



Should we fear central banks in 2026?

December 15, 2025

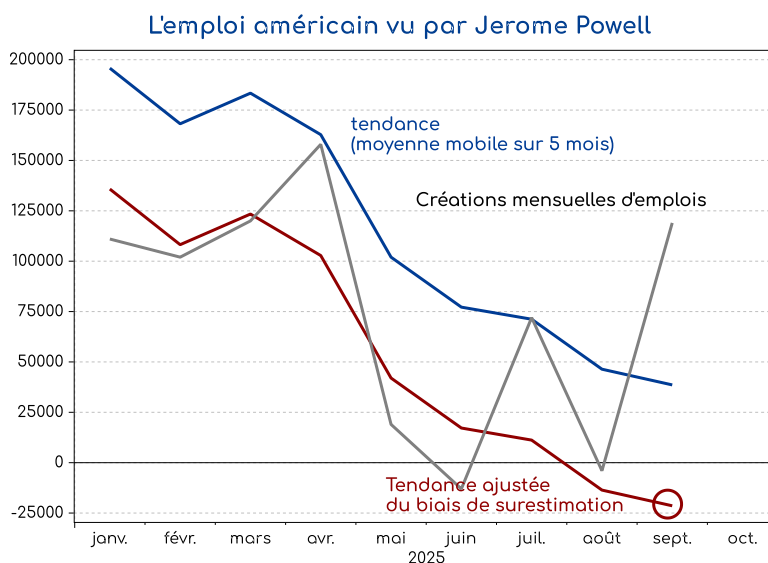
Dear clients, dear partners,

The ECB and now the Fed believe they have reached monetary policy neutrality and are raising their growth forecasts. Further monetary rate cuts are therefore not a foregone conclusion for 2026, which could reduce investors' appetite for risk. However, with inflation now under control, central banks will still be able to adjust their rates downwards if there is any doubt about growth: barring any inflationary surprises, the central bank's 'put' would therefore remain in place.

After a third consecutive rate cut on 10 December, the majority of US Federal Reserve members believe that monetary policy is no longer restrictive. The Fed is confident about growth for 2026 (+2.3%, after +1.7% in 2025) and forecasts a slight drop in the unemployment rate (to 4.4%) and inflation close to 2% (2.4%).

At his press conference, however, Jerome Powell focused more on the risks to employment than on inflation. The latest official figures show a weak trend in job creation, averaging +40,000 jobs per month over the period May-September 2025. But according to the Fed chairman, these figures could be overestimated by 60,000 per month, suggesting that the real rate is one of 20,000 jobs being lost per month (Chart 1). Jerome Powell bases this on annual revisions to employment statistics, which are almost always downward revisions of around 50,000 to 75,000 jobs per month.

US employment as seen by Jerome Powell



Trend (5-month moving average) / Monthly job creation / Trend adjusted for overestimation bias

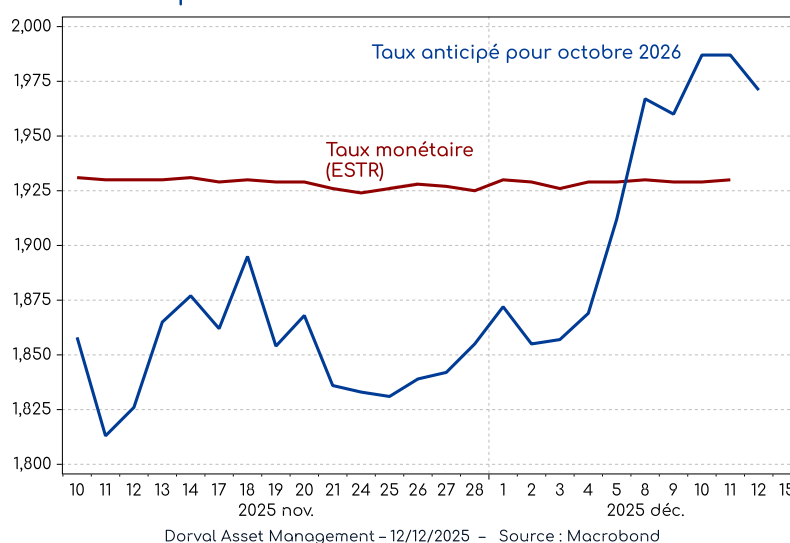


By putting forward these arguments despite disagreements within the institution – two Fed members voted against the rate cut – Jerome Powell clearly indicated that the Fed's 'put', i.e. its willingness to provide immediate support to the economy, if necessary, remained fully active. This stance, combined with a \$40 billion measure to boost money market liquidity, was welcomed by the financial markets.

The ECB, on the other hand, seems to be moving away from this mindset. Continued high wage growth in Q3 (+4%) and gradually improving European growth forecasts have led ECB members to rule out the idea of a rate cut in 2026 and even to prepare the ground for the idea that the next move will be upwards. This is what the financial markets are beginning to anticipate (Chart 2).

Eurozone money markets are beginning to price in a rate hike in autumn 2026

Les marchés monétaires de la zone euro commencent à escompter une hausse des taux à l'automne 2026



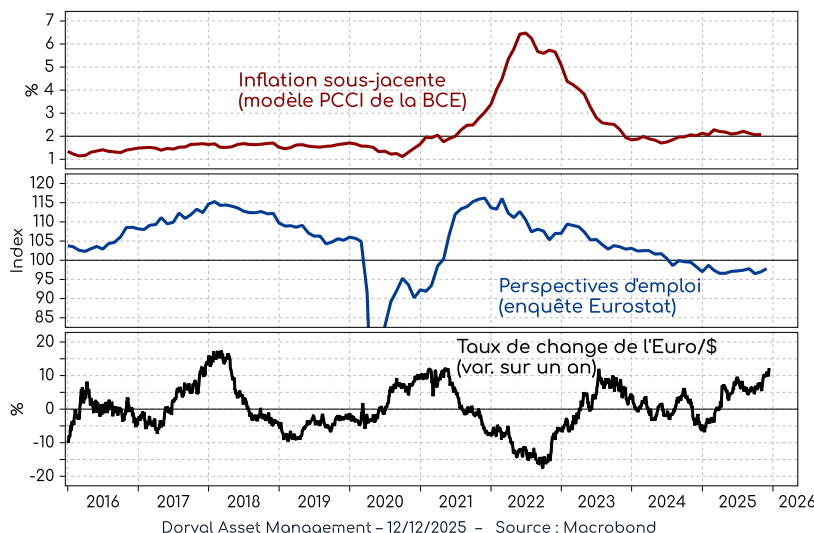
Expected rate for October 2026 / Money market rate (ESTR)

As long as these expectations stem from greater confidence in the economy and a context of low and controlled inflation, European stock markets do not necessarily need to be concerned – at least not immediately. The key factor remains inflation and inflationary pressures in general. As long as these remain low, the ECB's 'put' will not really disappear. However, these pressures remain very contained today: core inflation is at 2% according to the ECB's calculations, the employment outlook remains poor, and the euro is up 12% year-on-year against the dollar (Chart 3). It is also likely that some of the current inflationary factors – including wage increases and administered price rises in Germany – will gradually slow down next year.



The current situation in the eurozone is not conducive to a rate hike at this stage

La situation actuelle en zone euro est pour l'instant incompatible avec une hausse des taux



Core inflation (BCP PCCI model) / Employment outlook (Eurostat survey) / Euro/dollar exchange rate (year-on-year change)

Of course, we must keep an open mind. The economic acceleration we anticipate in Europe in 2026 could surprise on the upside, which would ultimately motivate the ECB to abandon its current policy of zero real interest rates (after inflation). But in the current phase, at the start of a cycle of economic re-acceleration on a continent still deeply affected by recent shocks, the ECB has every interest in avoiding encouraging premature expectations of monetary tightening.

Overall, between a Fed positioned to cut rates if employment remains sluggish and an ECB that has no reason to change its policy, the general idea of a central bank 'put' still seems to us to be supported by inflation control – control that is only reinforced by the wisdom of energy prices. However, in the central scenario of strong global economic growth in 2026 and already adjusted short-term rates, the potential for rate cuts is low, if not non-existent. Will investors take offence? This is one of the uncertainties hanging over 2026.

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Dorval Asset Management

Public limited company with share capital of €964.968

Paris Trade and Companies Register No. B 391392768

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