# Central Banks Navigate Late 2025

## Crossroads with markets weighing a soft-landing scenario

- → The Fed delivered another rate cut, signaling cautious flexibility amid early signs of cooling growth, while the ECB held rates steady, emphasizing patience as inflation nears target and recovery stabilizes.
- → Financial markets appear to be embracing a soft-landing narrative despite persistent geopolitical and financial crosscurrents.

**United States: Second cut and strategic patience**
On 29 October the Federal Reserve lowered the federal funds target range by 25 basis points, to 4.00–4.25%, marking its second rate cut since September. The decision reflects growing confidence that inflation is on a durable path towards the 2% objective, but also recognition of emerging slack in the labor market and weaker business investment.

Chairman Jerome Powell emphasized that "policy will remain data-dependent," signaling that further easing is possible but not pre-committed. While headline inflation has eased to 3.0%, core inflation remains sticky, particularly in services and shelter components. The Fed's challenge is to balance the softening macro momentum with the risk of reigniting inflation through premature cuts.

The Fed's challenge is to balance the softening macro momentum with the risk of reigniting inflation through premature cuts

The government shutdown is delaying the publication of key macroeconomic statistics. In any event, the U.S. economy continues to expand at a moderate pace, sustained by resilient household spending and a still-firm services sector, though the manufacturing outlook has dimmed. Fiscal support remains limited as the partial government shutdown extends uncertainty into Q4. Bond markets have welcomed the Fed's move—yields on 2-year Treasuries dropped and are now around 3.60%, signaling market confidence in a gradual normalization path.

Bond markets have welcomed the Fed's move, with yields on 2-year Treasuries falling, signaling market confidence in a gradual normalization path

**Euro Area: A "good place" to pause**
In contrast, the European Central Bank maintained its key policy rates unchanged, keeping the deposit facility at 2.00%, and reaffirmed its stance that rates are "in a good place." The ECB's messaging leaned toward patience, reflecting comfort with the ongoing disinflation trend and early signs of stabilization in growth.

Euro area inflation in October stood at 2.1% headline and 2.4% core, levels that have strengthened the argument for a prolonged pause before considering any policy change[1]. Activity data suggest a modest rebound led by services and a gradual recovery in German industry. This was reflected in the 0.2% GDP growth of the euro area for the third quarter. However, credit conditions still remain tight. Policymakers remain wary of cutting too soon given potential second-round effects. This is illustrated by the latest ECB quarterly survey showed that euro zone banks unexpectedly tightened access to corporate credit in the third quarter, with German lenders leading the way on fears over the economic outlook and tariffs.

Markets largely interpreted the decision as an acknowledgment that the easing phase may come later, possibly in early 2026, contingent on wage dynamics and fiscal alignment across member states. The euro is trading near 1.15-1.16 per dollar explained by factors such as a relative policy stability and a narrowing inflation gap and rate differentials with the U.S.

**Global markets: Fragile equilibrium**

Investors are navigating a landscape where optimism over a "soft landing" coexists with structural fragilities

Investors are navigating a landscape where optimism over a "soft landing" coexists with structural fragilities. Equity markets remain buoyant but increasingly selective. Technology and energy continue to outperform, while cyclicals lag amid fading growth expectations. Credit spreads have tightened modestly, yet pockets of stress are emerging in high-yield and leveraged loan markets.

Monetary divergence between the Fed's cautious easing and the ECB's extended pause underscores the asymmetry of global policy cycles

Monetary divergence between the Fed's cautious easing and the ECB's extended pause underscores the asymmetry of global policy cycles. This divergence has fueled volatility in currency and rate markets, encouraging more hedged and barbell positioning among institutional investors.

Meanwhile, global uncertainty—from geopolitical tensions to trade reconfigurations—continues to test investor sentiment. The post-pandemic drivers of demand and liquidity have largely dissipated, leaving financial markets more exposed to confidence shocks.