

## Macro Outlook

# THROUGH THE STRAITS

**AUTHORS****Fabio Fois**

Head of Investment Research & Advisory  
fabio.fois@animasgr.it

**Matteo Gallone**

Macroeconomist  
matteo.gallone@animasgr.it

**Chiara Cremonesi**

Senior Rates Strategist  
chiara.cremonesi@animasgr.it

*In the US, domestic demand remains robust - supported by resilient consumption and strong non-residential investments. We expect a similar script for Q2 and stick to the view that growth momentum will continue to hover around potential this year. Our inflation baseline view is unchanged. We continue to expect disinflation to continue though we slightly revised up our core profiles to reflect temporary factors and technical forces.*

*In the EA, growth started the year with a weak and uneven print, despite distortions from Ireland. Country details point to fragile domestic demand and questionable strength in Germany, while Spain stands out for resilience. Incoming indicators signal further softening into Q2, prompting downward revisions to our baseline. Our 2026 annual forecast for EA GDP now stands at 0.8% (vs 1.0% prior baseline). Headline inflation remains clouded by energy prices, but core pressures remain contained, with limited risk of persistent second-round effects for the time being. The evolution of consumers' medium-term inflation expectations remains the key theme on our radar.*

*China's economy remains bifurcated: consumer spending power remains subdued, while export activity continues to act as the main growth engine.*

*April inflation data point to continued oil-driven reflation, but the pass-through to core and services prices remains limited. Overall growth forecasts are unchanged, while only minor upward revisions to headline inflation reflect oil-driven effects.*

*As widely expected, the Federal Reserve held rates steady in the April meeting. The statement was largely unchanged, including the FOMC's (easing) guidance about future policy rates. However, the soon-to-be former Chair threw Warsh a curveball. The easing bias in the statement was challenged by three, notoriously hawkish members, and by some considerations expressed by Powell himself that appeared more philosophical than micro-driven. If, on the one hand, the April meeting suggests that the FOMC may have started flirting with the idea of a more neutral monetary policy stance, on the other hand it is well known that "when the cat's away, the mice will play". Therefore, we stick to our baseline that the Fed will cut rates this year amid macro and political considerations. That said, our call for three rate cuts this year (with risks tilted toward two) is under revision. With only five FOMC meetings left this year, persisting geopolitical tensions in the Middle East and the hawkish legacy left by Powell may constrain Warsh's likely desire to ease monetary policy, at least in the first two meetings (June and July) reducing the 2026 easing window.*

*Although EA macro developments have largely unfolded in line with our baseline, we need to enrich our ECB call to incorporate the clear - albeit near-term - hiking signal delivered by President Lagarde during the April press conference. The ECB appears to be moving quickly to shield the EA economy from potential second-round inflation effects, even though - borrowing directly from President Lagarde's remarks - there is no evidence of such effects, while the real economy has already been hit. Accordingly, although the macro picture embedded in our baseline would not support it, we now expect one rate hike in June (vs. no cuts through Q3 2026).*

*We continue to expect the PBoC to maintain a "moderately loose" monetary policy stance throughout 2026, with continued easing bias to support economic growth despite better-than-expected first-quarter performance.*

# GROWTH & INFLATION

## US – Still in charge

*Domestic demand remains robust - supported by resilient consumption and strong non-residential investments. We expect a similar script for Q2 and stick to the view that growth momentum will continue to hover around potential this year. Our inflation baseline view is unchanged. We continue to expect disinflation to continue though we slightly revised up our core profiles to reflect temporary factors and technical forces.*

**Remarkably resilient underlying activity in Q1.** The advance estimate for real GDP growth came in at 2.0% q/q SAAR in Q1-26 (vs 2.3% consensus and 2.5% in our latest tracking estimate). The weaker than expected result compared to our forecasts is mainly attributable to a more negative than expected net trade contribution, while domestic demand was solid - as we had expected.

**Solid economic backdrop.** The private domestic final purchases (PDFP) measure registered a solid 2.5% q/q SAAR gain in Q1, similar to last year's Q4 pace. Real personal spending rose by 1.6% q/q SAAR in Q1-26 (vs 1.9% in Q4), mainly driven by services spending, which remained resilient at 2.4% q/q SAAR (in line with the 2025 average). Real goods spending reported no growth in Q1, as it was held back by the tariff-related acceleration in goods prices during Q1. Non-residential investments came in solid at 10.4% q/q SAAR, mainly driven by equipment investments (17.2% q/q SAAR), reflecting both AI-related computer spending and a broadening into other types of industrial equipment spending as well.

Outside PDFP, the federal government output temporarily boosted GDP, with the federal government reopening post Q4 shutdown adding about 0.6pp to growth. Finally, the shortfall between growth rates in GDP and PDFP reflects the trade deficit, which subtracted 1.3pp from headline growth, as a 21% jump in imports more than offset a 13% increase in exports

**A similar script for Q2.** Given the monthly pattern in real personal consumer expenditures through March, private consumption in Q2 is expected to remain strong, as we estimate a carryover of 1.0pp to q/q SAAR real PCE growth in that quarter. Moreover, timely credit card spending data indicate that spending remained strong between April and May – in line with signals from control group sales for April.

On the non-residential investment front, we believe that tech investments will remain robust in Q2 - the latest earnings season for hyperscalers was strong, and the consensus has revised upward its estimate for the delivery of 70% (\$760bn) of global CAPEX growth in 2026 for the five largest hyperscalers.

**The labour market eases overheating concerns.** Headline NFP recorded a solid gain of 115k in April, following uneven readings in February (-156k) and March (+185k). While the headline print was encouraging, the underlying details suggest that the economy is not experiencing signs of overheating.

1) Employment growth continues to be firmly supported by the private sector, with a renewed contribution from private services. Healthcare employment remains positive, although it has moderated compared to March, which reduces concerns about the quality of the previous report. Manufacturing remained in the background, though this is not particularly worrying given that US growth is primarily driven by services-related spending.

2) There are indications of a modest increase in labour market slack and an easing in labour supply conditions. This is reflected in an 8bp increase in the unrounded

unemployment rate (the rounded rate remained stable at 4.3%), a 0.2pp rise in the U6 underemployment measure, and a 0.1pp decline in the participation rate.

3) Wage dynamics continue to show limited pressure. Average hourly earnings (AHE) came in weaker than expected, rising by just 0.16% m/m (essentially, very close to a rounding of 0.1%). Importantly, this softness is broad-based across sectors, including manufacturing, financial services, and wholesale trade. In a nutshell: there are no signs of overheating, nor is there evidence of second-round effects linked to Middle-East developments.

**The JOLTS data help confirm this view, indicating that the “low-fire, low-hire” equilibrium remains intact.** The hiring rate in March came in at 3.5% (+0.4pp), while at the same time the separation rate jumped by 0.2pp, to 3.4%.

**Our growth baseline for 2026 remains unchanged.** While the energy shock is looming over the economy we believe the strength of the US economy in weathering the energy shock is essentially due to the fact that: 1) the economy is much less dependent on oil today; 2) the supply disruptions and shortages experienced so far by the US economy are structurally narrower than those experienced in the past (1960, 1970, 2022).

**The latest inflation data confirm that, although economic activity remains resilient, there are no signs of overheating that could reignite underlying inflationary pressures.** In that regard, the core CPI print for April came in slightly stronger than expected at 0.4% m/m (vs 0.3% consensus) up from 0.2% in March. Granted, we believe that this report could be misleading if viewed solely at face value: a deep dive into details is necessary.

**Tariff pass-through likely exhausted.** In April, within core goods inflation, we note that core goods inflation decelerated to 0.0% m/m from 0.2% in March, reflecting declines in furnishings and supplies, new cars, vehicle parts and medical commodities. Moreover, core goods excluding used cars decreased to 0.0% from 0.1% in March.

**Core shelter (RPR+OER) affected by a one-off methodological sampling issue.** Core shelter printed around twice as large as normal, considering the methodological decision by the BLS to use a 1/6th root of a 12-month change, instead of the usual 1/6th root of a 6-month change. This is a consequence of the government shutdown in Q4-25. Indeed, unlike most CPI categories, shelter inflation was not fully “caught up” after the government shutdown last fall because RPR and OER are measured on a six-month property rotation. That left index levels artificially depressed until the units that were skipped in October 2025 were resurveyed in April. This is a one-off technical increase that should revert between May/June. Without the BLS quirk on rents, our back of the envelope calculation for core shelter (RPR+OER) would have been for a print at 0.2% m/m – in line with the average of the last six months.

**Supercore momentum led by airfares prices.** Supercore CPI (i.e. core services excluding core shelter) printed at 0.4% m/m (+0.2pp from March). However, we note that the increase was driven primarily by a second consecutive month of strong growth in airfares (2.8% month-over-month). Our measure of supercore excluding Health Insurance, Lodging, Airfares (i.e. excluding the notoriously volatile core services items) came in at 0.2% m/m. In addition, we note that some core service components closely linked to domestic demand came in rather weak in April: recreation services CPI came in at 0.0% m/m, education and communication services printed at -0.1% m/m and car rentals decreased to -3.7% m/m.

**Our take is that:** 1) The pass-through from tariffs is mostly complete. Within core goods, most categories have normalised to pre-Liberation-Day levels, with the exception of a few components closely tied to AI (for instance, IT goods -though they have a rather marginal weight in core goods). 2) Core services were distorted by a

methodological issue regarding core shelter inflation, which will be corrected next month. Without the BLS quirk on rents, core CPI would have printed around 0.2% m/m. Inflation for discretionary services categories remains weak, with some components edging into deflationary territory.

**ANIMA baseline.** Taking into account the Q1-26 real GDP growth figure - which came in slightly weaker than we expected due to the rather volatile net trade component - our annual growth forecast for 2026 now stands at 2.2% (vs 2.4% in the previous baseline).

On core inflation, our baseline has been updated to reflect the mechanical impact of an April core shelter print that came in higher than our initial assumptions (which had already incorporated a technical quirk in the BLS data), alongside an adjustment to airfares due to fluctuations in jet fuel prices. We now expect core CPI to print with an annual average in 2026 of 2.5% (vs 2.4% prior baseline). In core PCE terms, bearing in mind that as of January 2026 the core PCE-CPI inflation gap has reversed sign (resulting in a higher PCE than the CPI figure) and widened to unusual levels, and given that Q1-26 came in slightly stronger than we expected, we are mechanically raising our annual average estimate to 2.7% (vs 2.5% prior baseline).

## EA – On shaky ground

*Growth started the year with a weak and uneven print, despite distortions from Ireland. Country details point to fragile domestic demand and questionable strength in Germany, while Spain stands out for resilience. Incoming indicators signal further softening into Q2, prompting downward revisions to our baseline. Our 2026 annual forecast for EA GDP now stands at 0.8% (vs 1.0% prior baseline). Headline inflation remains clouded by energy prices, but core pressures remain contained, with limited risk of persistent second-round effects for the time being. The evolution of consumers' medium-term inflation expectations remains the key theme on our radar.*

**Wavering economic activity.** The flash estimate for Q1 real GDP growth came in at 0.1% q/q (0.148% q/q unrounded), slightly below our tracking estimate (0.16%) and fell short of the ECB's projection of a trend-like 0.3% q/q expansion. However, the impact of the volatility in Ireland's real GDP figure (-2.0% q/q) was significant: the flash estimate for EA GDP growth excluding Ireland came in at 0.2% q/q in Q1 2026.

**Handle with care.** Despite the Irish downward distortion, we note that the underlying trajectory of GDP growth in Q1 has been sluggish. Looking at the country-level details (area-wide expenditure figures will be released on June 5), we note that:

- French growth surprised significantly to the downside, with real GDP flat at the start of the year. Here, domestic demand stayed subdued amid elevated political uncertainty while inventories drove activity after two quarters of negative contribution.
- Germany reported 0.3% q/q growth - stronger than expected. However, we have significant doubts about this figure. The press release from Destatis mentions that household and government final consumption expenditure were higher than in Q4-25. However, the flash estimate was based primarily on data reported for January and February. Considering the weak retail sales as well as soft consumer services output data, it is somewhat surprising that Destatis noted household consumption as having supported growth. Social security deductions from wages actually increased in January but this would have mainly affected higher earners with lower marginal propensities to consume. What likely supported those on lower incomes is the hike in the minimum wage to EUR13.90 and cheaper energy costs due to the removal of the gas storage levy. In addition, industrial production

data for March slowed sharply (-0.7% m/m). As a result, we believe that Germany's Q1 figure will be revised downward, driven by a downward adjustment to domestic demand, while net exports will continue to shoulder the burden.

In the medium term, although the fiscal push is proceeding well, we believe that the prospects for Germany's recovery are becoming clouded: uncertainty, supply chain problems, higher rates, and likely weaker growth amongst export partners could be a toxic mix weighing on the private investment.

- Italian real GDP growth came in higher than expected at 0.2% (vs 0.1% consensus) down from 0.3% in Q4-25. For now, Istat indicates that net exports drove growth, while domestic demand - including inventories - acted as a drag.
- Spanish growth remained strong at 0.6% q/q. Spain continues to benefit from strong population growth while capital spending has been boosted by EU recovery funds, which must be rolled out by end-2026. These tailwinds are unlikely to be derailed by the conflict in the short term.

**Bad weather for Q2.** Incoming high-frequency indicators point to softening momentum extending into Q2 - reflecting the disruptions caused by tensions in the Middle East. The composite PMI for April came in at 48.8, down from 50.7 in March. The survey details reinforced a deteriorating growth backdrop alongside firming cost pressures, with demand weakening at the start of Q2. The European Commission consumer and business surveys showed the economic sentiment indicator falling by 3.2pt, to 93.0, its lowest level since the pandemic reopening.

**Given a lower starting point, we slightly adjust downward our area-wide real GDP growth baseline for 2026.** We now expect growth at 0.1% q/q in Q2-26, (vs 0.2% in prior baseline), 0.2% q/q in Q3 (vs 0.3% in prior baseline) and 0.3% in Q4 (vs 0.4% in prior baseline).

**Headline inflation remains clouded by energy prices.** Headline inflation rose to 3.0% y/y in April, up from 2.6% y/y in March. The acceleration was driven almost entirely by energy inflation, which surged to 10.9% y/y from 5.1% y/y in March, mirroring developments in fuel prices.

**Core inflation appears to be unaffected for now.** Core inflation edged down by 0.1pp, to 2.2% y/y. Core goods (NEIG) inflation rose to 0.8% y/y from 0.5% in March. Despite this uptick, NEIG inflation remains in line with its pre-COVID average. The underlying details are not available with the flash release, but we believe the uptick in April is attributable to components related to the clothing and footwear sector. Indeed, price levels for that category looked somewhat low following winter sales in March - especially in Spain and Italy - so it is plausible that there was some catch-up in April. Meanwhile, services inflation decreased to 3.0% y/y (2.96% at 2dps) from 3.2% in March - the lowest level since March 2022. The positive base effect from airfares, which surged by 24.3% month over month in April of last year due to Easter, has likely had a significant impact. However, regional data from Germany showed that other typically less volatile categories also reported downticks in April (e.g. transportation services, restaurants and hotels and education services).

We believe that the risks of second-round effects remain limited and are unlikely to significantly alter our core disinflation baseline for 2026. This is for a number of reasons: 1) economic activity is faltering. 2) wage growth is decelerating, and forward-looking indicators do not point to a reacceleration. 3) the labour market has entered a cycle of full normalisation (the vacancy-to-unemployment ratio stands now at 0.3%, down from 0.5% at its peak in Q2-22). Consequently, we report only a minor adjustment to our core HICP baseline for 2026, mainly reflecting the mechanical impact of certain highly energy-sensitive components in the core basket (i.e., airfares due to fluctuations in jet fuel prices).

**Inflation expectations under our radar.** The most significant risk in terms of second-round effects in the medium term (2027) stems from the evolution of consumers' medium-term inflation expectations, as these are likely to influence unions' behavior in future wage negotiations. If upcoming consumer inflation expectation releases continue to signal rising pressures at the three-year horizon, as seen in March, we would treat this as a warning sign. It may indicate that, after the 2022 energy shock, households and unions have become more responsive to energy price movements and could act more proactively in pursuing wage catch-up.

**ANIMA baseline.** We now expect growth at 0.1% q/q in Q2-26, (vs 0.2% in prior baseline), 0.2% q/q in Q3 (vs 0.3% in prior baseline) and 0.3% in Q4 (vs 0.4% in prior baseline). Our 2026 EA real GDP growth forecast stands now at 0.8% (vs 1.0% prior baseline and in line with current BBG consensus).

On inflation, incorporating the current level of market pricing data for gas and oil into our energy HICP profile for 2026, the headline HICP forecast for 2026 (annual average) stands now at 2.7% (up 0.2pp vs prior baseline). On core inflation, we report only a minor adjustment, mainly reflecting the mechanical impact of certain highly energy-sensitive components (i.e., airfares due to fluctuations in jet fuel prices). More specifically, to better estimate the impact of the current energy shock on HICP airfares, we incorporate into our baseline our bottom-up estimates using kerosene import prices, proxied via Brent crude, and combined with a regression-based pass-through framework. As a result of this exercise, we slightly revise our forecast for core HICP at 2.2% in 2026 (annual average), up 0.1pp vs prior baseline.

## CHINA – Two-track economy, again

*China's economy remains bifurcated: consumer spending power remains subdued, while export activity continues to act as the main growth engine.*

*April inflation data point to continued oil-driven reflation, but the pass-through to core and services prices remains limited. Overall growth forecasts are unchanged, while only minor upward revisions to headline inflation reflect oil-driven effects.*

### **Still a two-track economy.**

- **Growth momentum in the hospitality sector moderated during the Labour Day Holiday.** Tourism revenue per head remained similar to that recorded during the last Labour Day holiday and below the pre-COVID level, pointing to still-subdued consumer spending power. Furthermore, cross-border travel growth momentum softened.
- **Meanwhile, China's trade growth accelerated further in April.** Exports activity increased by 14.1% y/y from +2.5% in March, reflecting a widespread strength among trading partners. By major category and in sequential terms, export value rose broadly from March to April, with apparel, footwear, and suitcases rising the most, followed by metals and housing-related products.

**Overall, our growth baseline remains unchanged.** Our full-year projection remains at 4.9% (annual average).

**Energy-skewed price indicators:** April inflation data show oil prices driving a sharp PPI rebound and higher energy CPI.

After PPI exited deflation in March for the first time since late 2022, it accelerated further to 2.8% y/y (from 0.5%). The PPI breakdown shows that the rebound was mainly driven by upstream raw materials (April: 7.1% y/y vs 1.1% in March) and mining (10.6% vs 2.0%), while price pressures in downstream consumer goods (-1.0% vs -1.3%) and manufacturing sectors (1.5% vs 0.9%) remained much more muted. This suggests

that downstream firms are still struggling to pass higher input costs further along the value chain.

Moreover, while CPI inflation rose by 0.2pp to 1.2% y/y in April, we think this modest pickup in headline inflation mainly reflected energy-driven supply-side constraints rather than demand-led reflation or second-round effects. Indeed, core and services inflation stayed muted, indicating a lack of pass-through:

- Core CPI remained subdued at 1.1–1.2% in March–April following the Middle East conflict, compared with an average of 1.3% in January–February.
- Over the same period, services CPI was broadly flat at 0.8–0.9%, slightly below its pre-conflict average of 0.9%, underscoring still-weak domestic demand.

This is consistent with historical evidence suggesting that energy-driven PPI reflation is highly concentrated in upstream industrial sectors, while the pass-through to core CPI remains weak.

**Not a reflation trade.** We remain of the view that, with domestic demand remaining weak, the Chinese economy is unlikely to experience a reflationary process that goes beyond a mechanical repricing of energy prices.

**ANIMA baseline.** We maintain our y/y % growth forecast for coming quarters (including Q2 – which will be affected by a negative base effect). Our full-year projection remains at 4.9% (annual average).

On inflation, April data point to continued oil-driven reflation in China. Accordingly, we are making a minor technical adjustment to our baseline for energy prices in China: our forecast (annual average) for headline inflation in 2026 is being revised slightly upward to 1.0% (vs 0.9% in the previous baseline). Upside risks remain, given the potential for further non-linear moves in energy markets.

## MONETARY POLICY

### Fed – When cat's away, the mice will play

*As widely expected, the Federal Reserve held rates steady. The statement was largely unchanged, including the FOMC's (easing) guidance about future policy rates. However, in the last meeting of Powell's era, the soon-to-be former Chair threw Warsh a curveball. The easing bias in the statement was challenged by three, notoriously hawkish members, and by some considerations expressed by Powell himself that appeared more philosophical than micro-driven. If, on the one hand, yesterday's meeting suggests that the FOMC may have started flirting with the idea of a more neutral monetary policy stance, on the other hand it is well known that "when the cat's away, the mice will play". Therefore, we stick to our baseline that the Fed will cut rates this year amid macro and political considerations.*

*That said, our call for three rate cuts this year (with risks tilted toward two) is under revision. With only five FOMC meetings left this year, persisting geopolitical tensions in the Middle East and the hawkish legacy left by Powell may constrain Warsh's likely desire to ease monetary policy, at least in the first two meetings (June and July) reducing the 2026 easing window.*

**Hawkish firewall.** As widely expected, the Fed left rates unchanged at 3.50-3.75%. The statement was largely unchanged compared to March, including the FOMC's (easing) guidance about future policy rates, but three members, Hammack, Logan and

Kashkari, notoriously on the hawkish side of the FOMC spectrum, did not support the inclusion of the easing bias in the statement, while still supporting the decision to keep rates on hold.

As Chair Powell hinted during the press conference, the FOMC is progressively leaning towards a more neutral stance on rates. Judging from recent speeches and from the Minutes of the last meeting, the resiliency of the economy combined with the prolonged closure of the Strait of Hormuz, has been driving this progressively more hawkish stance held by some members. Given the abundance of supply shocks in recent years, FOMC members are becoming increasingly uneasy about the timing of inflation coming back to target.

**No hard feelings, though.** Despite suggesting that the FOMC may be in transition towards a neutral monetary policy stance, Chair Powell and the majority of FOMC members are not ready to let the dovish bias go just yet. The macro assessment presented by Powell remains consistent with the need to ease monetary policy for disinflationary reasons.

Powell noted that 1) the labour market is far less tight than in 2022 and 2023, stressing that it is not a source of (wage) inflationary pressure, 2) while the unemployment rate remains low, labour demand is weak and 3) rising gasoline prices could hit disposable income, leading to a slowdown in consumer spending.

**A complicated debut for Kevin Warsh.** The transition to the next Fed's Chair Kevin Warsh adds uncertainty to an already complicated FOMC balance, especially considering that at the next meeting in June the updated Summary of Economic Projections, as well as the new dot plot, will be published.

**Against this backdrop:**

**1) We stick to our baseline that the Fed will cut rates this year.** The reason is twofold, macro and political. Firstly, we continue to expect PCE core inflation to head towards target by year end (Q4/Q4); secondly, preliminary indications given by Warsh suggests that he will likely bring a new, more holistic approach to monetary policy, consistent with a continuation of the easing bias held by the FOMC thus far.

**2) We are revising our call for three rate cuts this year (with risks tilted towards two).** With only five FOMC meetings left this year, persistent geopolitical tensions in the Middle East and the hawkish legacy within the FOMC may constrain Warsh's likely desire to ease monetary policy, at least in the first two meetings (June and July) thereby reducing the 2026 easing window.

## ECB – Definitely maybe

*Although EA macro developments have largely unfolded in line with our baseline, we need to enrich our ECB call to incorporate the clear - albeit near-term - hiking signal delivered by President Lagarde during the April press conference. We had assumed that the ECB would take more time to assess the magnitude of potential spillovers to growth and inflation stemming from the conflict in the Middle East. Instead, the ECB appears to be moving quickly to shield the EA economy from potential second-round inflation effects, even though - borrowing directly from President Lagarde's remarks - there is no evidence of such effects, while the real economy has already been hit. Accordingly, although the macro picture embedded in our baseline would not support it, we now expect one rate hike in June (vs. no cuts through Q3 2026). Looking ahead, knowns and unknowns balance out. On the latter, we do not rule out a second hike in Q3; in that case, we would view September as more likely than July. Meanwhile, in line with our previous call, we remain of the view that the ECB will not be able to deliver the 3-4 hikes the market currently seems to be pricing for this year. We also maintain*

*that, further down the road - perhaps as early as Q4 this year - the ECB will have to reverse course and deliver at least one rate cut, if not more, broadly in line with our pre-April meeting baseline.*

**A hawkish hold.** As expected, the ECB left policy rates unchanged. The statement was largely unchanged compared with March, except for its characterisation of conflict-related risks: the ECB stated that upside risks to inflation and downside risks to growth have intensified. President Lagarde repeated the usual mantra that the ECB is in a good place, will remain data-dependent, and will continue to follow a meeting-by-meeting approach. With hard data so far broadly in line with the March baseline, the Governing Council (GC) unanimously decided to hold rates at this meeting. But despite this - and despite highlighting downside risks to growth - the ECB signalled quite clearly that it is ready to hike soon.

**A hike is on the way.** While downside risks to growth are mounting, the ECB's intention to hike is very clear, for the following reasons: 1) The GC already discussed the option of hiking at this meeting but decided not to proceed due to insufficient information. By June, President Lagarde argued, the information set should be more complete. 2) While the ECB stated that incoming information has been broadly consistent with the GC's previous assessment of the inflation outlook, President Lagarde said during the press conference that the macro assessment is moving away from the baseline.

**Precautionary hike(s).** While the direction of rates is clear, we think the ECB would hike in June mainly for precautionary reasons, for the following reasons: 1) As President Lagarde has stated several times, downside risks to growth are mounting. Q1 GDP came in below the ECB's expectations, April PMIs were weak, and available soft data generally point to a further deterioration in sentiment. 2) Beyond insufficient information, the ECB refrained from hiking at this meeting due to the lack of evidence of second-round effects from higher energy prices. We do not expect this to change by June, but if the conflict were to drag on and energy prices remained elevated, the ECB would likely view the higher risk of second-round effects as a reason to act. 3) The latest April CPI data are consistent with the continuation of the disinflation trend - especially in services - and surveys point to muted wage growth, unlike in 2022. 4) Asked whether the fiscal easing measures approved so far are targeted, temporary, and tailored, President Lagarde said they are certainly temporary and amount to only 0.1% of GDP at the EA level so far, suggesting the ECB is not yet concerned about inflationary spillovers via this channel. Against this backdrop, we think it will be difficult for the ECB to deliver more than one or two rate hikes.

**Accordingly, we enriched our pre-April meeting ECB call.** Although the macro picture embedded in our baseline would not support it, **we now expect one rate hike in June** (vs. no cuts through Q3 2026). Looking ahead, knowns and unknowns balance out. On the latter, we do not rule out a second hike in Q3; in that case, we would view September as more likely than July. Meanwhile, in line with our previous call, we remain of the view that the ECB will not be able to deliver the 3-4 hikes the market currently seems to be pricing in for this year. We also maintain that, further down the road - perhaps as early as Q4 this year - the ECB will have to reverse course and deliver at least one rate cut, if not more, broadly in line with our pre-April meeting baseline.

## PBoC – Moderately loose

*We continue to expect the PBoC to maintain a "moderately loose" monetary policy stance throughout 2026, with continued easing bias to support economic growth despite better-than-expected first-quarter performance.*

In the Q1 monetary policy report (released on May 11th), the PBOC maintained its "moderately loose" policy stance, broadly in line with the tone of the Q1 MPC meeting minutes and pointing to a measured easing approach. Compared with the Q4 report, the central bank sounded more constructive on growth and inflation, citing a strong start to 2026 and PPI inflation turning positive in March. On policy implementation, the PBOC emphasised "precise and effective" policy support.

We continue to expect the PBoC to maintain a "moderately loose" monetary policy stance throughout 2026, with continued easing bias to support economic growth despite better-than-expected first-quarter performance. Hence, we have left unchanged our baseline for a 10bp policy rate cut in Q3 and a 50bp RRR cut within the year.

**ANIMA INVESTMENT RESEARCH****FABIO FOIS**

Head of Investment Research & Advisory  
[fabio.fois@animasgr.it](mailto:fabio.fois@animasgr.it)

**CHIARA CREMONESI**

Senior Rates Strategist  
[chiara.cremonesi@animasgr.it](mailto:chiara.cremonesi@animasgr.it)

**COSIMO RECCHIA**

Senior Equity Strategist  
[cosimo.recchia@animasgr.it](mailto:cosimo.recchia@animasgr.it)

**MATTEO GALLONE**

Macroeconomist  
[matteo.gallone@animasgr.it](mailto:matteo.gallone@animasgr.it)

**FRANCESCO PONZANO**

Junior Equity Strategist  
[francesco.ponzano@animasgr.it](mailto:francesco.ponzano@animasgr.it)

**MATTIA BANIN**

Junior Macro Analyst  
[mattia.banin@animasgr.it](mailto:mattia.banin@animasgr.it)

**IMPORTANT DISCLOSURES**

Marketing material for professional clients or qualified investors only. This material does not constitute n advice, an offer to sell, a solicitation of an offer to buy, or a recommendation to buy, sell, or hold any investment or security or to engage in any investment strategy or transaction. ANIMA can in no way be held responsible for any decision or investment made based on information contained in this document. The data and information contained in this document are deemed reliable, but ANIMA assumes no liability for their accuracy and completeness. ANIMA accepts no liability whatsoever, whether direct or indirect, that may arise from the use of information contained in this material in violation of this disclaimer and the relevant provisions of the Supervisory Authorities.

This is a marketing communication. Please refer to the Prospectus, the KID, the Application Form and the Governing Rules (“Regolamento di Gestione”) before making any final investment decisions. These documents, which also describe investor rights, can be obtained at any time free of charge on ANIMA website ([www.animasgr.it](http://www.animasgr.it)). Hard copies of these documents can also be obtained from ANIMA upon request. The KIDs are available in the local official language of the country of distribution. The Prospectus is available in Italian/English. Past performance is not an indicator of future returns. The distribution of the product is subject to the assessment of suitability or adequacy required by current regulations. ANIMA reserves the right to amend the provided information at any time. The value of the investment and the resulting return may increase or decrease and, upon redemption, the investor may receive an amount lower than the one originally invested. In the case of collective investment undertakings distributed cross-border, ANIMA is entitled to terminate the provisions set for their marketing pursuant to Article 93 Bis of Directive 2009/65/EC.