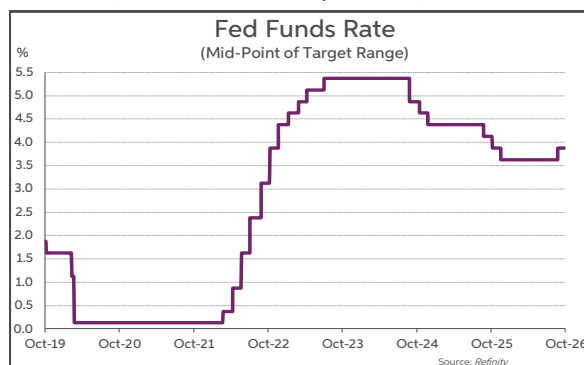


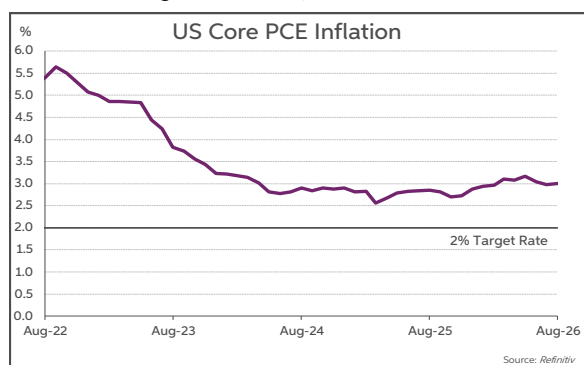
Fed leaves rates unchanged, December hike is on the cards

The US Federal Reserve Open Market Committee (FOMC) meeting for October saw the central bank, as expected, leave its interest rate policy unchanged. The target range for the Fed funds rate was maintained at 3.75-4.00%. The decision to leave rates unaltered was not unanimous, with the vote split 10:2, with the two dissenters (Cook and Hammack) in favour of a 25bps rate hike. The most recent policy change from the Fed came at their previous meeting in September, when they decided to hike rates (for the first time since July'23) by 25bps amid the upside risks to inflation due to the energy price shock arising from the conflict in the Middle East.



This month's meeting statement contained no significant changes compared to its September edition. It was once again concise and absent of forward guidance. The Fed continued to describe the unemployment rate as having "changed little" while also maintaining its assessment that "inflation remains elevated". It did, however, upgrade its characterisation of the pace of growth in activity from "solid" to "strong". Meanwhile, it noted that an "accumulation of more information" would help the FOMC decide on the appropriate stance of its policy setting to achieve its 2% inflation target. This implies that by its next meeting in early December, the Fed should have sufficient macro data to assess the case for another rate hike.

In the post meeting press conference, Chair Warsh continued to emphasise the inflation aspect of the Fed's dual mandate, noting that it is the central bank's "responsibility to get inflation down". He continued to refrain from offering any forward guidance. However, in a similar vein to the meeting statement, he commented that the "period in front of us is information rich" and "is likely to provide more clarity". In other words, the next meeting in December (8th/9th) is very much a 'live' meeting as it should have enough data by this time to decide whether or not it needs to hike rates again. Further out, it was notable that Chair Warsh stated that one of the eight scheduled meetings for next year (as well as 2 of 8 in 2028) would not be a policy-settling/voting FOMC but would instead focus on monetary policy strategy. Overall, his comments had a short term hawkish leaning in the context of a rate hike before year end. However, with one less 'live' meeting for a rate change in 2027, this scenario combined with the outcomes of his various taskforces coming to fruition next year, lean in a less hawkish direction for US interest rates over the medium term.

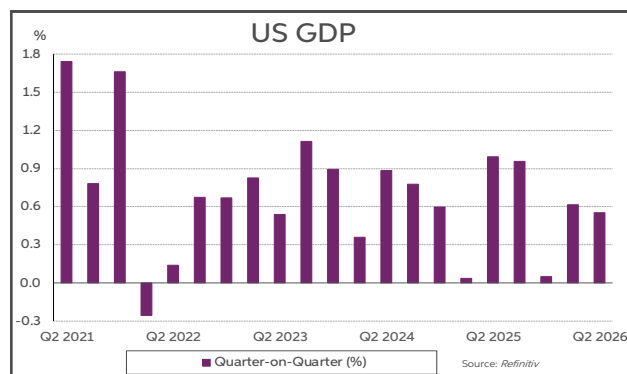


The most recent detailed insight on the Fed's interest rate outlook (i.e. dot plot) was published at its previous meeting in September. Similar to June, Chair Warsh did not submit any dots. The September dots indicated an increased hawkish bias within the FOMC. 16 of the 18 FOMC participants expect to tighten policy further before the end of the year. 12 members expect another 25bps rate hike, while four anticipate 50bps of tightening. The median projection for 2026 was raised to 4.1% (from 3.8% in June). Meanwhile, for 2027 the median projection is for rates to remain at 4.1% (compared to 3.6% in June). Eight members expect to hike again next year, another six envisage rates remaining unchanged, while four anticipate at least 50bps of easing.

Market rate expectations are little altered following the October FOMC. The market is continuing to attach around a 85% probability to a 25bps rate hike in December, which would see the Fed funds rate rise to a 4.00-4.25% range. Further out, the market has maintained its pricing for around 50bps of policy tightening in 2027. Our view is that given the latest Fed comments regarding upcoming data as well as underlying inflation dynamics a 25bps rate increase in December is a reasonable assumption. However, we think the market may be overly aggressive in its 2027 rate expectations. We expect the Fed to remain on hold next year, with easing inflation and labour market conditions, alongside an updated policy framework, potentially paving the way for rate cuts in the second half of 2027.

US economy characterised by solid growth and high inflation

Having expanded by a solid 2.1% in 2025, the US economy has continued to grow at an encouraging pace in the first half of 2026. GDP rose by 2.5% annualised in the first quarter and by 2.2% in Q2, supported by increases in personal consumption and investment. In the second quarter, personal consumption jumped by 0.9%, contributing 2.5 percentage points (p.p.) to GDP. Meantime, investment surged by 1.9% in Q2, amid a very sharp rise in non-residential investment (+2.2%) linked to the AI buildout, adding 1.4 p.p. to growth. Government expenditure contracted marginally in the quarter, albeit this had a negligible impact on the total. Elsewhere, import growth outpaced exports once again in Q2, meaning, net trade subtracted 1.1 p.p. from output. Inventories knocked a further 0.5 p.p. from GDP in the quarter.

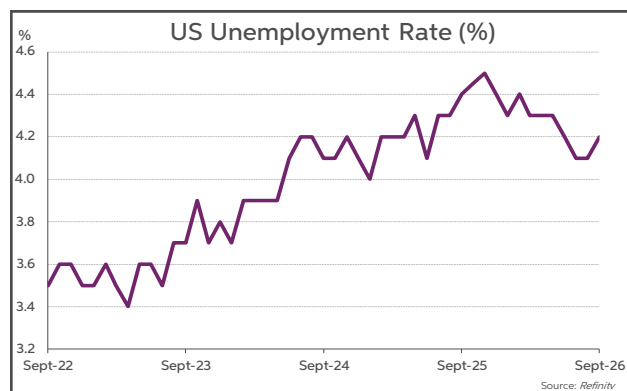


The available hard data for Q3 have generally been robust. Retail sales contracted by 0.4% m/m in July, albeit this was largely due to Amazon Prime Day taking place in June this year. Furthermore, sales rebounded strongly by 1.3% and 0.8% m/m in August and September. At the same time, the control group measure - a key core sales metric - increased by 1.1% in Q3. Elsewhere, industrial production has also expanded at a decent pace in Q3, rising by between 0.1-0.7% m/m throughout the quarter.

Similarly, survey data indicate that the economy may have gathered momentum in the third quarter. The manufacturing and services PMIs have printed at elevated levels recently. Indeed, the former averaged 54.6 in the three months to September, while the latter averaged 56.6. The manufacturing and non-manufacturing ISMs also printed at elevated levels in Q3, consistent with a solid pace of expansion in both sectors. However, consumer sentiment remained soft, with both the Michigan and Conference Board measures of confidence deteriorating.

In terms of the labour market, the data have been volatile. Overall, it appears that conditions have firmed somewhat, following a weak second half to last year. Despite falling in February and July, payroll growth has been solid. Payrolls have expanded by 68k per month on average this year, up from just 10k in 2025. Elsewhere, the unemployment rate has oscillated between 4.1-4.5% over the past twelve months, but stood near the bottom of this range at 4.2% in September. Meantime, wage growth has slowed. Average earnings growth printed at +3.0% year-on-year in September, its lowest level since May 2021.

Inflation remains elevated following the surge in energy prices arising from the Middle East conflict. CPI inflation jumped higher, peaking at 4.2% in May, up from just 2.4% in January/February. It printed at 3.4-3.5% in the three months to July before re-accelerating to 3.7% in September. Meanwhile, the core rate also increased, albeit at a slower pace. It rose to 2.9% in May, but eased to 2.4% in August and re-accelerating to 2.6% in September. Meantime, core-PCE - which has proven to be quite sticky, was already on an upward trajectory in the months before the conflict - has continued to move higher. It printed at 3.2% in May, before edging back marginally to 3.0% in June and August.



In summary, the US economy has performed solidly year-to-date. Labour market conditions have strengthened following a weak end to 2025. Meanwhile, AI-related investment is likely to remain a key driver of growth. Furthermore, lower taxes may be providing support to consumer spending. However, a sustained period of elevated inflation remains a key concern for policymakers, with inflation remaining above 2% for over five years now. US trade and tariff policy have contributed to sticky price pressures, and the war in the Middle East has added further upside risks to the US inflation outlook. A sustained Fed tightening cycle could weigh on growth, and may provide additional pressure on an already substantial government deficit. However, the US economy is still expected to grow at a robust pace over the next few years. The IMF is projecting GDP will rise by 2.3% this year and in 2027.

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by AIB Northern Ireland (NI). In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and Allied Irish Bank (NI) are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.