Global Economic Weekly

A tale of 3 races

06 February 2026

Economics
Global

Global Letter: A tale of 3 races

It is no longer a secret that the K-shaped dynamics of consumption, more markedly evidenced in the US but taking place more broadly at a global level, are becoming increasingly dependent on the strong performance of financial and real assets. In the meantime, the world is witnessing 3 races with important implications for risky assets and interest rates: 1) the AI race; 2) the US-China geopolitical race and 3) the private vs public race for funding. They are all interconnected and are all critical to understand the potential multiple equilibria the global economy might end up landing.

United States: Mixed expectations for key sectors in 2026

Yesterday's labor data were soft, but the weakness was narrow and driven by one offs such as weather and year end restructuring. In 2026, we think tighter immigration will keep job growth soft, even as demand firms on easing trade uncertainty and fiscal stimulus. Within sectors, we are positive on education & health, construction and trade & transport, negative on professional & business services (AI adoption), and neutral on leisure & hospitality.

Euro area: Forecast update – easing bias in practice

We raise our growth forecasts to 1.2% (+20bp) for 2026 but cut to 1.3% (-10bp) for 2027, reflecting a strong, but short-lived German fiscal growth peak. Persistent inflation undershoot still base case. We take out the ECB cut in Mar-26 but add two in 1H27.

UK: BoE review – dovish hold supports our March cut view

Dovish hold, in line with risks we had highlighted. The dovish vote and forecasts keep us comfortable with our call of the next cut in March. Risks of a delay haven't gone away, as rates are closer to neutral. But we are more confident on our call for two cuts in 2026.

Asia: CB narratives shifting hawkish

Asia central banks were accommodative in 2025 due to tariff risks, but narratives have shifted hawkish recently. We expect RBA/BoJ/MAS/SBV to tighten further, while PBoC/BI/BSP/BoT/RBNZ to ease. CBC/BoK/BNM/RBI are set to hold.

Emerging EMEA: Türkiye – January does it again

Food and services drove the 4.84% mom CPI spike, slowing the start of this year's disinflation. Sticky core trends and rising near-term risks call for a tight policy mix. We keep our end-26 calls: 24% inflation, 30% rate.

Latin America: Mexico – A strong finish to a weak year

4Q flash GDP jumped 3.2% qoq saar (vs. -1.1% in 3Q), driven by industry and services and despite a drop in agriculture. We revised our GDP forecasts to 1.5% for 2026 (from 1.2%) and to 1.6% for 2027 (from 1.8%) mostly on base effects.

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Global Letter

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A tale of 3 races

It is no longer a secret that the K-shaped dynamics of consumption, more markedly evidenced in the US but taking place more broadly at a global level, are becoming increasingly dependent on the strong performance of financial and real assets. In the meantime, the world is witnessing 3 races with important implications for risky assets and interest rates: 1) the AI race; 2) the US-China geopolitical race and 3) the private vs public race for funding. They are all interconnected and are all critical to understand the potential multiple equilibria the global economy might end up landing. We analyze them in turn.

The AI race

We start here because that is where the market focussed this week. The AI revolution, like many other tech developments in the past, is a winner takes all kind of market. It needs network externalities to work. We are all better off if we use the same technology. It creates a race to take over the global market. In that race, there will be, inevitably, winners and losers.

What we are starting to see in the market is that investors are starting to punish those software companies that are perceived as the weakest link in this race. The problem gets exacerbated because many of these projects are being financed by private credit, illiquid by nature.

Lenders have only one way to hedge, by shorting those stocks and exacerbating the market pressure on them. When private credit gets hit, then other institutional investors with exposure to private credit might have an incentive to hedge against a non-linear worsening of the trading momentum, selling other more liquid assets that are correlated with their underlying exposure.

This is inevitable to happen and doesn't necessarily imply a case of overvalued markets. It is the nature of the winner takes all market. Nobody is acting irrationally; it is just the purged effect of the underlying race.

The US-China geopolitical race

The second more slow moving race is the geopolitical race between the US and China. Both giants competing to become self-sufficient in the production of microchips, the most important input to succeed in the geopolitical race. Whoever becomes self-sufficient first, achieves a strategic advantage from a geopolitical perspective. The outcome of this race or any meaningful accident along the way will also have implications for asset prices, both risky assets and interest rates. The recent price action in gold can be read as demand for hedging a geopolitical accident among other factors.

On the one hand China controls a significant amount of the supply of rare earth minerals, while the US controls certain chips and inputs that are critical for Asian supply chains. The recent developments in Venezuela also highlight the strategic importance of influencing energy markets. The recent interest of the US in securing alternative sources of rare earth minerals will open up opportunities in regions like Latin America and Africa.

Globalization is not dead, but it is being reshaped by national security considerations. Companies are no longer investing only based on where it is cheaper to produce but instead are putting more weight on where it is safer to produce once geopolitical risks are taken into account. A move from efficiency towards risk management.

The private vs public race for funding

The third race is the race for securing funding, a usual case of the public sector crowding out private investment in the funding market, for a given amount of liquidity. AI projects need to be funded at the same time governments are running sizable fiscal deficits. Even though most developed economies are dealing with high fiscal deficits and market pressure on public debt while the AI revolution is happening mostly in the US, financial markets are highly integrated and therefore global portfolios need to decide how to allocate credit between public and private pockets.

And markets test governments from time to time. We have seen it in the UK, now it is more notable in Japan, and of course in the US, the most important market in terms of size and liquidity. Although the fiscal problems are global in nature, Japan and the US are currently the most sensitive.

Different from Japan, the US is “managing” the long end of the curve, increasingly issuing short term paper to avoid more pressure in the long end of the curve. Therefore, since risk premia needs to show up somewhere, the US dollar has been weakening. Different from the UK during the “Liz Truss moment”, equity markets have been rallying up until recently in the US and Japan despite fiscal concerns. This can be an important element behind the BoJ decision not to heavily intervene in the bond market.

The relatively tight credit spreads up until recently evidence that, for a given amount of liquidity in the system, global portfolios are somewhat more comfortable holding private credit vs government bonds. And there is a decent amount of leverage behind private holders of government bonds, in particular in the US.

In this scenario, it is critical to understand the Fed’s strategy going forward. Recently nominated Fed Chairman Warsh has expressed his preference for cutting interest rates and reducing the size of the Fed’s balance sheet as a way to induce fiscal discipline in Washington. The critical issue with this combo is the sequencing: if aggressive rates cuts are front loaded with the promise of a future reduction in the size of the balance sheet, markets might assign some risk premium to that future delivery. The US Treasury curve has continued steepening over the last few trading days.

In addition, there are talks of a potential Fed-Treasury Accord, which can mean many things until the details are ironed out. If markets perceive the Accord giving space for the Fed to help the US Treasury to finance the deficit, even during a transition towards less fiscal profligacy, the credibility and independence of the Fed might be impacted as well as its commitment to price stability. It would also create a potential moral hazard problem with Washington. In this scenario, the curve would tend to steepen and or the dollar to weaken in nominal terms, depending on how the Accord is implemented. Private borrowing costs would be impacted too, as well as risky assets.

Bonus track: the role of the dollar

A final word on the implications for the dollar. We expect a somewhat weaker dollar from here but there is a limit to how much the USD can weaken in real terms. The market consensus is that the dollar is highly overvalued in real terms. However, a substantial real depreciation of the US dollar is not sustainable. There is simply not enough growth in Euro Area, UK, Japan and China to tolerate their currencies appreciating by that much in real terms. Such a real appreciation would trigger a global recession that would restore the dollar’s strength.

US Fiscal profligacy requires a weaker dollar in nominal terms but not necessarily in real terms as most developed countries face similar fiscal issues. However, if the independence of the Fed were to be undermined, we should see a weaker USD in nominal terms and eventually higher inflation in the US. In addition, geopolitical risks and less confidence on fiat currency system due to the risk of monetization of the deficits should keep gold and other metals well bid.

US

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2026 labor outlook: five sectors to watch

- Yesterday's labor data were soft, but the weakness was narrow and driven by one-offs such as weather and year-end restructuring.
- In 2026, we think tighter immigration will keep job growth soft, even as demand firms on easing trade uncertainty and fiscal stimulus.
- Within sectors, we are positive on education & health, construction and trade & transport, negative on professional & business services (AI adoption), and neutral on leisure & hospitality.

Complete report: *US Economic Weekly: 2026 labor market outlook: five sectors to watch 06 February 2026*

Time to hit the panic button on labor?...Not quite.

We received a wave of labor-market data yesterday, including Challenger, Gray & Christmas layoff announcements, initial jobless claims, and JOLTS job openings, all of which were dovish on balance and raised concerns about labor market deterioration. However, it is important to place these developments in context.

Jan layoffs announcements from Challenger were narrowly driven by the technology and transportation sectors, likely reflecting year end restructuring and a normalization after post-pandemic over-hiring at firms such as Amazon and UPS. This figure also came in below the one-off spike observed last Oct, driven by similar high profile job cut announcements. And although this was the highest Jan count since 2009, it remained far smaller in magnitude than the Jan surges seen in 2009 or 2002 (see report: Layoff announcements: AI story, belt tightening, or routine reset?).

Initial jobless claims for the week ending Jan 31 rose more than expected to 231k. But this was likely distorted by disruptions from Winter Storm Fern. The four-week moving average held at a benign 212k, continuing to reflect a low hiring-low firing labor market.

Meanwhile, Dec JOLTS job openings fell sharply to their lowest level since Dec '20, with the openings rate dropping to 3.9% from a revised down 4.2%. This is below the 4.5% threshold on the Beveridge curve often viewed as a point of concern (Exhibit 1). However, the decline was narrowly concentrated in professional & business services and trade & transport. At the same time, the hiring rate rose and both the layoffs and quits rates held steady, suggesting ongoing labor market softness rather than deterioration.

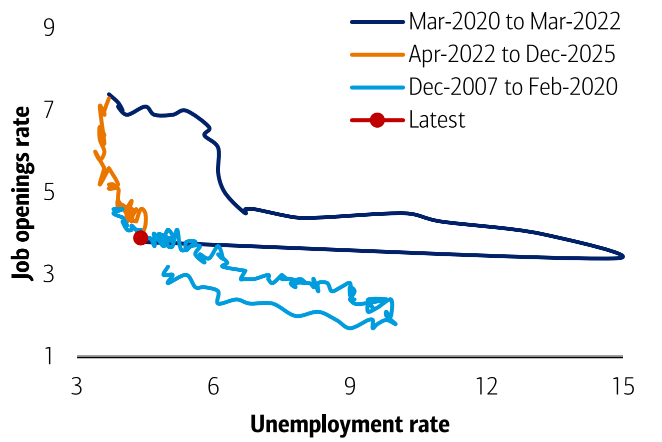
Markets unwound some of the recent optimism following the dovish data and are now pricing almost a full rate cut in Jun, presumably Warsh' first meeting as Chair. This is broadly aligned with our expectation for two cuts in Jun and Jul. Given the market's overreaction to the Dec u-rate drop, this moderation in sentiment seems reasonable. In our view, the labor market isn't collapsing but it's still soft and is still the biggest risk to the economic outlook.

Key sectors shaping the 2026 labor market outlook

We expect next week's Jan jobs report to show a stable u-rate, below consensus job gains and downward annual revisions to previous months. Looking ahead into 2026, we believe the supply shock from tighter immigration policies will be the bigger driver in the labor market, especially as labor demand gradually recovers amid fading tariff uncertainty, a positive fiscal impulse and resilient consumer spending (see report: 2026 year-ahead outlook: Sunny side up).

We forecast job growth to average 50k in 2026. With tighter immigration likely lowering breakeven job growth to roughly 20k, payrolls should remain near full employment. As a result, we expect the u-rate to hold at 4.5% through 1H26 before edging down to 4.3% by year-end. In the following section, we highlight the five sectors that drive the bulk of private sector employment (Exhibit 2) and will be most influential in shaping job growth this year.

Exhibit 1: The Dec job openings rate came in below the threshold (4.5%) that is generally viewed as concerning on the Beveridge curve
Beveridge Curve (Job openings rate and unemployment rate, %)



Source: BLS, Haver, BofA Global Research

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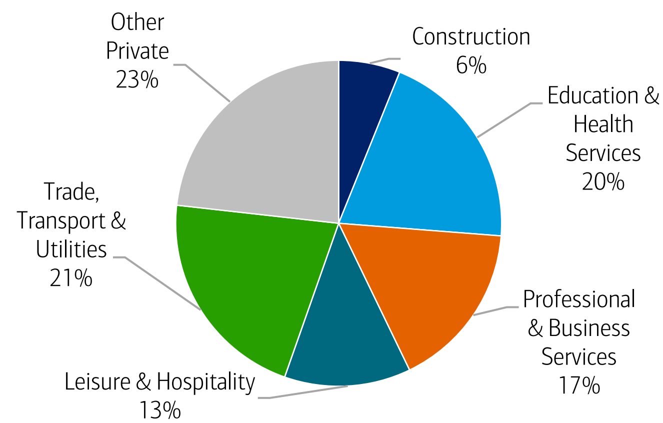
Exhibit 2: Eductaion & health, trade, transport & utilities make up the largest share of private sector employment
Sector employment share (% of private sector SA employment)



Source: BLS, Haver, BofA Global Research, Note: We have used 2025 yearly average to calculate sector shares.

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Positive on Education & Health: acyclical demand, limited AI exposure & demographics

Job growth slowed through 2025, pressured by a combination of softer labor demand from tariff uncertainty & AI adoption, and tighter labor supply from immigration restrictions. But the education & health sector remained the clear standout, continuing to drive more than 100% of net job gains.

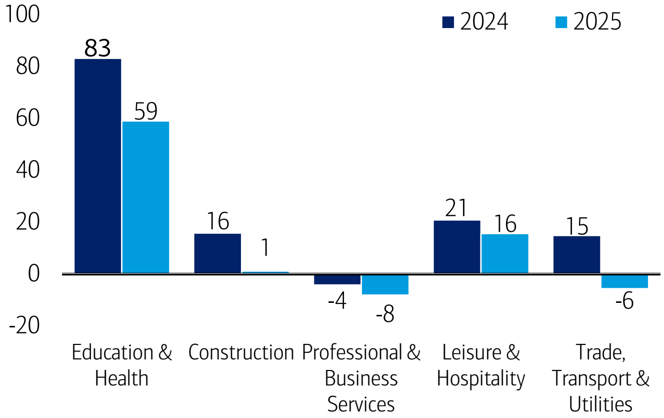
This post-pandemic “catch up” sector added about 60k jobs/month in 2025, only slightly below previous years, while overall job growth averaged just 50k/month (Exhibit 3). This is reflective of the sector’s largely acyclical nature, with demand tied to demographics and essential services rather than business cycles.

In 2026, we expect education and health to remain a pillar of labor market strength. The sector is insulated from many of the headwinds affecting the broader economy: healthcare is significantly less exposed to AI adoption-related job cuts, underlying demand continues to rise with an aging population, and an improving growth and consumer outlook should provide some incremental support.

The main risks come from: i) potential government funding cuts, particularly for education, ii) any substantial increase in pharmaceutical and medical equipment tariffs, and iii) a sharp tightening in legal immigration, which remains an important source of labor supply for healthcare roles. Even so, the structural drivers point to continued robust hiring in this sector.

Exhibit 3: Eductaion & health drove more than 100% of the job gains in 2025

Monthly job growth by sector (yearly average, SA, thous)



Source: BLS, Haver Analytics

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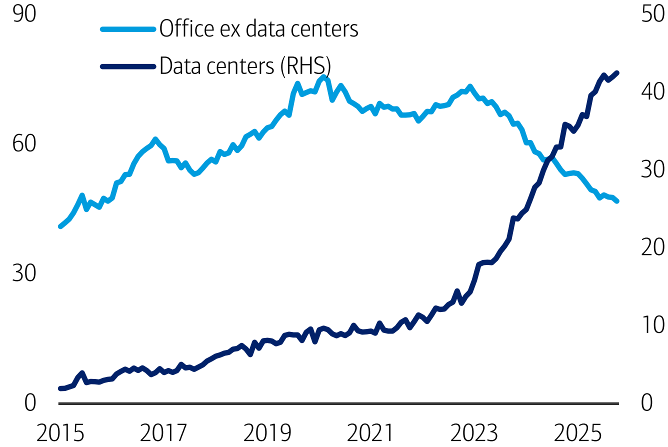
Exhibit 4: Data centers construction has been increasing

Office construction spending by type ($bn saar)



Source: Census Bureau, Haver Analytics

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Positive on Construction: lower rates, reduced tariff uncertainty & AI-linked building

The construction sector slowed sharply over the past year as construction spending cooled across both residential and non residential sectors. Monthly job growth in the sector dropped from an average of 16k in 2024 to just 1k in 2025 (Exhibit 3). High mortgage rates weighed heavily on housing affordability, curbing residential construction, while non-residential activity was held back by tariff uncertainty and a "higher for longer" rate environment.

As we look ahead to 2026, the outlook turns more constructive. Residential construction should benefit from easing mortgage rates, which we expect to unlock pent-up demand. Non-residential construction is also positioned to improve: reduced tariff uncertainty, monetary easing (75bp of cuts last year with two more expected this year), and strong AI-related construction should all support a rebound. Notably, recent job gains in the sector have been concentrated among specialty trade contractors, signaling strengthening demand tied to data center construction (Exhibit 4).

Risks remain, particularly from tighter immigration policies, which could constrain labor supply in an already-stretched sector. But the balance of factors points to a solid pickup in construction activity and employment in 2026.

Negative on Professional & Business Services: AI adoption

The professional & business services sector has posted several consecutive months of job losses (Exhibit 3), even as wage growth has accelerated. This combination of shrinking employment alongside rising pay is consistent with a sector undergoing rapid AI adoption, where automation is reducing demand for lower pay, routine roles while supporting continued wage growth for the remaining, more specialized positions.

The upcoming annual benchmark revisions are likely to reinforce this story. We expect job growth in the sector to be revised down further for April 2024 - March 2025, indicating that the restructuring associated with AI adoption began earlier and progressed more deeply than current data suggest (see report: US Economic Viewpoint: Jan jobs FAQs: The Super Bowl of jobs reports).

In 2026, we expect continued job losses with relatively stable wage growth as AI-driven displacement persists. The sector could also face some headwinds from tighter legal immigration, which could constrain labor supply in high-skill business services roles.

One potential offset comes from a stronger growth environment and easing cost pressures in 2026, which could help stabilize demand for certain professional services. But we think this is unlikely to fully counteract the structural drag from automation.

Neutral on Leisure & Hospitality: demand recovery offset by immigration restrictions

Leisure & hospitality, another key “catch up” sector in the post-pandemic recovery, lost momentum in 2025 (Exhibit 3). Monthly job growth only averaged 16k last year. This softening was likely driven by slower consumer demand amid tariff-related uncertainty & a weaker labor market, and tighter labor supply due to more restrictive immigration policy.

Upcoming annual benchmark revisions will likely show downward adjustments to leisure & hospitality job growth from April 2024 to March 2025. This would suggest that the sector’s slowdown began earlier than the published data imply, pointing to a more fragile underlying trend than previously assumed see report: US Economic Viewpoint: Jan jobs FAQs: The Super Bowl of jobs reports).

Going into 2026, we maintain a neutral outlook for the sector. Consumer demand should improve on the back of fiscal stimulus from the OBBBA in the first half of the year and easing tariff uncertainty. However, these positives are likely to be offset by tighter immigration policy. Restrictions affecting undocumented workers, who represent a meaningful share of employment in this sector, will continue to weigh on labor supply.

Positive on Trade, Transport & Utilities: import recovery and better demand in goods producing sectors

Average monthly job growth in trade, transportation & utilities fell from +15k in 2024 to -6k in 2025 (Exhibit 3). The slowdown was likely driven by the drop in imports after the Liberation Day tariff announcement and softer demand in goods producing sectors. Layoffs at major employers such as Amazon and UPS are reflective of weakness in the sector, even though these layoffs were in part aimed at trimming bureaucracy and normalizing headcount after pandemic era over-hiring (see report: Morning Market Tidbits: Layoff announcements: AI story, belt tightening, or routine reset?).

As we look ahead to 2026, we are positive on the outlook in this sector. Import growth should improve as consumer demand firms and overall economic growth strengthens. We already saw hints of this in the November trade data, where imports rebounded after an October drop. A pickup in activity across goods producing sectors, including construction, mining, and manufacturing, would also support transportation- and distribution-related hiring.

However, some risks remain. AI-driven automation in logistics and parcel networks may limit job growth, as suggested in layoff announcements from firms such as UPS. These productivity-driven changes could cap hiring even as volumes improve.

On net, our expectation of stronger trade flows and better goods sector momentum leaves us positive on the sector’s 2026 outlook, though automation remains a potential headwind.

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Euro area

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Forecast update: easing bias in practice

***Complete report**: Europe Economic Weekly: Different growth, different cuts, but still cuts 06 February 2026*

- We raise our Euro area growth forecasts to 1.2% (+20bp) for 2026 but cut to 1.3% (-10bp) for 2027, reflecting a strong, but short-lived German fiscal growth peak.
- Persistent inflation undershoot is still our base case – core at 1.8% in 2026 and 1.7% in 2027. ECB credibility is on the line.
- We take out the ECB cut in Mar-26 but add two in 1H27. Conviction on timing is limited; cuts could come earlier.

It was time for a forecast rethink. We changed earlier this week our ECB call from one insurance cut in March 2026 to two proper cuts in 1H27. Long-held convictions in an inflation undershoot and downside risks to the outlook were topped up with a rethink of the growth trajectory. The German fiscal stimulus looks more consumption intense than we had previously hoped for. That means more growth this year, but less thereafter, in Germany and in the Euro area as a whole - a flatter annual growth profile for the Euro area with now 1.2% this year (+20bp) and 1.3% next (-10bp). Headline inflation still undershooting with 1.7% in both years (+10bp), and core at 1.8%/1.7%, respectively, too (-10bp in 2027). We promised a more detailed discussion when we changed the ECB call after this week's ECB meeting conference, here it comes.

Growth: more of a "sugar rush" than a proper structural change

Our Euro area growth forecasts move to 1.2% in 2026 (+20bp) and 1.3% in 2027 (-10bp). Beyond marking to market 4Q data across countries, these changes reflect a reassessment of the impact of the German fiscal package on the economy. We now think this will be more of a "sugar rush" scenario for growth.

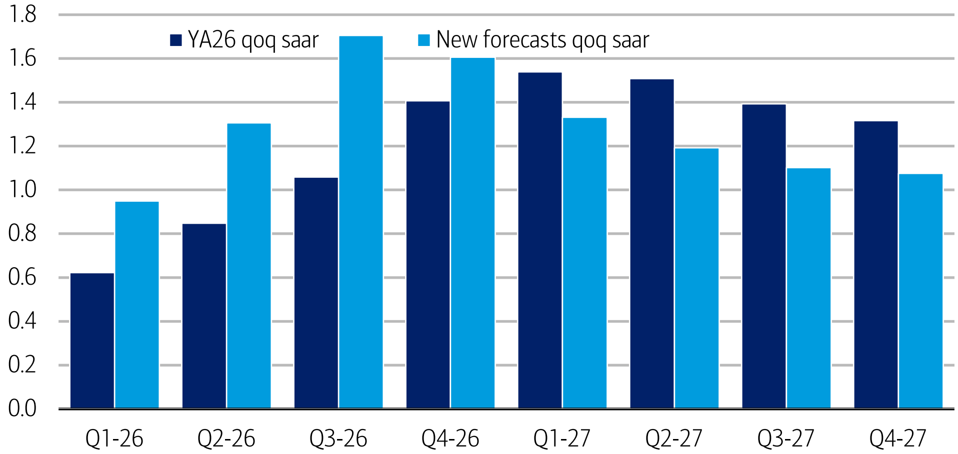
Indeed, our forecasts for Germany move from 0.7% and 1.6% in 2026 and 2027, to 1.0% and 1.7% respectively, but sequential growth looks very different. It goes from 0 over the past six years to 2.5% qoq saar in 2H26E before slowing to just below 1% by 2H27E. Why? The composition of higher fiscal spending after last year's fiscal reforms is directed more towards "consumption" than proper investment, eventually leading to bigger growth effects in the short terms, but fewer medium-term gains. Germany is a lot less likely to be able to sustain strong growth beyond the next two years. And complementary structural reform to bolster medium-term growth potential also looks tough to deliver.

Defence is relatively better designed (showing also in factory orders) and this is largely why we could see growth closer to 1% than zero after the initial "sugar rush". So we still apply a fair amount of selective optimism.

True, the risk to our forecast could be an earlier start of the "sugar rush" than we assume. But that would mean growth dynamics fade into year-end again, too. In that case, 2026 average growth could be higher, and 2027 lower than our base case.

This German "sugar rush" will take Euro area growth above trend in the later part of this year (Exhibit 5). German growth acceleration will be so big that it will be tempting to extrapolate – to other Euro area members, to medium-term growth dynamics, to inflation and ultimately ECB policy rates. But careful, growth can quickly normalize afterwards, and we think it will.

Exhibit 5: Higher Euro area growth sooner, but less later, courtesy of a German fiscal sugar high
Euro area GDP growth, % qoq, saar



Source: BofA Global Research

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Inflation: still undershooting, for a long while

Our Euro area inflation forecasts change only at the margin. We now see headline HICP at 1.7% in both 2026 and 2027 (+10bp, energy-driven), with core remaining at 1.8% this year and slightly lower in 2027 (1.7% on average, -10bp), reflecting the stronger EUR and updated basket weights. Our base case remains a clear and persistent undershoot of the target.

We remain convinced that Euro area core disinflation is proceeding in the right direction, and the December/January prints strengthened our conviction. In December, our bottom-up seasonally adjusted core trackers fell well below the pace consistent with the target (Exhibit 6). January's flash estimate showed a further decline in services inflation (from 3.4% to 3.2%) and continued benign core goods dynamics.

We think this encouraging trend in services prices will continue over the coming quarters (we are keeping a close eye on smaller economies), adding to the softening in core goods. Both headline and core inflation are already 20bp below the ECB's 1Q26 forecast, and we expect the central bank's hawkish projections to continue being disappointed.

ECB: cuts will have to wait

We had been warning that our conviction on an ECB cut in March was decreasing, given we thought January inflation would be a bit stronger than at the end of 2025. Data this week confirmed that and, hence, we take out the ECB cut in March-26.

But the easing bias remains and in an explicit way. We now expect the ECB to cut policy rates in March and June 2027.

Why that call? We have three strong convictions from here:

1. The ECB is more likely than not to cut; that comes from the asymmetry of risks we see for both growth and inflation.

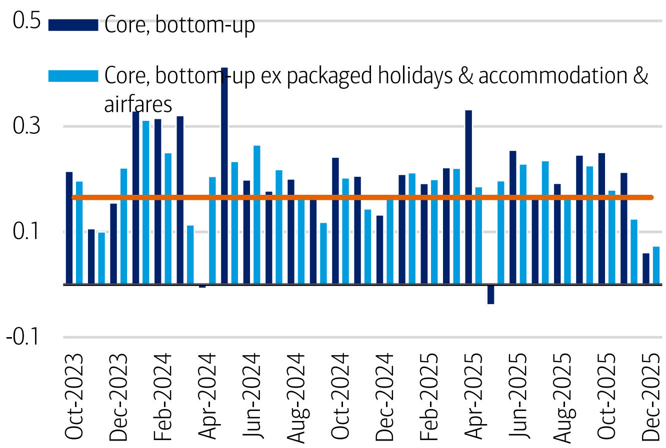
2. We still think hikes are very unlikely, absent a shock, in the next two years.

3. One cut would make sense if delivered now, as a continuation of the cutting cycle. If the ECB doesn't cut in the next few meetings there is no room for "insurance cuts" i.e. one and done. If/when they move, they are likely to go more than once.

With those three points in mind and, given our new growth profile, we think if the ECB does not cut in March, the window could close for a while. It would be hard to cut before, at least; it is clear growth has peaked. That probably means a cut in June is unlikely absent large surprises (for instance, a delayed impact of German fiscal or a lot of disinflation from China). September and December are also unlikely but not unthinkable, given that by then the inflation undershoot would have been gone for a while and that would incrementally challenge the forecast exercises (i.e. the undershoot in those forecasts could grow larger and more long-lasting).

Exhibit 6: M/m core well below target in Dec

Euro area, m/m% core inflation bottom-up SA



Source: BofA Global Research, Eurostat

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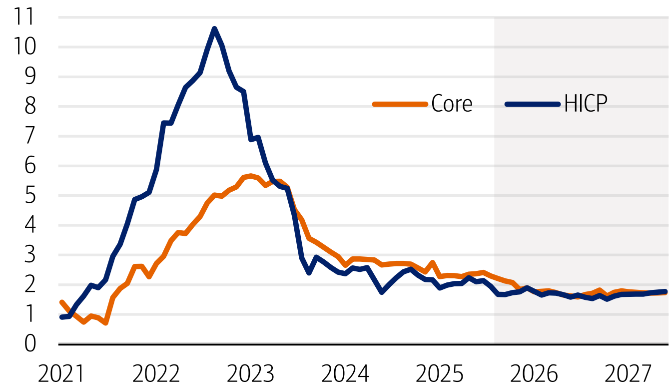
Exhibit 7: Our base case remains a clear and persistent undershoot of the target

BofA inflation forecasts, yoy%



Source: BofA Global Research, Eurostat

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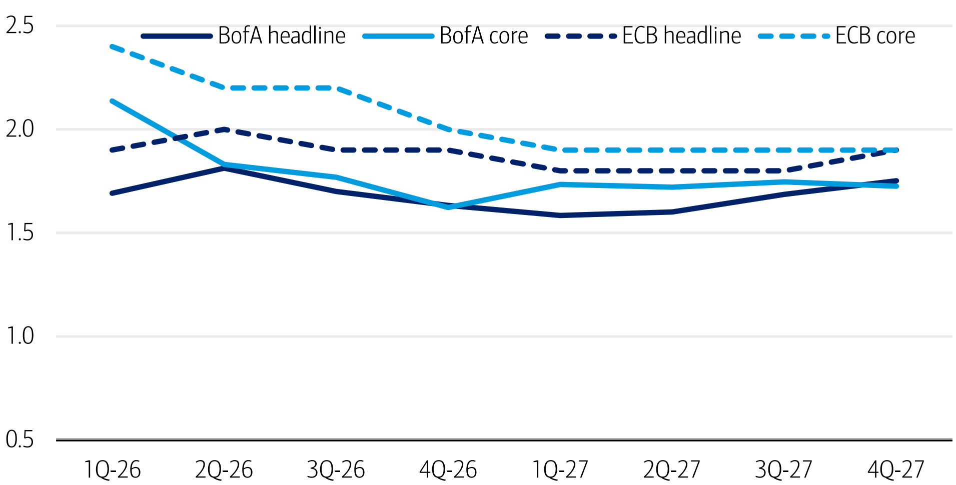
Hence, with low conviction on the exact timing, we add two cuts in March and June 2027 (25bp each). By then, there should be clear evidence of a loss in growth momentum and inflation (particularly core) would have been stuck below target for a long while. This means a terminal deposit rate at 1.50%. And, in line with the discussion above, the balance of risks is clearly biased towards earlier cuts.

Exhibit 8: We still think the ECB's forecasts will be disappointed

ECB December forecasts vs BofA forecasts



Source: ECB, BofA Global Research

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BoE review: Dovish hold supports our March cut view

Dovish Hold

The BoE voted 5-4 to keep rates on hold, and the tone was dovish. The BoE's dovish hold keeps us comfortable with our base case of the next cut in March and two cuts in 2026 (March/June) to 3.25%, though risks of a delay/ slower pace haven't gone away. However, we now feel more confident about our call that the BoE is likely to cut twice this year, vs. the upside risks we were highlighting before.

The BoE was dovish vs. market pricing, in line with the risks we had highlighted in the preview, which keeps the door open for near term cuts.

- The vote split of 5-4 was more dovish than the 7-2 expected. We had highlighted the risk of Ramsden dissenting, but Breeden joining the cutting camp was a surprise. Breeden's vote to cut was a close call.
- 2026 Agents pay settlements, came in at 3.4% which is lower than the 4% seen in 2025 and close to target consistent levels. This points to progress in wage settlements. The distribution of expected pay settlements had also shifted lower. The BoE now projects wage growth to slow to 3.2% by Q2 2026 while estimating target consistent wage growth to be 3.25%.
- The BoE pointed to balanced inflation risks, with risks from greater inflation persistence less pronounced, while some risks from weaker demand and a loosening labour market remaining. Overall, Bailey reduced the importance of survey data improvement and still pointed to downside risks to growth/ labour market on the back of a more subdued Agents' survey.
- It expressed more confidence that lower headline in the near term should feed through into lower inflation expectations. It cited new evidence that structural changes in wage-setting will not keep adding to inflationary pressures.
- Bailey and Mann, who voted to hold in Feb., expressed greater confidence that upside inflation risks would be mitigated by lower near-term path for inflation and placed greater emphasis on risks from weaker activity. Mann, who has been a hawk, is looking close to voting for cuts saying "New analysis and current developments have moved the appropriate time for cut in Bank Rate closer."
- The downgrades to inflation forecasts were fairly dovish. Inflation is notably lower than expected in November partly on the back of disinflationary Budget measures. The BoE expects 2026 Q2 inflation at 2.1% (vs. 2.9% before), 2027 Q1 at 1.7% (vs. 2.2% before), 2028 Q1 at 1.8% (vs. 2.1% before) and 2029 Q1 at 2.0%. GDP was revised down, and unemployment revised up, with a peak in unemployment seen at 5.3% from 2026 Q2-2027 Q2.
- Easing bias was intact and Bailey noted that hikes weren't discussed.

Exhibit 9: Feb MPR forecasts

Feb MPR forecasts (Nov MPR figures in parentheses)

	2026 Q1	2027 Q1	2028 Q1	2029 Q1
CPI inflation	3.0 (3.1)	1.7 (2.2)	1.8 (2.1)	2
GDP	0.8 (1.1)	1.2 (1.5)	1.9 (1.8)	1.8
Unemployment rate	5.2 (5.0)	5.3 (5.0)	5.1 (4.9)	4.9
Excess supply/Excess demand	-0.9 (-0.8)	-0.9 (-0.6)	-0.5 (-0.3)	-0.2

Source: BoE

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We continue to expect two cuts in March/ June

Overall, the dovish vote, pay settlements lower than 3.5% and dovish forecasts keep us comfortable with our base case of the next cut in March and two cuts in 2026.

The MPC guidance noted that "The extent and timing of further easing in monetary policy will depend on the evolution of the outlook for inflation." and "If inflationary pressures continue to ease, Bank Rate is likely to be reduced further." Worth noting that January inflation (out before the March meeting) is where we expect a notable inflation drop, followed by April (out before the June meeting),

Having said that, risks of a delay/ slower pace haven't gone away as rates are now closer to neutral. The MPC continued to note that "judgments around further policy easing will become a closer call" and "slowing the pace of further easing could provide space to gain assurance about how the risks were evolving." The BoE also dropped reference to the word gradual. March vs. April is a matter of judgement on how much evidence the MPC needs to cut again. Bailey remains data dependent. We think the downward trend in January inflation, two more soft labour market prints and signs of somewhat reducing DMP expectations should get them there. But risks of a delay remain, depending on the data.

However, we now feel more confident about our call that the BoE is likely to cut twice this year, vs. the upside risks we were highlighting before. Bailey didn't endorse 3.25% as terminal but noted that the curve is reasonable. Our view is that wage/inflation expectations should fall as we see further progress in inflation and amid a loosening labour market, which should keep the door open for two more gradual cuts.

Asia

Ting Him Ho, CFA
Merrill Lynch (Hong Kong)

Kai Wei Ang
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Asia central bank narratives shifting hawkish, but their paths still diverge

Complete report:* *Asia Economic Weekly: Asia CB's hawkish shift; Australia's fiscal pulse 06 February 2026

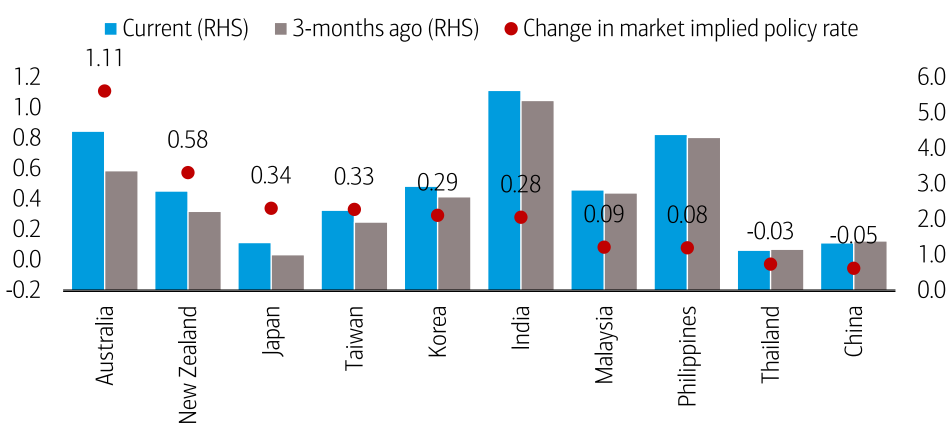
Asia CBs were accommodative in 2025 due to tariff risks

For most of 2025, policymakers remained focused on downside risks amid a highly uncertain trade environment. Understandably, tariff risks loom large on regional economies after the Liberation Day and esp. when US and China raised tariff rates to exorbitant levels for each other in April. Against this backdrop, Asia CBs eased overall policy stance to support growth, but in a calibrated manner to preserve space to respond to additional downside risks. Going into 2026, we predicted that most Asian central banks will continue to lean towards easing in our Year Ahead 2026 published in Nov.

Narratives have shifted hawkish recently

In the last two months, a more synchronized shift of monetary policy stance in the "hawkish" direction has emerged, as downside risks to the global growth outlook receded more meaningfully. These include a change in tones from RBA, BoK, MAS, BoJ and BSP. Market rates have also adjusted markedly the past months, reflecting the expectation shift based on Asian CBs' policy tones, while markets repriced for fewer Fed rate cuts in 1H26.

Exhibit 10: Market is pricing in more rate hikes across the region, compared to 3 months ago
Implied market policy rate across Asia central banks (%)



Source: Bloomberg, BofA Global Research. Data as of Feb 4

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Better growth & sticky inflation largely explain the shift

Such a hawkish shift is consistent with the notable improvement in external demand outlook since late-2025. Regional trade growth was up around 10% in 2025, driven by strong tech demand, and Asia (excluding China) recorded strong outbound shipment to the US in 2025. Global factors aside, several central banks are probably paying closer attention to its domestic challenges. One key factor is the sticky domestic inflationary pressure in Australia and Vietnam, and inflation rebounding from low levels in the case of Singapore. Another emerging concern is FX strength, especially for Korea.

Still, we expect divergent policy paths ahead

Despite the recent hawkish shift in market expectations, we believe the underlying policy landscape remains heterogeneous. CBs are ultimately guided by different goals and policy priorities, which continue to shape their divergent policy trajectories rather than a synchronized tightening cycle. In our view, CBs will continue to balance their stance between external considerations such as tech-cycle momentum, and currency dynamics, as well as domestic ones such as the wage–price mechanism, and mitigating domestic demand softness.

Exhibit 11: Still, we expect a divergent policy path ahead

Quarterly change in policy rates (Historical numbers and forecasts)

	%, EOP	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2025YE	2026YE	2027YE
	Fed (US)	**0.00**	**0.00**	**-0.25**	**-0.50**	**0.00**	**-0.25**	**-0.25**	**0.00**	**3.625**	**3.125**	**3.125**
	ECB (Europe)	**-0.50**	**-0.50**	**0.00**	**0.00**	**-0.25**	**0.00**	**0.00**	**0.00**	**2.15**	**1.90**	**1.90**
Tightening camp	RBA (Australia)	-0.25	-0.25	-0.25	0.00	0.25	0.25	0.00	0.00	**3.60**	**4.10**	**3.60**
	BoJ (Japan)	0.25	0.00	0.00	0.25	0.00	0.25	0.00	0.00	**0.75**	**1.00**	**1.50**
	SBV (Vietnam)	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.00	**4.50**	**5.00**	**5.00**
Holding camp	BNM (Malaysia)	0.00	0.00	-0.25	0.00	0.00	0.00	0.00	0.00	**2.75**	**2.75**	**2.75**
	CBC (Taiwan)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**2.00**	**2.00**	**2.00**
	BoK (Korea)	-0.25	-0.25	0.00	0.00	0.00	0.00	0.00	0.00	**2.50**	**2.50**	**2.50**
	RBI (India)	-0.25	-0.75	0.00	-0.25	0.00	0.00	0.00	0.00	**5.25**	**5.25**	**5.75**
Easing camp	PBoC (China)	0.00	-0.10	0.00	0.00	0.00	-0.10	-0.10	0.00	**1.40**	**1.20**	**1.20**
	BI (Indonesia)	-0.25	-0.25	-0.75	0.00	-0.25	-0.25	-0.25	0.00	**4.75**	**4.00**	**4.00**
	BSP (Philippines)	0.00	-0.50	-0.25	-0.50	-0.25	0.00	0.00	0.00	**4.50**	**4.25**	**4.25**
	BoT (Thailand)	-0.25	-0.25	-0.25	0.00	-0.25	-0.25	0.00	0.00	**1.50**	**1.00**	**1.25**
	RBNZ (New Zealand)	-0.50	-0.50	-0.25	-0.75	0.00	-0.25	0.00	0.00	**2.25**	**2.00**	**2.50**

Source: BofA Global Research

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Emerging EMEA

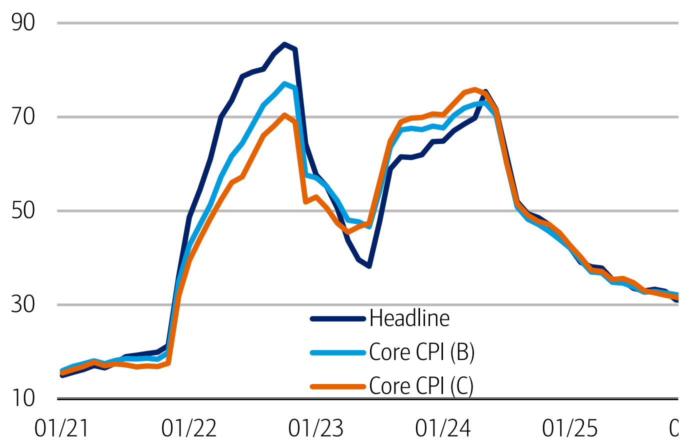
Hande Kucuk
MLI (UK)

Türkiye – A slow start to disinflation

Türkiye started the year with an upside surprise in consumer inflation. Headline CPI rose 4.84% month-on-month (mom), exceeding both our forecast (4.40%) and consensus expectations (4.30%). Disinflation continued, albeit at a slow pace, with year-on-year (yoy) inflation edging down only 0.24bp to 30.65% (Exhibit 2). Core CPI (excluding food, energy, alcohol, tobacco and gold) increased by 4.55% mom, pulling its yoy rate down by 1.28pp to 29.80% (versus consensus at 29.24%).

Complete report: Emerging Insight: Türkiye – January does it again 04 February

Exhibit 12: Headline inflation posted a small, 0.24bp, decline to 30.65%yoy
CPI, Core B and Core C, year-on-year %



Source: Haver, Turkstat

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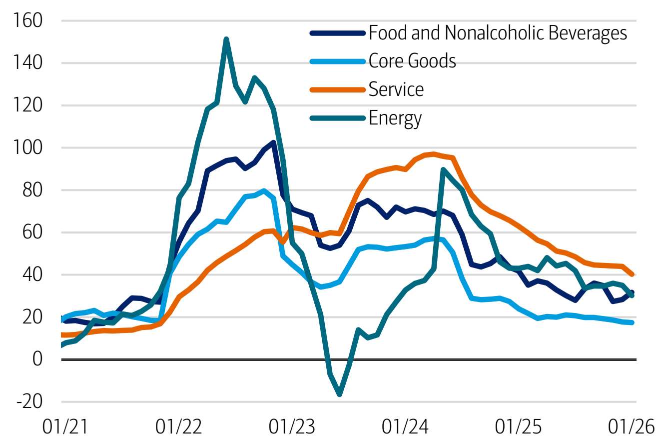
Exhibit 13: Services disinflation continued, while core goods inflation was relatively flat
Selected CPI groupings, year-on-year %



Source: Haver, Turkstat

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New base year, new weights

The introduction of the new CPI series (2025=100) brought notable changes to subgroup compositions and weights compared with the previous index (2003=100). However, the impact of these weight revisions on the January monthly print was limited. Using the old weights, monthly CPI inflation would have been only 0.07pp higher, at 4.91%.

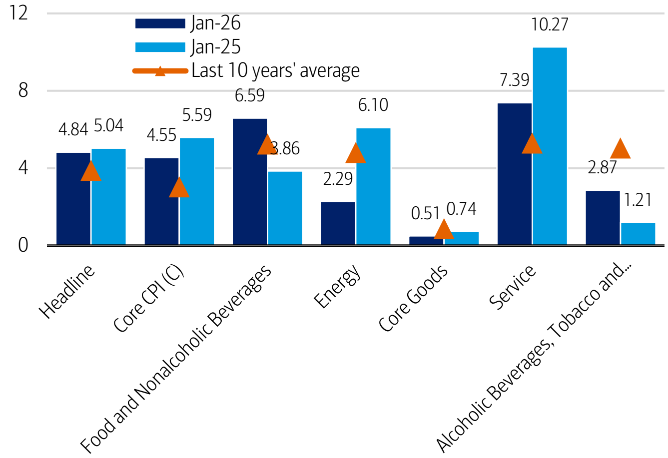
There are three major changes in CPI weights that might have important implications for the disinflation path going forward: i) the weight of services went up by 7.4pp to 38.4%, ii) the weight of core goods declined by 3pp to 26.9%, and iii) the weight of energy declined by 3.2pp to 7% (Exhibit 5). These changes will likely increase the persistence in inflation and reduce FX pass-through mechanically. They also imply less direct impact from administered energy prices and special consumption taxes on fuel, alcohol and tobacco. Note that the CBRT calculates 1pp upward impact on 2026 inflation from the weight changes in the new CPI:

Food and services were the main drivers of the high monthly print

Inflationary pressures in January were driven by sharp increases in food (6.59% mom) and services (7.39% mom). These were partially offset by more moderate inflation in core goods (0.51% mom) and energy (2.29% mom). Given the time-dependent price-setting behaviour typical for January, comparing with last year is informative (Exhibit 6). While food inflation accelerated significantly relative to January last year, services, core goods and energy all registered lower monthly rates, supporting continued disinflation in these categories (Exhibit 3).

Exhibit 14: Administered price hikes in energy was more limited compared to 2025 and past 10 years

Selected CPI groupings, month-on-month %



Source: Haver, Turkstat

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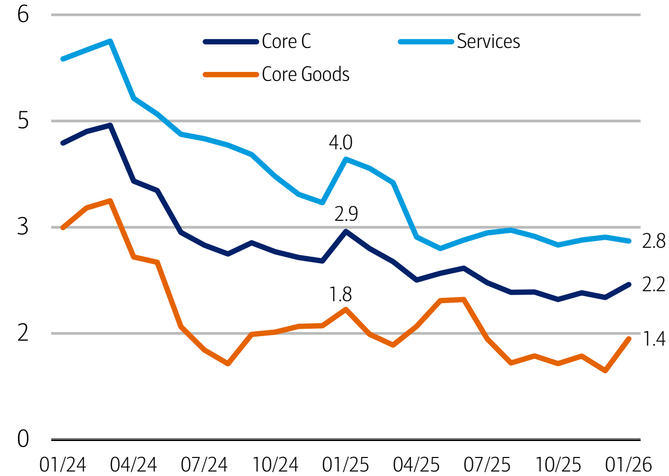
Exhibit 15: The rise in core inflation trend was driven by core goods, not services

Seasonally adjusted, month-on-month %, 3-month average



Source: Haver, Turkstat

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Food related risks to continue in the near-term

Food inflation was driven primarily by volatile food and vegetables prices, which surged 22.03% mom, compared with increases of 5.79% in other unprocessed food and 2.69% processed food. On a year-on-year basis, food inflation rose by 3.38pp to 31.69%yoy.

Although vegetable prices often correct after sharp spikes, food-related pressures are likely to remain elevated in the near term due to the carry-over from late-January price adjustments (including dairy price hikes) and Ramadan-related seasonality. Given food's large weight in household consumption baskets, persistently high food inflation could lead to stickier inflation expectations, increasing the risk of more persistent inflationary pressures. We currently see headline inflation at 2.54% mom (30.99% yoy) in February but this is subject to upside risks related to food inflation.

We keep our end-26 forecasts unchanged at 24% inflation and a 30% policy rate

Food-related risks to the near-term inflation outlook have risen, though part of the sharp increase in vegetable prices and Ramadan-related effects could unwind later. We see room for improvement in core inflation trend (to below 2%SA mom) conditional on a policy mix of gradual rate cuts, tight macroprudential settings, and a neutral fiscal stance. Risks related to the timing and scale of electricity and natural gas price adjustments remain. While lower weights imply smaller direct effects from such hikes, indirect cost-push effects will be more relevant.

Inflation Report on 12 February will be a key focus

The CBRT's inflation note assessed the rise in the underlying trend to be January-specific. This along with continued decline in services trend, will likely pave the way for another 100bp cut from the CBRT on March 12, unless February inflation shows more persistent deterioration in underlying trend. Governor's communication during the Inflation Report press conference will be key to guide the expectations for the next MPC meeting. We expect an upward revision in the CBRT's forecast range accompanied by a cautious tone. While the Bank might keep the intermediate inflation target at 16%, we think the forecast range (currently 13%–19%) will likely be revised up to 15%–21%. This would signal that risks to the intermediate target are skewed to the upside, providing justification for a more cautious stance, while bringing CBRT's upper band closer to consensus (currently c. 23%). Alternatively, we could see an upward revision in intermediate target to 18% (on the back of the CPI revision) along with a revision in forecast range to 15%-21%.

Latin America

Carlos Capistran
BofAS

A strong finish to a weak year

GDP expanded 3.2% in 4Q

Economic activity in 4Q 2025 surprised to the upside, with the flash GDP growing 3.24% qoq saar – well above expectations (E. 2.42%, BofA 0.80%) – after contracting -1.19% in 3Q. By sector, agriculture fell sharply (-10.37% qoq saar vs. +14.89% in Q3) (Exhibit 16). In contrast, both industry and services expanded 3.65% qoq saar (vs. -5.77% and +0.89%, respectively, in 3Q). On an annual basis, GDP increased 1.60% yoy nsa, up from -0.19% in 3Q. For full-year 2025, preliminary data show GDP rising 0.7% sa.

Complete report:* *Mexico Watch: A strong finish to a weak year 03 February 2026

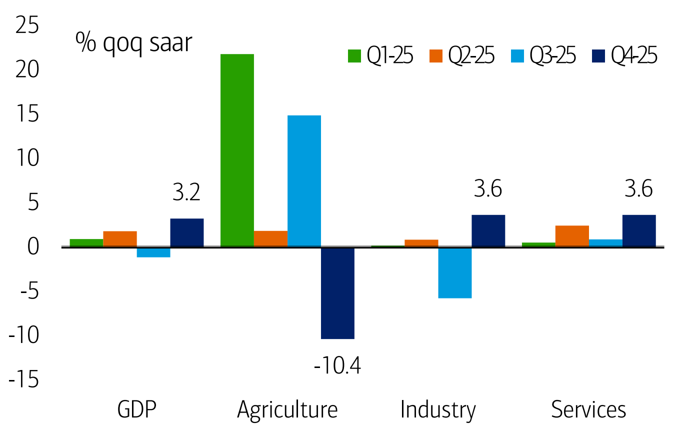
Industry and services recover

The industrial sector appears to be recovering from a recession, supported by a rebound in construction subsector, likely boosted by government spending (Exhibit 17). The acceleration in services is more surprising and could prove temporary. Meanwhile, the agricultural sector remains volatile; although it represents a small share of GDP, its sharp decline is noteworthy.

We revise our 2026 GDP growth forecast higher

We raise our 2026 GDP growth forecast to 1.5% (from 1.2%) to reflect stronger-than-expected end to 2025 (Exhibit 19). Upside risks persist, driven in part by the potential boost from the FIFA World Cup -co-hosted by the US, Canada and Mexico – as well as our constructive house view on US growth (2.8%). For 2027, we revise our forecast slightly lower to 1.6% yoy (from 1.8%), mainly due to base effects. But we continue to see structural headwinds as keeping GDP growth low: we think that the structural core constraint is weak productivity (see report).

Exhibit 16: Services and industry drove growth in 4Q 2025, despite weak agriculture
GDP growth by components (%qoq saar) (2025)



Source: BofA Global Research, INEGI

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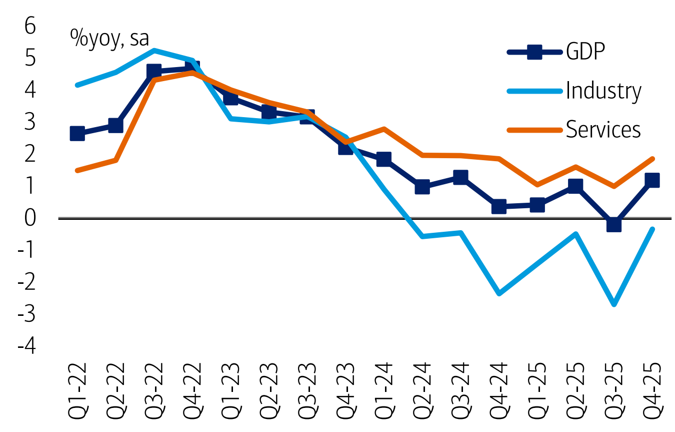
Exhibit 17: Both industry and services rebounded in Q4 2025
Annual GDP growth rates (%yoy sa) (2022 – 2025)



Source: BofA Global Research, INEGI

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Banxico: We maintain our expectation of rate cuts in 2026

We continue to expect Banxico to ease policy by a total of 100bp in 2026, reflecting a still-weak economy and a relatively strong MXN. We project a year-end 2026 policy rate of 6.00% (see our report). Despite the 4Q recovery, the probability of cuts this year remains high, as the output gap will likely stay negative throughout 2026 (Exhibit 6). However, timing remains uncertain given several inflationary one-offs in 2026 -higher taxes, higher tariffs, and World Cup-related effects. We expect cuts at every other meeting, beginning with a hold in February.

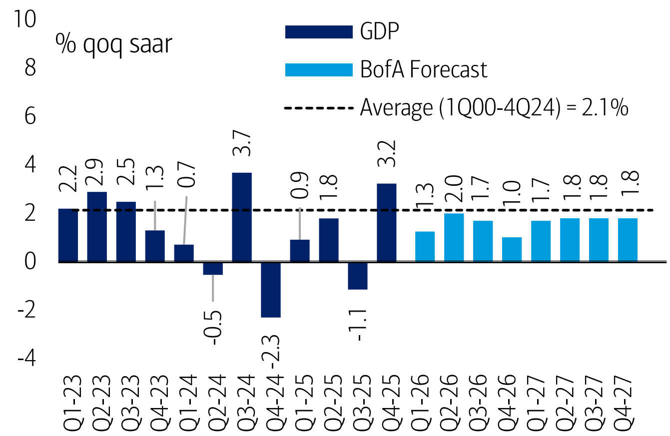
Exhibit 18: We now expect GDP to grow 1.5% in 2026
Quarterly and annual growth rates (% qoq saar, yoy) (2024–E2027)

% qoq saar (unless stated)	New	Old
2024 (%yoy)	**1.1**	**1.1**
2025-Q1	0.9	0.9
2025-Q2	1.8	1.8
2025-Q3	-1.1	-1.1
2025-Q4	3.2	0.8
2025 (%yoy)	**0.6**	**0.4**
2026-Q1	1.3	2.0
2026-Q2	2.0	1.8
2026-Q3	1.7	1.5
2026-Q4	1.0	1.5
2026 (%yoy)	**1.5**	**1.2**
2027-Q1	1.7	1.7
2027-Q2	1.8	1.9
2027-Q3	1.8	2.0
2027-Q4	1.8	1.9
2027 (%yoy)	**1.6**	**1.8**

Source: BofA Global Research estimates, INEGI

BofA GLOBAL RESEARCH

Exhibit 19: We expect relatively steady growth, slightly below 2%
Quarterly growth rates (% qoq saar) (2023–E2027)



Source: BofA Global Research estimates, INEGI

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Key forecasts

Exhibit 20: Economic forecasts
GDP growth, inflation and policy rate forecasts for the major economies

Economic forecasts

	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2025F	2026F	2027F
Global and Regional Aggregates, %												
United States												
Real GDP growth [1]	2.2	2.6	3.0	2.0	2.0	2.0	2.0	2.3	2.3	2.2	2.8	2.1
CPI inflation	2.8	2.5	2.9	2.7	2.6	2.5	2.4	2.5	2.5	2.7	2.7	2.5
Policy Rate (EoP)	3.63	3.63	3.38	3.13	3.13	3.13	3.13	3.13	3.13	3.63	3.13	3.13
Euro area												
Real GDP growth [1]	1.3	0.9	1.3	1.7	1.5	1.3	1.2	1.1	1.1	1.5	1.2	1.3
CPI inflation	2.1	1.7	1.8	1.7	1.6	1.6	1.6	1.7	1.8	2.1	1.7	1.7
Policy Rate (EoP)	2.00	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.50	2.00	2.00	1.50
China												
Real GDP growth [2]	4.5	4.5	4.6	4.9	4.8	4.7	4.6	4.3	4.2	5.0	4.7	4.5
CPI inflation [3]	0.6	0.3	-0.1	0.0	0.0	0.6	0.8	0.9	0.7	0.0	0.1	0.8
Policy Rate (EoP)	1.40	1.40	1.30	1.20	1.20	1.20	1.20	1.20	1.20	1.40	1.20	1.20
Japan												
Real GDP growth [1]	0.4	1.0	1.4	1.5	0.6	0.7	0.7	0.8	0.8	1.3	0.7	0.8
CPI inflation	2.6	1.7	1.8	2.0	2.0	2.2	2.3	2.2	1.8	3.1	1.9	2.1
Policy Rate (EoP)	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.50	1.50	0.75	1.00	1.50
Global Aggregate [4]												
Real GDP growth										3.6	3.5	3.4
CPI inflation										2.4	2.4	2.4
Policy Rate (EoP)										3.73	3.29	3.21
Emerging Markets Aggregate [4]												
Real GDP growth										4.8	4.5	4.5
Real GDP growth (ex-China)										4.6	4.4	4.4
CPI inflation										2.3	2.5	2.7
Policy Rate (EoP)										4.39	3.80	3.73

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

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Exhibit 21: Markets forecasts
Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27
Exchange Rates (EoP)									
EUR/USD	1.18	1.17	1.20	1.21	1.22	1.22	1.23	1.24	1.25
USD/JPY	157	154	158	156	155	155	153	150	150
USD/CNY	6.94	7.00	6.90	6.80	6.80	6.80	6.70	6.70	6.60
GBP/USD	1.35	1.36	1.41	1.44	1.45	1.45	1.46	1.48	1.51
Interest rates (% EoP)									
US 10yr	4.17	4.05	4.15	4.20	4.25	4.25			4.25
Germany 10-year	2.84	2.65	2.65	2.75	2.75	2.80			2.85
Japan 10yr	2.20	2.15	2.25	2.25	2.25	2.35	2.35	2.40	2.35
Commodities [1]									
Oil - WTI ($/bbl)	62.6	56	57	58	57	58	59	61	58
Oil - Brent ($/bbl)	67.6	59	60	61	60	61	62	64	61
Gold ($/oz)	4655	4400	4500	4750	4500	4000	4000	3750	3750
Equities (EoP)									
S&P 500	6798				7100				
Stoxx 600	612		530		565				

Source: BofA Global Research

BofA GLOBAL RESEARCH

Detailed forecasts

Global economic forecasts

Exhibit 22: Global Economic Forecasts

Global GDP growth expected at 3.6% in 2025, 3.5% in 2026 and 3.4% in 2027

	GDP growth, %			CPI inflation*, %			Short term interest rates**, %			
	2025E	2026F	2027F	2025	2026F	2027F	Current	2025	2026F	2027F
Global and regional aggregates										
Global	3.6	3.5	3.4	2.4	2.4	2.4	3.75	3.74	3.29	3.20
Global ex US	3.8	3.6	3.7	2.4	2.3	2.4	3.77	3.76	3.33	3.21
Global ex China	3.2	3.1	3.1	3.2	3.1	3.0	4.43	4.42	3.91	3.80
Developed Markets	1.8	1.9	1.7	2.6	2.2	2.1	2.71	2.71	2.48	2.36
Emerging Markets	4.8	4.5	4.5	2.3	2.5	2.7	4.42	4.41	3.81	3.72
Emerging Markets ex China	4.6	4.4	4.4	3.9	4.1	3.9	6.23	6.22	5.38	5.24
Europe, Middle East and Africa (EMEA)	2.2	2.2	2.3	4.4	3.3	2.9	4.56	4.56	3.94	3.33
European Union	1.7	1.6	1.7	2.4	1.9	1.8	2.33	2.33	2.20	1.73
Emerging EMEA	3.5	3.8	3.7	9.1	6.6	5.4	8.42	8.42	6.83	5.82
Emerging Asia	5.5	5.0	5.0	0.9	1.6	2.0	2.72	2.72	2.51	2.71
ASEAN	4.9	4.6	4.8	1.7	2.3	2.5	3.57	3.57	3.30	3.39
Latin America	2.3	2.3	2.2	3.7	3.9	3.6	8.67	8.59	7.23	6.75
G6										
US	2.2	2.8	2.1	2.7	2.7	2.5	3.63	3.63	3.13	3.13
Euro area	1.5	1.2	1.3	2.1	1.7	1.7	2.00	2.00	2.00	1.50
Japan	1.3	0.7	0.8	3.1	1.9	2.1	0.75	0.75	1.00	1.50
UK	1.4	1.2	1.4	3.4	2.2	2.0	3.75	3.75	3.25	3.25
Canada	1.7	1.4	1.8	2.1	2.0	2.0	2.25	2.25	1.75	1.75
Australia	1.8	2.2	2.0	2.8	3.1	2.5	3.85	3.60	3.85	3.35
Euro area										
Germany	0.3	1.0	1.7	2.2	1.4	1.7	2.00	2.00	2.00	1.50
France	0.9	1.1	1.3	1.0	1.3	1.7	2.00	2.00	2.00	1.50
Italy	0.7	0.8	0.9	1.7	1.4	1.7	2.00	2.00	2.00	1.50
Spain	2.8	2.3	1.6	2.7	1.5	1.7	2.00	2.00	2.00	1.50
Netherlands	1.9	1.3	1.4	3.0	2.1	2.3	2.00	2.00	2.00	1.50
Belgium	1.0	1.0	1.4	3.0	1.7	1.8	2.00	2.00	2.00	1.50
Austria	0.6	0.9	1.5	3.4	1.9	1.7	2.00	2.00	2.00	1.50
Greece	1.9	2.0	1.9	2.7	1.9	1.9	2.00	2.00	2.00	1.50
Portugal	1.9	2.1	1.7	2.2	1.8	1.9	2.00	2.00	2.00	1.50
Ireland	13.3	1.3	2.4	1.8	1.6	1.8	2.00	2.00	2.00	1.50
Finland	0.0	0.5	1.4	1.7	1.2	1.6	2.00	2.00	2.00	1.50
Other developed economies										
New Zealand	0.2	2.1	2.8	2.7	2.1	2.0	2.25	2.25	2.00	2.50
Switzerland	1.2	1.1	1.5	0.2	0.4	0.7	0.00	0.00	0.00	0.00
Norway	1.7	1.7	1.4	3.0	2.2	2.2	4.00	4.00	3.75	3.50
Sweden	1.8	2.1	1.9	2.7	1.2	1.7	1.75	1.75	1.75	1.75
Emerging Asia										
China	5.0	4.7	4.5	0.0	0.1	0.8	1.40	1.40	1.20	1.20
India	7.7	6.8	7.2	2.3	4.4	4.6	5.25	5.25	5.00	5.75
Indonesia	5.1	5.3	5.5	1.9	2.7	3.0	4.75	4.75	4.00	4.00
Korea	1.0	1.9	2.1	2.1	2.1	2.0	2.50	2.50	2.25	2.25
Taiwan	7.9	4.5	2.5	1.7	1.3	1.7	2.00	2.00	2.00	2.00
Thailand	2.0	1.6	2.1	0.0	0.5	0.7	1.25	1.25	1.00	1.25
Malaysia	4.9	4.2	4.0	1.4	1.8	2.0	2.75	2.75	2.75	2.75
Philippines	4.4	4.6	5.0	1.7	3.0	3.3	4.50	4.50	4.25	4.50
Singapore	4.8	2.0	2.4	0.8	1.6	1.4				
Hong Kong	3.2	2.5	2.4	1.4	1.8	1.9	4.00	4.00	3.50	3.50
Vietnam	8.0	7.5	7.0	3.5	3.5	3.5	4.50	4.50	5.00	5.00

Note: *CPI forecasts are annual averages, except LatAm (end-of-period). **End of period.

Source: BofA Global Research

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Exhibit 23: Global Economic Forecasts (continued)

Global GDP growth expected at 3.6% in 2025, 3.5% in 2026 and 3.4% in 2027

	GDP growth, %			CPI inflation*, %			Short term interest rates**, %			
	2025E	2026F	2027F	2025	2026F	2027F	Current	2025	2026F	2027F
Latin America										
Brazil	2.5	2.0	1.8	4.3	4.0	3.5	15.00	15.00	11.50	10.50
Mexico	0.6	1.5	1.6	3.7	4.1	4.3	7.00	7.00	6.00	6.00
Argentina	4.2	3.5	3.0	31.5	20.3	12.0				
Colombia	2.8	2.4	2.8	5.1	6.0	4.2	10.25	9.25	11.50	10.50
Chile	2.3	2.2	2.0	3.5	3.1	3.1	4.50	4.50	4.50	4.50
Peru	3.4	2.8	3.0	1.3	1.9	2.0	4.25	4.25	3.75	3.75
Ecuador	3.3	2.5	2.3	1.9	1.8	1.8				
Uruguay	1.5	1.8	2.0	3.7	4.5	4.5	6.50	7.50	7.00	7.00
Costa Rica	4.3	4.0	4.0	-1.2	2.0	3.0	3.25	3.25	3.25	3.25
Dominican Republic	2.5	4.0	4.0	5.0	4.2	3.9	5.25	5.25	5.25	4.50
Panama	4.0	4.0	5.0	0.4	2.3	2.6				
El Salvador	3.5	3.3	3.3	0.9	2.0	2.0				
Guatemala	4.0	3.8	3.7	1.7	2.8	3.1	3.75	3.75	3.00	3.00
EEMEA										
Türkiye	3.7	4.3	4.7	34.9	26.8	22.0	37.00	38.00	30.50	20.00
Nigeria	3.9	4.2	4.0	20.0	15.0	12.0	27.00	27.00	20.00	16.00
Egypt	4.0	4.0	4.5	20.4	13.2	10.0	20.50	20.50	18.00	15.00
Poland	3.6	3.8	2.7	3.6	2.0	2.4	4.00	4.00	3.00	3.50
South Africa	1.4	1.5	1.7	3.2	3.4	3.1	6.75	6.75	6.00	6.00
Romania	1.0	1.5	2.8	7.3	6.4	3.2	6.50	6.50	5.25	4.50
Czech Republic	2.7	2.4	2.4	2.5	1.4	2.1	3.50	3.50	3.00	3.50
Israel	3.3	4.2	4.0	3.1	2.5	2.2	4.00	4.00	3.25	3.25
Hungary	2.7	2.4	2.4	2.5	1.4	2.1	6.50	6.50	5.75	
Saudi Arabia	4.6	3.9	3.1	2.0	2.0	2.0	4.25	4.25	3.50	3.50
Ukraine	2.5	7.0	6.0	13.4	5.0	5.0	15.00	15.50	11.00	9.00

Note: *CPI forecasts are annual averages, except LatAm (end-of-period). **End of period.

Source: BofA Global Research

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Exhibit 24: Real GDP growth, qoq annualized %

Global GDP growth expected at 3.6% in 2025, 3.5% in 2026 and 3.4% in 2027

	4Q 25	1Q 26	2Q 26	3Q 26	4Q 26	1Q 27	2Q 27	3Q 27	4Q 27	2025	2026	2027
Developed Markets												
US	2.2	2.6	3.0	2.0	2.0	2.0	2.0	2.3	2.3	2.2	2.8	2.1
Euro area	1.3	0.9	1.3	1.7	1.5	1.3	1.2	1.1	1.1	1.5	1.2	1.3
Japan	0.4	1.0	1.4	1.5	0.6	0.7	0.7	0.8	0.8	1.3	0.7	0.8
UK	0.2	1.8	1.4	1.8	1.8	1.0	1.4	1.4	1.4	1.4	1.2	1.4
Canada	1.2	1.5	1.5	1.5	1.5	1.8	1.8	2.0	2.0	1.7	1.4	1.8
Australia	2.2	2.2	2.2	2.0	2.0	2.0	2.0	2.0	2.0	1.8	2.2	2.0
G6 Aggregate	1.6	1.8	2.1	1.8	1.7	1.6	1.6	1.7	1.7	1.8	1.9	1.7
Emerging Markets												
China	4.9	4.4	4.8	5.5	4.7	4.0	4.3	4.2	4.4	5.0	4.7	4.5
India	6.1	6.6	5.4	7.9	8.1	6.4	7.6	6.7	8.9	7.7	6.8	7.2
Indonesia	6.1	4.9	6.6	3.6	6.6	5.3	6.1	4.5	6.6	5.1	5.3	5.5
South Korea	0.5	2.5	0.8	1.6	1.9	2.3	2.5	2.4	2.3	1.0	1.9	2.1
Thailand	2.4	1.1	1.3	2.5	2.4	3.0	2.2	0.6	0.7	2.0	1.6	2.1
Singapore	7.8	-7.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	4.8	2.0	2.4
Hong Kong	-0.3	4.5	3.3	2.3	0.2	2.1	1.9	5.4	5.4	3.2	2.5	2.4
Brazil	1.6	3.0	2.5	1.0	3.4	4.1	-2.4	3.6	1.9	2.5	2.0	1.8
Mexico	3.2	1.3	2.0	1.7	1.0	1.7	1.8	1.8	1.8	0.6	1.5	1.6
Colombia	2.4	2.0	1.2	2.8	2.8	2.8	2.8	3.2	3.2	2.8	2.4	2.8
Chile	1.3	3.5	2.9	2.4	2.4	2.0	2.0	2.0	2.0	2.3	2.2	2.0
Peru	3.2	1.6	2.0	4.1	4.1	2.4	2.4	2.8	2.8	3.4	2.8	3.0
Türkiye	3.3	6.5	6.2	1.0	0.9	4.9	8.2	2.2	4.0	3.7	4.3	4.7
South Africa	1.1	1.3	1.2	1.2	1.4	1.9	1.7	2.0	1.8	1.4	1.5	1.7

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 25: Monthly forecasts

End of period

Monetary policy rate (%)

Central Banks	Current	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-26
Developed Markets												
Fed (upper bound)	3.75	3.75	3.75	3.75	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25
ECB (deposit rate)	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
BoJ	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
BoE	3.75	3.75	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25
BoC	2.25	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Riksbank	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
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
Norges Bank	4.00	4.00	4.00	4.00	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75
RBA	3.85	3.85	3.85	3.85	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
RBNZ	2.25	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Emerging Asia												
China 7d reverse repo*	1.40	1.40	1.40	1.30	1.30	1.30	1.20	1.20	1.20	1.20	1.20	1.20
India	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Indonesia	4.75	4.50	4.25	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00
South Korea	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Taiwan	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Thailand	1.25	1.25	1.25	1.25	1.25	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Malaysia	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Philippines	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Latin America												
Brazil	15.00	15.00	14.50	14.00	14.00	13.50	13.50	13.00	12.50	12.50	12.00	11.50
Chile	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Colombia	10.25	10.25	10.75	11.25	11.25	11.50	11.50	11.50	11.50	11.50	11.50	11.50
Mexico	7.00	7.00	6.75	6.75	6.75	6.50	6.50	6.50	6.25	6.25	6.25	6.00
Peru	4.25	4.25	4.00	4.00	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Emerging EMEA												
Czech Republic	3.50	3.50	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Hungary	6.50	6.25	6.00	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Poland	4.00	4.00	3.75	3.50	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00
Romania	6.50	6.50	6.50	6.50	6.25	6.25	6.00	5.75	5.75	5.50	5.25	5.25
South Africa	6.75	6.75	6.50	6.50	6.50	6.50	6.25	6.25	6.25	6.25	6.00	6.00

Note: *Major five banks.

Source: BofA Global Research, Bloomberg.

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FX, rates and commodity forecasts

Exhibit 26: Quarterly forecasts

End of period

	Spot	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
FX forecasts									
G6									
EUR-USD	1.18	1.17	1.20	1.21	1.22	1.23	1.24	1.25	1.25
USD-JPY	157	154	158	156	155	153	150	150	150
EUR-JPY	185	180	190	189	189	188	186	188	188
GBP-USD	1.35	1.36	1.41	1.44	1.45	1.46	1.48	1.51	1.51
USD-CAD	1.37	1.38	1.38	1.37	1.36	1.35	1.35	1.35	1.35
AUD-USD	0.69	0.70	0.71	0.72	0.73	0.73	0.73	0.73	0.73
Asia									
USD-CNY	6.94	6.90	6.80	6.70	6.70	6.70	6.70	6.60	6.60
USD-INR	90.4	89.0	89.0	88.5	88.0	88.0	88.0	88.0	88.0
USD-IDR	16830	16500	16400	16300	16200	16200	16200	16200	16200
USD-KRW	1474	1435	1420	1415	1395	1380	1365	1350	1335
Latin America									
USD-BRL	5.27	5.35	5.35	5.35	5.25	5.25	5.25	5.25	5.25
USD-MXN	17.53	17.75	17.90	18.00	18.25	18.45	18.60	18.85	19.00
Emerging Europe									
EUR-PLN	4.23	4.27	4.23	4.20	4.18	4.15	4.15	4.15	4.15
USD-TRY	43.62	43.80	46.10	48.40	50.70	52.70	54.70	56.80	58.80
USD-ZAR	16.35	16.80	16.40	16.00	15.60	15.40	15.70	16.00	16.20
Rates forecasts									
2yr									
US 2-year	3.44	3.45	3.35	3.25	3.25	3.25			3.25
Germany 2-year	2.10	1.90	1.95	2.00	2.05	2.08			2.15
Japan 2-year	1.27	1.25	1.45	1.48	1.50	1.70	1.73	1.85	1.80
UK 2-year	3.66	3.55	3.50	3.52	3.55	3.57	3.60	3.62	3.65
Canada 2-year	2.55	2.45	2.35	2.25	2.25	2.30	2.35		2.50
10yr									
US 10-year	4.17	4.05	4.15	4.20	4.25	4.25			4.25
Germany 10-year	2.84	2.65	2.65	2.75	2.75	2.80			2.85
Japan 10-year	2.19	2.15	2.25	2.25	2.25	2.35	2.35	2.40	2.35
UK 10-year	4.56	4.45	4.45	4.45	4.50	4.55	4.60	4.65	4.70
Canada 10-year	3.39	3.40	3.35	3.35	3.35	3.40	3.45		3.50
Commodities forecasts									
WTI Crude Oil - $/bbl	62.5	56.0	57.0	58.0	57.0	58	59	61	58
Brent Crude Oil - $/bbl	67.6	59.0	60.0	61.0	60.0	61	62	64	61
Gold $/oz	4655	4400	4500	4750	4500	4000	4000	3750	3750
Copper, $/mt	12903	11000	11500	12000	12500	12750	13000	14000	15000
Copper, c/t	585	499	522	544	567	578	590	635	680

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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