

Fed to resume lowering interest rates

After a nine-month hiatus, the Fed looks set to resume lowering interest rates as it balances upside risks to inflation and downside risks to employment. We expect it to cut by 25bps this month and by a further 75bps by mid-2026. With Euro area inflation back at target and the deposit rate in broadly neutral territory, we see the ECB on hold for an extended period. In the UK, rising inflation is making the Bank of England's job harder. We are pushing out the next 25bps cut in rates to February, followed by a further 25bps reduction in Q2. While US stocks and bonds have recovered from their post-Liberation Day slump, the dollar has remained under pressure. We expect EURUSD to retest July's year-to-date high of almost \$1.1850 and to move up into a range of \$1.20-\$1.25 in H1 2026. We see EURGBP in a range of £0.84 to £0.89, slightly higher than previously expected, reflecting the pound's underperformance against the euro this year.

Trade tensions have eased

Trade tensions have eased over the past few months. The decision by the US and China to significantly lower tariffs on each other has reduced downside risks to the global economy, while the US has also reached trade deals with other important partners. Nonetheless, together with Trump's 'reciprocal' tariffs 2.0, the overall US effective tariff rate is almost 19% according to estimates from the Yale Budget Lab, considerably higher than in 2024. The pass-through of higher tariffs to US inflation has been modest so far, though there's likely more to come, while GDP and employment growth have slowed notably this year. The Euro area and UK economies are proving relatively resilient albeit growth is modest. While inflation in the Euro area is back to its 2% target, in the UK inflation has reaccelerated and the public finances are an ongoing source of concern.

Fed to cut rates, ECB on hold

Despite sustained pressure from the US administration to cut interest rates, the Fed has stayed on hold in 2025 to date. However it has signalled it may soon resume lowering rates, as it balances tariff-related upside risks to inflation and 'increasing' downside risks to employment. We expect the Fed to cut by 25bps at this month's meeting (16th-17th) and to lower rates by a further 75bps by mid-2026. With inflation in the Euro area likely to continue running close to target, and the deposit rate in neutral territory, we expect the ECB to stay on hold for an extended period, though a further cut in rates can't be ruled given downside risks to growth. The Bank of England (BoE) is in something of a bind, with inflation well above the 2% target but unemployment edging higher. We still expect it to lower rates further but are pushing out the timing of the next 25bps cut to February, followed by another 25bps reduction in Q2 next year.

Sizeable fall in US bond yields

The US-China 'tariff truce' in May was the catalyst for a sustained rebound in US stocks, after they fell sharply following Trump's initial 'reciprocal' tariffs announcement in early April. US government bonds have also recovered since May, having sold off alongside stocks, with 10-year yields down around 50bps supported by firming rate cut expectations. German yields have drifted up recently, given the ECB is seen to be more or less done cutting rates and the prospect of increased government borrowing to fund higher spending. UK yields have also risen over the past couple of months amid a more uncertain outlook for interest rates and worries about the UK's stubbornly high budget deficit. Yield curves have steepened across the three markets, while ongoing fiscal concerns - and in the case of the US threats to the Fed's independence - are likely to keep this trend intact.

Dollar to remain under pressure

While US stocks and bonds have recovered since May, the dollar has remained under pressure. In our May Global Watch we expected EURUSD to strengthen to \$1.15-\$1.20 in Q4, but the pair has been trading mostly between \$1.15 to \$1.18 since June. We see it retesting July's year-to-date high of circa \$1.1830 and strengthening to \$1.20-\$1.25 into next year as the Fed lowers interest rates and the ECB stays on hold. There are risks on both sides of this. More persistent than expected inflation in the US would keep interest rates higher than expected, boosting the dollar. On the other hand, weaker US growth and lower than expected interest rates would weigh on the dollar, as would an unwarranted reduction in rates due to political interference.

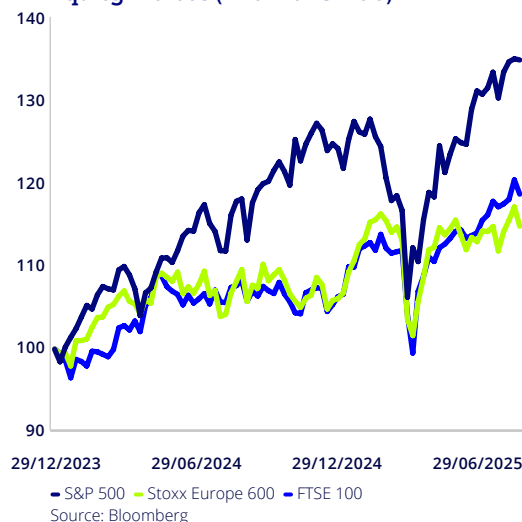
Lower range for sterling

Sterling has traded between \$1.32 and \$1.37 against the dollar since July. We are leaving our Q4 forecast unchanged at \$1.35-\$1.40 and see this range prevailing in H1 2026 as well (previously \$1.40-\$1.45). We are also lowering our forecast range for the pound versus the euro to £0.84 to £0.89 (from £0.82-£0.87). Modest growth alongside relatively high inflation in the UK, and related concerns about the public finances, are likely to weigh on sterling. A credible budget in November would help to allay fiscal concerns, although this might not necessarily support the pound if it also provides room for the BoE to lower rates by more than expected.

Central Bank Rates (%)	Current	End-Q3'25	End-Q4'25	End-Q1'26	End-Q2'26
Fed	4.25-4.50	4.00-4.25	3.75-4.00	3.50-3.75	3.25-3.50
ECB	2.00	2.00	2.00	2.00	2.00
BoE	4.00	4.00	4.00	3.75	3.50

Exchange Rates	Current	Q3'25	Q4'25	Q1'26	Q2'26
€/\$	1.17	1.15-1.20	1.15-1.20	1.20-1.25	1.20-1.25
€/£	0.865	0.84-0.89	0.84-0.89	0.84-0.89	0.84-0.89
£/\$	1.35	1.32-1.37	1.35-1.40	1.35-1.40	1.35-1.40

Equity Indices (End-2023=100)



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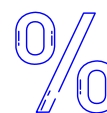
IMF revises up global growth forecasts



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US stocks have rebounded strongly



Forecasts

GDP

GDP Growth*	2024	2025(f)	2026(f)
Global	3.3%	3.0%	3.1%
US	2.8%	1.9%	2.0%
Euro area	0.9%	1.0%	1.2%
UK	1.1%	1.2%	1.4%

*Annual % change, constant prices
Source: IMF (July 2025)

Interest Rates

Central Bank Rates (%)	Current	End-Q3'25	End-Q4'25	End-Q1'26	End-Q2'26
Fed	4.25-4.50	4.00-4.25	3.75-4.00	3.50-3.75	3.25-3.50
ECB	2.00	2.00	2.00	2.00	2.00
BoE	4.00	4.00	4.00	3.75	3.50

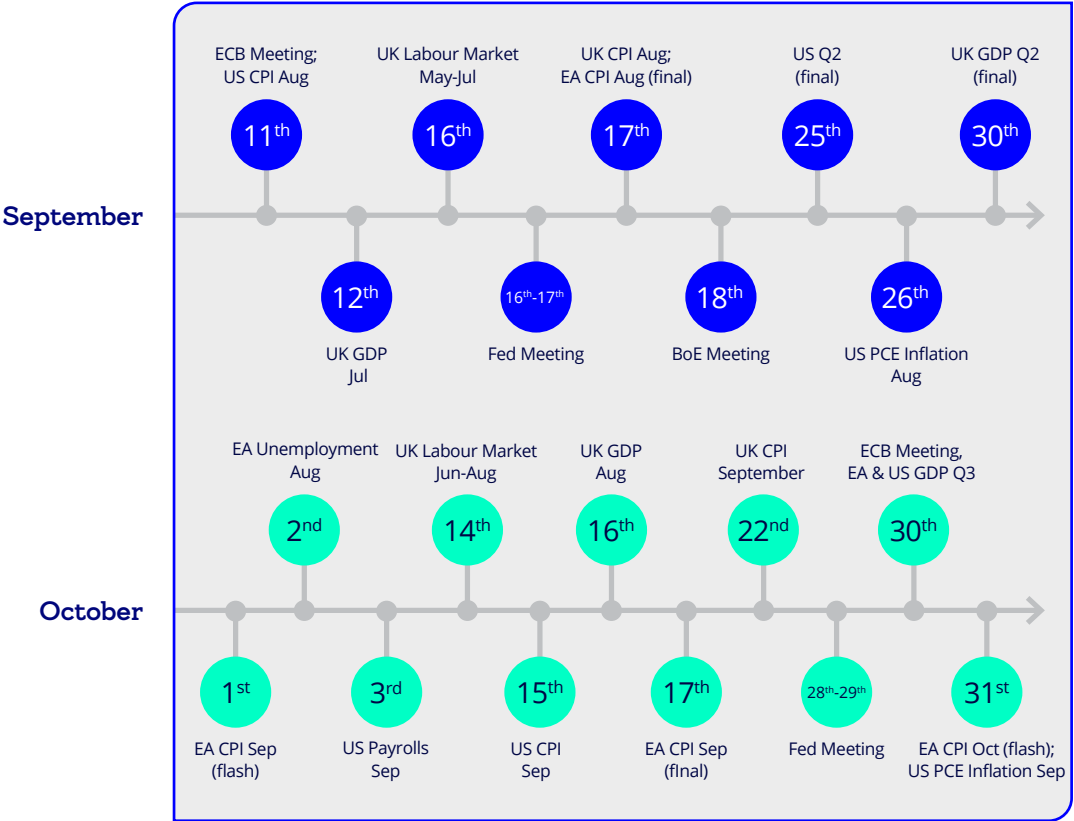
Source: Bloomberg, Bank of Ireland Forecasts

Exchange Rates

Exchange Rates	Current	Q3'25	Q4'25	Q1'26	Q2'26
€/\$	1.17	1.15-1.20	1.15-1.20	1.20-1.25	1.20-1.25
€/£	0.865	0.84-0.89	0.84-0.89	0.84-0.89	0.84-0.89
£/\$	1.35	1.32-1.37	1.35-1.40	1.35-1.40	1.35-1.40

**Current Rate as of 9 September 2025
Source: Bloomberg, Bank of Ireland forecasts

Upcoming Events

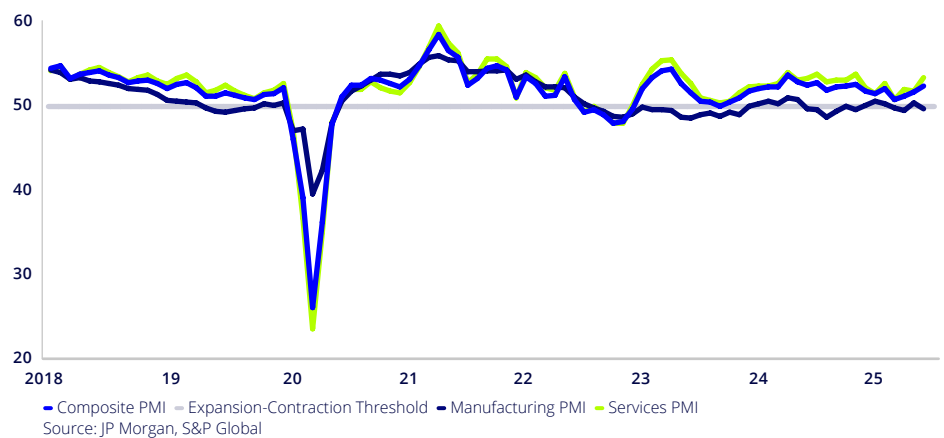


Economy

IMF revises up global growth forecasts

The world economy has continued to expand at a modest pace in 2025 with the global Composite PMI increasing to a year-to-date high of 52.9 in August. The IMF has also revised up slightly forecasts for global GDP growth this year and next year, now seen at 3.0% and 3.1% respectively versus 2.8% and 3% in its April projections. This reflects a number of factors, including a stronger than expected front-loading of activity earlier this year in anticipation of higher tariffs; lower average effective US tariff rates than announced on Liberation Day, April 2nd; an improvement in financial conditions, notably a rebound in equity markets; and fiscal expansion in some major jurisdictions, including the US with the passing of Trump's One Big Beautiful Bill (OBBB). The IMF believes risks to the economic outlook remain tilted to the downside however, citing still elevated uncertainty which could weigh on economic activity to a greater than expected extent; ongoing geopolitical tensions which could disrupt global supply chains and push up commodity prices; and large fiscal deficits in some countries, including the US, which could raise long-term interest rates and tighten global financial conditions.

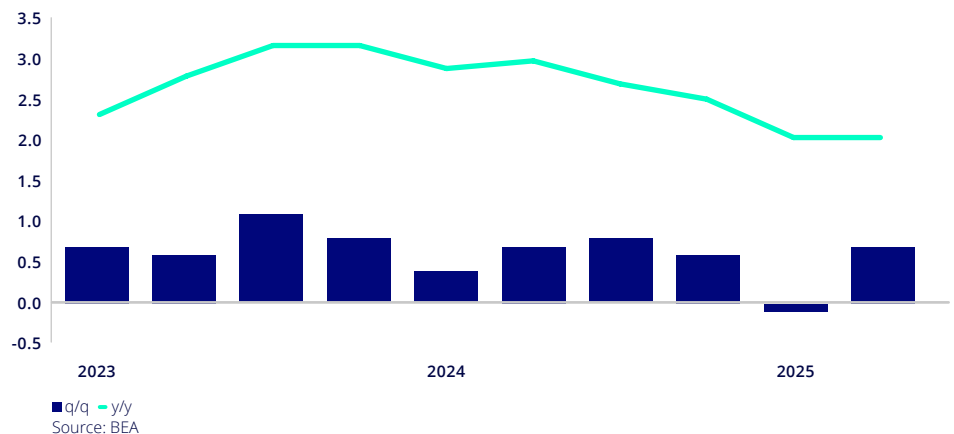
Global PMIs



Slowdown in US growth

US GDP was volatile over the first half of this year - contracting slightly in Q1 amid a surge in imports ahead of expected tariffs before rebounding in Q2 as imports fell back again – but the underlying pace of economic growth has stepped down notably this year, due largely to a slowdown in consumer spending and continued weakness in housing. Jobs growth has also slowed with non-farm payrolls increasing by just 29k a month in June-August, down from 139k month in December-May, though some of this may reflect weaker labour supply growth in response to a crackdown on immigration. The pass-through to consumer prices from higher tariffs has been modest to date. Headline PCE inflation rose to 2.6% from 2.2% between April and July, but it is likely to increase further over the second half of the year before falling back towards the 2% target during 2026. There is a risk that higher inflation proves more persistent due to second-round effects from tariffs, or if reduced labour supply boosts wage growth.

US GDP Growth (%)



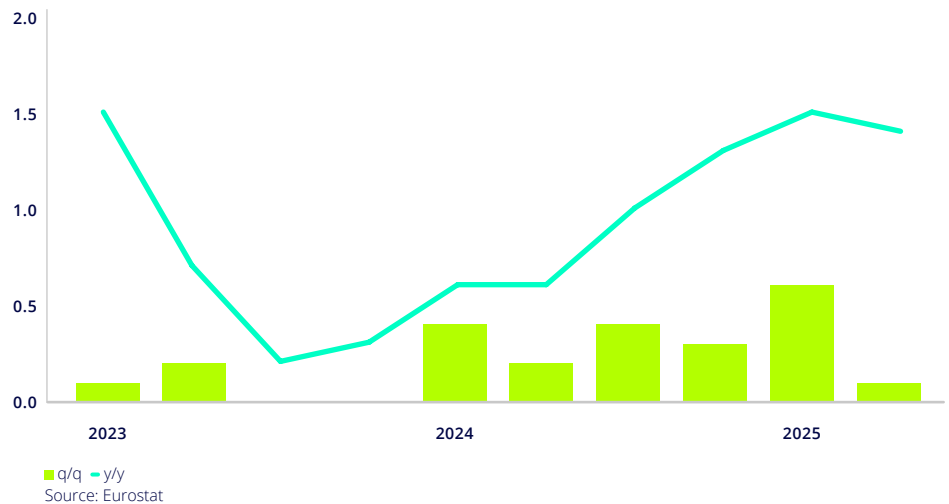
Economy

While there's still uncertainty regarding where the average effective tariff rate will ultimately settle, estimates from the Yale Budget Lab suggest it's currently in the vicinity of 19%, lower than when Trump announced his 'reciprocal' tariffs in early April but still considerably higher than in 2024. Hence, while forecasts for GDP have generally been revised up somewhat recently (and inflation projections lowered a touch), growth during much of 2025-2026 is still expected to run below the economy's estimated potential growth rate of about 2%. Unemployment is likely to increase as a result albeit it has remained steady recently at just over 4%.

Euro area expanding modestly, inflation back at target

Euro area growth accelerated to 0.6% q-o-q in Q1 (from 0.3% in Q4 2025), partly reflecting a front-running of exports to the US ahead of anticipated tariffs, before slowing to just 0.1% in Q2. Exports and investment both fell in the second quarter, having increased strongly in Q1. High-frequency data, including the PMIs, suggest growth has remained relatively modest in Q3. The labour market has proven very resilient to date with unemployment (6.2%) running at a record low, while headline CPI inflation was in line with the ECB's 2% target in June-August.

Euro area GDP Growth (%)



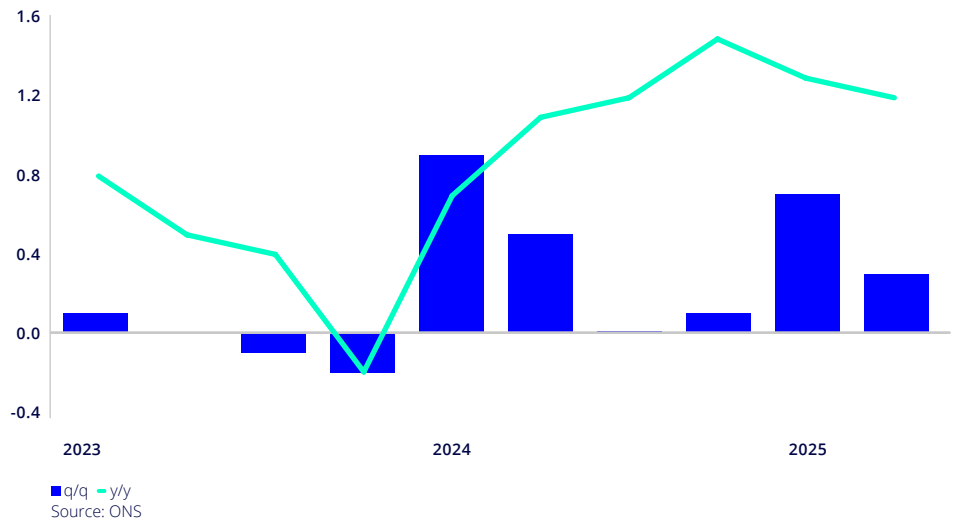
The recently reached EU-US trade deal included an all-inclusive 15% tariff on most EU goods exports to the US, incorporating the 10% "universal" tariff imposed post-Liberation Day plus existing (pre-Trump) duties of 4.8%. Thus the agreement could be seen as maintaining the status quo and hence a better outcome than feared. To the extent that it reduces uncertainty, it may also boost business and consumer confidence. Most forecasts still envisage GDP growth of not much more than 1% both this year and next year though, albeit with the pace of activity picking up during the course of 2026 supported by lower interest rates and increased government spending. This should mean inflation remains close to its 2% target, with a significant undershoot unlikely absent a pronounced weakening of economic activity and/or a sharp appreciation of the euro.

Economy

UK growth better than expected, but challenges remain

Following a bounce in Q1, with GDP rising by 0.7% q-o-q, UK growth slowed to 0.3% in Q2 (slightly firmer than expected), with net exports making a much smaller contribution to growth than in Q1 and business investment declining following a large increase in the first quarter of the year. The economy ended Q2 on a positive note with GDP up 0.4% m-o-m in June, having contracted slightly in both April and May, while higher-frequency data point to modest growth as well in Q3. Though the UK was one of the first countries to strike a trade deal with the US post Liberation Day, the domestic challenges facing the economy are of greater concern. In particular, the budget deficit remains stubbornly high and the Chancellor will likely have to raise taxes in the November budget if she is to meet her fiscal rules.

UK GDP Growth (%)



Most forecasts currently envisage GDP growth of a bit more than 1% in 2025-2026. This however is unlikely to be sufficient to prevent some further increase in the unemployment rate, which has risen by around half a percentage point (to 4.7%) over the past year or so. Consumer price inflation has accelerated sharply in recent months, rising to 3.8% in July from 2.6% in April, albeit mainly due to increases in energy and some other regulated prices. It is expected to begin falling back again later this year and to decline further during 2026, with moderating wage growth in response to rising unemployment contributing to an easing in services inflation (the latter remains elevated at 5% and currently accounts for 2.5% points of overall inflation).

Central Banks

Fed to resume lowering interest rates.

Despite sustained haranguing from Donald Trump to lower interest rates, the Fed has stayed on hold this year, including in July although two members voted for a 25bps cut arguing that higher inflation due to increased tariffs is likely to be temporary and citing a slowdown in jobs growth. For other members, a “modestly restrictive” monetary policy stance remained appropriate “for the time being” given above-target inflation, but Fed Chair Powell did acknowledge downside risks to employment at the post-meeting press conference. In his Jackson Hole speech in late August, Powell said, in light of the July jobs report, “downside risks to employment are rising and if those risks materialize, they can do so quickly in the form of sharply higher layoffs and rising unemployment.” Regarding the implications for monetary policy, Powell said that, while the risks to inflation are “tilted to the upside”, downside risks to employment “may warrant” lowering interest rates. We expect the Fed to cut rates by 25bps rates at its September meeting and by the same again in the final quarter of this year, and are pencilling in a further 50bps reduction over the first half of 2026. This is broadly in line with current market pricing and also broadly in line with the forecast for rates outlined in our May Global Watch.

Central Banks

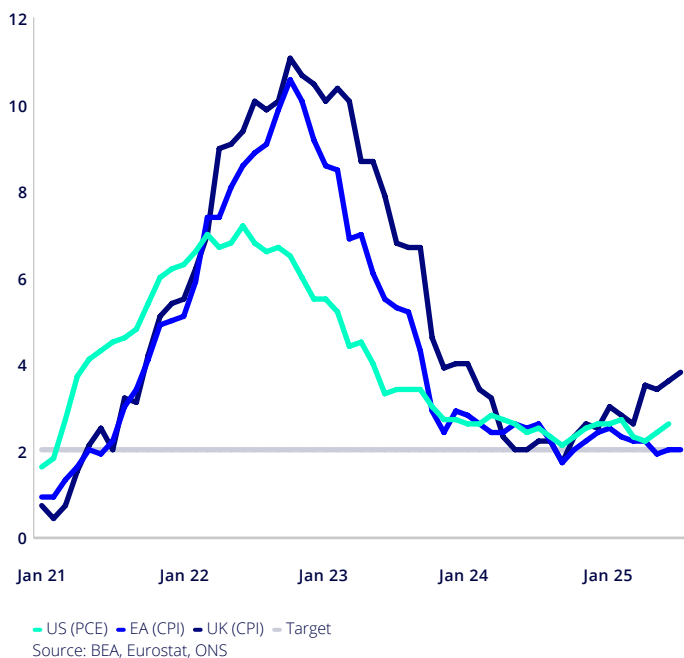
ECB on hold

The ECB left the deposit rate unchanged in July, having cut by another 25bps to 2% in June. It is currently in the middle of the ECB's estimate of the range for the neutral interest rate (1.75% to 2.25%), having been lowered by 200bps from a highly restrictive level of 4% in the middle of 2024. Given the ECB's most recent macroeconomic projections in June (which are unlikely to have changed much since) - growth remaining relatively modest albeit picking up gradually over the next couple of years, unemployment remaining steady at close to record lows, and underlying inflation running close to the 2% target - maintaining a neutral policy stance seems appropriate for now with no pressing need to lower interest rates further. We expect the ECB to keep the deposit rate unchanged at 2% through the first half of 2026 at least, having previously expected it to cut to 1.5% as insurance against the heightened downside risks to both growth and inflation prevailing at the time of our May Global Watch. That said, given risks to economic growth are still tilted to the downside, and with a further sustained appreciation of the euro still a possibility, another cut in rates cannot be ruled out. The market is currently pricing in, at most, about a 70% chance of one final 25bps reduction in the current cycle sometime around the middle of next year.

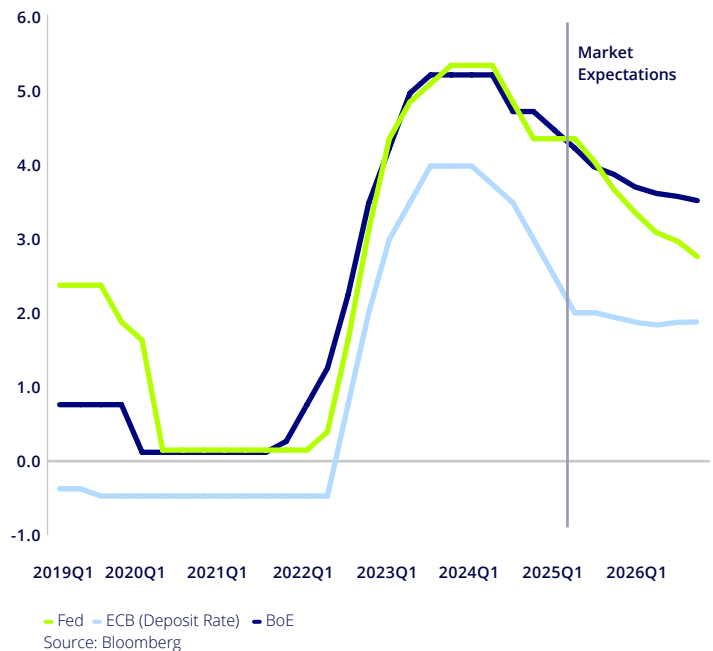
Bank of England rate path more uncertain

The Bank of England MPC cut interest rates by 25bps to 4% in August, maintaining the pattern since August 2024 of lowering rates once every quarter at the time of its updated macroeconomic projections. The vote to reduce rates was very tight though with five of the nine MPC members favouring a cut (one of the five wanted a 50bps cut but settled for 25bps) and four preferring to stay on hold. In its latest projections, the MPC raised its forecast for inflation - which is now expected to rise to a peak of 4% this September and to return to the 2% target about six months later (in mid-2027) than in the May projections - but kept its forecasts for growth in 2025-2027 (of slightly more than 1% a year on average) largely unchanged. The MPC believes upside risks to inflation have "increased slightly" since May, but also sees downside risks to growth. Hence BoE Governor Bailey has said that, while the direction for rates is still "downward", the timing and extent of further cuts is "uncertain", particularly as monetary policy is now "less restrictive" following the 125bps reduction in rates over the past year. The market has responded by pushing out the timing of the next 25bps cut to around March next year and is not fully pricing in another quarter-point reduction in the current cycle beyond then. This seems excessively pessimistic. While we now expect the MPC to wait until February before lowering rates again (we had previously expected another 25bps reduction in November), by which time it should be clear that inflation is coming back down from its recent hump, we see it cutting by another 25bps in Q2 next year and by a further 25bps to 3.25% in H2 2026.

Annual Consumer Price Inflation (%)



Central Bank Policy Rates (%), End-Quarter

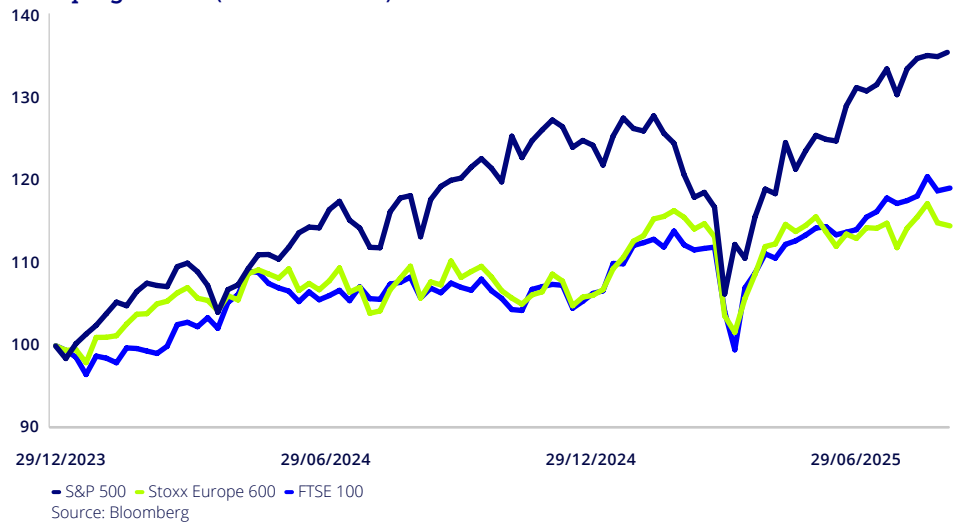


Markets

US stocks have rebounded strongly

The “tariff truce” agreed between the US and China in mid-May (just after we published our previous Global Watch) significantly reduced downside risks to the global economy and was the catalyst for a sustained rebound in US stocks in particular. The S&P 500 has rallied by around 14% in the intervening period, well ahead of the Euro Stoxx 600 (+2%) and FTSE 100 (+8%), though its year-to-date performance (+10%) is not much ahead of the Euro Stoxx 600 (+8%) and lags the FTSE 100 (+13%), highlighting the extent to which US stocks plunged following Trump’s reciprocal tariffs announcement on 2 April. Expectations that the Fed will soon resume lowering interest rates propelled the S&P 500 to a new record high in early September.

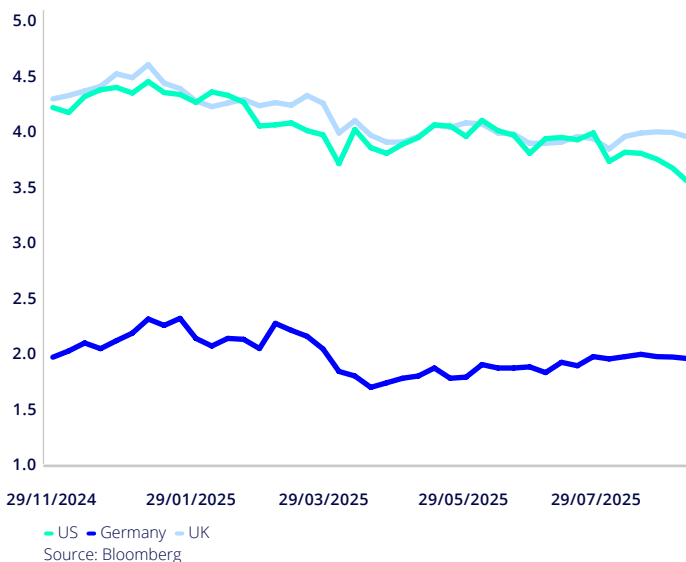
Equity Indices (End-2023=100)



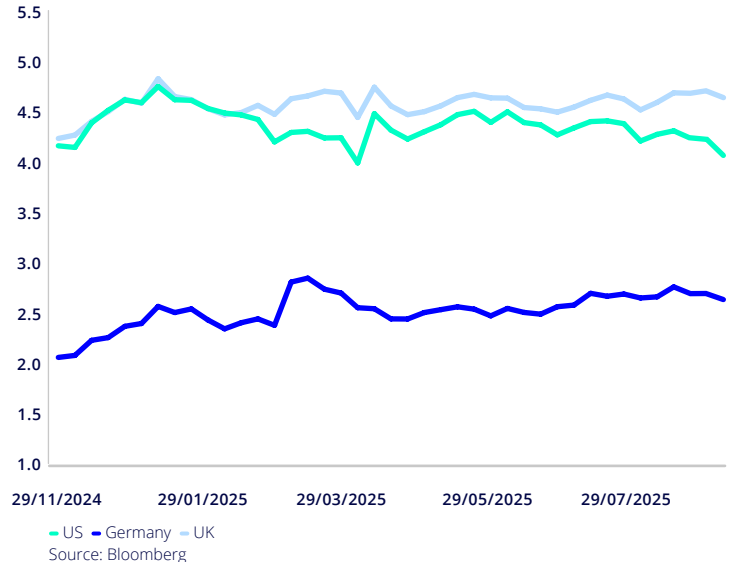
US bond yields lower

US government bonds also sold off sharply (with prices falling and yields rising) following Liberation Day but they too have recovered since May. Benchmark 10-year yields have fallen fairly steadily, notwithstanding the passing into law of Trump’s OBBB, which will add to already elevated government borrowing over the coming years, and threats to the Fed’s independence, with the firming of rate cut expectations contributing to the move lower in yields. All told, relative to the end of 2024, 10-year yields have fallen by around 50bps, with 2-year yields down about 75bps.

Government 2-Year Bond Yields (%)



Government 10-Year Bond Yields (%)



Markets

German and UK long-term yields drift higher

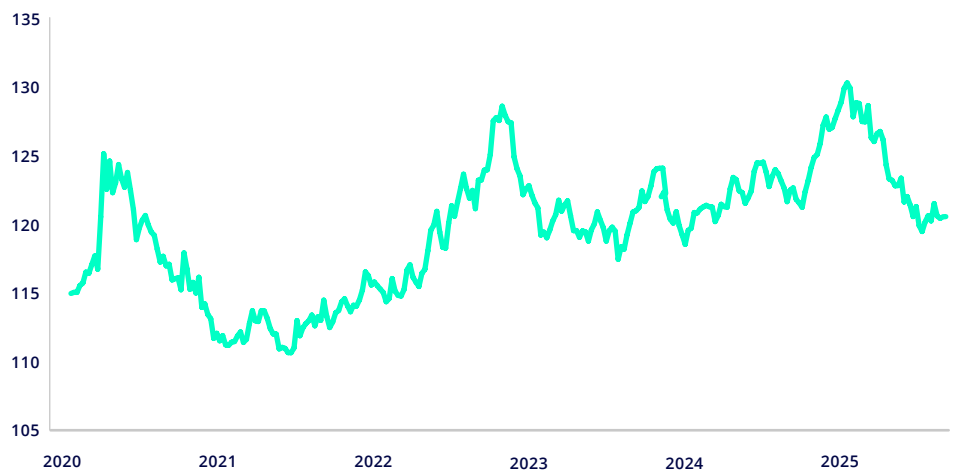
In contrast to the fall in US yields, German yields have drifted higher in recent months. The expectation that the ECB is more or less finished cutting rates has pushed up 2-year yields, while 10-year yields have been pressured by the prospect of increased bond issuance (supply) as the government raises borrowing to fund higher spending. As a result, 2-year yields are only about 15bps lower than at end-2024, notwithstanding a 125bps reduction in ECB interest rates in the intervening period, while 10-year yields are about 30bps higher. In the case of UK bonds, 2-year yields have backed up lately in response to the BoE's "hawkish" rate cut in early August but are still about 45bps lower than at the end of last year, while 10-year yields are about 10bps higher amid worries about the budget deficit.

Yield curves have steepened therefore across all three markets since the end of 2024, albeit in the context of falling yields in the US but lower short-dated yields/higher long-dated yields in both Germany and the UK. Ongoing fiscal concerns, and worries about Fed independence, are likely to keep this trend intact.

Dollar remains near year-to-date low

While US stocks and bonds have both recovered since mid-May, the dollar continued to lose ground through the beginning of July and has rebounded only modestly since then. The fall in US yields has probably weighed on the currency to some extent but doesn't fully account for its decline this year, with a hedging of dollar exposure by foreign holders of US assets and concerns about US trade and fiscal policy playing a role. In any case though, we expect US monetary policy to be the main driver of the dollar over the remainder of this year and into 2026.

Dollar Trade-Weighted Exchange Rate



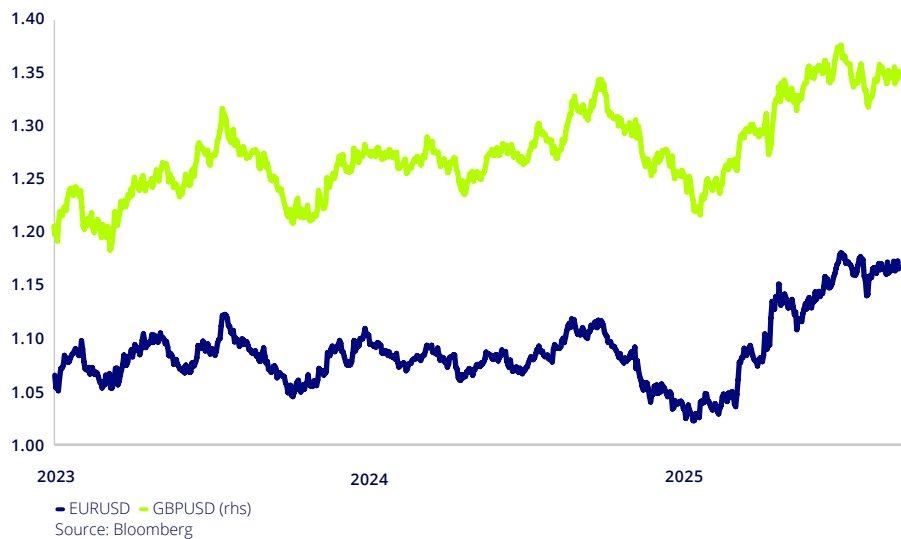
Source: Fed

Markets

Further dollar weakness ahead

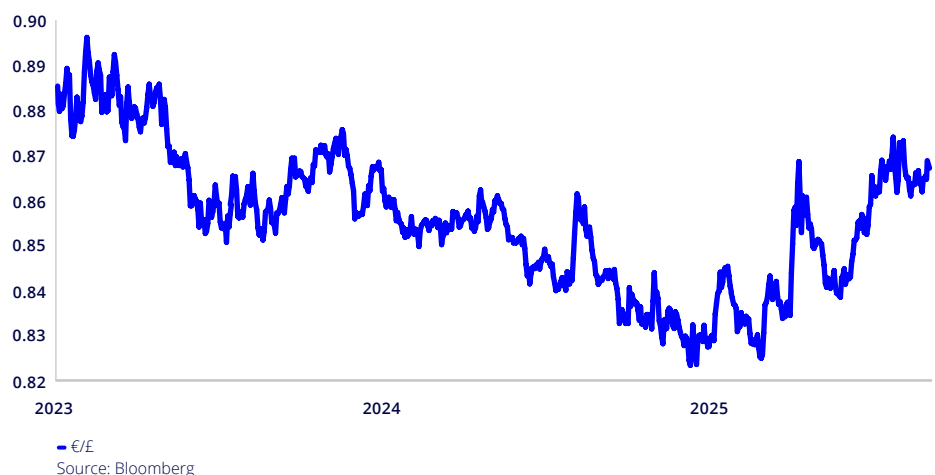
In our May Global Watch we expected “a resumption of Fed rate cuts to weigh on the dollar later this year”, with EURUSD forecast to move up into a trading range of \$1.15 to \$1.20 in Q4 (from \$1.10-\$1.15 in Q3). In the event, the pair moved into this range earlier than expected, trading mostly between \$1.15 and \$1.18 since the middle of June. We are keeping our Q4 forecast unchanged, but expect EURUSD to break through July’s 2025 high of circa \$1.1830 as the Fed resumes lowering rates (and the ECB keeps rate higher than previously expected), and are raising our forecast for the first half of next year to \$1.20-£1.25 (which would leave EURUSD in the vicinity of “fair value” based on some estimates of purchasing power parity). We see risks on both sides of this. Stickier than expected inflation in the US would keep interest rates higher than otherwise, boosting the dollar. On the other hand, a larger decline in US interest rates due to weaker growth could see the dollar fall by more than we expect, as could (in our view) an unwarranted lowering of interest rates due to political interference.

Euro and Sterling versus Dollar



Sterling has traded between \$1.32 and \$1.37 against the dollar since the beginning of July (a bit stronger than our Q3 forecast of \$1.30 to \$1.35) and is currently in the upper half of this range. We are leaving our Q4 forecast unchanged at \$1.35-\$1.40, and see this range prevailing in H1 2026 as well (versus \$1.40-\$1.45 previously). The current environment of relatively weak growth and relatively high inflation in the UK, and the related concerns about the state of the public finances, are likely to weigh on the pound. For much the same reason, we are lowering our forecast range for the pound versus the euro to £0.84 to £0.89, from £0.82 to £0.87 previously. A credible budget in November would help to allay fiscal concerns, although this might not necessarily benefit the pound if it also provided room for the BoE to lower rates by more than expected.

Euro-Sterling Exchange Rate



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