Global Economic Weekly

Hiking season in full bloom

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Economics
Global

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Global Letter: Hiking season in full bloom

As expected, the Fed hiked and communication was hawkish. Our view has been that rate hikes were necessary in the US, and Warsh stated many of the reasons that we have argued: loose financial conditions, strong growth, the capex boom, a solid labor market, and inflation that remains too high. The bar for Warsh to out-hawk the market has become relatively high. But, especially outside the US, we think markets will sooner or later have to readjust their hike expectations lower, with initial conditions that are different from the post-COVID boom.

United States: Kevin Warsh and the parable of the Chinese farmer

Fed hikes looked politically challenging a few months ago, but they increasingly seem like an opportunity for Chair Warsh to burnish his legacy. We stick to our call for two more, in Oct and Dec. The robustness of the nominal economy both increases the risks of inflation persistence and reduces the risks that hikes will cause a recession. However, if supply shocks prove persistent, the Fed might eventually have to choose between an extended inflation overshoot and a hard landing.

Euro Area: Corporate health check – deteriorating

Our corporate health measure moved into "vulnerable" territory in 1Q26 and is likely to stay there in 2Q. Financing conditions and activity were the swing factors, adding to weak profits, especially in Germany and France.

UK: BoE review – Hawkish hold, increasingly nervous

The BoE was on hold, with 6-3 vote. Decisive hawkish shift with the BoE looking closer to tightening, if the recent rise in energy prices is sustained. We keep our call of no hikes this year under review. Recent energy moves, if they persist, could make a hike in Nov. our base case. But we do view market pricing of close to four hikes as excessive.

Australia & New Zealand: Weathering El Niño

El Niño often means hotter and drier conditions for Australia's south and east. Nine of the ten driest winter-spring periods on record for Eastern Australia occurred in El Niño years, raising drought risk across key agricultural regions. New Zealand is more exposed than Australia, in our view.

Emerging EMEA: Kenya – Status quo until the elections

Ruto remains the front-runner, but re-election is not assured. Article IV on track to be published in December; SLA before elections looks ambitious given Zambian precedent.

Latin America: Mexico – IG at stake

We met policymakers, analysts and investors: IG at risk in 2-3y absent faster growth or consolidation. Banxico is unlikely to follow the Fed: sub-4% inflation, slack and a strong peso keep it on hold. A US-Mexico deal outside USMCA could land before the US midterms, cutting tariffs in exchange for tighter restrictions.

Global Letter

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Hiking season in full bloom

As expected, the Fed hiked and communication was hawkish. Despite opposing forward guidance, Chair Warsh delivered on what he signaled at Jackson Hole, which we saw as an overcorrection for his July presser. Our view has been that rate hikes were necessary in the US, and Warsh stated many of the reasons that we have argued: loose financial conditions, strong growth, the capex boom, a solid labor market, and inflation that remains too high.

We expect the Fed to deliver an additional 50bp of hikes in October and December. In turn, the market is already pricing the hiking cycle close to perfection, absent any further shocks, with about 75bp of additional hikes. This is a global theme: we see markets overpricing rate hikes, perhaps not as much for the Fed but more so for the ECB, the BoE, or the BoC. Rates are too sensitive to oil, with initial conditions that are all too different from the post-pandemic recovery.

A hawkish hike after Jackson Hole

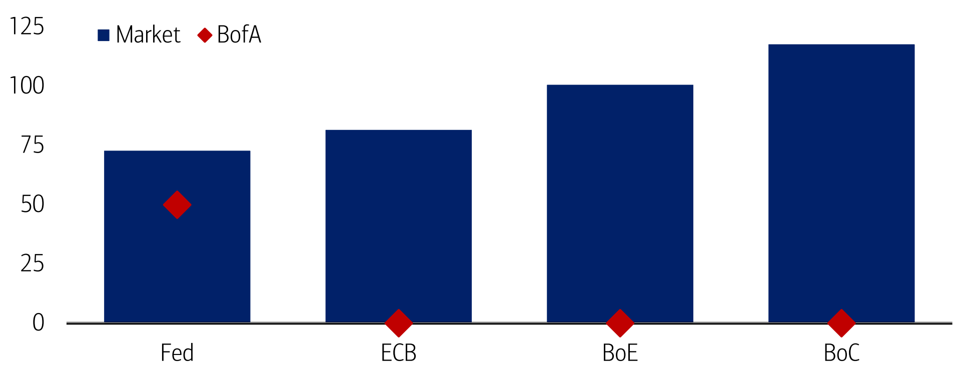
Warsh delivered a hike that was at this point widely expected, after tying his hands somewhat at Jackson Hole and following a slew of solid US data. Economic activity and the labor market have both showed signs of firming since the July meeting, without material progress on inflation, and amid a more hostile geopolitical environment.

There were interesting bits in the Fed's communication. The statement and press conference were hawkish, reinforcing the price stability side of the mandate, and pointing to easy financial conditions in a decision to *remove accommodation*. The SEP was also hawkish, showing stronger growth, higher inflation, and a lower unemployment rate despite showing rate hikes.

The market is pricing Fed hikes to perfection

The market reaction was a clear bear flattening of the curve with rates selling off across all tenors. After the move, the markets are pricing around 100bp of hikes for the cycle. Even for us, who have long stressed the need for Fed hikes in the US, it is more than our 75bp forecast for the cycle, which is among the most hawkish on the Street. There are risks of further hikes, but the bar for Warsh to out-hawk the market appears high now.

Exhibit 1: There are upside risks to our central bank calls, especially outside the US, but we think markets are sooner or later going to adjust their expectations towards fewer hikes
Additional policy rate hikes priced in by July 2027 vs BofA forecasts (bp)



Source: BofA Global Research, Bloomberg

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After all, inflation is stuck above target, but not even close to the post-pandemic peak, and the overall economic background is much more balanced. The labor market is in balance rather than extremely tight, wage growth is more contained, a small negative fiscal impulse is expected for next year, and underlying inflation is below 3%.

Keep your feet on the ground

In our view, markets are overpricing rate hikes across much of G10. 100bp of hikes in the US is a risk scenario that could potentially happen, but market dislocations seem even larger in other markets. The US is characterized by remarkable resilience, less sensitivity to the energy shock, solid consumption growth, and the AI capex boom. There are possible paths leading to a larger hiking cycle, but our base case is for 75bp in total.

In comparison, if we take the case of the Euro area, the UK, or Canada, market dislocations appear much larger. Europe is significantly more sensitive to the oil shock and has weaker fundamentals for growth. Second round effects in the UK appear limited so far. And Canada is facing heightened trade uncertainty with core inflation at target.

Initial conditions still matter

The ECB has delivered two hikes, and while they may deliver one more hike, this is far less than the market is currently pricing following the ECB meeting last week. We have lower conviction in our call for no more hikes, but still high conviction that the ECB will not deliver on market pricing, and that rate cuts will come back in 2027. Growth and demand pressures are just not there in the Euro area.

Similarly, the BoE remained on hold this week. And while we see risks of a hike by the BoE rising, we think any tightening is unlikely to be the start of a prolonged hiking cycle. In contrast, the market is pricing almost 100bp of hikes despite limited passthrough to core so far, softer labor market backdrop, and restrictive rates. And it was pricing even more before the BoE held rates this week.

In Canada, BoC communication surprised on the hawkish side focusing more on headline inflation. But with relatively weak growth, elevated trade uncertainty likely to weigh on investment, and core inflation still at target, is hard to envision the BoC hiking in tandem with or more than the Fed in face of the oil shock.

Despite central banks not having the best track record on inflation since the pandemic, it is one thing to argue that neutral rates may have increased, but it is a different thing to argue for interest rates to go back close to the peaks of the cycle. Initial conditions still matter, and we think markets are sooner or later going to adjust their expectations.

US

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Kevin Warsh and the parable of the Chinese farmer

- Fed hikes looked politically challenging a few months ago, but they increasingly seem like an opportunity for Chair Warsh to burnish his legacy. We stick to our call for two more, in Oct and Dec.

- The robustness of the nominal economy both increases the risks of inflation persistence and reduces the risks that hikes will cause a recession.

- However, if supply shocks prove persistent, the Fed might eventually have to choose between an extended inflation overshoot and a hard landing.

Fluctuating fortunes

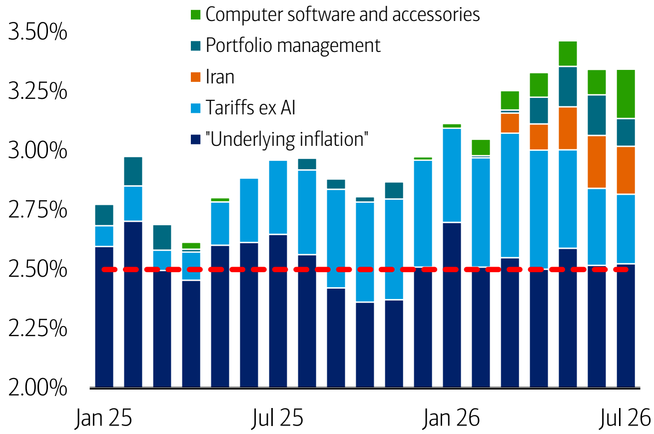
The Parable of the Chinese farmer is the story of a farmer who faces a series of circumstances that seem either unlucky or fortuitous at first blush. Other villagers alternate between offering their commiserations and congratulating him. But he responds the same way each time: “We’ll see”.

Why is this relevant? Kevin Warsh was nominated for Fed Chair in January despite being a rank underdog in the race just a few months prior. A stroke of good fortune, perhaps?

Before his nomination, Warsh had called on the Fed to cut rates faster, to accommodate the expected AI productivity boom. Then the Iran conflict led to an energy shock. Warsh advocated for looking through the energy spike as a one-off, but we also got a series of elevated core PCE prints between his nomination and the time he took office. This took cuts off the table and the conversation quickly shifted to hikes. At the time, some clients argued that Warsh might regret having gotten the job given the political challenges of raising rates, particularly before the midterms.

But after the September hike, we are sticking with our out-of-consensus call for two more 25bp increases in October and December, followed by an extended pause. Part of our reasoning is that the September hike is looking increasingly good for Warsh’s legacy so far.

Exhibit 2: Underlying inflation is around 2.5%. Not terrible, but it’s stuck
Core PCE, with “special factors” broken out (% y/y)



Source: BofA Global Research, Bureau of Economic Analysis, Bureau of Labor Statistics
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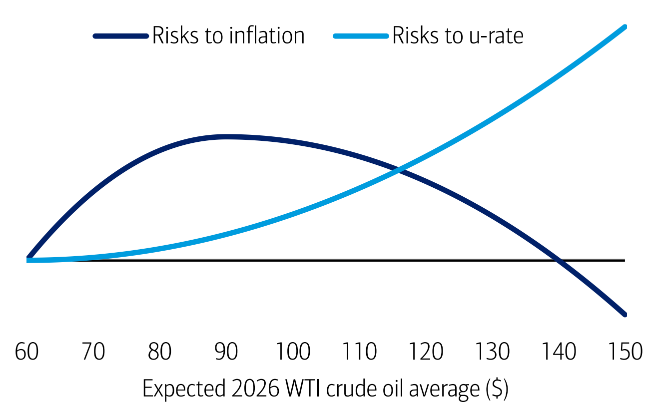
Exhibit 3: Hikes are most plausible if WTI averages $80-100 for an extended period
Stylized representation of risks to the Fed’s dual mandate, as a function of WTI crude oil prices



Source: BofA Global Research
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For one, the rate hike alleviates concerns that Warsh is not politically independent. Additional increases would end that conversation for good. For another, by hiking at just his third meeting as Fed Chair, Warsh can absolve himself of the inflation problem, while also taking credit for any disinflation in coming months. We expect the BEA's methodological revisions and the rolling off of tariff and Iran effects from y/y inflation to push the core PCE toward 2.5% by the middle of next year (Exhibit 2). None of this would be a function of rate hikes, but the optics would be favorable for Warsh because he took action and the previous regime did not.

The irony is that the opportunity for these favorable optics only arose because core inflation rose very quickly at the start of the year and two factors beyond the Fed's control sealed the deal for the September hike. First, oil prices ratcheted up significantly in the run-up to the meeting. And second, the Treasury's buyback program backfired, contributing to the spike in yields that amplified concerns that the long end could de-anchor if the Fed's credibility was called into question.

Will rate hikes work?

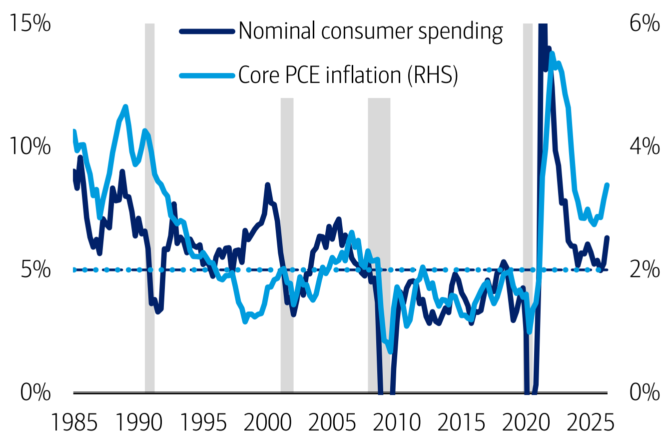
But let's not forget the lesson of the parable: "We'll see". The hikes will look better in hindsight if i) equities and long-end rates rally, ii) the economy holds up, and iii) inflation moves back to target. Let's address these in turn.

Markets like the hike so far

Equities and bonds have responded well to a credible and independent Fed. If this continues, it will make hikes far easier for Warsh to sell in Washington. But markets might end up being driven much more by developments in the Middle East and the AI space than the Fed. With oil hovering around $100, we think slightly lower prices could actually make it easier for the Fed to hike (Exhibit 3). Another leg up would raise the risk of demand destruction, especially since fiscal stimulus is now behind us.

Exhibit 4: The magic 5% line: core inflation tends to overshoot when nominal spending is above 5%

Nominal consumer spending and core PCE inflation (% y/y)



Source: Bureau of Economic Analysis

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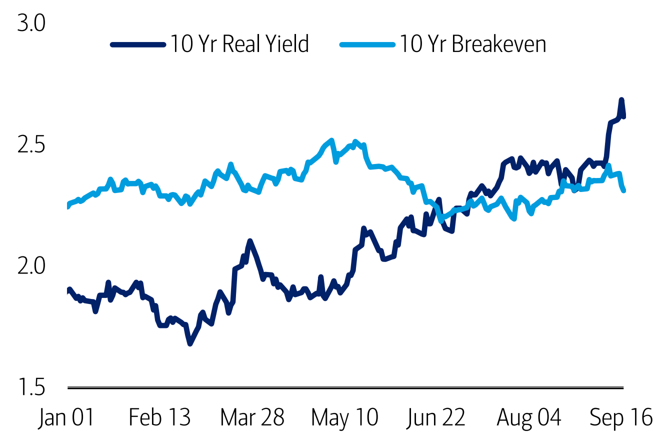
Exhibit 5: Ten year real yields have been rising, while breakevens remain contained

10-year real yield and breakeven inflation (%)



Source: Bloomberg. Note: This is daily data from Jan 01, 2026 through Sep 17, 2026

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The Fed is not making a policy mistake

That brings us to the economy. Dovish-leaning analysts have argued that the Fed is making a policy mistake by raising rates. We disagree.

Why the Fed hiked into a supply shock?

The first contention is that the Fed shouldn't be hiking into a supply shock. When asked about this, Warsh said that the Fed's job is to prevent the increase in commodity prices from broadening out.

Here's how we interpret that comment. The concern about hiking into a supply shock is that real growth might be already weakening, and the hikes would inflict even more pain on the economy. But the real economy has been stable of late, even as inflation has picked up. I.e., nominal growth has been booming. That's what exacerbates the risk that the commodity shock could broaden out.

From Warsh's monetarist perspective, the growth rate of the nominal economy is a function of the velocity of money and the money supply. The response to robust nominal growth is to slow the velocity of money by hiking rates.

Indeed, the data support the case for reining in nominal growth. Nominal spending is up 6.3% y/y. History suggests core PCE tends to overshoot 2% when nominal spending is running above 5% (Exhibit 4). The late 90s tech productivity boom was an exception, and AI-driven productivity could deliver a similar outcome. But until there is clear evidence of disinflation due to AI, the Fed has little choice but to tighten policy. Especially given that i) today's nominal spending numbers are even more impressive in the context of much slower population growth, and ii) globalization was also driving disinflation in the 90s, whereas now we are in a phase of inflationary deglobalization.

The hike probably prevented long-end rates from de-anchoring

A second argument we have heard against hikes is that, with long-end rates already above 5%, the Fed risks doing serious damage to the economy by hiking. Our response: the long end would likely have sold off meaningfully further on credibility concerns if the Fed hadn't raised rates.

Rising r* expectations should be met with hikes

Third, some clients have asked us why the Fed should care about the spike in long-end yields (which we view as part of the reason for hiking). After all, breakeven inflation and term premia have remained contained, suggesting markets aren't worried about Fed credibility (Exhibit 5).

In our view, the increase in real yields suggests markets are pricing a higher path for real policy rates, consistent with expecting a structurally higher policy path I.e., a higher r*. We agree that this isn't as worrying for the Fed as de-anchoring of inflation expectations would have been. But it doesn't absolve policymakers from the need to raise rates either. If the Fed were to stay on hold in the face of a rising r*, it would implicitly be easing. That wouldn't be a desirable outcome with the labor market at full employment and inflation overshooting the target.

Warsh has a great opportunity to push underlying inflation back to target

Finally, some analysts are of the view that the Fed didn't need to hike because underlying inflation is already close to 2%, and the overshoot is almost entirely due to supply disruptions that will roll off the y/y rate in short order. Our view is that underlying inflation has been stuck around 2.5% for several quarters because policy isn't tight enough to push it back to 2% (Exhibit 2).

Moreover, we think the resilience of the economy changes the Fed's risk/reward calculus. On the one hand, it presents Warsh with an opportunity to make a stronger push to get inflation all the way back to target, without risking a recession, than Powell's Fed was willing or able to do. This seems to be a stroke of good fortune, and we think Warsh is doing the right thing by seizing the moment. On the other hand, robust nominal growth increases the risk that if the Fed doesn't tighten, demand-driven inflation could pick up as the supply shocks fade.

Will three hikes be enough to get inflation back to target?

Our base case of a modest 75bp hiking cycle is premised on our view that i) the underlying inflation overshoot is also modest (50bp), and ii) supply disruptions should roll off the y/y rate in coming quarters. But the risk is that 75bp of hikes might not be enough. One concern is that wages might re-accelerate if the u-rate keeps falling. Given how well the economy is already performing, this could set off a substantial demand boom, which would call for even higher policy rates.

A more pernicious scenario is that supply-driven inflation might remain stubbornly high. For example, there might be a lot more inflation in the pipeline due to the Iran conflict than we are accounting for in our base case.

This would leave the Fed with a difficult choice: either accept a few more years of above-target inflation, or put more pressure on aggregate demand than has been needed to hit the target in the past, risking a recession. Either choice would tarnish Warsh's legacy. We'll see.

Euro area

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Corporate health check: deteriorating

- Our corporate health measure moved into "vulnerable" territory in 1Q26 and is likely to stay there in 2Q.
- Financing conditions and activity were the swing factors, adding to weak profits, especially in Germany and France.
- Profitability could have improved in 2Q, but that is focused on labour costs. Energy price constraints have yet to kick in.

The corporate health version of backward looking when forward driving

Our corporate health measure moved into "vulnerable" territory in 1Q26, when the data included only one month of the energy price shock. Tighter financing conditions, weaker activity and continuously weak profitability were the main drivers.

Actual credit origination was still ok in 1Q26, but perhaps that represented lagged demand, or corporates drawing on credit lines amid inventory or working capital needs during the energy price shock. Rising funding costs could yet show in loan dynamics. National accounts-based profitability measures could provide some 2Q relief. But that metric focuses on labour costs. Energy costs kick in with a lag here. We doubt that energy costs will drive labour costs higher this time though (unlike the ECB) – profitability effects from energy are more likely via demand and output, in this measure.

France is already under scrutiny, and our corporate health check doesn't provide much relief. Vulnerability has been rising steadily. Disinflation (including in profits) with real activity resilience was the story until 2026. But this year, disinflation (in profits) seems to have paused, and activity is taking a toll.

Corporate health back into vulnerability territory in 1Q26

We update our usual Euro area non-financial corporate vulnerability indicator (Exhibit 6, and for our first analysis with more details on the measure, see our report Euro Area Viewpoint: Health check on the corporate sector 22 March 2024). The full dataset is currently available only for 1Q26, when our measure moved back into vulnerability territory. With only around one month of the 2026 energy shock in the data, the corporate sector is already in the least comfortable position since the 2022 energy shock (note that 1Q26 is the latest period for which the full dataset is available).

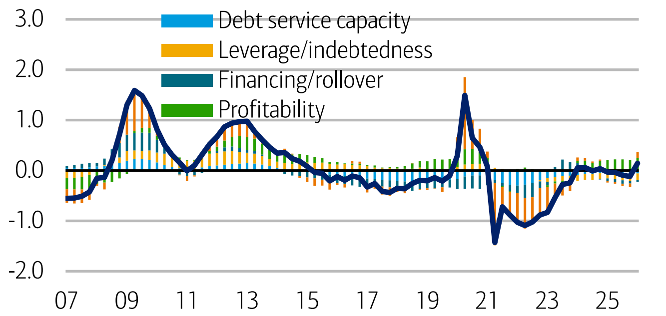
To be clear, corporate health levels are currently uncomfortable rather than alarming. However, we caution that this backward-looking snapshot may not fully capture the current state of the corporate sector, given the tightening in financing conditions since the spring and still-elevated geopolitical uncertainty weighing on demand.

We are particularly concerned about France and Germany, where corporate fundamentals were more vulnerable than those of their peers in 1Q26. Conditions deteriorated marginally in Italy in 1Q, while the aggregate indicator for Spain remained stable at the start of the year (Exhibit 7). Our country-comparison is imperfect: we compare corporate vulnerability vs 2000-19 averages, including the Euro area sovereign crisis when conditions were particularly harsh in Italy and Spain, and particularly benign in Germany.

Yet, a comparison to the 2018-19 period leads to the same observation: French corporate vulnerability is still below its peak in 2012/13, but on a steadily deteriorating trend. In Germany, the leap from quasi permanently favourable to more persistently vulnerable territory is noteworthy, too.

Exhibit 6: Our composite indicator has stabilised away from comfortable levels

Euro area non-financial corporates' vulnerability measure



Source: Eurostat, ECB, Bloomberg, BofA Global Research. Note: We build a vulnerability measure along five dimensions: debt-service capacity (interest coverage ratio, corporate savings over operating surplus, revenue generation), leverage (debt-to-equity, net debt-to-EBIT and gross debt-to-income ratios), activity (growth in gross value added), profitability (operating-surplus-to-value-added ratio), and financing/rollover (overall cost of debt financing and credit impulse). The series are standardised in the period 2000-19. Sub-components are computed as the arithmetic average of the respective underlying z-scores of the individual series. Headline composite vulnerability is obtained by equally weighting the composite z-scores of the five sub-categories. Recall that negative values of the index indicate lower vulnerability relative to the long-term average, while positive values suggest the opposite.

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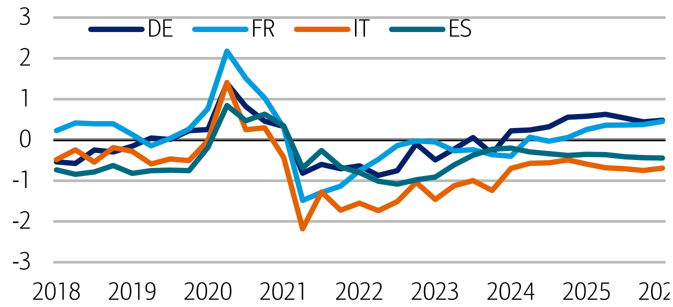
Exhibit 7: The corporate base in France and Germany remains particularly vulnerable

Non-financial corporates' vulnerability measure for the main Euro area countries



Source: Eurostat, ECB, Bloomberg, BofA Global Research. Note: We build a vulnerability measure along five dimensions: debt-service capacity (interest coverage ratio, corporate savings over operating surplus, revenue generation), leverage (debt-to-equity, net debt-to-EBIT and gross debt-to-income ratios), activity (growth in gross value added), profitability (operating-surplus-to-value-added ratio), and financing/rollover (overall cost of debt financing and credit impulse). The series are standardised in the period 2000-19. Sub-components are computed as the arithmetic average of the respective underlying z-scores of the individual series. Headline composite vulnerability is obtained by equally weighting the composite z-scores of the five sub-categories. Positive/negative values indicate higher/lower vulnerabilities

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Activity levels and financial conditions have changed most into 2026

Financing/rollover conditions, and activity levels have changed the most in 1Q26, adding to more permanent discomfort from weak profitability. In Exhibit 8, we show the changes in these two components across countries, and take a first stab at the potential direction in 2Q26.

Across countries, weaker growth in non-financial corporate gross value added (GVA) contributed to tighter corporate conditions, with Spain the notable exception. The partial information available for 2Q26, using aggregate GVA as a proxy for non-financial corporate GVA, suggests that activity may improve modestly in 2Q, at least for the Euro area and Spain, but not for Germany, Italy or France. We struggle to see activity sustainably reducing vulnerability in 2H26, as we expect a slightly weaker sequential growth profile from 3Q26 onwards (see report: Euro Area Viewpoint: Back to school – September 2026 edition 01 September 2026).

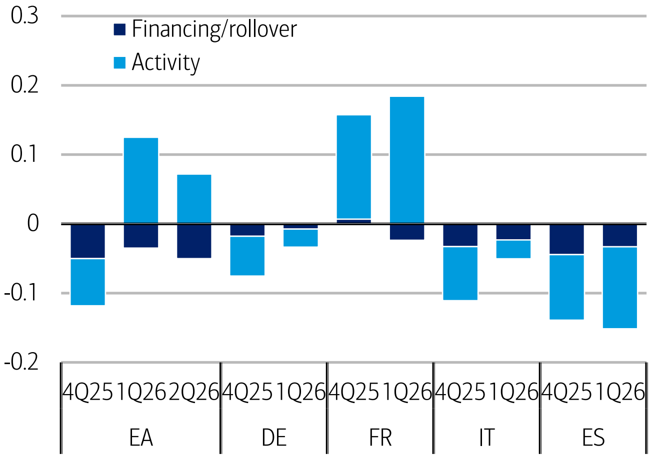
Zooming in on financing conditions: worried about prices, not (yet) quantities

Given the ECB's tightening cycle since June, a closer look at the financing and rollover component is a must. Our headline financing/rollover indicator for the Euro area may actually have improved marginally in 2Q26 (Exhibit 3), but this masks diverging dynamics across its underlying components. Recall that the indicator captures both the cost of financing for non-financial corporates (combining bank lending rates and corporate bond market rates) and the credit impulse, which measures new credit origination.

The evolution of these two components was markedly different in 2Q26. On the one hand, non-financial corporates' financing costs continued to tighten (Exhibit 9). This reflected both the ongoing repricing of corporate loans and a stronger risk-premium component, as banks perceived higher corporate credit risk against a very uncertain macro backdrop. On the other hand, credit origination picked up meaningfully in 2Q26 after moving broadly sideways since early 2025 – to around an average €28bn a month in 2Q26, compared with roughly €15bn in 1Q26 (Exhibit 10).

Exhibit 8: Activity indicators are now a vulnerability-enhancing factor

Contribution of activity and financing/rollover indicators to headline vulnerability index in 1Q25 vs 2Q26.



Source: Eurostat, ECB, Bloomberg, BofA Global Research. Note: activity (growth in gross value added) and financing/rollover (overall cost of debt financing and credit impulse). The series are standardised in the period 2000-19.

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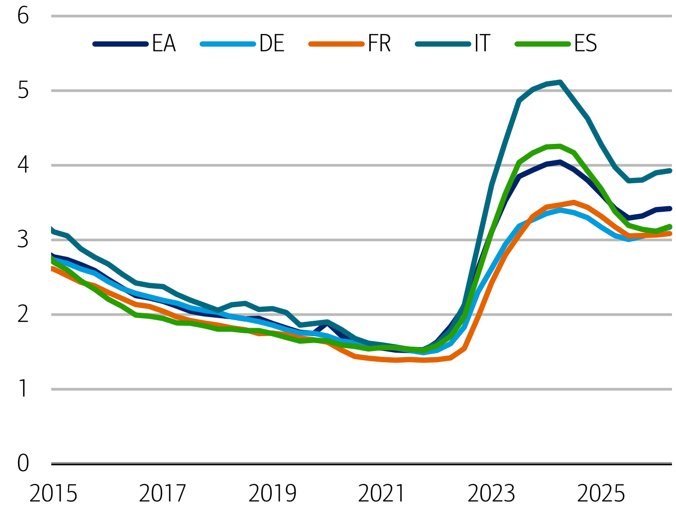
Exhibit 9: Non-financial corporates' financing costs continue to tighten

Composite cost of debt (weighted average of MFI rates on outstanding loans to NFCs and corporate debt)



Source: ECB, Bloomberg, BofA Global Research

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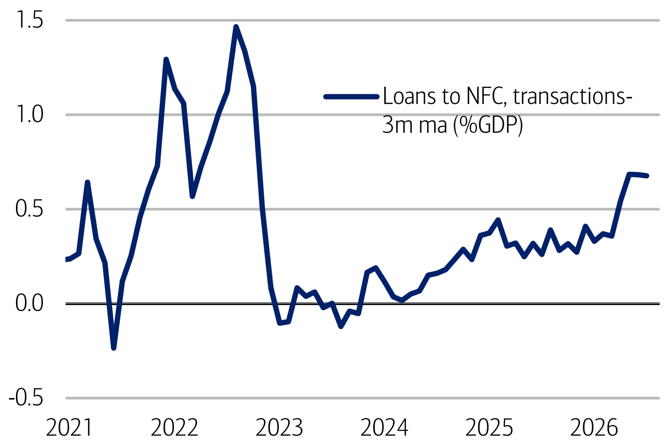
Exhibit 10: Credit origination towards non-financial corporates picked up meaningfully in 2Q26

Euro area loan transactions towards NFCs (3m average % GDP)



Source: ECB, Eurostat, BofA Global Research

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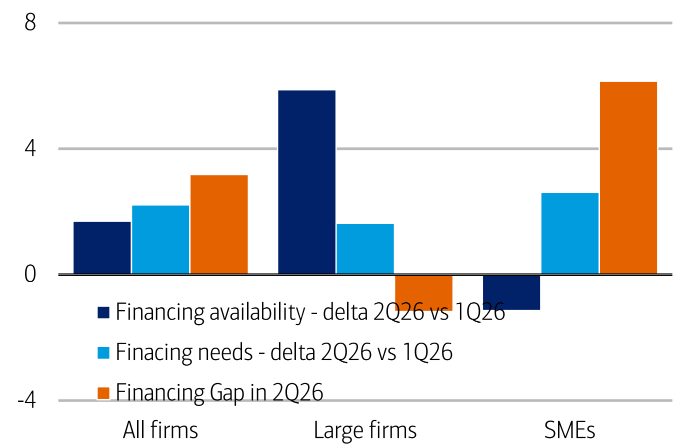
Exhibit 11: A slightly wider financing gap in 2Q26 masks a sharp divergence between large firms and SMEs

Change in perceived financing needs and availability (Q2 2026 vs Q1 2026) and financing gap in Q2 2026



Source: ECB SAFE, BofA Global Research

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That said, we would treat this improvement with caution. Credit dynamics can be highly volatile during periods of adverse shocks and heightened uncertainty, as firms often draw on credit lines to finance inventories and working capital needs. This interpretation is broadly consistent with evidence from the latest Bank Lending Survey (BLS), in which banks reported somewhat stronger loan demand driven primarily by inventories and working capital financing. As a result, this type of credit growth could reverse relatively quickly once uncertainty begins to ease.

We flag that the new ECB-BIG credit conditions index[1] also supports our concern that the credit deterioration being driven primarily by prices rather than quantities. The index

[1] A. Allayioti, P. Di Casola and G. Magistretti (2026), "The ECB-BIG index: tracking credit conditions in the euro area", ECB

points to a renewed tightening in corporate financing conditions since the start of the Iran conflict, with the worsening largely concentrated in price-related components, notably lending rates. In other words, the main challenge for corporates currently appears to be the rising cost of credit rather than an outright lack of access to financing.

That said, SAFE survey evidence suggests that this pattern may not persist indefinitely. While firms on aggregate reported broadly unchanged availability of bank loans in 2Q26, the picture was markedly weaker for SMEs which continued to report a deterioration in credit availability and a widening financing gap (Exhibit 11). By contrast, large firms reported an improvement in access to bank credit. This divergence is important because tighter pricing conditions often translate into quantity restrictions with a lag, particularly for smaller and more bank-dependent firms. The deterioration in SMEs' perceptions of credit availability therefore suggests that the transmission of tighter financing conditions may already be underway, even if aggregate credit origination has remained relatively resilient so far. Put differently, the impact of recent tightening has so far been most visible through the price channel, but “quantity effects” may increasingly emerge in coming quarters through impaired access to credit, especially for SMEs. As a result, credit availability could become a more meaningful headwind for corporate health.

Can profitability come to the rescue?

Optimists would now flag that national account-implied profitability (value added minus compensation of employees per unit of output) has improved in 1H26, perhaps pointing to an underlying improvement. That could matter for the ECB, because profit inflation (or rather disinflation lately) is part of a “holistic” inflation view. We tend to focus on “unit profits” as a component of the GDP deflator, or as value added minus compensation of employees in manufacturing and non-public non-financial services.

True, unit profits in the economy have improved in 2Q on a % qoq comparison. Our proxy for non-financial corporates (using quarterly value added and compensation of employees data across NACE sectors) points to growing unit profits.

We doubt this is inflationary pressure rebuilding via the profit channel at this stage. First, the data tends to be volatile and one quarter is insufficient to establish a trend. Two potential factors spring to mind: first, this national accounts definition mainly measures profitability relative to labour costs. Energy prices play only a very limited and indirect role. As a consequence, increased profitability at the very start of the energy shock may reflect the differential between aggregate prices and sticky wage growth, rather than a more underlying improvement. Profits could still compress meaningfully if corporates are unable to pass on the energy bill to end consumers.

Second, much of the Euro area improvement in national accounts-implied profitability seems to be driven by German manufacturing improvement and French stabilisation.

Increased German manufacturing profitability in late 2025 may have been a genuine improvement helped by job shedding and hence lower labour costs. In 2Q26, the temporary surge in certain manufacturing activity (pharma and industry) may have helped, but as we have flagged repeatedly, that seems to be a temporary phenomenon and was already starting to correct lower in July data.

In France, we would remain cautious. Disinflation has been significant over the past couple of years, across consumer prices, wage growth and corporate profits, while real economic activity proved unexpectedly resilient. In 2026, however, the picture started to change: corporate profit measures has shown signs of stabilisation, but real economic activity has weakening steadily, often by even more than expected.

Economic Bulletin, Issue 5/2026.

UK

Sonali Punhani
MLI (UK)

BoE review: Hawkish hold, increasingly nervous

- BoE on hold with 6-3 vote as expected. Decisive hawkish shift compared to July, in light of recent energy price moves.
- The BoE looks closer to moving towards tightening, if the recent rise in energy prices is sustained and barring big downside data surprises.
- We keep our BoE call of unchanged rates this year under review. Recent energy moves, if they persist, could make a hike in Nov. our base case. But we do view market pricing of close to four hikes as excessive.

Hawkish hold

The Bank of England (BoE) kept the Bank Rate unchanged at 3.75% with a 6-3 vote as expected. It highlighted little evidence of material second round effects so far, along with soft labour market conditions and tightening in financial conditions weighing on inflation.

But there was a decisive hawkish shift compared to July, as we expected, in light of recent energy price moves. We interpret today's decision as signalling that the BoE looks closer to moving towards tightening if the recent rise in energy prices is sustained and barring big downside data surprises. Overall, the BoE is getting increasingly nervous about sitting out this shock entirely.

Rising upside inflation and second round effects risks

The BoE noted that risks to inflation were titled further to the upside compared with July and there is possibility of a less stark trade- off between growth and inflation.

The MPC judged the shock as looking protracted with most members placing more weight on energy prices staying higher for longer in the absence of a lasting de-escalation. Near term energy prices are close to the BoE's adverse scenario, though less persistent. While the BoE has seen little evidence so far of material second round effects, it noted that risks of material second round effects have increased since July and it was possible that indirect effects from energy on inflation had just been delayed rather than diminished. There was also increasing mention of risks of inflation exceeding thresholds where attentiveness to inflation has typically increased, especially in the run up to 2027 wage setting round (which previous comments from BoE has suggested is close to 4%).

More importantly the BoE highlighted that "Given the lags with which second-round effects appeared, it was not appropriate to wait too long for evidence of such effects before responding with policy". At the same time, the MPC raised its near-term inflation forecasts to 3.75% in 2026 Q4 and slightly above 4% in 2027 Q1 based on energy futures as of 14 Sept.

It also noted that activity has been slightly stronger than expected and that there are signs of stabilization in slack, implying the possibility of a less stark trade-off between growth and inflation.

Lombardelli, Bailey, Ramsden look closer to a hike

The paragraphs of swing voters moved more hawkish and they look closer to a hike. Bailey gave a signal that if the conflict persists and the risk of second-round effects emerging increases, it is likely that policy may have to tighten. He noted that with risks to energy and food more to the upside, second round effects could materialize more strongly, even though they haven't so far.

Lombardelli noted that “the case for a hike is building, the longer the conflict lasts.” Ramsden said “if upside pressures continue to build there could be a case for increasing bank rate”. Breeden noted that “if risks to the outlook for second-round effects crystallise, it becomes increasingly appropriate for Bank Rate to respond.”

Dhingra and Taylor seemed less concerned about risks of second round effects growing and seemed further away from hiking relative to the others.

But the MPC signalled that market pricing could be excessive

At the same time the MPC also implicitly pushed back slightly on the excessive market pricing of close to four hikes. While the minutes acknowledged that market participants' mean Bank Rate expectations have moved up in the near term, it noted that the upward slope in the market curve, to a greater extent, reflected risk premia. Bailey also highlighted that they didn’t discuss the prospect of raising rates four times.

Hike as soon as Nov. is looking increasingly likely

Our view is that the BoE’s guidance today signals that an insurance hike as soon as November could be warranted, if recent moves in energy prices persist until then and barring big downside data surprises. Our call is for no hikes this year, but recent energy moves if they persist could make a hike in November our base case.

We are working through our energy price assumptions and keep our call of unchanged rates this year under review. We will fine tune our forecasts and BoE call in the next few days to incorporate our commodities team upside revision to gas forecasts and recent oil moves (which are higher than levels included in our last forecast update and looking increasingly likely to stay there). This could imply a bit less growth, more inflation and BoE increasingly looking less likely to hold out on hiking in this energy shock.

But we view market pricing as hawkish

But we would view any tightening as insurance/risk management, rather than driven by materially broadening price pressures. Any tightening is unlikely to be the start of a prolonged hiking cycle. So we do view market pricing of close to four hikes as excessive. We don’t think that we are in the adverse scenario of the BoE yet because that scenario assumes much greater persistence in energy prices in future years and materially higher second round effects (peak of 1pp). We don’t expect second round effects to be as material or price rises to be significantly broad-based, given the limited evidence so far, a soft labour market backdrop and restrictive rates. Even Huw Pill (who has voted for a hike since April) has noted that the BoE could lift rates without kickstarting a prolonged and aggressive series of increases. So we don’t think rates will reach the peak of 4.75% (unless things materially worsen), which the optimal policy path under the adverse scenario points to and which markets are pricing.

QT decision adds more predictability to the QT process

The MPC published a multi-year plan for its QT decision. It decided to reduce the stock of UK gilts held for monetary policy purposes to zero through a multi-year plan, such that the remaining stock is unwound at an annual average pace of £46bn by Sept. 2034, through annual sales of £20bn alongside maturing gilts. They have also set a high hurdle to future changes to the unwind path (such as severe gilt market stress or if Bank Rate is insufficient to meet the inflation target). Overall, the BoE has doubled down on making QT operate in the background, rather than an active policy tool. At the same time, pausing of active sales for potentially the next six months and selling bonds directly to the government were taken as a positive signal for the gilt market ahead of the Autumn Budget.

Australia & New Zealand

Nick Stenner, CFA
Merrill Lynch (Australia)

Johnny Liu, CFA
Merrill Lynch (Australia)

Weathering El Niño

See full report: Australia & New Zealand: Weathering El Niño.

Super El Niño is likely emerging

Current weather conditions suggest this El Niño could rank among the strongest on record. Pacific Ocean temperatures are already around 1.4°C above long-term averages, suggesting this may be among the most significant El Niño occurrences observed in recent decades. While no two El Niño events are the same, El Niño often means hotter and drier conditions for Australia's south and east, and can increase the risk of heatwaves, drought and bushfires.

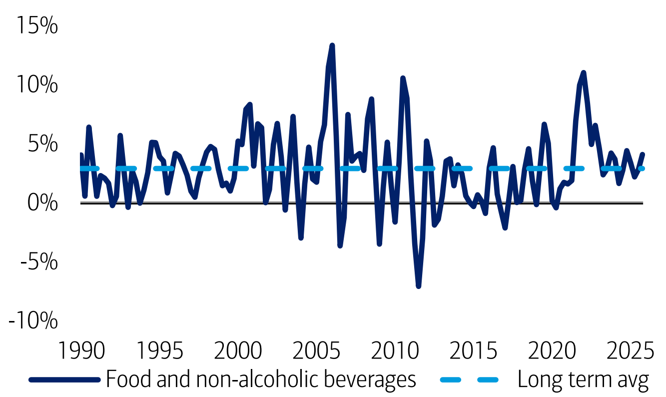
We do not find a material impact on headline inflation

We measure the impact of El Niño on macroeconomic variables with the Vector Autoregression framework also used in Global Economic Viewpoint: El Niño risks are building. Our results indicate that El Niño may lower GDP, and while there may be some modest headline disinflationary pressure, we do not find any statistically significant effect on inflation overall. This likely reflects the fact that the GDP drag is concentrated in agriculture and trade-exposed sectors, while other parts of the economy provide an offsetting boost, such as construction which benefits from drier conditions.

Australia: Warming waters hurts growth

The arrival of a strong El Niño adds another inflation risk for Australia. Hotter and drier weather conditions increase the probability of drought across key agricultural regions, potentially reducing crop yields and lifting food prices at a time when inflation remains persistently above the RBA's target band (Exhibit 12). The timing of El Niño occurs amid already elevated inflation and wage pressures. In our BofA Australia Consumer Survey, most businesses report passing higher fuel costs through to consumers, suggesting demand remains sufficiently resilient for firms to maintain pricing power (Exhibit 13).

Exhibit 12: Food price momentum has picked up
6m annualized CPI (per annum, %)



Source: ABS

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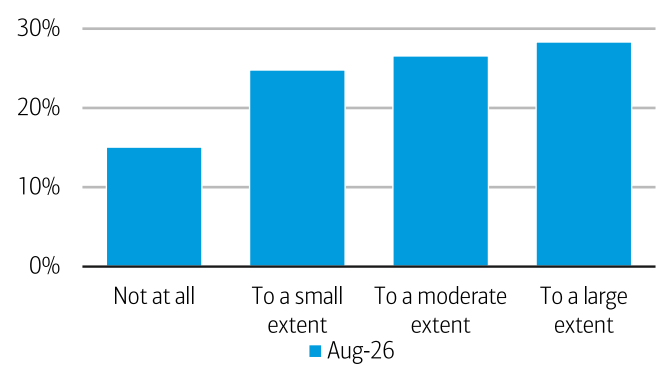
Exhibit 13: Inflation pass-through is here to stay
To what extent have recent increases in fuel prices led you to raise prices for other goods or services? (Business owners)



Source: BofA Global Research, SurveyMonkey

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Negative impact on growth, headline inflation impact is uncertain…

Our results indicate that El Niño may lower GDP, and while there may be some headline disinflationary pressures, we do not find any statistically significant effect on inflation. Our results are similar to a study in 2014[2] which found that El Niño has a negative

[2] Fair Weather or Foul? The Macroeconomic Effects of El Niño (2015)

impact on economic growth, with real GDP growth declining by approximately 0.8% over a one-year horizon.

… but food inflation is expected to persist

We find no material impact on headline inflation, but signs indicate food price momentum picks up 6 months after the first signs of an El Niño year (ONI>+0.5). El Niño pushing food prices higher can add an inflationary tail risk to an already sensitive inflation environment. Production in agricultural products such as wheat depends on rainfall conditions. The El Niño event introduces significant downside risk to production, as the event may result in drier-than average conditions across major wheat-producing areas in Eastern Australia.

New Zealand: More exposed to El Niño

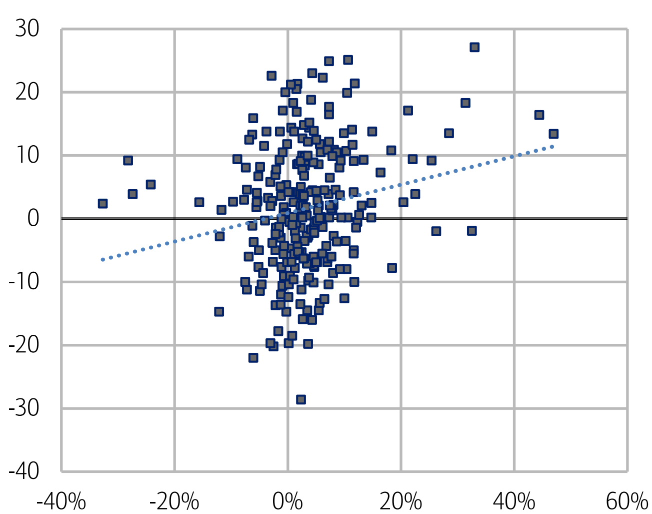
The impact on New Zealand is likely to be stronger than the rest of the G10 countries, given New Zealand's economic growth being more reliant on its dairy and meat production. The agriculture sector is the most exposed to El Niño, with a heterogenous impact on weather conditions between the east and west coast. Droughts occur in the eastern region, while floods can occur on the west coast.

Why This El Niño Matters for New Zealand

New Zealand's location and economic structure means that the likely impact differs to Australia. There tends to be a strong regional divide, where the east tends to be drier, with a greater risk of drought, but the west coast experiences significant rainfall and a higher probability of flooding risk.

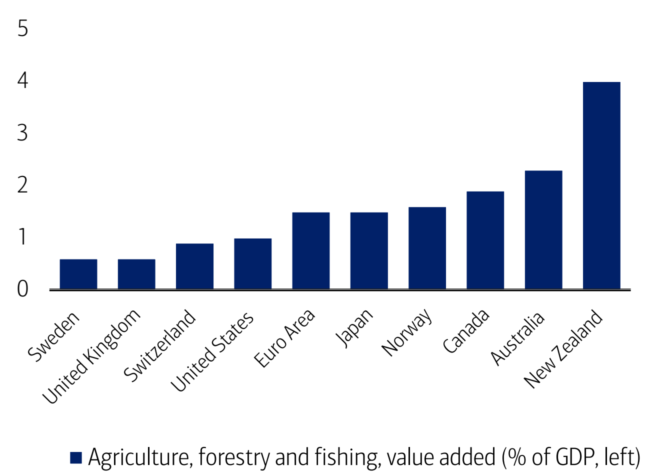
Unlike Australia, New Zealand receives a much more geographically mixed outcome. El Niño affects New Zealand more through changes in wind patterns. Milk production can be affected by El Niño due to reduced pasture growth and lower milk production (Exhibit 14). New Zealand's economy is the most agriculture-exposed among G10 nations, meaning ENSO shocks are transmitted primarily through the growth channel, via dairy production and export earnings. Past severe droughts have impacted economic growth negatively (Exhibit 15).

Exhibit 14: El Niño indicates a partial reduction in milksolids production
SOI (y axis, positive = La Nina, negative = El Niño) v milksolids production (x axis, y/y%)



Source: The Bureau of Meteorology, Dairy Companies Association of New Zealand
BofA GLOBAL RESEARCH

Exhibit 15: New Zealand is the most exposed to agriculture in G10
Agricultural, foresty and fishing, value-added (% of GDP)



Source: World Bank, Haver Analytics
BofA GLOBAL RESEARCH

Emerging EMEA

Jean-Michel Saliba
MLI (UK)

Kenya: Status quo until the elections

Complete report: *Kenya Viewpoint: Status quo until the elections; move to MW, 16 September 2026*

The opposition remains fragmented

President Ruto retains an advantage in the polls, although the race remains highly fluid. The 2022 election was essentially a contest between William Ruto's Kenya Kwanza coalition and Raila Odinga's Azimio coalition, with Ruto narrowly prevailing.

Following the formation of the Broad-Based Government and then Raila Odinga's death in 2025, the opposition has become increasingly divided between factions supportive of cooperation with the government and those seeking to re-establish the party as the core of the opposition. This fragmentation has complicated efforts to build a unified anti-Ruto coalition and may ultimately prove as important as the president's own popularity rating.

Recent Trends and Insights for Africa (TIFA) polling suggests that no opposition figure has yet emerged as a clear standard-bearer. President Ruto leads with 24% support, followed by Edwin Sifuna at 15%, Fred Matiang'i at 14%, Kalonzo Musyoka at 13% and Rigathi Gachagua at 7%. Approximately a fifth of voters remain undecided.

The most notable development is the rapid rise of Sifuna, whose support has increased from effectively 0% in November 2025 to 15% in the latest survey, reflecting growing demand for an anti-government candidate. Gachagua, the former deputy president who was impeached before launching his opposition movement, is widely viewed as more likely to play the role of kingmaker or running mate than lead a nationally competitive ticket.

Personalities prevail over policies so far

Most major contenders have yet to publish detailed manifestos, making it premature to classify candidates as market-friendly or unfriendly. As a result, meaningful comparisons on fiscal consolidation, taxation, subsidies, privatisation, infrastructure spending and domestic borrowing remain difficult.

The election debate remains overwhelmingly focused on personalities, coalitions and electoral arithmetic rather than economic programmes. Despite extensive engagement with political stakeholders and analysts, discussions continue to centre on which candidates can win, which alliances may emerge and how opposition forces might consolidate.

Party leaders appear primarily focused on identifying candidates with the highest probability of winning their constituencies in the general election, with ideology often taking a backseat to electoral viability, local influence and coalition-building considerations.

Coalitions and running mates: more clarity after May 8

Political parties must submit their nomination rules to the IEBC by 6 November 2026 and public officers intending to contest elections must resign by 10 February 2027. Candidate lists for party primaries are due by 16 March, while parties must complete primaries and resolve internal disputes by 8 May. Presidential candidates must demonstrate eligibility by 24 May, with official candidate registration taking place between 29 May and 11 June. The formal campaign period then runs from 29 May to 7 August ahead of the 10 August election.

Debt sustainability rests on fiscal reforms

The World Bank assessed Kenya's debt as sustainable only if the government implements the assumed reforms contained in the DPO. It views overall public and external debt as at high risk of debt distress and describes sustainability as contingent on a) increasing tax compliance and broadening tax base, b) cutting tax expenditures, c) implementing governance reforms. Its baseline assumes a cumulative 3.7pp of GDP improvement in the primary balance between 2027 and 2029.

Focus on increasing tax compliance, not raising rates

The authorities expect additional receipts from income tax, VAT, excise duties, digital transactions, land and property taxation to generate an additional 0.5% of GDP in additional revenues and fiscal savings. The authorities reiterated that their strategy focuses on broadening the tax base and increasing compliance rather than raising rates.

Tax administration measures are expected to deliver around 0.4% of GDP. Compliance measures include targeting personal income tax, VAT and customs duties, supported by stronger enforcement and enhanced taxpayer monitoring.

Removal of subsidies: welcome but politically feasible?

The World Bank fiscal consolidation forecasts are driven by current transfers falling from 3.6% of GDP in 2026 to 3.0% in 2029. Savings would most likely come from removal of energy subsidies, with agricultural subsidies (incl. fertilizers programme) likely to be maintained.

VAT relief on fuel from 16% to 8% contains inflation but weakens the fiscal position. The measure limits the impact of higher international oil prices on fuel, transport and food prices by transferring part of the cost to the government. A prolonged oil shock would make this trade-off harder. Annualizing the measures implemented between 28 February and 22 May would imply a fiscal cost of approximately KES118bn (US$911m; 0.62% of GDP). During this period, the reduction in VAT on petroleum products from 16% to 8% resulted in KES14.4bn in forgone revenue, while the government spent a further KES12.45bn on fuel price stabilization measures. Agricultural subsidies, and specifically fertilizer support (KES18bn for 2026/2027) are unlikely to be removed even after elections.

Securitization: off-budget but in-DSA

Large capital expenditures have been funded outside the government's balance sheet through securitizations. Since early 2025, Kenya has securitized future revenue streams from the Road Maintenance Levy Fund, the Sports, Arts and Social Development Fund, and the Tourism Fund, raising approximately KES383bn (around 2.2% of GDP).

Roads are financed off the fuel levy, raised to KES25 per litre of petrol and diesel in July 2024 from KES18, of which the Treasury securitised KES7 to support borrowing.

Railways are financed off the Railway Development Levy, a cargo charge now ring-fenced in a dedicated fund and available for securitisation to build and rehabilitate rail, including the SGR. The March 2026 amendment widened the railway levy beyond SGR construction and operation to railway transport infrastructure more broadly, covering rehabilitation, safety and economic regulation.

Securitized liabilities enter the DSA, alongside their revenue-generating assets

Despite the initial misalignment, the authorities have agreed to include the debt in the DSA perimeter as long as the associated project revenues are also added to the general government revenues.

The IMF and the authorities initially disagreed on the accounting. The IMF considered the securitization as debt whereas the authorities argued that the lenders to securitized projects had no recourse on the government, which implies the debt should not be included in the perimeter.

Latin America

Carlos Capistran
BofAS

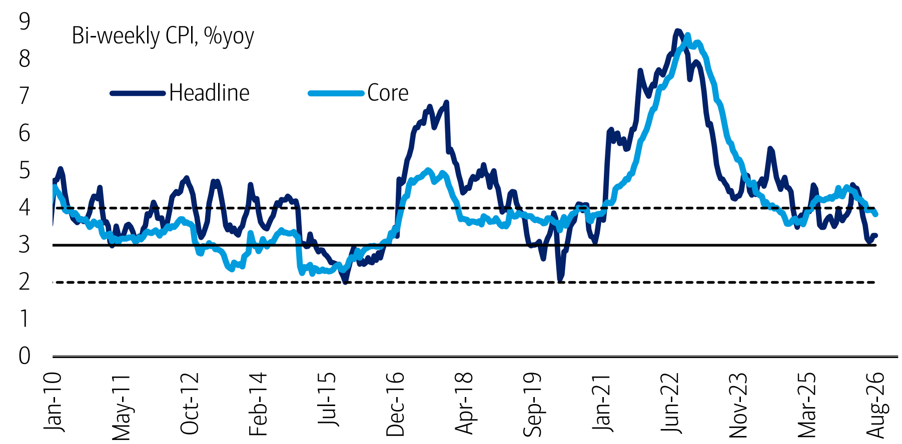
Mexico – IG at stake (trip notes)

We recently spent two days in Mexico City, meeting with policymakers at Banxico, the Ministry of Finance, the Ministry of Economy, as well as local experts on trade and on the political outlook.

Complete report: Emerging Insight: Mexico – IG at stake (trip notes), 17 September 2026

The meetings pointed to a resilient macro-financial backdrop. However, the more cautious message was that low growth and limited fiscal space leave little room for policy mistakes. There appears to be broad agreement on the problems, but less consensus on the urgency or political feasibility of addressing them. Trade integration with the USA remains Mexico's strongest structural advantage, while fiscal policy, energy and domestic investment are the main constraints.

Chart of the day: Mexico's headline inflation is now close to the 3% target
Bi-weekly CPI (% yoy) (2010-2026)



Source: BofA Global Research, INEGI

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Growth: services resilient, productivity lagging

Economic activity appears stronger in services than in industrial sectors, but aggregate growth remains low. Electronics exports are performing well, yet the domestic value added and productivity gains associated with this activity appear limited (see our report, Mexico - AI hardware exports offset weak auto, but growth spillovers are limited, 27 July 2026). Higher labor costs have not been matched by equivalent productivity improvements, reducing some of Mexico's cost advantage. Firms remain concerned about tariffs, electricity availability, regulatory uncertainty and tax enforcement. Without stronger investment and productivity growth, the economy may remain in a low-growth equilibrium of approximately 1-2.0%. We continue to expect growth at 1.4% for 2026 and 1.6% for 2027.

Relations with the private sector appear better than under the previous administration, and officials are promoting mixed public-private investment structures. Businesses have also adapted to the political environment and found ways to proceed despite regulatory and institutional uncertainty. However, concerns persist about aggressive tax enforcement, concentration of power, reduced judicial protection and inconsistent policy signals. Electricity availability is an increasingly important constraint, particularly for data centers and energy-intensive manufacturing. Improved dialogue is positive, but investors are likely to remain selective until policy announcements translate into projects, permits and dependable operating conditions.

USMCA: constructive engagement, but recurring uncertainty

The government appears confident that Mexico will preserve preferential access to the US market, although negotiations include both technical and political components. Mexico has adopted a gradual and cooperative approach, with increasing alignment between US and Mexican tariff policies and a stronger focus on replacing selected Chinese inputs. The discussions suggest that an interim arrangement is more likely than a long extension that removes uncertainty for investors. More frequent reviews could support continuous engagement, but they may also discourage projects with long payback periods. Mexico's strategy is to turn US concerns about China into an opportunity for regional manufacturing, but success will depend on electricity, infrastructure and regulatory capacity.

A US-Mexico trade deal, potentially similar to the one the USA offered Canada, could be announced before the US midterm elections. This could reduce the US tariffs on Mexican autos (but maybe not light trucks), steel and aluminum. But in exchange the USA may ask for Mexico's help increasing tariffs to other countries and restricting investment from other countries as well. The deal would be on a separate track than the USMCA, which will likely remain in the current situation of annual reviews and set to expire in 2036 unless extended by the three countries, which we see as unlikely. The latter will keep trade uncertainty high, limiting investment.

Fiscal consolidation: credible intent, narrow room for execution

The proposed fiscal path in the 2025 budget emphasizes gradual consolidation after a period of elevated deficits and infrastructure spending (see our report, Mexico's 2027 budget: unlikely to stop the IG clock, 9 September 2026). The authorities prefer a slower adjustment that they regard as achievable, supported by stronger expected revenue collection, limits on deductions and measures against fraudulent invoices. This approach avoids an immediate increase in headline tax rates and seeks to preserve public investment, social programs and subsidies. However, spending rigidity, high interest costs and limited fiscal buffers leave little room to absorb weaker growth or revenue shortfalls. Maintaining investment grade is a clear policy priority, but credibility will depend on meeting annual targets rather than relying on favorable assumptions or financial structures.

Revenue measures help, but do not replace broader reform

The near-term revenue strategy centers on improving compliance and increasing the tax base rather than increasing major tax rates. Officials expect measures targeting questionable deductions and invoice fraud to produce permanent revenue gains, while investment incentives and lower withholding taxes are intended to support formalization and capital-market development. However, these measures may not fully address the medium-term pressure from pensions, health benefits, interest costs and state-owned enterprises. A broader fiscal reform is therefore likely to remain necessary, even if political constraints delay it until after the midterm elections.

For Pemex, financial support buys time, not a durable solution

Pemex remains the central fiscal risk and an important test of the government's willingness to make difficult choices. The government expects near-term support to decline after substantial assistance with amortizations, while liability-management operations and mixed-investment structures should help address financing needs. Officials also expect refinery performance and operating indicators to improve, but questions remain about costs, supplier liabilities and the company's ability to generate a sustainable surplus.

Key forecasts

Exhibit 16: Economic forecasts

GDP growth, inflation and policy rate forecasts for the major economies

	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2025	2026F	2027F	2028F
Global and Regional Aggregates, %											
United States											
Real GDP growth [1]	1.6	2.4	2.3	2.2	2.2	2.1	2.0	2.1	2.1	2.2	1.9
CPI inflation	3.8	3.4	3.5	2.7	2.6	2.3	2.5	2.7	3.3	2.5	2.3
Policy Rate (EoP)	3.63	3.88	4.38	4.38	4.38	4.38	4.38	3.63	4.38	4.38	4.38
Euro area											
Real GDP growth [1]	1.8	1.1	1.0	1.0	1.1	1.1	1.1	1.3	0.8	1.1	1.1
CPI inflation	3.0	3.3	3.4	3.2	2.5	1.8	1.4	2.1	2.9	2.2	1.8
Policy Rate (EoP)	2.25	2.50	2.50	2.50	2.25	2.00	2.00	2.00	2.50	2.00	1.50
China											
Real GDP growth [2]	4.5	4.3	4.3	4.1	4.2	4.2	4.1	5.0	4.5	4.2	4.0
CPI inflation [3]	1.1	0.5	0.6	0.6	0.2	0.9	0.4	0.0	0.8	0.5	0.0
Policy Rate (EoP)	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Japan											
Real GDP growth [1]	1.4	0.1	0.3	1.1	1.2	0.7	0.6	1.2	0.8	0.8	0.7
CPI inflation	1.5	2.0	2.6	3.3	1.6	1.4	0.6	3.2	1.9	1.7	1.7
Policy Rate (EoP)	1.00	1.25	1.50	1.75	1.75	2.00	2.00	0.75	1.50	2.00	2.00
Global Aggregate [4]											
Real GDP growth								3.5	3.3	3.4	3.3
CPI inflation								2.5	3.0	2.6	2.2
Policy Rate (EoP)								3.74	3.95	3.79	3.63
Emerging Markets Aggregate [4]											
Real GDP growth								4.7	4.6	4.5	4.4
Real GDP growth (ex-China)								4.6	4.6	4.8	4.6
CPI inflation								2.6	3.0	2.3	2.0
Policy Rate (EoP)								4.42	4.37	4.19	4.02

Notes: 1. Quarterly values are % q/q annualized | 2. Quarterly values are % y/y. | 3. Quarterly values are period averages. | 4. Due to reporting limitations, Global and EM aggregate are annual only.

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 17: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

	spot	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	4Q28
Exchange Rates (EoP)								
EUR/USD	1.15	1.12	1.15	1.17	1.19	1.20	1.20	1.22
USD/JPY	156	153.00	149.00	149.00	148.00	146.00	145.00	145.00
USD/CNY	6.70	6.70	6.60	6.60	6.50	6.50	6.50	6.50
GBP/USD	1.34	1.32	1.37	1.39	1.42	1.45	1.45	1.47
Interest rates (% EoP)								
US 10yr	4.93	5.00	5.00	4.95	4.90	4.85	4.75	4.75
Germany 10-year	3.48	3.25	3.15	3.00	2.80	2.70	2.60	2.50
Japan 10yr	2.95	2.90	3.00	3.10	3.10	3.15	3.05	2.95
Commodities [1]								
Oil - WTI ($/bbl)	101.2	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Oil - Brent ($/bbl)	104.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0
Gold ($/oz)	4357	3900.0	3900.0	3900.0	3900.0	3900.0	3900.0	3900.0
Equities (EoP)								
S&P 500	7638						7100	
Stoxx 600	643		530				565	

Source: BofA Global Research

BofA GLOBAL RESEARCH

Detailed forecasts

Global economic forecasts

Exhibit 18: Global Economic Forecasts

Global GDP growth expected at 3.3% in 2026, 3.4% in 2027 and 3.3% in 2028

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2025	2026F	2027F	2028F	2025	2026F	2027F	2028F	Current	2026F	2027F	2028F
Global and regional aggregates												
Global	3.5	3.3	3.4	3.3	2.5	3.0	2.6	2.2	3.87	3.95	3.79	3.63
Global ex US	3.8	3.6	3.6	3.6	2.4	3.0	2.6	2.2	3.86	3.87	3.68	3.48
Global ex China	3.1	3.0	3.1	3.1	3.2	3.8	3.2	2.9	4.59	4.71	4.51	4.31
Developed Markets	1.7	1.5	1.6	1.5	2.6	3.0	2.3	2.0	3.04	3.29	3.15	2.97
Emerging Markets	4.7	4.6	4.5	4.4	2.4	3.1	2.8	2.3	4.41	4.37	4.19	4.02
Emerging Markets ex China	4.6	4.6	4.8	4.6	4.0	4.6	4.2	3.8	6.25	6.20	5.90	5.63
Europe, Middle East and Africa (EMEA)	2.1	1.5	2.2	2.0	4.6	4.2	3.4	2.8	4.79	4.67	4.09	3.63
European Union	1.5	1.1	1.4	1.3	2.5	3.0	2.3	1.9	2.78	2.78	2.30	1.86
Emerging EMEA	3.5	2.5	4.0	3.2	9.7	7.2	5.8	4.8	8.54	8.11	7.22	6.71
Emerging Asia	5.4	5.4	5.1	5.0	0.9	2.1	2.0	1.7	2.79	2.88	2.98	2.92
ASEAN	5.0	5.0	5.0	5.2	1.6	3.4	2.9	2.6	3.98	4.00	4.05	3.62
Latin America	2.4	2.1	2.1	2.3	3.7	4.6	4.1	3.5	8.23	8.13	7.36	7.09
G6												
US	2.1	2.1	2.2	1.9	2.7	3.3	2.5	2.3	3.875	4.375	4.375	4.375
Euro area	1.3	0.8	1.1	1.1	2.1	2.9	2.2	1.8	2.50	2.50	2.00	1.50
Japan	1.2	0.8	0.8	0.7	3.2	1.9	1.7	1.7	1.25	1.50	2.00	2.00
UK	1.3	1.2	1.2	1.5	3.4	3.1	2.6	2.1	3.75	3.75	3.50	3.50
Canada	1.9	1.0	1.6	2.0	2.1	2.8	2.2	2.0	2.25	2.25	2.25	2.75
Australia	2.0	2.0	1.6	2.0	2.9	3.7	2.5	2.5	4.35	4.60	4.10	3.60
Euro area												
Germany	0.3	1.0	1.0	0.9	2.3	2.6	1.9	1.8	2.50	2.50	2.00	1.50
France	0.9	0.4	0.8	1.0	0.9	2.3	1.5	1.5	2.50	2.50	2.00	1.50
Italy	0.7	0.8	0.6	0.8	1.6	2.8	1.7	1.6	2.50	2.50	2.00	1.50
Spain	2.8	2.6	1.6	1.4	2.7	3.5	1.6	1.8	2.50	2.50	2.00	1.50
Netherlands	1.6	1.3	1.2	1.3	3.0	2.8	2.2	1.8	2.50	2.50	2.00	1.50
Belgium	1.0	0.6	1.0	1.0	3.0	3.6	2.1	1.5	2.50	2.50	2.00	1.50
Austria	1.0	0.8	1.2	1.5	3.6	3.1	2.2	2.0	2.50	2.50	2.00	1.50
Greece	2.2	1.8	1.7	1.7	2.9	3.6	2.3	2.1	2.50	2.50	2.00	1.50
Portugal	1.9	2.1	1.6	1.8	2.2	3.0	2.0	1.8	2.50	2.50	2.00	1.50
Ireland	8.1	-6.1	4.7	2.6	2.1	3.2	1.8	1.7	2.50	2.50	2.00	1.50
Finland	0.8	1.2	1.0	1.3	1.8	2.5	1.7	1.7	2.50	2.50	2.00	1.50
Other developed economies												
New Zealand	0.2	1.5	2.1	2.5	2.8	3.4	2.3	2.0	2.75	3.00	3.00	3.00
Switzerland	1.4	1.0	1.4	1.6	0.2	0.5	0.7	0.7	0.0	0.00	0.00	0.00
Norway	1.7	0.8	0.7	1.2	3.0	3.2	2.6	2.4	4.25	4.25	3.75	0.00
Sweden	1.6	2.7	2.3	1.9	2.6	1.2	2.0	2.2	1.75	2.00	2.00	2.00
Emerging Asia												
China	5.0	4.5	4.2	4.0	0.0	0.8	0.5	0.0	1.40	1.40	1.40	1.40
India	7.3	7.7	7.5	7.7	2.1	4.4	4.9	4.6	5.25	5.50	5.75	5.75
Indonesia	5.1	5.3	5.5	5.7	1.9	3.3	3.0	2.8	5.75	5.75	5.75	4.75
Korea	1.0	3.6	2.5	2.1	2.1	2.6	2.2	2.0	3.00	3.25	3.50	3.50
Taiwan	8.8	12.0	7.0	5.0	1.7	2.0	1.7	1.8	2.00	2.25	2.38	2.38
Thailand	2.4	2.5	2.7	2.4	-0.1	1.8	0.5	0.8	1.00	1.00	1.00	1.25
Malaysia	5.2	5.2	4.5	4.6	1.4	1.8	2.0	2.2	2.75	2.75	3.00	3.00
Philippines	4.4	2.5	3.5	4.5	1.7	6.7	4.9	3.5	5.00	5.00	5.00	4.25
Singapore	5.0	5.1	2.7	2.7	0.9	2.0	2.2	1.7				
Hong Kong	3.5	4.0	3.5	2.6	1.4	2.0	2.2	2.0	4.25	4.75	4.75	4.75
Vietnam	8.0	8.2	8.4	8.4	3.3	4.8	4.5	4.0	4.50	4.50	4.50	4.50

Source: BofA Global Research

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Exhibit 19: Global Economic Forecasts (continued)

Global GDP growth expected at 3.3% in 2026, 3.4% in 2027 and 3.3% in 2028

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2025	**2026F**	**2027F**	**2028F**	**2025**	**2026F**	**2027F**	**2028F**	**Current**	**2026F**	**2027F**	**2028F**
Latin America												
Brazil	2.3	1.8	0.9	1.7	4.3	5.0	4.7	3.5	13.75	13.25	11.25	11.25
Mexico	0.7	1.4	1.6	1.3	3.7	3.6	3.7	4.2	6.50	6.50	6.50	6.50
Argentina	4.4	2.5	3.5	3.5	31.5	30.1	18.1	12.0				
Colombia	2.6	2.5	2.9	3.1	5.1	7.1	4.9	3.6	12.00	13.00	12.00	9.25
Chile	2.5	1.2	3.0	3.0	3.4	4.5	3.2	3.0	4.50	4.50	5.00	5.00
Peru	3.4	3.5	4.0	4.5	1.5	4.5	3.2	2.0	4.25	4.50	4.75	4.25
Ecuador	3.7	3.2	2.7	3.0	1.9	2.4	2.3	2.0		0.00	0.00	0.00
Uruguay	1.8	2.0	2.0	2.5	3.7	4.2	4.5	4.6	5.75	6.00	7.00	7.00
Costa Rica	4.6	3.7	4.0	3.8	-1.2	2.0	3.0	3.0	3.00	3.00	3.00	3.00
Dominican Republic	2.1	4.0	3.9	3.5	5.0	6.0	4.8	4.0	5.25	5.25	5.25	5.25
Panama	4.4	4.7	5.0	4.5	0.4	2.8	2.3	2.0				
El Salvador	3.9	4.0	3.2	3.2	0.9	3.1	2.0	1.7				
Guatemala	4.3	3.9	3.7	3.8	1.7	2.9	2.7	2.8	3.50	3.50	3.50	3.50
EEMEA												
Türkiye	3.7	2.6	4.1	3.3	34.9	31.2	27.1	30.0	37.00	36.00	31.00	34.00
Nigeria	4.0	4.1	4.3	4.0	23.0	16.0	13.0	10.0	26.50	24.50	22.00	19.00
Egypt	4.4	4.4	4.5	4.5	20.4	13.2	10.0	8.0	19.50	19.00	16.00	14.00
Poland	3.7	3.2	2.7	2.5	3.6	3.0	2.8	2.5	3.75	3.75	3.25	3.25
South Africa	1.1	1.2	1.4	1.6	3.2	4.2	4.0	3.9	7.00	7.25	6.50	6.00
Romania	0.6	0.0	2.5	2.5	7.3	8.5	4.4	3.5	6.50	6.50	5.75	5.25
Czech Republic	2.6	2.0	2.4	2.0	2.5	1.9	2.5	2.0	3.75	4.00	4.00	3.50
Israel	2.9	3.6	4.5	4.0	3.0	2.0	1.9	2.0	3.25	3.75	3.25	3.25
Hungary	0.4	1.9	2.8	2.5	4.4	1.7	2.7	2.5	5.50	5.00	4.50	4.00
Saudi Arabia	4.5	0.6	6.1	2.9	2.0	2.4	2.0	2.0	4.50	3.50	3.50	5.00

Source: BofA Global Research

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Exhibit 20: Real GDP growth, qoq annualized %

Global GDP growth expected at 3.3% in 2026, 3.4% in 2027 and 3.3% in 2028

	2Q 26	**3Q 26**	**4Q 26**	**1Q 27**	**2Q 27**	**3Q 27**	**4Q 27**	**2025**	**2026**	**2027**	**2028**
Developed Markets											
US	1.6	2.4	2.3	2.2	2.2	2.1	2.0	2.1	2.1	2.2	1.9
Euro area	1.8	1.1	1.0	1.0	1.1	1.1	1.1	1.3	0.8	1.1	1.1
Japan	1.4	0.1	0.3	1.1	1.2	0.7	0.6	1.2	0.8	0.8	0.7
UK	1.7	0.6	0.8	1.2	1.4	1.4	1.6	1.3	1.2	1.2	1.5
Canada	3.3	2.1	1.3	1.6	1.4	1.2	1.3	1.9	1.0	1.6	2.0
Australia	1.7	1.2	2.0	1.6	1.6	1.6	1.6	2.0	2.0	1.6	2.0
G6 Aggregate	1.7	1.6	1.5	1.6	1.6	1.5	1.5	1.7	1.5	1.6	1.5
Emerging Markets											
China	3.6	3.9	4.4	4.6	4.0	3.8	4.1	5.0	4.5	4.2	4.0
India	6.8	7.2	6.6	9.5	8.3	5.9	4.8	7.3	7.7	7.5	7.7
Indonesia	4.4	4.1	6.6	6.6	4.9	4.5	6.1	5.1	5.3	5.5	5.7
South Korea	2.5	2.8	2.6	2.4	2.3	2.4	2.4	1.0	3.6	2.5	2.1
Thailand	-0.7	2.9	5.4	2.5	0.7	2.3	5.5	2.4	2.5	2.7	2.4
Singapore	2.0	-1.6	-1.6	5.7	3.2	3.2	3.2	5.0	5.1	2.7	2.7
Hong Kong	-2.5	-3.6	6.1	12.5	2.3	-2.2	-2.3	3.5	4.0	3.5	2.6
Brazil	1.9	0.6	1.3	0.9	1.7	1.2	2.3	2.3	1.8	0.9	1.7
Mexico	5.8	0.6	0.1	1.9	2.1	1.3	1.2	0.7	1.4	1.6	1.3
Colombia	2.4	3.6	3.6	2.4	2.4	2.8	2.8	2.6	2.5	2.9	3.1
Chile	4.2	3.6	3.6	2.4	2.4	2.4	2.4	2.5	1.2	3.0	3.0
Peru	2.4	4.9	4.9	4.1	4.5	4.5	4.5	3.4	3.5	4.0	4.5
Türkiye	4.6	6.7	6.4	3.2	3.4	3.6	2.9	3.7	2.6	4.1	3.3
South Africa	1.2	1.2	1.4	1.9	1.7	2.0	1.8	1.1	1.2	1.4	1.6

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 21: Monetary policy forecasts
End of period

Central Banks	Current	Sep-26	Oct-26	Nov-26	Dec-26	Jan-27	Feb-27	Mar-27	Apr-27	May-27	Jun-27	Jul-27	Aug-27
Developed Markets													
Fed (upper bound)	4.00	4.00	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
ECB (deposit rate)	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.00	2.00	2.00
BoJ	1.00	1.25	1.25	1.25	1.50	1.50	1.50	1.75	1.75	1.75	1.75	2.00	2.00
BoE	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
BoC	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Riksbank	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
SNB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Norges Bank	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00	3.75	3.75	3.75
RBA	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.10
RBNZ	2.75	2.75	2.75	2.75	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Emerging Asia													
China 7d reverse repo*	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
India	5.25	5.25	5.25	5.25	5.50	5.50	5.75	5.75	5.75	5.75	5.75	5.75	5.75
South Korea	3.00	3.00	3.00	3.25	3.25	3.25	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Taiwan	2.00	2.125	2.125	2.125	2.25	2.25	2.25	2.375	2.375	2.375	2.375	2.375	2.375
Thailand	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Philippines	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Latin America													
Brazil	13.75	13.75	13.75	13.50	13.25	13.00	13.00	12.75	12.50	12.50	12.25	12.25	12.00
Chile	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.75	4.75	5.00	5.00	5.00
Colombia	12.00	12.00	12.50	12.50	13.00	13.00	13.00	12.75	12.75	12.75	12.50	12.50	12.50
Mexico	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Peru	4.25	4.25	4.25	4.25	4.50	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Emerging EMEA													
Czech Republic	3.75	3.75	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Hungary	5.50	5.50	5.50	5.50	5.25	5.00	5.00	4.75	4.50	4.50	4.50	4.50	4.50
Israel	3.25	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Poland	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Türkiye	37.00	37.00	36.00	36.00	36.00	36.00	36.00	35.00	34.00	34.00	33.00	32.00	32.00

Source: BofA Global Research

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FX, rates and commodity forecasts

Exhibit 22: Quarterly forecasts

End of period

	Spot	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Dec-28
FX forecasts								
G6								
EUR-USD	1.15	1.12	1.15	1.17	1.19	1.20	1.20	1.22
USD-JPY	156	153	149	149	148	146	145	145
EUR-JPY	179	171	171	174	176	175	174	177
GBP-USD	1.34	1.32	1.37	1.39	1.42	1.45	1.45	1.47
USD-CAD	1.40	1.40	1.40	1.40	1.40	1.38	1.38	1.36
AUD-USD	0.71	0.70	0.74	0.73	0.73	0.73	0.72	0.72
Asia								
USD-CNY	6.70	6.70	6.60	6.60	6.50	6.50	6.50	6.50
USD-INR	95.9	97.0	98.0	98.5	99.0	99.0	99.0	99.0
USD-IDR	17752	17900	18000	18100	18200	18200	18200	18200
USD-KRW	1383	1420	1410	1400	1400	1380	1380	1380
Latin America								
USD-BRL	5.13	5.00	5.00	5.00	5.00	5.00	5.00	5.00
USD-MXN	17.16	17.25	17.50	17.75	18.00	18.25	18.50	19.00
Emerging Europe								
EUR-PLN	4.36	4.33	4.28	4.25	4.22	4.18	4.15	4.10
USD-TRY	48.78	49.30	51.70	53.80	55.90	57.90	60.00	73.20
USD-ZAR	16.25	16.40	16.40	16.30	16.00	15.80	15.60	15.30
Rates forecasts								
2yr								
US 2-year	4.68	5.00	5.00	4.95	4.90	4.85	4.75	4.50
Germany 2-year	3.23	2.95	2.90	2.65	2.40	2.25	2.05	1.85
Japan 2-year	1.86	1.70	1.95	2.20	2.20	2.35	2.30	2.20
UK 2-year	4.74	4.60	4.50	4.50	4.45	4.20	3.95	3.70
Canada 2-year	3.26	3.00	3.05	3.10	3.15	3.20	3.25	3.25
10yr								
US 10-year	4.93	5.00	5.00	4.95	4.90	4.85	4.75	4.75
Germany 10-year	3.48	3.25	3.15	3.00	2.80	2.70	2.60	2.50
Japan 10-year	2.95	2.90	3.00	3.10	3.10	3.15	3.05	2.95
UK 10-year	5.22	5.15	5.25	5.25	5.25	5.25	5.25	5.25
Canada 10-year	3.82	3.70	3.75	3.80	3.85	3.90	3.95	4.00
Commodities forecasts								
WTI Crude Oil - $/bbl	101.2	81.0	77.0	73.0	69.0	71.0	70.0	NA
Brent Crude Oil - $/bbl	104.0	85.0	81.0	77.0	73.0	75.0	74.0	NA
Gold $/oz	4357	3900	4250	4750	5000	5000	4500	4000

Note: Spot exchange rate as of day of publishing. The left of the currency pair is the denominator of the exchange rate. Currency forecasts are for end of period.

Source: BofA Global Research, Bloomberg.

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