



Is the ECB risking a false start?



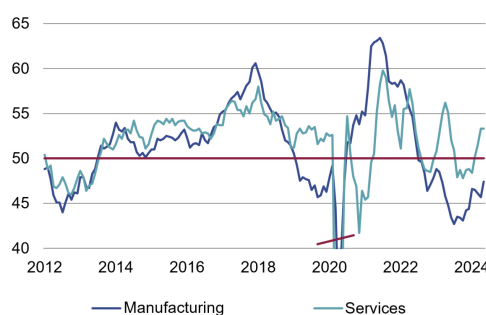
Emmanuel Petit
General Partner, Head of Fixed
Income

The European Central Bank is poised to approve a rate cut at its upcoming meeting on June 6. This decision is historic, marking the first time the ECB would ease its monetary policy before the Federal Reserve. Does this, however, mark the beginning of a monetary policy easing cycle?

What if the ECB had backed itself into a corner? The bank's current stance, adopted weeks ago based on macroeconomic data that haven't evolved as expected, may not align with the present European economic environment. Given the tight labor market, high wages, and rebounding PMI indices, a rate cut seems surprising. Unfortunately, backtracking now could shock the markets and generate significant volatility.

Eurozone – Business confidence

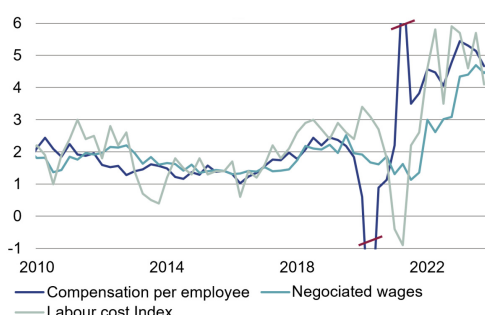
S&P Global



Source: Macrobond, Rothschild & Co Asset Management, May 2024.

Eurozone – Wages

in %, y/y



Source: Macrobond, Rothschild & Co Asset Management, May 2024.

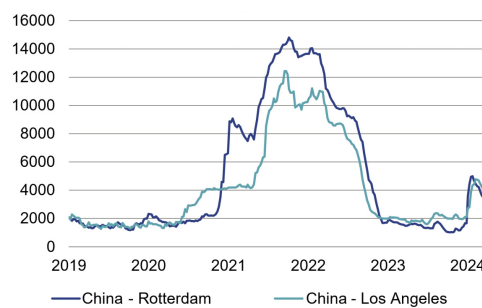
There are two conflicting perspectives within the ECB. The dovish camp argues that falling inflation will ease wage pressures, while the hawkish camp contends that rising wages will

fuel inflation. The decision to lower rates in June aligns more with the dovish view, which prevailed when leading economic indicators were weaker than they are now.

While the rate cut on June 6 appears certain, future decisions are far less clear. The ECB may delay its goal of returning to the inflation target beyond 2025 due to persistent wage pressures and risks to goods prices. Geopolitical tensions affecting freight costs and high commodity prices, along with potential protectionist policies from upcoming elections in Europe and the U.S., could introduce new inflationary pressures.

World – Maritime freight rates

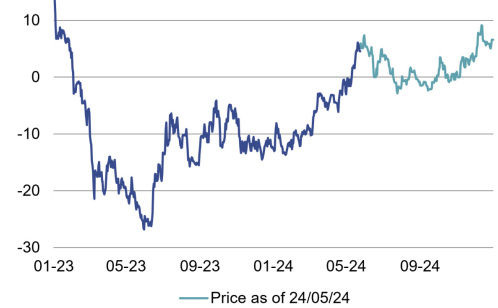
USD per container



Source: Bloomberg, Rothschild & Co Asset Management, May 2024.

World – Commodities price

in %, y/y



Source: Bloomberg, Rothschild & Co Asset Management, May 2024.

Delays in reaching the inflation target are likely to temper expectations for additional rate cuts this year. The initial cut might not be followed by any further reductions before year-end, despite current market pricing of one or two more cuts. At the start of the year, the market expected seven cuts for 2024. The ECB's current data-dependent¹ approach create further unpredictability in future monetary policy.

In this uncertain environment, we remain cautious with our investments. We avoid long-term maturities due to the risk of steepening curves associated with reassessed inflation expectations, preferring instead short and intermediate maturities.

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(1) Data dependent

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(1) Source: Rothschild & Co Asset Management, 31/07/2026.

France

29, Avenue de Messine
75008 Paris
+33 1 40 74 40 74

Belgium – Netherlands – Luxembourg

Rue de la Régence 52
1000 Bruxelles
+32 2 627 77 30

Switzerland

Rothschild & Co Bank AG
Rue de la Corraterie 6
1204 Genève
+41 22 818 59 00

Italy

Passaggio Centrale 3
20 123 Milano
+39 02 7244 31

Germany - Austria

Börsenstraße 2 - 4
Frankfurt am Main 60313
+49 69 299 8840

Spain

Paseo de la Castellana 40 bis
28046 Madrid
+39 02 7244 31

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