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Central bank depository.

The cuts keep coming.

SEI's View

Although the major central banks (with the exception of the Bank of Japan) continue to reduce their policy rates against the backdrop of easing inflation pressures, traders have dramatically pared back their expectations for future rate cuts from the Federal Reserve (Fed) and the Bank of England. The market-implied rate on the federal funds rate by year-end 2025 now stands at roughly 4%. That level is far greater than the sub-3% expected at the end of September and is now above the Federal Open Market Committee's (FOMC) median projection of 3.4%. Republican Donald Trump's victory in the U.S. presidential election, along with a GOP majority in Congress, has led to a consensus view that both economic growth and inflation will run hotter than previously believed.

U.S. Federal Reserve (Fed)

- As widely anticipated, the FOMC voted to reduce the federal-funds rate by 0.25% to a range of 4.50% to 4.75% following its meeting on November 6-7. The central bank had begun its rate-cutting cycle with a 0.50% reduction in mid-September.
- In a statement announcing the rate decision, the FOMC commented that "labor market conditions have generally eased, and the unemployment rate has moved up but remains low. Inflation has made progress toward the Committee's 2 percent objective but remains somewhat elevated. The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance."
- At a news conference following the FOMC meeting, Fed Chair Jerome Powell commented that, in the near term, the presidential election will have no impact on the Fed's monetary policy decisions. "We don't know what the timing and substance of any policy changes will be," he said. "We therefore don't know what the effects on the economy would be-specifically whether and to what extent those policies would matter for the achievement of our goals [of maximum employment and price stability]." However, Powell acknowledged that the economy could be affected by any presidential administration's policies or federal legislation.

European Central Bank (ECB)

- The ECB reduced its benchmark interest rate by 0.25% to 3.25% on October 17—its third rate cut over its past four meetings.
- The ECB previously implemented rate cuts of 0.25% in June and September—the first reductions since September 2019.
- In a statement announcing the rate decision in October, the ECB's Governing Council commented, "Inflation is expected to rise in the coming months, before declining to target in the course of next year. Domestic inflation remains high, as wages are still rising at an elevated pace. At the same time, labour cost pressures are set to continue easing gradually, with profits partially buffering their impact on inflation."

Bank of England (BOE)

- By an 8-1 margin, the BOE voted to reduce the Bank Rate by 0.25% to 4.75% at its meeting on November 7. One BOE Monetary Policy Committee (MPC) member voted to maintain the benchmark rate at 5.00%.
- In its announcement of the rate decision, the MPC commented, "There has been continued progress in disinflation, particularly as previous external shocks have abated, although remaining domestic inflationary pressures are resolving more slowly."
- The MPC cautioned that the government's Autumn Budget 2024 includes several measures that could increase the U.K.'s inflation rate by as much as 0.5% to a peak of roughly 2.75% in the second half of 2025.

Bank of Japan (BOJ)

- As widely anticipated, the Bank of Japan (BOJ) left its benchmark interest rate unchanged at 0.25% at its meeting on October 30-31. The central bank has been on hold since it raised the rate from 0.1% to 0.25% at its meeting on July 30-31.
- In a statement announcing the rate decision, the BOJ noted that it expects inflation to "increase gradually, mainly reflecting the improvement in the output gap and the rise in medium- to long-term inflation expectations." However, the central bank cautioned that "there remain uncertainties regarding this outlook, and it is necessary to carefully monitor factors such as firms' wage- and price-setting behavior."
- During a news conference following the meeting, BOJ Governor Kazuo Ueda said, "Looking at domestic data, wages and prices are moving in line with our forecasts. As for downside risks to the U.S. and overseas economies, we're seeing clouds clear a bit." Regarding the outlook for future rate hikes, Ueda commented, "We will scrutinize data available at the time of each policy meeting, and update our view on the economy and outlook, in deciding policy."

Bank of Canada (BOC)

- The BOC cut its policy rate by 0.50% to 3.75% following its October 23 meeting, projecting global economic growth of about 3.0% over the next two years.
- In its press release, the BOC noted that it expects economic growth in the U.S. to exceed expectations and that the Euro area economy should see a modest recovery in 2025. However, the central bank believes that China's economy will remain sluggish.
- The BOC also commented that its decision to implement a larger rate cut was intended to "support economic growth and keep inflation close to the middle of the 1% to 3% range. If the economy evolves broadly in line with our latest forecast, we expect to reduce the policy rate further." The BOC also reiterated its goal of keeping inflation near its 2% target.

Summary Table

Central Bank	Current Rate	Prior Rate	Change	Next Meeting
Fed	4.50%-4.75%	4.75%-5.00%	-0.25%	December 17-18
ECB	3.25%	3.50%	-0.25%	December 12
BOE	4.75%	5.00%	-0.25%	December 19
BOJ	0.25%	0.25%	Unchanged	December 18-19
BOC	3.75%	4.25%	-0.50%	December 11

Source: Fed, ECB, BOE, BOJ, BOC, as of November 7, 2024.

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