUITY INDEX PERFORMANCE



# OUR MACRO COMMENTS

## Events of the week

### United States: retail sales rise in anticipation of tariff increases.

In March, retail sales rose 1.4% month-on-month in the United States, in line with expectations. This strong increase reflects above all the growth in sales of automotive and parts dealers, which jumped by nearly 6% over the month. Indeed, consumers anticipated the price increase linked to the 25% customs duties on cars and spare parts as early as April. These gains should therefore be returned when the April retail sales are released. Apart from car sales, retail sales rose 0.3% over the month, also supported by expectations of customs duties on the construction equipment component. Overall, while data is expected to remain highly volatile in the coming months, we expect a slowdown in household consumption as purchasing power erodes higher tariffs.

### China: Solid growth and trade surplus in Q1

Economic activity was resilient in the first quarter of the year, with GDP growth of 5.4% year-on-year. While the components of GDP have not yet been published, the good retail sales figures (5.9% year-on-year in March) show a recovery in household consumption. At the same time, industrial production showed good momentum, with growth of 7% year-on-year. Part of this expansion reflects expectations of U.S. tariff hikes as Chinese companies ramp up deliveries. These expectations are also visible in the trade balance, with a 12% growth in exports, resulting in a surplus in the Chinese trade balance of 1080 billion dollars over twelve months in March.

### KEY EVENTS NEXT WEEK



#### Monday

**United States** IMF-Spring Meeting

#### Tuesday

**Euro area** Consumer confidence (April)

#### Wednesday

**Euro area** S&P PMI Composite (April)

**Euro area** Trade balance (February)

**United States** S&P PMI Composite (April)

#### Thursday

**France** Consumer confidence (April)

**Germany** IFO Business Climate Survey (April)

#### Friday

**United Kingdom** Retail survey

**France** INSEE Business Climate (April)

### EVENTS OVER THE NEXT FEW MONTHS

End of April: meeting of the politburo (Chinese support plan)

7 May: Fed monetary policy meeting

8 May: BoE monetary policy meeting

18 June: Fed monetary policy meeting

Early July: End of the suspension of US tariffs

# MARKET PERFORMANCES

## Interbank rates

%	15/04/2025	18/03/2025	17/01/2025	01/01/2025	18/04/2024
US SOFR	4,348	4,34	4,36	4,53	5,33
Euro area €ster	2,416	2,42	2,92	2,91	3,91
UK SONIA	4,459	4,45	4,70	4,70	5,20
Switzerland SARON	0,175	0,45	0,44	0,45	1,44
Japan TONAR	0,476	0,48	0,23	0,23	0,08

## 10Y Government rates

%	16/04/2025	18/03/2025	17/01/2025	01/01/2025	18/04/2024
US Treasuries	4,29	4,29	4,61	4,58	4,64
France OAT	3,27	3,49	3,30	3,18	3,01
Germany Bund	2,50	2,81	2,50	2,36	2,48
Italy BTP	3,70	3,86	3,63	3,52	3,91
Spain Bonos	3,20	3,44	3,16	3,06	3,30
Switzerland	0,41	0,72	0,40	0,32	0,69
UK Gilts	4,60	4,64	4,62	4,55	4,25
Japan JGB	1,37	1,48	1,18	1,08	0,83

## Credit

%	17/04/2025	18/03/2025	17/01/2025	01/01/2025	18/04/2024
United States IG	5,34	5,21	5,38	5,33	5,73
United States HY	8,19	7,57	7,29	7,49	8,30
Europe IG	3,42	3,59	3,55	3,44	4,04
Europe HY	6,22	5,84	5,82	5,70	6,89
Emerging FX	6,47	6,24	6,42	6,40	7,13

## Equity indices

17/04/2025 vs	-1w	-1m	-3m	01/01/2025	-1y
World	0,30	-6,22	-9,096	-7,301	5,33
United States	-1,19	-5,97	-12,336	-10,342	5,35
Euro area	3,69	-8,47	-1,671	2,895	5,70
France	2,59	-9,80	-5,066	-0,691	-3,93
Germany	4,27	-8,56	2,022	7,149	18,79
United Kingdom	4,12	-4,37	-1,679	1,941	9,02
Japan	2,55	-8,10	-5,810	-8,269	-3,98
Emerging	1,74	-6,53	-2,053	-1,839	8,40
China USD	1,45	-14,47	7,198	5,762	31,16
India USD	5,22	6,20	0,187	-3,532	4,62
Latin America USD	3,73	-2,93	8,174	12,753	-7,87

## Foreign exchange rates

	17/04/2025	18/03/2025	17/01/2025	01/01/2025	18/04/2024
EUR/USD	1,14	1,09	1,03	1,04	1,07
GBP/USD	1,32	1,30	1,22	1,25	1,24
EUR/CHF	0,93	0,96	0,94	0,94	0,97
USD/JPY	142,22	149,51	156,15	157,00	154,62
USD/CNY	7,30	7,23	7,33	7,30	7,24

## Commodity prices

	17/04/2025	18/03/2025	17/01/2025	01/01/2025	18/04/2024
Brent, USD/BL	68	70	80	75	86
Copper, USD/Metric ton	9 104	9 834	9 132	8 706	9 617
Gold, USD/Troy oz	3 315	3 034	2 703	2 606	2 378
Silver, USD/Troy oz	32	34	31	29	28
Palladium, USD/Troy oz	951	966	952	909	1 047
Platinum, USD/Troy oz	959	1 001	941	913	942

Source : Bloomberg on 18 April 2025, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change, Equities; total return in local currency. Government bonds = 10 year returns. Figures are rounded.



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