Despite the cautious signals on rate cuts from both the ECB and Fed, CIO believes the global easing cycle will continue. (UBS)

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US employment grew by 151,000 in February from a downwardly revised 125,000 in the prior month, falling only fractionally below the consensus forecast for 160,000.

Annual average earnings grew by 4.0%, faster than the 3.9% pace registered in January. The outcome gave no urgent impetus for policy easing at the conclusion of the Federal Reserve's next policy meeting on 19 March. Meanwhile, Fed Chair Jerome Powell said on Friday that the "US economy continues to be in a good place," adding that policymakers "do no need to be in a hurry" to cut rates further. He also described the labor market as "solid."

This followed signals earlier in the week that the European Central Bank (ECB) could be close to ending its series of rate cuts, after a widely expected 25-basis-point cut at its policy meeting on Thursday. Following its sixth rate cut since June, officials indicated that the monetary policy stance was becoming "meaningfully less restrictive." The seemingly more hawkish tone followed news on Wednesday that Germany's chancellor-in-waiting is planning the largest boost to spending in 80 years, a move which has the potential to lift consumer and business confidence.

But despite the cautious signals on rate cuts from both the ECB and Fed, we believe the global easing cycle will continue.

- **A recent cooling of US economic data supports our view that Fed cuts will resume later in the year.** Although the US February jobs data was solid, it also pointed to signs of cooling demand for workers. The unemployment rate ticked up to 4.1% from 4.0%. The number of people working part-time for economic reasons climbed to the highest level in nearly four years. This chimes with other recent indications that growth is moderating. The Fed's Beige Book, a survey of activity by the central bank's regional branches, indicated that economic activity rose only "slightly" since mid-January, with businesses becoming more cautious amid uncertainty over the Trump

administration's policies—especially on tariffs. The Atlanta Fed's GDP Now, a tally of incoming economic data, is pointing to a contraction of 2.4% in the first quarter of the year, reflecting headwinds from an expanding trade deficit and weaker business survey data. As a result, futures markets have scaled up their expectations to 75bps of Fed cuts this year. This is more than the median forecast of 50bps from top Fed officials. Our view is that the US economy will remain resilient, but moderating growth will permit two quarter-point cuts later this year.

- **The tone from the ECB was less hawkish than it initially appeared, in our view, and our base case is still for a further 50bps of easing.** President Christine Lagarde pointed to the "phenomenal level of uncertainty" facing the Eurozone economy. On the positive side, Lagarde cited the potential boost to growth and inflation from more expansionary fiscal policy from Germany. On the negative side, she alluded to the risk to growth if trade tensions escalate. The bottom line, in our view, is that the ECB is eager to keep its options open rather than committing to a more hawkish stance. In the coming months, economic fundamentals are likely to be the main determinant of policy, especially since any German fiscal boost is uncertain in scale and may take time to feed through into growth . A greater focus for monetary policymakers is likely to be cooling inflation pressures, including from moderating wage demands, and the outlook for subpar Eurozone growth of around 1% this year.

- **Cuts from the Swiss National Bank and Bank of England look likely.** The SNB was a leader in rate cuts in 2024, easing by 125bps last year. But while the policy rate is now at just 0.5%, low inflation and concerns over the economic outlook in the Eurozone should prompt a further 25bps cut at the central bank's March policy meeting, in our view. The Bank of England looks less likely to trim rates at its March meeting. However, we expect three quarter-point cuts over the remainder of 2025, reflecting the outlook for moderating inflation pressures and weaker growth.

So, we continue to expect returns on cash to fall in much of the world. Against this backdrop, investors should seek more diverse and durable sources of income. We believe that high grade and investment grade bonds offer compelling risk-reward, and expect mid- to high-single-digit returns for medium-duration bonds in US dollar terms over the next 12 months. We like diversified fixed income strategies, senior loans and private credit, and equity income strategies. Investors can also improve returns from cash by taking a selective amount of market or credit risk, or by sacrificing liquidity for cash holdings not required for day-to-day expenses.

Original report: **Global rate-cutting cycle set to continue, 10 March 2025.**

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