A Summer of Central Banks under Pressure

Politics, tariffs, and a crosswind for the dollar

→ Both the ECB and the Federal Reserve kept official interest rates unchanged at their latest meetings, against a backdrop of tariffs, policy uncertainty, and mounting tensions between the Fed and the Trump administration.

→ At the Jackson Hole Symposium in late August, Jerome Powell signaled a long-anticipated rate cut in September, marking a shift in the Fed's policy outlook.

July saw the Fed and the ECB keep rates unchanged, but Powell's Jackson Hole speech in August explicitly opened the door to rate cuts "if employment weakens," against the backdrop of unprecedented tensions between the Federal Reserve and the Trump Administration. Meanwhile, the U.S. struck a trade deal with the EU. The U.S. also recalibrated and extended its tariff framework with China, while escalating measures against other partners. Short-term inflationary impacts are clashing with mixed growth signals and a more volatile dollar. In the euro area, the ECB held rates steady with inflation near target and growth subdued but resilient.

United States: July hold, Jackson Hole conditional pivot, and peak political noise

On July 30th, the Fed kept the fed funds range at 4.25–4.50%, continuing balance sheet reduction. The statement reiterated data dependency and a balanced risk assessment. Powell avoided any pre-commitment to September moves. However, July's minutes showed two votes against the decision. Governors Bowman and Waller preferred to lower the target range for the federal funds rate by 25 bps.

During the Jackson Hole Symposium (late August) Powell acknowledged that "cuts could be necessary" if the labor market weakens materially, while noting that inflation remains above 2% and tariff effects should be "transitory" under the baseline. The tone was cautious, stressing the asymmetry of risks.

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August also marked a major clash: the Trump Administration attempted to remove Governor Lisa Cook, a move likely headed for legal battle and seen as a direct challenge to Fed independence. Reports of plans to also exert control over regional Fed presidencies further heightened institutional risk, weighing on market confidence in U.S. assets.

Regarding markets' reaction to this news, U.S. Treasuries rallied after the July decision, particularly in the intermediate and long maturities. Following Jackson

Hole, markets priced in a high probability of a September cut. As for the U.S. dollar, the currency is caught between two opposing forces: (1) relative rate and growth advantages still supporting the USD, and (2) a rising institutional risk premium from political interference with the Fed and trade fragmentation. In August, market sentiment showed a tactical bearish bias, with expectations of Fed cuts and political noise weighing on the greenback. Over the next 3 to 6 months, many analysts expect a more volatile but non-directional U.S. dollar; upside will be capped by persistent political noise and global resilience, while downside will be limited if U.S. growth re-accelerates or tariffs sustain relative inflation differentials.

Euro Area: ECB on hold with inflation at target and weak but resilient growth

On July 24th, the ECB kept all three key interest rates unchanged (deposit facility at 2.00%). The Governing Council judged inflation to be "around 2%," while noting easing domestic pressures and an economy showing "resilience" despite global headwinds. Markets interpreted the decision as continuity in a gradual and data-driven easing cycle.

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The euro maintained a range of 1.16–1.18 against the dollar. While rate differentials still favor the USD, political noise in Washington has partly eroded this advantage.

U.S. tariffs: Agreement with the EU, adjustments with China, and escalation in other areas

The U.S. and EU trade deal reached in July is seen as favoring the U.S., with analysts warning the EU conceded more and could face a 0.5% GDP hit

The U.S. and EU struck a trade deal, after talks in Scotland in July. The announcement by President Donald Trump and European Commission President Ursula von der Leyen offered clues about which sectors and groups could be hit hardest or have the most to gain. It looks to most analysts that the EU has given up more, with some suggesting a 0.5% hit to EU GDP.

The Trump Administration also extended by 90 days the "truce" on tariff escalation with China while negotiations continue, after a series of decrees that recalibrated the reciprocal tariff structure introduced in the spring. The current framework suspends previously planned hikes and keeps provisional rates in place.

New tariffs were announced or threatened against other countries and sectors, with rhetoric intensifying in cases such as India. Regulatory uncertainty and retaliation risk have increased significantly.

EXHIBIT 1.0 – RECENT TRADE DEVELOPMENTS AND ECONOMIC IMPACTS

Country/Region	Status (July–Aug)	Impact
EU	Trade deal reached	EU GDP hit ~0.5%, U.S. favored
China	90-day tariff truce	Ongoing negotiations, provisional rates maintained
India & others	Threats/escalations	Increased uncertainty & retaliation risk